**APPENDIX 1**

# North Herts Council

# Medium Term Financial Strategy (MTFS)
# 2027-30

## Purpose of the Strategy

This strategy sits alongside the Council Plan. It sets out our financial forecasts over the medium-term and how we will manage the funding that we think we will have available, to deliver as much as we can, in line with our priorities.

## Local Government Reorganisation (LGR) and Devolution

At the time of writing this strategy, the Hertfordshire LGR programme is subject to a review by Government. The indication is that LGR in Hertfordshire will happen (i.e. vesting day) in April 2029.

When/ if LGR takes place, it would see North Herts Council replaced by one or more Unitary Councils (combining District and County Council services) over a wider geographical area. The initial decision was that North Herts would be split across two Unitary Councils. That decision on geography may change as part of the review process.

Government have made various announcements about decentralisation of power/ devolution. The assumption was that some of this devolution would happen via a strategic authority that would sit above the Hertfordshire Unitary Councils. That strategic authority would also deliver some of the services currently provided by the existing Councils.

This MTFS is prepared on the following basis:

- A medium-term planning horizon of 3 years (up to the end of 2029/30) is used.
- It incorporates the current North Herts Council services and geographic footprint.

If LGR progresses then we have a plan that could cover the first year of the new Unitary Council(s), and provides baseline data to be incorporated with other the other Councils to set a year 1 budget. The new Unitary Council(s) can formulate their own assumptions on how to project that forward to later years.

If the LGR programme does not progress, then it provides time to plan to balance the Council's budget and consider the decisions that will need to be made.

The current Council Plan period is for 2024-28. For the period of overlap between the Council Plan and the MTFS, the intention is that the two documents are aligned.

## Delivering Vision and Priorities

The Council's vision and priorities are set out in detail in the Council Plan. This results in a vision that is "working with you for a fairer, greener North Herts.

To support that that, the Council has the following priorities: Thriving Communities, Accessible Services, Responsible Growth and Sustainability.

Most of the money that the Council spends is on delivering statutory services (about two thirds of net spend). The focus will be on delivering those services in line with the priorities. Even as the Council's funding has reduced, the aim has been to maintain the ability to offer discretionary services that are linked to the priorities.

The forecasts include a likely need to reduce costs in the future. This would mean that difficult decisions will need to be taken. If faced with that choice, those decisions will be taken in line with our priorities. That would take into account what residents have said in the budget survey.

The Council Plan includes ambitions for North Herts. Some of the ideas may be dependent on identifying funding or developing a sustainable business case.

## Future funding

The results of the new fair funding formula were incorporated into the financial settlement for 2026/27. That financial settlement also provided indicative funding levels for a further two years, up to 2028/29. Whilst these amounts are not guaranteed, they are the best basis on which to forecast future funding.

It is assumed that 2029/30 will see an inflationary uplift on the 2028/29 amounts. If the inputs into the fair funding formula change, then that could lead to a bigger shift, either positive or negative. As the formula is allocating an overall pot of funding, even if the North Herts data did not change significantly, data changes from other Councils could still impact North Herts funding.

The fair funding formula outcome, combined with a reduction in pension payments, meant that the Council was in a better position than expected when setting the 2026/27 budget.

Income raised from Council Tax is incorporated in to how fair funding has been calculated. However this is based on assumed Council Tax, and the Council gains if actual income is higher and loses out if it is lower. The cap on increases to the rate of Council Tax is expected to be retained at 3%. Council Tax income is also affected by growth in properties in the district, the impact of Council Tax reduction scheme (CTRS) and collection rate. The following assumptions are made in relation to Council Tax:

- The rate of Council Tax each year will be increased by just below the maximum allowed without the need for a local referendum, expected to be 3% per year. So the annual increase applied is expected to be 2.99%.
- The tax base for 2027/28 is currently based on the annual tax base calculation undertaken in October 2026, which was 52,425 band D equivalent properties (an increase of 0.72% on the 2026/27 budget).
- A tax base growth rate of 0.5% is assumed for subsequent years. This is intended to be a net growth rate, to reflect increases in costs from population/ household growth (e.g. waste collection).
- There will be no changes to the working age CTRS, except inflationary increases to the bands with the intention of maintain a similar level of eligibility.
- The assumed collection rate will be retained at 99%. There is some risk in this as new legislation means that Council Tax should be collected over 12 months by default. This could reduce the number of households paying over 10 months, which gives less scope to catch up if a payment is missed. That may then reduce the collection rate.

Extended Producer Responsibility (EPR) is where producers have to pay for the cost of collection and disposal of packaging material. The funding is then passed on to Councils. This means that the cost of packaging materials should be borne by the end customers of those goods (through slightly higher prices) rather than the general Council taxpayer. In 2025/26, Council's received a guaranteed amount, and North Herts received more than that guaranteed level. The amount that the Council has been told it can expect in 2026/27 is £1.43 million, but this no longer guaranteed. EPR funding is not within the scope of fair funding. The aim of EPR is to encourage reductions in packaging waste so over time the payments the Council receives should slowly decrease. Reductions in packaging waste that needs to be collected will not reduce our costs as collection costs are priced based on number of households, not volumes collected. It is possible that net costs could go up as some of the recyclable material that we collect generate an income, which is linked to volumes. It is assumed that the net impact will be equivalent to a 20% reduction in EPR funding per year.

## Our previous funding forecasts

The current year (2026/27) budget includes the following funding forecasts for future years:

| **Funding by source by year, amounts in £m** | **2027/28** | **2028/29** |
|---|---|---|
| Council Tax | 14.71 | 15.23 |
| Government Grant and retained Business Rates | 6.68 | 6.61 |
| Extended Producer Responsibility | 1.43 | 1.14 |
| Council Tax Support to Parishes | (0.04) | (0.04) |
| **Total** | **22.78** | **22.94** |

## Revising our funding forecasts

In addition to the assumptions in previous paragraphs, the following are also assumed:

- Continue to budget for Business Rates at the baseline level, i.e. do not assume any growth or decline. There is some risk in this. The baseline level was reset as part of fair funding which removed any previous growth. For 2026/27 there was a 0% safety net (i.e. Government would protect any losses) but this is changed to 97% in 2027/28 and then back to the previous 92.5% in 2028/29.
- Retained business rates to grow by inflation at 3% for 2029/30. This may be an over-estimate but is consistent with pay inflation forecasts (see later) and reflects the uncertainty over the ongoing impact of fuel and energy price inflation.
- Revenue Support Grant reflects an overall increase of 3% in funding for 2029/30. This (as in previous years) results in a decrease in this specific element due to the impact the tax base growth included in the Council Tax forecasts. This is because the funding formula assumes a baseline level of increase in tax base growth. Exceptional levels of tax base growth would result in net additional funding.
- For now, assume that Council Tax support to parishes continues, although a choice could be taken to provide notice that this will cease.

| **Funding by source by year, amounts in £m** | **2027/28** | **2028/29** | **2029/30** |
|---|---|---|---|
| Council Tax | 14.742 | 15.258 | 15.793 |
| Retained business rates and general government grant | 7.670 | 7.640 | 7.571 |
| Extended Producer Responsibility | 1.430 | 1.144 | 0.915 |
| Council Support to Parishes | (0.039) | (0.039) | (0.039) |
| **Total** | **23.803** | **24.003** | **24.240** |

## Our General Fund reserves

The latest forecast (Quarter 1 Revenue Monitoring report) is that the General Fund balance as at 31st March 2027 will be £17.30 million. That involves using £0.1 million of our General Fund during 2026/27 to support revenue spend, alongside £3.64 million of other reserves (that includes revenue funding for capital). The current expectation is that the use of the surplus business rates reserve will bring that down to the required level to manage future business rate funding payments and risks, so there would be no additional surplus available.

The Council must have a certain level of reserves when setting its budget. This is to provide protection against known and unknown risks. This includes us being able to react to changes in demand and any emergencies that may arise. The allowance for known risks is based on estimating the monetary impact of an event happening and applying a percentage to this, based on the likelihood of it happening (high, medium or low). Our allowance for unknown risks is based on 5% of net expenditure and 3% of budgeted

income (excluding Housing Benefit). For 2026/27 this gave a minimum balance of £3.5m. It is assumed that the required level for the period of this MTFS will be up to £4 million.

There is good headroom between the current and minimum level of reserves.

**Revenue and Capital spend**

Revenue is what is spent on day-to-day activities. It includes staffing and payments to suppliers to deliver services. It also includes income from fees and charges where the user pays for some or all of the cost of the service. This strategy is mainly focused on revenue spend.

Capital is what is spent on the buying, creating and maintaining our assets. Assets are things that can be used for more than one year, and include land, buildings and vehicles.

Most of the Council's funding is revenue and can be used for either revenue or capital spend.

Where the Council sells surplus assets then that results in a capital receipt which can only be used to fund new capital spend. In the Q1 capital monitoring report for 2026/27, the forecast for capital receipts was reduced to zero. This reflects the current priorities for the Estates team and current expectations over land prices for residential development. The Council also sometimes get capital grants, that can only be used for capital spend.

There are revenue costs that are linked to net capital spend (including netting off capital receipts and external capital funding). The Council has moved to a position where there is a need to borrow to fund the capital programme, as all the capital reserves have been used. This is a normal position for Councils to be in, and there are provisions that allow us to borrow to fund capital spend. The Council cannot borrow money to fund revenue spend. When the Treasury Strategy is set as part of the 2027/28 budget it will need to determine whether to use internal or external borrowing. It is likely that it will be possible (and desirable) to continue with the current approach of borrowing internally. This means that the Council uses the cash that it holds to fund capital spend. The costs of capital spend then come from the lost interest that otherwise would have been earned from investing that cash and the need to charge a Minimum Revenue Provision (MRP). In essence, the MRP spreads the cost of a capital asset over its expected useful life. For the purposes of this MTFS, it is assumed that the only change to treasury and MRP costs (compared to those when the 2026/27 budget was set) will be from the reduction in forecast capital receipts. This is based on there being no defined proposals for significant increases in capital spend. This will be reviewed as part of the detailed work in setting the 2027/28 budget. This adjustment is estimated at 5% of the £3 million reduction in capital receipts = £150k.

**Revenue budget forecasts for 2027/28 onwards**

The revenue budget that was set by Council in February 2026 included the forecasts below for net spend in 2027/28 onwards.

| **Amounts in £m** | **2027/28** | **2028/29** |
|---|---|---|
| Forecast spend | 27.44 | 23.73 |

As part of setting the 2027/28 budget, revenue forecasts will be fully reviewed and will be extended to cover 2029/30. But as part of updating this strategy the following assumptions are considered/ updated.

## Budget monitoring updates

Since the budget was set in February 2026, there have been budget monitoring reports for Q3 2025/26, end of year 2025/26 and Q1 2026/27. These reports identified the following ongoing budget impacts:

| **Amounts in £m** | **Estimated ongoing impact (excluding carry-forwards)** |
|---|---|
| Q3 2025/26 report | (0.267)* |
| End of year 2025/26 report | 0.032* |
| Q1 2026/27 report | 0.034 |
| **Total impact** | **(0.201)** |

** The values of these can be different to what was included in the relevant revenue monitoring report as they reflected the 2026/27 impact and this is the 2027/28 impact.*

The Q1 2026/27 report also identified £0.30 million of carry-forwards from 2026/27 to 2027/28, so the forecast General Fund position would be reduced by this amount to reflect the additional spend that will now be incurred in 2027/28. However overall this does not substantially affect medium term projections.

## Inflation and cost of living impacts

In November, the Bank of England Monetary Policy Committee increased the UK interest rate to 4%. This increase reflected the pressure from fuel and energy prices on UK inflation. The decision noted that inflation had risen to 3.5% and an expectation that it could rise even further to about 5% by mid-2027. It is then expected that inflation will drop back down towards the 2% target.

## Pay inflation and pay competitiveness

The pay claim for 2026/27 was agreed at 3.3%. The NJC Trade Unions have not yet submitted a pay claim for 2027/28. The current MTFS forecasts are based on 3% pay inflation for 2027/28 and then 2% per year thereafter. It is proposed that this assumption is changed to 3% for each of the 3 years: The reasons for this are:

- The peak in UK inflation in 2027 could be over 5%. Pay awards will need to balance inflation over time, but should also reflect overall cumulative inflation.
- Increases in the National Living Wage are likely to create pressure on the Council's pay levels. This will have the greatest impact on those at the bottom of the pay scales, but there is also a need to maintain pay differentials.
- There have been periods of below inflation pay rises in Local Government, which the Unions will seek to try and address.
- It is consistent with what other Hertfordshire Councils are assuming. The is relevant in the LGR context.

## Contracted services inflation

Our contracts have a mix of inflation increases built into them. Some of our larger contracts use a basket of inflation indicators. Others will just be linked to general inflation. It is proposed that 3.7% inflation is assumed for 2027/28 (forecast for 2026 Q4), then 3% for 28/29 and then 2% thereafter. For those contracts that have more specific inflationary measures, it is assumed that over time these will be strongly aligned to general inflation. There is a short-term risk from those contracts that have exposure to fuel and energy prices.

**Increases in fees and charges, and impact on demand/ ability to pay**

It has previously been decided that parking charges should be modelled on assuming a 2% increase each year. That is not a target increase, and actual increases will need to consider managing demand, cost of provision, encouraging modal shift away from private car use and supporting the vitality of town centres. This assumption of a 2% increase will be retained. The work on annual uplifts has now been brought forward so that they will be applied from April each year.

Garden waste went back to being an annual charge from April 2025 onwards. This was set at £57 for 2026/27. For this purpose of this strategy, it is assumed that it will increase in line with contract inflation (i.e. 3.7% for 2027/28, 3% for 2028/29 and then 2% thereafter). The decision on the charge will be taken by Cabinet. It is assumed that there will continue to be a concessionary discount for those that are less able to pay. It is likely that actual charges would be rounded to the nearest pound, but this does not make much difference over the MTFS period (i.e. rounded to the nearest pound the modelled increases would be £59 in 2027/28, £61 in 2028/29 and then £62 in 2029/30, versus unrounded increases of £59.11, £60.88 and £62.09).

There has been a drop in the number of trade waste and recycling customers, but projected income is still just about in line with budget. Therefore, it is currently assumed that the overall market can bear an increase in costs in line with inflation. This may be from selling additional recycling services. This will be reviewed prior to April each year by reviewing market conditions, and actual increases may be higher or lower.

Where fees and charges are set by regulation (e.g. planning fees) then the Council will set charges in line with those regulations. The assumption is that any ancillary charges will be increased in line with increases in general fees and charges.

All other fees and charges provide a relatively low amount of income. The target is that these fees and charges should recover the full cost of provision. Costs of provision are generally likely to increase with pay inflation. Therefore, the assumption will be that prices should increase in line with pay inflation estimates.

The current assumption is that increases at these levels would not affect demand. For most of our services payment is made in advance of receiving the service, so this would not result in an increase in levels of overdue debt.

**Planning income**

There are expected to be large new developments in the District. The precise timing of these developments is not known, and may be affected by the impacts of continuing higher interest rates.

As these sites go through the planning process, they will generate significant planning income. Some of the capacity to deliver these has already been included in previous staffing growth bids. There will also be additional internal and external resource required. Where possible, the cost of short term external resources, and to a limited extent the internal resources, will be met through Planning Performance Agreements. However, these are voluntary agreements and cannot be required. The forecast cost of longer-term internal resources is forecast to be less than the additional income generated.

The 2027/28 detailed budget work (i.e. not part of this MTFS) will include a prudent estimate of additional planning income over the next 3 years. This will reflect that the income is only earned when the application is determined, and not when we initially receive the fee income. If there are over-achievements in early years, these will be put into a central reserve to enable the smoothing of any shortfalls in later years. When prudent, any balance in the reserve will be released back to the General Fund. The reserve will not be used to directly fund additional planning expenditure. There will be a need for additional resource in the medium-term, but this will be covered through the normal budget process.

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## Capacity to deliver our priorities

The Council Plan sets out the vision and priorities for 2024-28. The Council Plan will continue to be supported by the more detailed Council Delivery Plan.

The projects included in the Council Delivery Plan continue to be subject to prioritisation. However, there are still risks around delivery, particularly in relation to finances and Officer capacity. This is part of the reason why the Council Delivery Plan is reviewed on a quarterly basis.

The table below details those projects that are in the current Council Delivery Plan (as reported to Cabinet in September 2026). The table shows the financial implications of those projects in 2027/28 onwards:

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| Project | Resources |
|---|---|
| Churchgate area regeneration | The 2026/27 budget has been adjusted (via a Council decision) to provide resources to progress with the procurement of a delivery partner. The 2027/28 budget will identify the potential spend required to progress through to a deliverable scheme (e.g. design costs, planning costs, project management costs). Some of these costs may be able to be treated as capital but will be shown as revenue expenditure initially. These revenue costs will be one-off can be afforded from General Fund reserves. Where possible any surplus income from lettings will also be used. Ultimately it is expected that a significant capital budget will be required, but not yet at a stage where this can be quantified. |
| Public Sector Decarbonisation Scheme- Leisure Centres | A capital budget has been agreed and is monitored regularly. The majority of the works have been completed (fully complete at Royston). The remaining works are subject to property agreements related to power supplies running across third party land. There is a risk that delays will lead to a further increased capital budget requirement. |
| Decarbonisation of Council Buildings Phase 2 | Capital budget approved. The impact on ongoing running costs will be refined throughout the project. Project Management from Climate Change and Sustainability Project Manager. |
| Local Plan Review | Assumed that this will be delivered from existing resources, including use of specific reserves. Project Management from the Strategic Planning Team. |
| Digital Transformation | Staffing resource is coming from Customer Services and IT. The projects may deliver some net savings, alongside process improvements for customers and staff. As the amount is uncertain these are not budgeted for at this stage. |
| Pay on exit parking | Expected to be completed in 2026/27. |
| Oughtonhead Weir | Expected to be completed in 2026/27. |
| /Residential/ Public EV charging | Expected to be completed in 2026/27. |
| Museum Collection Facility | There is a capital budget in place. The scope of the works is being reviewed to deliver it within the available budget. Project Management is provided by the Culture and Facilities Service Manager. |
| Royston Learner Pool | There is a capital budget in place. Project work so far is showing that the works are deliverable within the budget. Project Management is provided by the Leisure and Active Communities Team. The delivery route selected has reduced some of the project management pressure. |
| Achieving net zero Carbon emissions | Our leisure centres make up around 45% of our scope 1-3 emissions. The Public Sector Decarbonisation Scheme therefore supports significant progress towards net zero. Within the new waste contract, all vehicles under 7.5 tonnes will be electric. There is some budget provision for using HVO fuel in the larger waste vehicles, although this is currently insufficient. The 2027/28 budget will consider whether to increase the budget, and therefore the proportion of HVO use that can be afforded. The phase 2 decarbonisation budget includes the Town Hall and Museum, North Herts Learner Pool and District Council Offices. There are not currently any other specific capital budgets allocated for carbon improvements. There is also no budget allocated for off-setting costs. |

| | |
|---|---|
| Local Government Reorganisation | This has been very resource intensive. The pause by Government means that there is uncertainty as to the future resources required. Funding has been approved (from General Fund reserves) for the County-wide programme, additional posts in IT and HR and additional training. If the LGR process recommences then it is expected that further resource will be required (above the £2 million allocated). This is because the refinement of expected costs (before the pause) was highlighting more resource being needed, and the lengthening of the overall programme (due to the pause). The lengthening of the programme could allow the Councils to be in a better position pre-vesting day, and therefore provide better outcomes for the new Unitary Councils. This will need to be kept under review, and can be met from General Fund reserves (as will be one-off rather than ongoing spend). |

Projects are generally managed by relevant Officers, in addition to their core role. This creates the potential for delays.

There is not currently any resource allocated for any new projects that are not listed above.

**Future spend forecasts and resultant budget gap**

Bringing together the above assumptions gives the following spend forecasts over the next 3 years. This is then compared with the estimated funding for each year to give a forecast funding gap.

| **Amounts in £m** | **2027/28** | **2028/29** | **2029/30** |
|---|---|---|---|
| Forecast spend from 2026/27 budget | 27.444 | 23.732 | 24.687 |
| Budget monitoring impacts | (0.201) | (0.220) | (0.220) |
| Changes in inflation and other assumptions | 0.152 | 0.019 | 0.019 |
| Increased revenue cost of capital | 0.150 | 0.150 | 0.150 |
| **Revised forecast spend** | **27.545** | **23.681** | **24.636** |
| Forecast funding | 23.803 | 24.003 | 24.240 |
| **Forecast budget gap** | **3.742** | **(0.322)** | **0.396** |

**Addressing our funding gap**

The table above estimates that the Council will have a funding gap of around £0.4 million by 2029/30. If the Council was continuing in its current form, then it might be possible to use General Fund reserves to balance the budget over a longer period, but with the potential LGR timeline it is recommend that the Council should seek to identify how a balanced budget would be achieved by 2029/30. This would mean that the Council is acting as a good ancestor to the future Unitary Council(s). In the event of LGR happening on the currently assumed timescales this would mean that any savings would need to be identified as part of the 2027/28 or 2028/29 budget process. As this Council would not be setting a budget for 2029/30. It is likely that most of those savings will be identified for 2028/29 (i.e. the budget set in February 2028), as that gives greater certainty over what is happening with LGR and also the other forecasting assumptions. However it is important that the budget agreed for 2027/28 (i.e. the budget set in February 2027) does not make the ongoing budget position worse.

**What do we mean by savings?**

It is likely that there will be a need to identify savings to balance the budget. Savings could mean any of the following:

- Being able to deliver our existing services at a lower cost. The use of technology and automation may enable to do this in some areas. But generally, the savings that we have delivered across a number of years have been through efficiencies, meaning that there are fewer opportunities left.
- Being able to generate additional income from services that we are able to charge for, less any costs in providing that additional level of service.
- Being able to generate income from commercial activities. The opportunities to do this are limited by economic conditions and government policy. We also need to make sure that these activities are in line with our priorities.
- As capital expenditure comes with a revenue cost, reviewing our capital programme to ensure it reflects priorities and is deliverable.
- Reducing the level of services that we provide, or no longer providing services that we are not required to provide. Whilst we would always want to avoid this, we have to consider the overall sustainability of our Council.

During Summer 2026, residents were asked to help shape our future budget decision-making by sharing their thoughts on the services they value and their future priorities via our first-ever budget consultation. The aim of the consultation was to gauge residents' views and use the findings to aid our decision-making rather than make any concrete decisions on future services. The consultation focused on those services which are paid for through our general funding rather than those that are fully covered by fees and charges.

559 residents responded who told us their top five services in terms of importance to them were: 1) Waste collection & recycling; 2) Parks and greenspaces; 3) Street cleaning; 4) Community safety and environmental crime; and 5) Environment health. In terms of their thoughts on balancing our future budgets, they told us that they would rather we find ways new ways to fund our existing services rather than reduce the frequency or quality of the services we provide. These results will be used when considering any future savings options.