

Herefordshire Council Medium Term Financial Strategy

2015/16 – 2016/17



Medium Term Financial Strategy - Contents

	Page
1. Introduction	3
2. Herefordshire's Characteristics	4
2.1 Rural pressures	4
2.2 Adult social care	4
2.3 Children	5
2.4 Value for Money	6
3. National Financial Context	8
3.1 Introduction	8
3.2 2010 Comprehensive Spending Review	8
3.3 2013 Spending Round	8
3.4 Autumn Statement December 2014	8
3.5 Provisional Local Government Settlement 2015/16	9
4. Herefordshire Council's Financial Context	10
4.1 Introduction	10
4.2 Comparative Funding Position	10
4.3 Funding Gap	11
4.4 Local Government Settlement 2015/16	13
4.5 Funding now in SFA	13
4.6 New Homes Bonus	14
4.7 Specific Grants	14
4.8 DSG	14
4.9 Council Tax	16
4.10 Reserves	17
4.11 Capital Reserves	18
4.12 Funding Arrangements for Capital Investment	18
4.13 Capital Programme	19
4.14 Treasury Management Strategy	20
5. Medium Term Financial Resource Model (FRM)	21
5.1 Background	21
5.2 Assumptions	21
5.3 Pensions	21
5.4 Funding Assumptions Included in the FRM	23
5.5 Directorate Pressures	23
5.6 Savings targets	24
5.7 Budget proposal 2015/16	25
5.8 Budget risks	26
Appendix A – Autumn Statement	28
Appendix B- Financial Resource Model	30

1. Introduction

- 1.1. The MTFS covers the financial years 2015/16 – 2016/17 and demonstrates how the council will maintain financial stability, deliver efficiencies, and support investment in priority services, whilst demonstrating value for money and maintaining service quality.
- 1.2. The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities set out in the Corporate Plan. Herefordshire's key priority areas are to keep children and young people safe and give them a great start in life, enable residents to live safe, healthy and independent lives, and invest in projects to improve roads, create jobs and build more homes.
- 1.3. All local authorities are reducing services as the Government continues to significantly reduce the funding it provides to local government across England.
- 1.4. The Local Government provisional settlement announced on 18th December 2014 set out the funding assessment for local authorities. As expected this settlement confirmed further reductions in funding for the council and local authorities nationally in 2015/16. Herefordshire's Revenue Support Grant (RSG) has been reduced by £9m (25%). This funding will now provide only £26m (18%) of the councils £142m 2015/16 net budget requirement. This is projected to reduce still further to £4m in 2016/17.
- 1.5. In addition the demand for services has grown and the council has had to provide care for more people, particularly in essential areas such as children's safeguarding and adult social care.
- 1.6. The reduction in funding compounded by the additional service pressures have resulted in a funding gap of £18m in the period 2015/16 to 2016/17 with savings of £10m needed to meet this gap in 2015/16.

2. Herefordshire's Characteristics

2.1 Rural Pressures

- 2.1.1 Herefordshire Council has consistently argued that the costs associated with delivering services in rural areas are not adequately funded through the current national formula. Herefordshire is the most sparsely populated county in England– with residents dispersed across its 842 square miles. Areas of poverty and deprivation exist in Herefordshire and there are crucial economic, geographic and demographic factors, relating to distance, population sparsity, ageing, social inclusion and market structure.
- 2.1.2 Social isolation is a growing concern, not least because of the disproportionately increasing number of older people living in Herefordshire – but also due to poverty and deprivation. The cost of living in rural areas, for example transport and domestic fuel costs, can be higher than in urban areas. There is also recognition that it is often the most vulnerable members of the community, such as frail elderly people and deprived families, who suffer most from the loss of local services and the high cost of living.
- 2.1.3 54% of Herefordshire's population live in rural areas; 42% in the most rural locations. Providing services to a dispersed population across a large geographic area is a challenge and additional resources are required for professionals that need to visit clients across the county. Some health services - such as a dentist and GP - are difficult to access for some of Herefordshire's residents, along with other services such as public transport or having a local post office.
- 2.1.4 The historic under funding of rural areas means that the range and level of services provided in rural areas was much lower than in urban areas before the introduction of the austerity measures. The impact of the austerity measures has therefore been much greater in rural areas.
- 2.1.5 The 2015/16 provisional settlement included a £4m increase in the government's rural services delivery grant to £15.5m (£1m for Herefordshire). This equates to £1.20 funding per head to people living in rural areas which does not compensate for the difference in settlement funding between urban and rural areas who receive £130 more per head in grant from government.

2.2 Adult Social Care

- 2.2.1 Adult Social Care faces significant future pressures due to increased life expectancy and future demand due to an aging population.
- In 2012, the over 65 population of Herefordshire was 40,800. In 2015, it is projected to be 44,700 a 10% increase this group now represents 24% of total population, by 2020 it is projected to increase to 26% of total population, 49,600 and by 2030 30% or 61,400 people.
 - In the corresponding periods the projected population growth / growth in the over 65 / over 85 population compared to a 2012 baseline are shown in the table below:

	% Growth in Population v 2012 position			
	2015	2020	2025	2030
Total Population	1%	4%	7%	10%
Over 65	10%	22%	34%	50%
Over 85	15%	30%	45%	62%

2.2.2 In Herefordshire many people over 65 years old are active and well. However, there is a sizeable and growing group of over 65s living with chronic health conditions; dementia and increasing frailty, and it has been reported that Herefordshire has one of the lowest rates for diagnosis of dementia in England. The full extent of the implications of managing the increase in dementia is therefore likely to be underestimated.

2.2.3 The implementation of the Care Act has resulted in the allocation of grant funding in 2015/16 in relation to early assessments against the cap, deferred payment agreements, Carers and Care Act implementation and social care in prisons. Herefordshire has been allocated £1.2m out of national funding of £296m to fund these costs.

2.2.4 The creation of the pooled Better Care Fund budget in 2015/16 aims to improve the integration of health and care services. The funding will be allocated from within NHS budgets pooled with social care capital grants. This has significant implications for the future design and development of services across Herefordshire. The council and the Clinical Commissioning Group have published plans on how this funding will be spent and continue to actively work on the implications for the county.

2.3 Children

2.3.1 Based on provisional October 2014 pupil numbers, primary school numbers (including nursery classes) are predicted to increase in 2015/16 to 13,067. Secondary school numbers are predicted to increase to 9,420. Since the establishment of Herefordshire Council in 1998, primary school numbers have fallen by 1,163 from a high of 14,230 in 1998, a reduction equivalent to 8.2%. From a high point in January 2005, secondary numbers have fallen from 10,511 to 9,420 a reduction of 1,091 (equivalent to 10.4%) and are expected to continue to fall until 2017. School Funding is based upon pupil numbers in October each year and the Dedicated Schools Grant in 2015/16 will be funded on 12,790 primary pupils and 8,709 secondary pupils (excluding sixth form pupils).

2.3.2 The new schools funding formula distributes the same amount of funding to Herefordshire Schools but on a different basis as Herefordshire continues to

move towards the expected national school funding formula, creating winners and losers. The Minimum Funding Guarantee (MFG) limits the budget losses to -1.5% per pupil and those schools gaining budget will be capped by a similar percentage in order to fund the cost of the MFG protection. It is estimated that due to the additional fairer funding allocation of £2.7m in 2015/16 most schools will gain funding but a handful of schools will lose due to reductions in pupil numbers.

2.3.3 The numbers of Looked After Children increased during 2014/15, and stands at 273 as at 31.12.14, an increase of 13% compared with 31.12.13. The Care Placement Strategy includes action to reduce the costs of meeting the needs of children in our care. This includes the implementation of the Herefordshire Intensive Placement Support Service during the final quarter of 2014/15 financial year.

2.3.4 Foster carers will be required to look after children until the age of 21 from April 2014. The Government are currently looking at proposals to increase funding to support this initiative by approximately £40m across the country. This would require an expected increase in foster carers within Herefordshire of around 20-30 by 2017 to meet demand which will incur additional associated staff costs. There are national concerns about the unfunded costs of meeting these new duties.

2.3.5 Whilst the number of children on Child Protection Plans has reduced to 158 as at 31st December 2014, the numbers of referrals and Children in need remain at very high levels. This combined with the council commitment to low caseloads for social workers, and the ongoing cost of agency staff, mean that the cost of the safeguarding workforce remains high. The planned reduction of the use of agency staff is based on the ongoing positive impact of the social work academy on the recruitment and retention of newly qualified social workers, the introduction of retention payments for specific roles which has had a very positive impact on permanent staff turn over since its introduction in April 2014, and a robust recruitment strategy for experienced social workers for 2015. In addition the new West Midlands agency social work protocol came into effect on 1st January 2015, which will address the significant cost increase in this area over the past two years.

2.3.6 Court Costs are a risk due to an increase in care proceedings per 10,000 of the population in line with other Authorities. Some of this is attributed to the renewed emphasis on permanency planning and recognition of the 1989 Children Act.

2.3.7 The number of children with Complex Needs cases continues to rise and indications show an increase in average cost per placement.

2.4 Value for Money

2.4.1 Using cost benchmarking data we are able to focus on areas where spend varies from other authorities with similar characteristics and challenges such as providing adult social care services to a sparsely dispersed aging population. The most recent data summarised in the chart below show the position for Herefordshire. Unfortunately data is currently only available from 2012/13, our

expenditure has dropped significantly since this period. Even in 2012/13 our overall net spending was in the lowest third of comparable authorities, £233 per head of population, or £43m less in total. Some areas, as described above particularly in adult care are comparatively high.

Overview

This is an overview of the authority's spend on its services expressed per head of total population (or subsections of the population for adult social care and children's services). Most of the expenditure data come from the latest Revenue Outturn return however spending on children's services and the planned net current expenditure come from different sources and are for different time periods. Each indicator links to another set of related indicators. You can view an indicator in detail by clicking on the icon next to the indicator name.

Indicator	Period	Value	% change	DoT	Rank (Percentile)	Average
Total net spend per head	2012/13	£1,538.13 per head	-5%	↓	 In the lowest third	£1,771.18 per head
Spend on adult social care per adult	2012/13	£449.70 per head 18+	0%	↑	 In the highest third	£412.00 per head 18+
Spend on council tax benefits and housing benefits administration per head	2012/13	£0.00 per head	0%	↔	 In the lowest 5%	£14.39 per head
Spend on all children and young people services per head 0-17 yrs	2012/13	£3,389.76 per head 0-17	-9%	↓	 In the lowest 20%	£4,088.72 per head 0-17
Spend on culture and sport per head	2012/13	£59.20 per head	-10%	↓	 In the lowest third	£84.96 per head
Spend on environmental services per head	2012/13	£91.61 per head	0%	↓	 In the highest 25%	£84.98 per head
Spend on housing services per head	2012/13	£37.02 per head	-11%	↓	 Average	£39.56 per head
Spend on sustainable economy per head	2012/13	£147.89 per head	6%	↑	 Average	£153.08 per head

2.4.2 Herefordshire is showing higher than average costs in adult social care and environmental services. Significant transformational activity commenced in adult social care during 2013/14, the benefits of which will begin to show some impact in 2013/14 results but principally will impact in 2014/15. There are also indications that in some service areas average cost of care is reducing and client numbers stable.

2.4.3 The above average environmental costs exclude Herefordshire's waste infrastructure grant provided as part of its PFI contract, if this was taken into account the comparative position would improve. In addition Herefordshire has subsequently instigated alternate weekly domestic waste collections delivering significant cost savings.

2.4.4 Herefordshire's external auditors, Grant Thornton annually review the financial resilience, value for money and statement of accounts of the council. They do this by looking at key indicators of financial performance, its approach to

strategic financial planning, its approach to financial governance and its approach to financial control. Their overall conclusion gave the council a clean bill of health, assessing all areas as green in 2013/14.

3 National Financial Context

3.1 Introduction

3.1.1 This section of the MTFs sets out the financial context at national level. Central government's plans for public spending are documented in the following sections.

3.2 2010 Comprehensive Spending Review

3.2.1 The 2010 Comprehensive Spending Review set out the overall spending for the public sector for four years from 2011/12 to 2014/15. This set out the Government's proposals for tackling Britain's deficit, including significant reductions in public spending.

3.2.2 Since 2010 a number of changes to the 2010 Spending review totals have been announced, further reducing public sector budgets.

3.3 2013 Spending Round

3.3.1 On 26 June 2013 the Chancellor of the Exchequer, George Osborne MP, announced the outcome of the Spending Round 2013 (SR2013), which set out public spending totals for the financial year 2015/16. In his speech he said the three principles applied to the Spending Round were 'growth, reform and fairness'. The key SR2013 announcements for local authorities are summarised below:

- The Communities and Local Government department's resource budget is to reduce by 10% in real terms (8.2% cash).
- From 2015/16 £400m of New Homes Bonus was proposed to be pooled with Local Enterprise Partnership areas to support strategic housing and economic development priorities.
- £100m collaboration and efficiency fund will be available to support 'upfront costs' of local authorities working together and encourage 'better ways of operating', such as for new IT systems.
- The Chancellor announced that funding will be made available to support local authorities that choose to freeze their council tax in 2014/15 and 2015/16. Authorities that freeze or reduce their band D council tax will receive a grant equivalent to a 1% increase on 2013/14 Band D council levels in both years.

3.4 Autumn Statement – December 2014

3.4.1 On 3rd December 2014 the Chancellor of the Exchequer delivered his Autumn Statement to the House of Commons updating MPs on economic and fiscal forecasts for the UK economy.

3.4.2 The Chancellor made a number of key announcements affecting local government, which are summarised in Appendix A.

3.4.3 The significant points for Herefordshire were;

- The Government will cap the RPI increase in business rates at 2% to April 2016.
- The Small Business Rate Relief (SBRR), doubling to provide 100% relief from business rates, will be extended again to April 2016. This will benefit Herefordshire businesses by around £2m.
- An increase in discount of £1,500 against business rates bills for retail premises (including pubs, cafes, restaurants and charity shops) with a rateable value of up to £50,000 in 2015/16.

3.5 Provisional Settlement 2015/16

3.5.1 On 18th December 2014 the 2015/16 Provisional Local Government Finance Settlement was published. Key announcements for Herefordshire were as set out below.

3.5.2 The position for Herefordshire is in line with budget assumptions in the medium-term financial plan, with two main changes improving the overall position slightly;

- Additional funding for the super sparse authorities to recognise the additional challenges faced, increasing total grant funding to £15.5m being included in the Settlement. This has given Herefordshire an extra £378k (£976k in total) in 2015/16.
- The additional rural funding has been offset by funding reductions elsewhere including the national funding for the Improvement and Development Agency which has been funded by deducting £23.4m nationally from RSG, Herefordshire's proportion being £127k.
- This means the council has benefited overall by an additional £251k pa, this sum has been allocated for funding additional rural transport.

3.5.3 The Settlement confirms Government funding reductions of £9m in 2015/16:

	2014/15	2015/16
	£000	£000
Baseline rates*	22,384	22,811
Top-up	6,686	6,814
Revenue Support Grant	35,803	26,461
Settlement Funding Assessment	64,873	56,086
Reduction in Formula funding		(8,787)

*The rates figure in the Financial Resource Model (FRM) differs from this as the above is the Government's estimate of Herefords share of business rates

4 Herefordshire Council's Financial Context

4.1 Introduction

4.1.1 This section of the MTFS describes the council's financial position and approach for:

- Revenue spending.
- Capital investment.
- Treasury management.

4.2 Comparative Funding Position

4.2.1 Herefordshire is not a well-resourced council. Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in a sparsely populated areas but do not do enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the county.

4.2.2 Herefordshire Council has consistently argued that the costs associated with delivering services in rural areas are not adequately reflected in the current formulae. The Rural Services Network (SPARSE), a body representing rural councils in England, established that an urban area on average receives 50% greater central government assistance than a rural area.

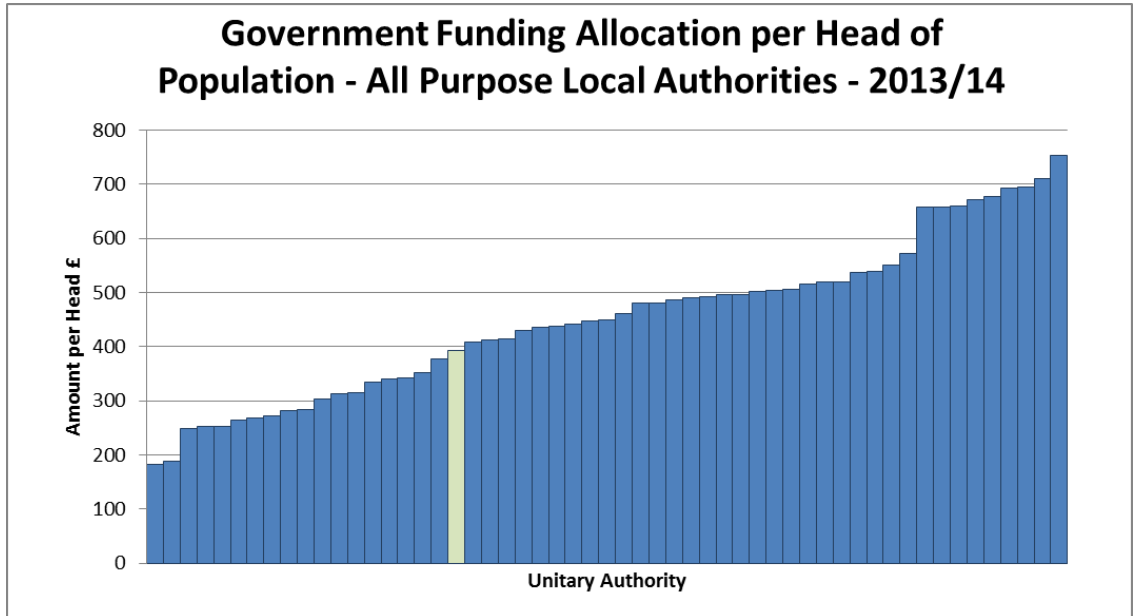
4.2.3 The Government has accepted that rural areas have been comparatively underfunded. This was reflected in an additional one-off grant allocation of £531k in the final settlement for 2013/14 and an Efficiency Support for Sparse areas grant has been added into the financial settlement for 2014/15 and 2015/16. This has benefited Herefordshire by £976k in 2015/16.

4.2.4 The 2015/16 budget figures show that:

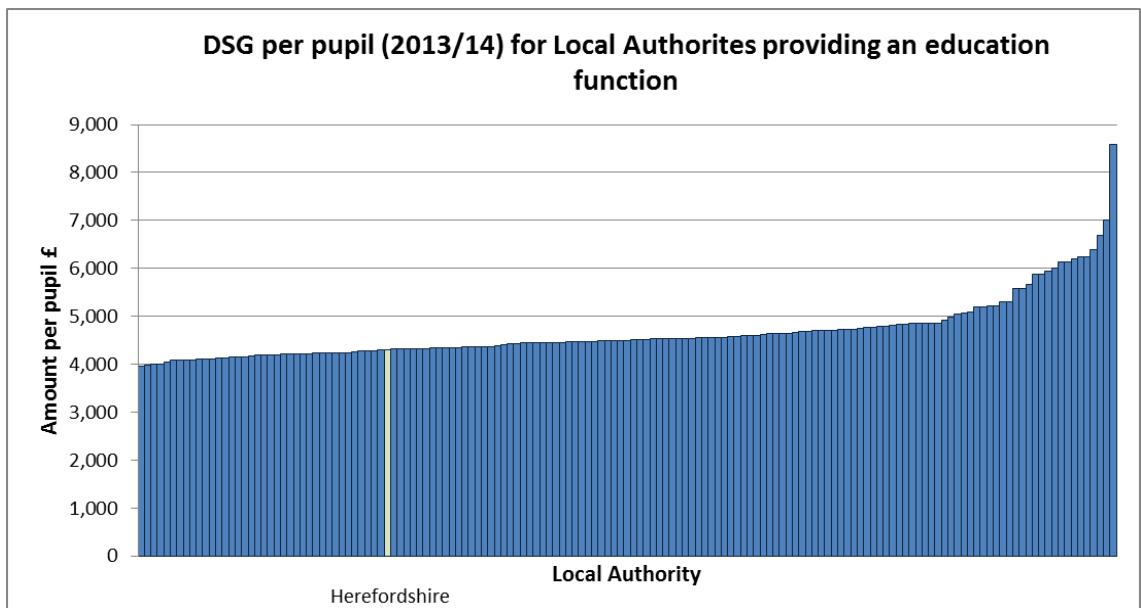
- a) The Government Funding Allocation per dwelling is £675, 24% below the national average of £885; and
- b) Indicative Dedicated Schools (DSG) Grant per pupil is £4,435.87, 4% below the average for education authorities of £4,612.11.

4.2.5 The graph below shows Formula Grant per head of population for all unitary authorities 2013/14. It shows that Herefordshire is 37th out of 55 unitary

authorities.



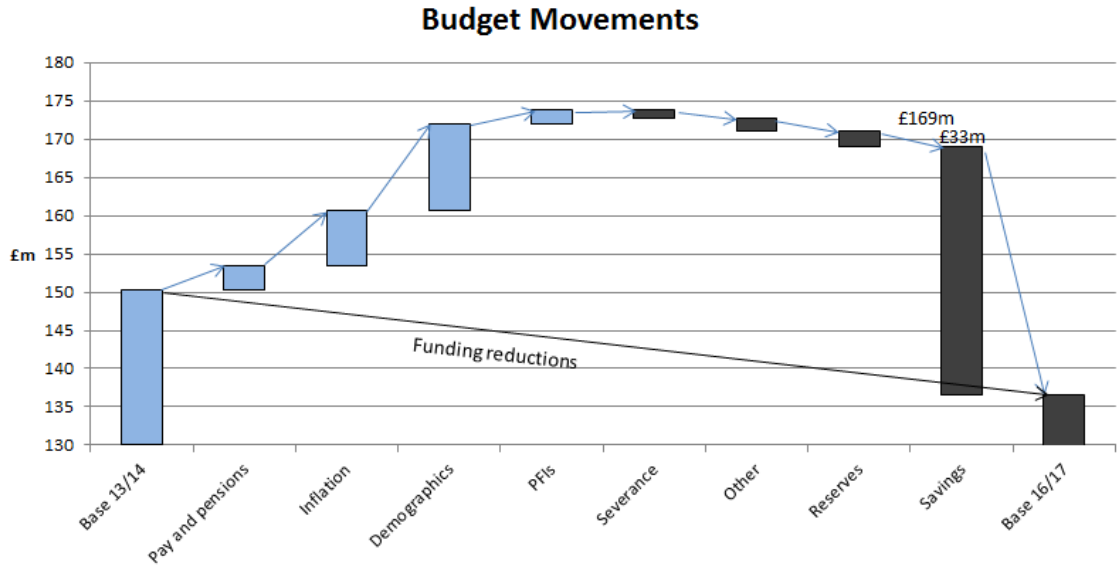
4.2.6 The graph below shows DSG per pupil for local authorities providing education functions (before deductions for academies recoupment and direct funding of academy High Needs). Herefordshire is placed 113 out of 151 authorities.



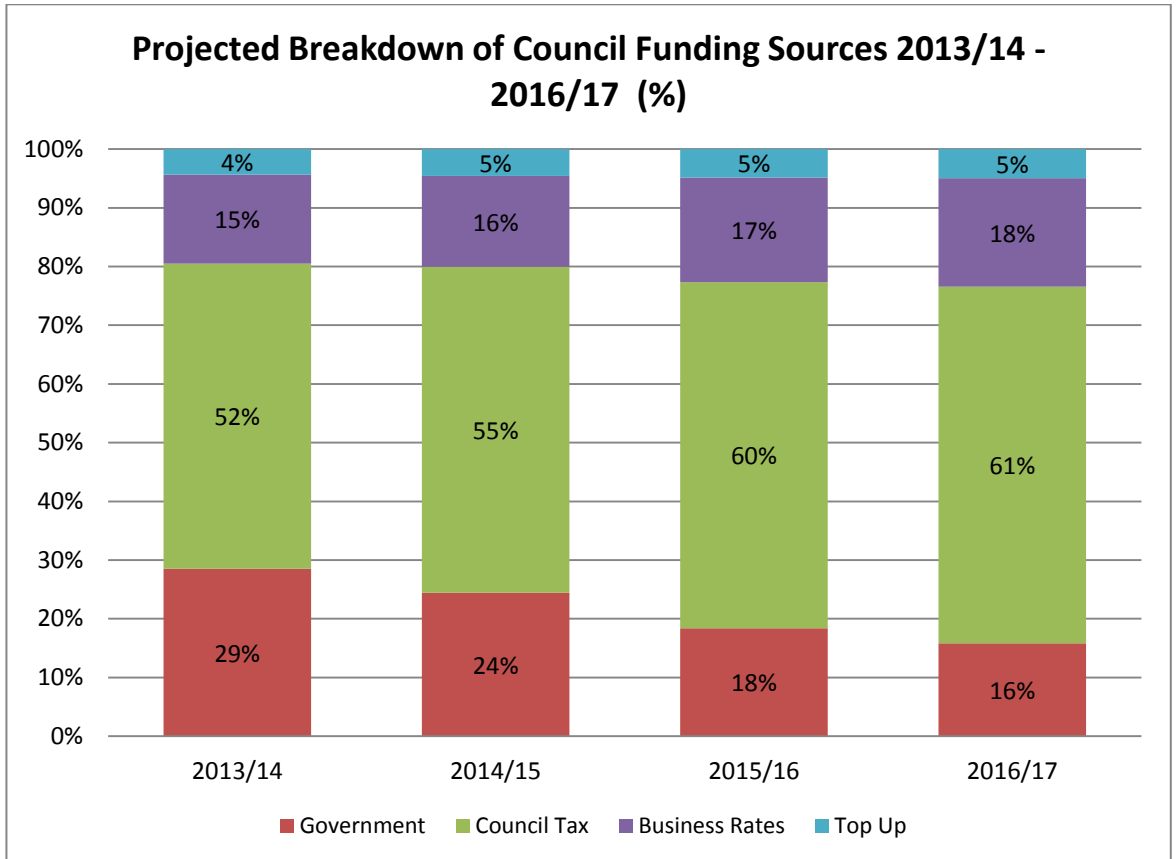
4.3 Funding Gap

4.3.1 Between 2014/15 and 2016/17 the council will need to make savings of £33m to balance the budget.

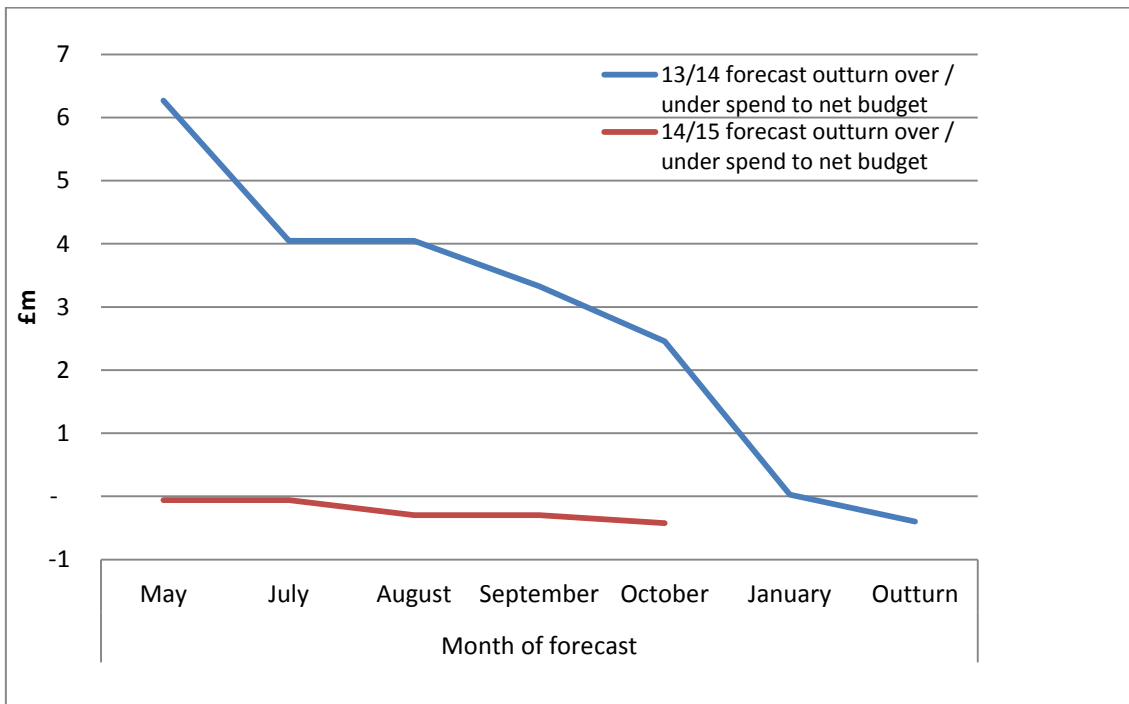
4.3.2 The chart below shows the funding gap arising out of cost increases and funding reductions up to 2016/17.



4.3.3 The chart below shows the projected breakdown of the council's funding by % showing less and less funding being provided by central government and increased self financing from council tax and business rates.



4.3.4 The line graph below shows how the outturn forecasts have been reported to date in 2014/15 compared to 2013/14. The graph shows that the forecasted position has for 2014/15 been stable through the year, with the final outturn expected to show a small underspend. This is a much more stable position than the forecast outturns reported during 2013/14 which experienced volatility throughout the year and substantially reduced to breakeven before closedown.



4.4 Local Government Settlement 2015/16

4.4.1 On 18th December 2014, the Communities and Local Government Minister Kris Hopkins announced the provisional 2015/16 settlement. The position for Herefordshire is in line with budget assumptions in the medium-term financial plan with continued funding reductions in support of the government's aim to reduce the budget deficit to zero by 2018/19 whilst protecting health budgets.

4.5 Grant funding now in SFA

4.5.1 The following former specific grants have now been included in the assessment;

	2015/16 £000
Specific grants	
11/12 Council tax freeze	2,135
Early Intervention Funding	4,429
Homelessness Prevention Funding	202
Lead Local Flood Authority Funding	127
Learning Disability and Health reform	3,864
Efficiency support for Services in sparse areas	976
Local Welfare Provision	275
Total	12,008

4.6 New Homes Bonus

- 4.6.1 The New Homes Bonus commenced in April 2011, which match funds the additional council tax raised for new homes and empty properties brought back into use for the following six years.
- 4.6.2 Herefordshire has been awarded the following since 2011/12 with the first six years funding of £591k per annum ceasing in 2017/18;

	Annual allocation	Cumulative receivable
	£000	£000
2011/12	591	591
2012/13	824	1,415
2013/14	655	2,070
2014/15	738	2,808
2015/16 estimated	784	3,592

4.7 Specific Grants

- 4.7.1 The table below sets out the specific grants for Herefordshire announced at the time of the Settlement, the Better Care Fund grant however includes £6.7m NHS pooled funding. Additionally the S31 grant in relation to extended business rates relief will not be confirmed until February.

Grant	Provisional 2015/16 £000
Provisional Housing Benefit Admin Subsidy	819
Council Tax Support – new burdens	32
Social care funding – new burdens	1,224
Public Health Grant (to be finalised)	7,970
DoH Social care funding	119
Lead Flood	46
Extended rights to travel	106
Commons Registration	4
Better Care Fund	11,694
TOTAL	22,014

4.8 Dedicated Schools Grant

- 4.8.1 The Dedicated Schools Grant (DSG) is paid as a ring-fenced specific grant and funds the Schools Budget. DSG is split into three distinct blocks as follows,

- Schools Block - funding delegated to schools as determined by the new national funding formula
- High Needs Block – all funding for special educational needs including post-16
- Early Years Block – funding for Private, voluntary, independent nursery providers and central early year’s services. This includes a transfer of funding for 2 year old nursery education previously paid by separate grant.

4.8.2 DSG is the main source of income for schools. Each block within DSG, although not ring-fenced, is funded separately. The schools block will be based upon a per pupil formula using the actual pupil numbers from the October school census data, The Early Years block will be calculated on a rolling basis through the year based on three termly pupil census dates. The High Needs Block has been determined on the basis of the 2014/15 baseline updated for actual exceptional growth rather than predicted growth. There is specific grant certification and audit requirements to ensure appropriate use of the grant and any under or overspends must be carried forward to the next financial year.

4.8.3 A national review of the distribution formula for DSG based around the introduction of a national schools funding formula resulted in additional “fairer funding” for many low funded authorities including an extra £2.7m for Herefordshire from April 2015. As a high delegator of funding to schools early indications from the Institute of Fiscal Studies suggested that Herefordshire schools will lose funding in the move to a national funding formula however this has not been as significant as initially thought.

4.8.4 Apart from the additional “fairer funding” allocation of £129.43 per pupil within the Schools Block, there is no inflationary uplift in DSG funding rates for the early years and high needs blocks in 2015/16. The Schools Block will be funded at £4,435.87 per pupil and the Early Years Block at £3,454.43 per early years pupil. In addition pupil numbers for the Early Years Block will be revised throughout the year so final funding for early years will match changes in pupil numbers. The announcement of funding for two year old funding has been postponed until June 2015 to take account of national under spending due to slower than expected take up of places and is excluded from the table below.

4.8.5 The totals for the three blocks and top-slice for academies are estimated to be;

2015/16 DSG Allocations	£m
Schools Block 21,092 pupils x £4,435.87 per pupil	93.6
Addition for non-recoupment academies (cost neutral)	2.0
Total Schools Block Funding	95.6
High Needs Block – 2014/15 baseline	13.36
Additional funding for hospital education (£65k) and exceptional growth in places (£145k)	0.21
Total High Needs Block Funding	13.57
Early Years Block – estimated numbers 1,475 pupils x £3,454.43 per pupil	5.1
Estimated early years pupil premium	0.1
Total Early Years Block funding	5.2
TOTAL DSG 2015/16	114.4

Less estimated academy recoupment at source schools	(40.1)
Less estimated academy recoupment at source high needs	(1.9)
DSG received by the council	72.4

- 4.8.6 For 2015/16 spend will be largely contained within each spending block and detailed budget planning will be undertaken with the Schools Forum. The pupil premium for 2014/15 is set at £1,320 per eligible primary pupil, £935 per eligible secondary pupil and £1,900 for Looked After Children and children adopted from care. The grant is estimated at approximately £1.6m for Herefordshire in 2015/16 and the final allocation is determined by the number of Herefordshire pupils entitled to Free School Meals (Ever-6) in the January 2015 school census.
- 4.8.7 Academies are publicly funded independent local schools. Academies are independent of the council and responsible directly to and funded directly by government. They are freed from national restrictions such as the teachers' pay and conditions documents and the national curriculum. Many Herefordshire schools have embraced the change and approximately 40% of pupils will be educated in Academies from April 2015.
- 4.8.8 Academies provide a teaching and learning environment that is in line with the best in the maintained sector and offer a broad and balanced curriculum to pupils of all abilities, focusing especially on one or more subject areas (specialisms). As well as providing the best opportunities for the most able pupils and those needing additional support, academies have a key part to play in the regeneration of disadvantaged communities.
- 4.8.9 Academies receive additional top-up funding from a share of the Education Services Grant to reflect their extra responsibilities which are no longer provided by the local authority. Academies can choose to buy these services from the local authority.

4.9 Council Tax

- 4.9.1 The council is not intending to accept the 2015/2016 government grant to freeze council tax; it is instead choosing to protect services, which comes at a cost. The council has had to deal with very significant reductions in government funding; this has been coupled with increases in demand. Over the past four years Herefordshire has delivered budget reductions of over £50m with another £10m required next year on a net budget of £142m.
- 4.9.2 As a direct result of how the government grant allocation system works Herefordshire, and other rural authorities, do not receive the same level of grant as some other councils, particularly London boroughs, despite the fact that in many instances our geography means some services, such as road maintenance and social care cost more to deliver. Rural authorities also have less ability to benefit from additional incentives offered by government such as business rate localisation.
- 4.9.3 Herefordshire Council has managed the challenge facing the public sector through focusing its resources on the services most essential to ensure the health and wellbeing of the county's residents, in particular the most vulnerable, and to promote economic growth. We have increased council tax and intend to do so again to continue this work, having already significantly reduced 'back office' operating costs and non-essential service delivery.

- 4.9.4 It is also important to note that the council tax collected includes levies not only for Herefordshire Council and the police but the fire authority and the parish councils – all of which face similar challenges in meeting the needs of the local community with increasingly scarce resource, although not all face the same capping limits as local authorities on the levy they can raise. The more we can do to increase the economic prosperity of the county the more financially sustainable these essential public services become.
- 4.9.5 The council chose to freeze council tax and take up the Government's council tax freeze grant in 2011/12 and 2012/13. However, when the Government offered a further council tax freeze grant for 2013/14 and 2014/15 the council did not accept this and approved a 1.9% increase.
- 4.9.6 In the 2015/16 provisional settlement the Chancellor announced a further council tax freeze grant for 2015/16 equivalent to a 1% council tax increase. Budget planning is based on not accepting the council tax freeze and, an increase of 1.9% is proposed for 2015/16. The level at which a referendum has remained at 2%.
- 4.9.7 Indicative freeze grant funding of £921k for Herefordshire has been shared however this is based on indicative council tax base growth, the actual grant will be based on the actual council tax base which would result in lower grant funding of £829k. A 1.9% council tax increase equals to a re-occurring £1,565k additional annual income, this is how current budget projections have been presented to date. Taking the freeze grant would mean identifying additional savings of £736k in 15/16 and in future years.

4.10 Reserves

- 4.10.1 Herefordshire has two main sources of reserve funding to support the day to day spending that is recorded in the revenue account, the General Fund balance and Specific Reserves. As the titles suggest, the latter are held for a specific purpose whilst the former could be considered a general contingency.
- 4.10.2 The following table shows the year-end balance on the General Fund for the last three financial years and the estimated position at 31st March 2015.

Balance as at:	General Fund £000	Specific Reserves		Total £000
		Schools	Other	
31.03.12	6,113	5,789	7,669	19,571
31.03.13	4,656	5,535	8,433	18,624
31.03.14	5,053	6,345	17,598	28,996
31.03.15	8,633	6,117	9,668	24,418

- 4.10.3 A significant proportion of the specific reserves belong to schools and cannot be used to help pay for non-schools services. Additionally other reserves include unspent government grants carried forward to be spent in future years, for example, the severe weather grant funding of £2m received in March 2014.
- 4.10.4 Herefordshire's General Fund opening balance for 2014/15 was £8.63m, which was in excess of the policy in place to maintain a minimum balance of £4.5m (around 3% of the net budget). The 2015/16 budget includes £0.5m to increase the general fund balance, although overall reserve balances are budgeted to decrease by £1m.

4.11 Capital Reserves

4.11.1 There is one capital receipts reserve that represents cash available to support spending on the creation or enhancement of assets that is recorded in the capital account. It is known as the Usable Capital Receipts Reserve. The following table shows the level of usable capital receipts for the last 3 financial years and the estimated position at 31st March 2014;

Balance as at:	Opening Balance £'000	Receipts £'000	Spend £'000	Closing Balance £'000
31st March 2012	6,754	516	(4,501)	2,769
31st March 2013	2,769	2,872	(2,948)	2,693
31st March 2014	2,693	5,349	(2,047)	5,995
31st March 2015 (est)	5,995	2,000	(5,098)	2,897

4.11.2 The council has a policy that ensures capital cash resources are used effectively in support of corporate priorities. As a result all capital receipts are a corporate resource and not 'owned' or earmarked for directorates unless allocated for a specific purpose.

4.12 Funding Arrangements for Capital Investment

4.12.1 Capital expenditure can be funded from capital receipts, borrowing, grants and revenue contributions.

4.12.2 Government support for capital investment is through the allocation of grants, known grant funding allocations for 2015/16 are, a number are yet to be announced:

- **Local Highways Maintenance Funding** - £11.523m
- **Integrated Transport Block** - £1.069m
- **Basic Need** - £0.634m
- **Better Care Fund** - £1.356m

4.12.3 **Council Borrowing** - This medium-term strategy reflects the borrowing funding requirement implied by the Treasury Management Strategy to support the capital programme. All new capital schemes funded by borrowing are only recommended for approval where the cost of borrowing is fully funded.

4.12.4 **Capital Receipts Reserve** – as shown in paragraph 4.11.1 the capital receipts reserve totalled £5.995m as at 1 April 2014. This is likely to fall to around £2.897m by the end of this financial year. This remaining balance has been committed to fund the capital programme in future years.

4.12.5 **Other Funding opportunities** - The financial management strategy for increasing capital investment capacity centres on:

- **Maximising Capital Receipts** – by disposing of assets
- **Maximising Developers' Contributions** – through planning gains and the adoption of a Community Infrastructure Levy
- **Challenge Funding** – an application will be submitted to the Department for Transport for highway maintenance

- **LEP Major Scheme Grant Funding** – applications will be made for infrastructure schemes
- **External Funding Bodies** – to distribute funding for projects that satisfy their key criteria and objectives; bids are submitted where appropriate.
- **New Homes bonus and Retained Business Rate Income Growth** – these revenue funding streams will be linked, where appropriate, to support the cost of financing capital expenditure.

4.12.6 The challenges given to retaining assets will be based on value for money and the delivery of strategic priorities and key service delivery. Surplus properties will either be recycled or disposed of and proceeds will be reinvested. The disposal of land will be allowed after consideration of sacrificing a capital receipt for transfer of the land for use as social housing or as a community asset transfer.

4.13 Capital Programme 2015/16

4.13.1 The 2015/16 capital programme represents funding allocations received to date, commitments from previous years and new capital schemes. The council's capital programme is funded by grants, borrowing and capital receipts. All schemes funded by borrowing been included in the Treasury Management Strategy and Prudential Borrowing Indicators within this MTF5.

4.13.2 The following table summarises the approved capital investment programme;-

Scheme	Spend in prior years £'000	15/16 £'000	16/17 £'000	17/18 £'000	Future Years £'000	Total £'000
Highways Maintenance	n/a	11,523	10,564	10,244	27,816	60,147
Energy from waste plant	11,000	14,000	15,000	-	-	40,000
Link Road	19,772	7,228	-	-	-	27,000
South Wye Transport Package	-	1,000	1,000	12,300	12,700	27,000
Fastershire Broadband	11,600	6,200	2,400	-	-	20,200
Road infrastructure	15,000	5,000	-	-	-	20,000
Hereford Enterprise Zone	1,967	6,367	7,100	4,000	-	19,434
Corporate accommodation	15,884	976	-	-	-	16,860
Leominster Primary School	10,180	437	-	-	-	10,617
Leisure centres	2,330	3,300	3,370	-	-	9,000
Colwall Primary School	-	1,600	4,800	100	-	6,500
Integrated Transport Plan	n/a	1,069	1,069	1,069	3,207	6,414
Other smaller schemes and contingency	n/a	3,139	440	257	144	3,980
Three Elms Trading Estate	-	1,850	400	350	-	2,600
Schools Basic Need	1,008	634	666	-	-	2,308
Better Care Fund	-	1,356	-	-	-	1,356
Peterchurch Primary School	-	1,000	-	-	-	1,000
Relocation of Broadlands School	-	800	120	-	-	920
Improvement to provision for Social, Emotional and Mental Wellbeing (Brookfield)	-	200	300	-	-	500
Purchase of gritters	-	250	125	125	-	500
TOTAL	88,741	67,929	47,354	28,445	43,867	276,336

4.14 Treasury Management Strategy

4.14.1 The council is required to approve an annual treasury management strategy each year as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2015/16 complies with the detailed regulations that have to be followed and sets out the council's strategy for making borrowing and investment decisions during the year in the light of its view of future interest rates. It identifies the types of investment the council will use. On the borrowing side, it deals with the balance of fixed to variable rate loan instruments, debt maturity profiles and rescheduling opportunities. The strategy also includes the Minimum Revenue Provision (MRP) policy.

Investments

4.14.2 During 2014/15 interest rates have remained low. In the year to date the average daily rate achieved on the council's investments has ranged from 0.55% to 0.81% and averaged 0.67%. The first increase in the Bank Base Rate is not expected until September 2015 at the earliest and it is possible that there will be no increase in 2015/16. The budget for 2015/16 has been set on a prudent basis assuming average investment balances of £20 million and an average interest rate of 0.58%. The average rate is lower than 2014/15 because in the current year the average rate has been increased by bank term deposits which it is anticipated will be less in 2015/16.

4.14.3 The council's primary objective in relation to the investment of public funds remains the security of capital. As a result of new banking regulations which, in the absence of government support, put the council's deposits at risk when banks get into difficulty, the council will maintain lower investment balances during the year (a policy only possible with short-term loans which can be matched to the council's cash-flow profile) and invest these mainly in Money Market Funds.

Borrowing

4.14.4 On the borrowing side, the strategy, based on the capital programme, includes an estimated additional borrowing requirement of £26.9m for 2015/16 (increasing from an estimated total of £215.4m at 31.03.15 to £242.3m at 31.03.16). This is the net figure after taking account of estimated capital spend, the refinancing of existing loans, MRP and available reserves.

4.14.5 The borrowing requirement has been calculated by reference to the capital financing requirement which is set out below. (The borrowing supports fixed assets which had a Balance Sheet value of £465 million as at 31.03.14).

	31.03.15 Estimate £'000	31.03.16 Estimate £'000	31.03.17 Estimate £'000	31.03.18 Estimate £'000
Capital Financing Requirement	258,909	291,450	304,451	291,346
Less: Other Long Term Liabilities:				
PFI schemes	25,882	24,708	23,426	22,144
Finance leases	319	319	319	319
Salix loan	249	95	0	0
CFR excluding other long-	232,459	266,328	280,706	268,883

term liabilities				
Less: Existing Profile of Longer Term Borrowing – PWLB and bank loans	132,523	124,285	117,243	113,185
Cumulative Maximum External Borrowing Requirement	99,936	142,043	163,463	155,698
Estimated cash balances (see 4.14.6 below)	17,000	24,000	34,000	59,000
Cumulative Net Borrowing Requirement	82,936	118,043	129,463	96,698
Total Council Borrowing	215,459	242,328	246,706	209,883

4.14.6 The above projection includes a proposal to reduce borrowing through the sale of assets (realising total receipts of £7m in 2015/16, £10m in 2016/17 and £25m in 2017/18).

4.14.7 The forecast is for interest rates to stay low for the foreseeable future. Therefore council strategy is to continue to use mainly short-term loans, which have the advantages of:

- Being the cheapest source of finance available (both in the short-term and when comparing forecast variable rates against longer-term fixed rate loans from the Public Works Loan Board (PWLB)).
- Being flexible so that loan finance can be varied according to cash flow requirements, including the receipt of proceeds from fixed asset sales.

4.14.8 The budget for 2015/16 includes provision to take out £5m longer term finance from the PWLB if considered prudent to do so.

5. Medium-Term Financial Resource Model (FRM)

5.1. Background

5.1.1 The FRM shown in Appendix B takes into account the corporate financial objectives and approach set out in this document. The FRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. It sets the financial context for corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2015/16 to 2016/17 although 2016/17 will be refreshed, alongside the corporate plan, with the new administration between June – October 2015 to cover the period 2016/17 – 2019/20.

5.2 Assumptions

5.2.1 The FRM includes a number of key assumptions on which the financial strategy is based. The current planning includes the following;

- a) Council Tax - a 1.9% increase for 2015/16 and 2016/17.
- b) Government funding – the FRM reflects the provisional settlements for 2015/16 plus estimated further reductions in funding for 2016/17.
- c) New Homes Bonus – the provisional 2015/16 allocation for Herefordshire is estimated at £784k, giving a total funding allocation of £3.59m in 2015/16. Further growth has been anticipated in 2016/17 before the first six years funding allocations are withdrawn in 2017/18.
- d) Inflation -the FRM includes 2% inflationary uplift on income and contract inflation indices on non-pay expenditure.
- e) Pay – the recently announced two year 2.2% increase is included in 2015/16 and an additional 1% award is assumed in 2016/17.
- f) Employers' superannuation costs – the FRM includes increases in employers' contributions following the 2013 valuation and agreed deficit repayments (see Section 5.3).
- g) Interest Rates – the FRM reflects interest rate assumptions for investment income and borrowing costs in line with the Treasury Management Strategy 2015/16.

5.3 Pensions

5.3.1 The pension fund's Actuaries have undertaken their triennial review of the pension fund assets and liabilities and revised the contribution rates required to bring the fund into balance over a period of 21 years.

5.3.2 The estimated deficit on the fund for Herefordshire is £138m, against a required balance to pay future liabilities of £394m. This proportionate level of deficit is normal for Local Authority pension funds and relates to falling returns on investments and employees living significantly longer than anticipated when the scheme was initially set-up. We have agreed with the Actuary that in order to recover the deficit over 21 years that the employer's deficit contribution increases from £4.5m in 2014/15 to £7.6m by 2016/27 (£4.2m in 2013/14). The Actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. This amount will be reflected in a percentage charge still but it must be recognised as a fixed cost rather than a variable one based on staff numbers employed.

5.3.3 The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% to 14.6%. We have agreed with the Actuary to phase this in by paying 12.2% in 2014/15 and 14.6% from 2015/16. This equates to an increase from £4.2m per annum in 2013/14 to £4.6m in 2014/15 and £5.5m per annum thereafter.

5.4 Funding assumptions included in the FRM

5.4.1 The following funding assumptions are included in the FRM.

	2015/16
	£000
Estimated rates (retained by council)	21,784
Top-up	6,814
RSG	26,461
Council tax	83,963
Collection Fund Surplus	1,251
Reserves	1,510
Funding for net budget requirement	141,783

5.4.2 The settlement also set out the specific grants for Herefordshire, as detailed in Section 4.7. These grants are used to fund specific functions with Directorates. We await details of some grants from central government.

5.5 Directorate pressures

5.5.1 The total of Directorate pressures which are included in the FRM are:

	2015-16	2016-17	Total
	£000's	£000's	£000's
Children's			
Baseline placements (in year)	762		762
Child sexual exploitation prevention	100		100
	862	-	862
Adults Wellbeing			
Savings not achieved in demand management (replaced by new savings)	1,160		1,160
New / additional demographic pressures	114	146	260
Transitions – ongoing impact of growth	700	100	800
	1,974	246	2,220
ECC			
Grass cutting	400		400
Rockfield Road car park closure		30	30
Valuations		41	41
	400	71	471
Corporate			
Insurance premiums	200		200
Grant reduction assumption 7%		873	873
Cost of funding new capital investment need	100	300	400
Joint safeguarding board	100		100

TOTAL

400	1,173	1,573
3,636	1,490	5,126

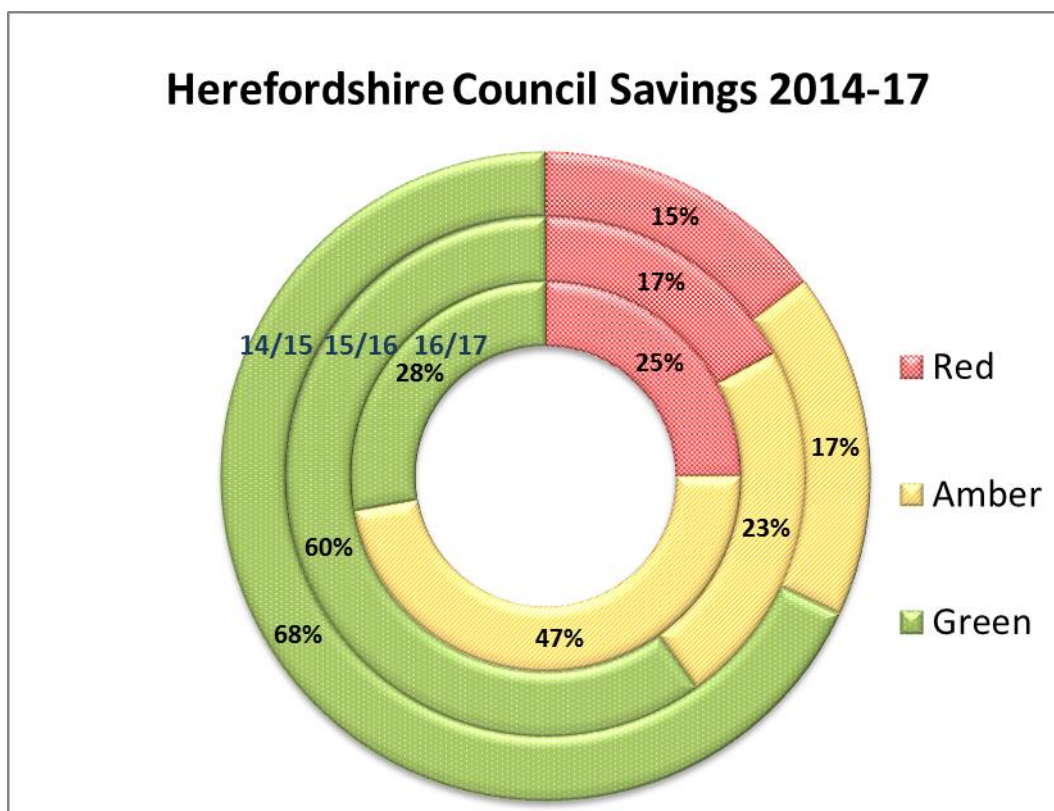
5.5.2 Any new pressures will have to be self-funded through savings within directorates.

5.6 Savings Targets

5.6.1 The 2014/15 to 2016/17 budget gap of £33m has been identified in the medium-term financial plan. Savings of £15m are expected in 2014/15 and proposed savings for 2015/16 to 2016/17 are as follows;

	2015/16	2016/17	Total
	£000	£000	£000
Children's	1,129	1,720	2,849
Adults Wellbeing & Public Health	5,460	2,363	7,823
Economy, Communities and Corporate	3,596	3,530	7,126
Savings Identified	10,185	7,613	17,798

5.6.2 The initial savings plans are consistently reviewed and are currently rated as follows.



5.6.3 For Children's Wellbeing the savings plans cover the following areas;

- Care Placement Strategy – reduction in residential placement costs
- Recruitment and retention of permanent staff
- Adoptions initiatives
- Service re-design in safeguarding

5.6.4 For Adults Wellbeing the savings plans cover the following areas;

- Remove funding people who are not eligible for adult social care
- Maximising income through charging for services
- Shifting to providing enablement focused and time limited support
- Re-commissioning and reductions in care packages
- Contract Changes, improved value for money
- Reductions in accommodation based support
- Service redesign
- Maximisation of Continuing Health Care
- Population wellbeing interventions

5.6.5 For ECC the savings plans cover the following areas;

- Waste & Sustainability
- Public transport
- Back-office
- Asset Review
- Withdrawal of subsidies to Cultural Services partners
- Co-location of customer and library services
- Car Parking
- Council tax reduction scheme
- Removal of discretionary rate relief to some voluntary organisations

5.7 Budget proposal 2015/16

5.7.1 The recommended budget position for 2015/16 is as follows;

Revenue Budget Summary 2015/16

Directorate	Base Budget 2014/15 £000	Net changes £000	Draft Budget 2015/16 £000
Adults Wellbeing	54,923	(1,680)	53,243
Childrens Wellbeing	21,242	895	22,137
Economies, Communities and Corporate	53,065	(2,530)	50,535
Total Directorates	129,230	(3,315)	125,915
Capital financing - debt repayments			10,183
Capital financing - interest			6,233
Change management			3,018
Government grants			(5,440)
Other central budgets			1,374
Transfer from General Balances			500
Total net spend (Budget Requirement)			141,783
Financed by;			
Formula grant			26,461
Locally retained rates			21,784
Business rates top up			6,814
Council tax			83,963
Collection Fund Surplus			1,251
Reserves			1,510
			141,783

5.8 Budget risks

5.8.1 The most substantial risks have been assessed in the budget process and reasonable mitigation has been made. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process. The proposed budget includes contingency and reserves that, if required, can be used to manage realised risks in addition to the normal budget virement risk management process.

5.8.2 Substantial Reductions to Directorate Budgets totalling £10m in 2015/16 have been identified within the draft budget proposals, which are in addition to the £49m savings in the previous four financial years. Key risks for Directorates are set out below;

5.8.3 Economy, Communities and Corporate

- There is risk to the budget for the emergency costs in response to severe weather conditions, such as flooding or harsh winter conditions. Whilst DCLG assist in the funding of these costs through the Bellwin scheme, the council would have to fund the remainder within current budgets.
- The current property market may impact on the ability to dispose of current surplus assets when anticipated. This will incur additional running costs and impact on borrowing costs.

5.8.4 Adults Well-Being

- Demographic Pressures have been included within the budget proposals for expected growth, but pressures within Health funding may result in added costs due to earlier hospital discharges.
- Re-commissioning of services is dependent upon successful contract negotiations and an appetite within the marketplace for change and the management of delivering to proposed timescales.
- Reviews of high cost packages run the risk of care packages also increasing in value as well as decreasing in value.
- Increased income expectations are at risk as if successful at preventative and redirection demand initiatives, then this may reduce the ability to increase income generation.
- There is a risk that the national publicity campaign to support the implementation of the Care Act in 2015/16 may give rise to a higher level of additional local activity from carers and self-funders than anticipated which results in increased expenditure above the new burdens funding received.

5.8.5 Children's Wellbeing

- The care placement strategy step down approach requires children to be identified and the care placements and foster carer's to be available. Demand pressures have been included in the budget, and the strategy includes prevention however demand is a risk.

- Social work recruitment within Children's Services remains a risk with a national shortage of social workers. The recruitment and retention strategy of growing our own, maintaining low caseloads, offering retention benefits, managing the quality and cost of agency staff and a review employment models all support a sustainable workforce.

Autumn Statement – December 2014

Key Announcements affecting Local Government

Review of the structure of business rates - A review of the structure of business rates will be carried out by the Government, reporting by Budget 2016. The review will be fiscally neutral and consistent with the Government's agreed financing of local authorities.

Review of the administration of business rates - The government will publish its interim findings from the review of business rates administration in December 2015, setting out how it will respond to businesses' calls for clearer billing, better information sharing and a more efficient appeal system.

Small Business Rate Relief - The Small Business Rate Relief (SBRR) will be doubled for a further year to provide 100% relief from business rates for 2015/16.

Business Rate Increases - The business rate increase will be capped at 2% for a further year. Business rates for 2015/16 would have risen by the September 2014 RPI. £125m has been set aside to compensate local authorities for the difference between the 2% cap and the September RPI figure, as was the case for 2014/15.

Local Authority Members' Travel Expenses - The Government will exempt travel expenses paid to councillors by their local authority from income tax and employee NICs. The exemption will be limited to the Approved Mileage Allowance Payment (AMAP) rates, where it applies to mileage payments. This change will take effect from 6 April 2015.

Local Enterprise Partnerships and Local Growth Fund - The Government will allocate a further £1bn from the £12bn Local Growth Fund announced in Spending Round 2013 for a second wave of Growth Deals. This will allow LEPs to bid for support for local projects as part of 'their ambitious plans for growth'.

Highways Network - The Government has committed £15bn to improve the national road network, operated by the Highways Agency. This will include around £6bn to resurface 80% of their network, and over £9bn to add 1,300 extra lane miles and over 60 junction improvements. The Government also previously committed to £5.8bn in capital funding over the next Parliament to improve the condition of local authority-managed roads.

Flood Protection Funding - These include schemes to protect homes from flooding:

- £196m for Thames Estuary projects
- £80m for Humber Estuary improvements, including sea defences between Immingham to Freshney and flood frontage in Hull
- £42m for a flood alleviation scheme in Oxford
- Funding for schemes in Boston, Lincolnshire (£73m), Rossall, Lancashire (£47m), and the Tonbridge area (£17m)
- £15.5m for flood defences in Somerset - including £4.2m on the Somerset Levels and Moors. This is part of at least £35m committed to Somerset from this year until 2021.

Severe Weather Recovery Scheme - extensions to the following schemes:

- Council Tax Relief Scheme supporting councils to provide council tax rebates to residents whose homes were flooded.
- Business Rates Relief Scheme, supporting councils to provide business rates rebates to businesses whose premises were flooded.
- Severe Weather Recovery Scheme (communities' element) to support local authorities with the costs associated with impacts on local communities.
- Repair and Renew, which provides grants of up to £5,000 for flooded homeowners and businesses to improve the resilience of their properties; and
- Business Support Scheme providing hardship funding to businesses affected by the floods.

Bellwin Scheme - DCLG has launched a consultation on the revised principles of the Bellwin Scheme of Emergency Financial Assistance to LAs. The consultation closes on 2 January 2015 and follows a review of the scheme.

	2015/2016 £'000	2016/2017 £'000
Base Budget	146,135	141,318
Inflation - Pay Award	379	386
Superannuation	631	
Superannuation deficit	531	1,649
Inflation - Non-Pay Expenditure	2,068	1,890
Inflation - Income	(354)	(419)
Total Inflation	3,255	3,506
Additional NI from 2016/17		1,400
Inflated base budget	149,390	146,224
Waste disposal - PFI Contract	200	
Managing change budget reduction		(880)
Capital Financing Costs		
- Cost of borrowing	(376)	250
- Investment Income	(65)	100
New capital bids approved	100	300
Identified Pressures		
Adults	2,741	988
Childrens	862	
ECC	(24)	71
Insurance/Safeguarding Board	300	
Contingency - unforeseen items/grants	(26)	
Pension back-funding requirement in savings plans	165	106
Funding		
ESG grant reduction	338	
New Homes Bonus	(784)	(654)
Rates changes -s31 grant	619	1,641
NHB topslice returned	98	
Reserves		
£3.58m contribution in 2014/15	(3,080)	(500)
Reserve funded one off costs	1,510	619
Savings Target	(10,185)	(7,613)
TOTAL	141,783	140,652