

# Medium Term Financial Strategy

## 2016/17 – 2019/20



*“Herefordshire - a place where people, organisations and businesses work together within an outstanding natural environment, bringing about sustainable prosperity and wellbeing for all.”*

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# 1. Introduction

1.1 This Medium Term Financial Strategy (MTFS) covers the financial years 2016/17 – 2019/20 and demonstrates how the council will maintain financial stability, deliver efficiencies, support investment in priority services, whilst demonstrating value for money and maintaining service quality.

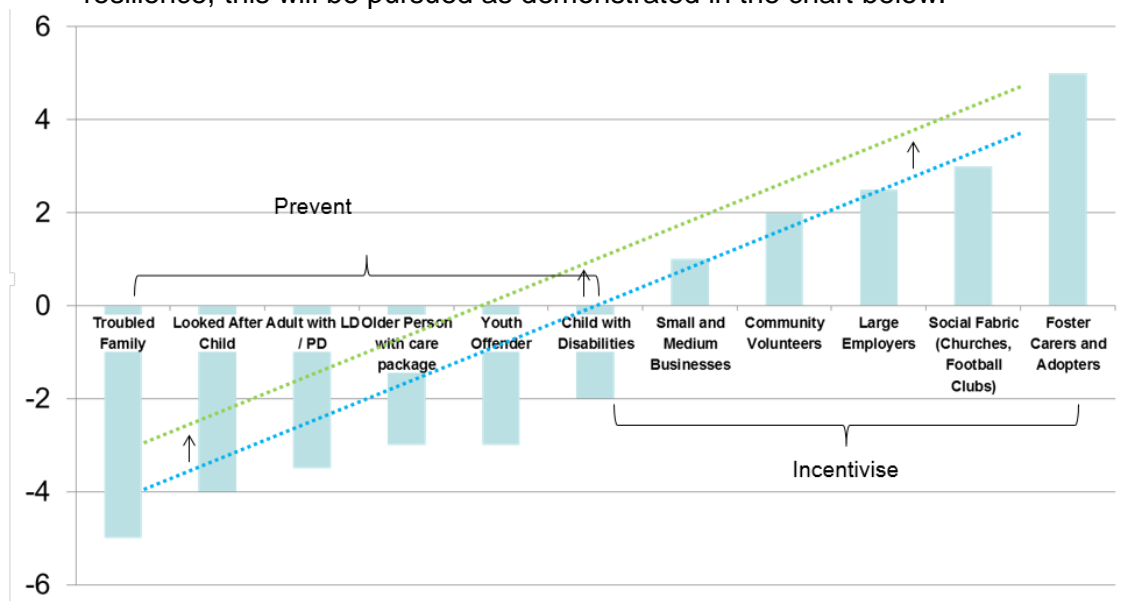
1.2 The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities set out 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
- invest in projects to improve roads, create jobs and build more homes.

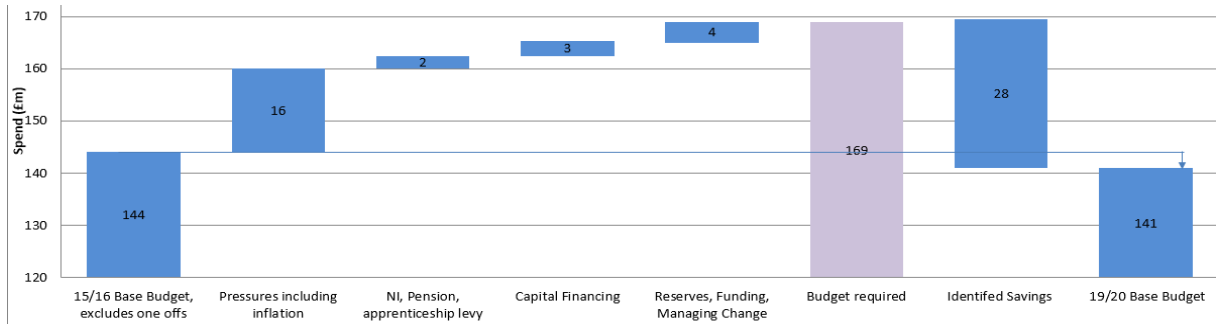
1.3 All local authorities are reducing services as the government continues to significantly reduce the funding it provides to local government across England. We are seeing a significant change in the way councils are funded, back in 2010 80% of council spend was funded by grant, by 2020 all council spend will be funded locally. We are at the six year point of a ten year 'austerity period' in which the council has identified savings totaling £87m. The council is on schedule to have matched up to the challenge, delivering savings of £59m by the end of 2015/16.

1.4 The indicative financial settlement was announced on 17 December 2015, which sets out the indicative spending power for local authorities up to 2019/20. This MTFS reflects the indicative settlement. Herefordshire's Revenue Support Grant (RSG) totaled £26.5m in 2015/16, providing 18% of the council's net budget requirement. This will reduce annually until 2019/20 when the council will be almost entirely funded locally through council tax and business rates. This change will include additional responsibilities to remain fiscally neutral.

1.5 The demand for services continue to grow with the council providing care for more people, particularly in essential areas such as children's safeguarding and adult social care. Cost pressures have been reflected in this MTFS and residual risks will be constantly monitored. Demand management will be key to financial resilience, this will be pursued as demonstrated in the chart below.



1.6 The longer term budget has been set with regard to known funding reductions, additional cost pressures and identified savings of £28m for the period 2016/17 to 2019/20.



1.7 This strategy will be updated each year to reflect cabinet and council's decisions following the review of the level of efficiencies achieved, demographic pressures, potential new burdens from government and the resultant impact on services.

## 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 national funding 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. The impact of a rural county include:

- domiciliary care in rural parts of the county, approximately £1 per hour above those in urban areas, £450k per year
- transportation – subsidies, maintenance, downtime
- higher fuel costs
- difficulties in providing and accessing services
- difficulties in achieving broadband coverage
- lower earnings.

2.1.2 When comparing costs between urban and rural authorities using the latest data available, 2014/15, costs per head for highway structural maintenance are higher in rural authorities.

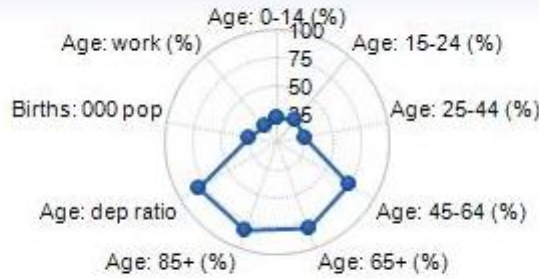
	<b>Structural Maintenance</b>
	<b>£ / head</b>
<b>Rural</b>	
Herefordshire	25.22
Cornwall	21.59
Shropshire	24.38
Wiltshire	20.40
<b>Urban</b>	
Bristol	10.04
Reading	11.89
Middlesbrough	14.76



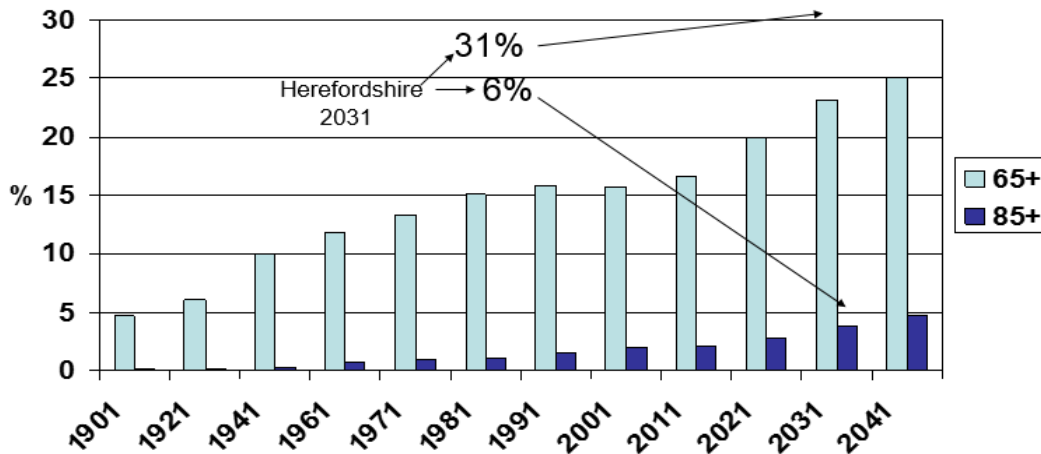
- 2.1.3 Social isolation is a growing concern, not least because of the disproportionately increasing number of older people living in Herefordshire, but also due to poverty and deprivation. The cost of living in rural areas, for example transport and domestic fuel costs, can be higher than in urban 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.
- 2.1.4 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.
- 2.1.5 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.
- 2.1.6 The indicative settlement has partially recognised these additional pressures by increasing support for the most sparsely populated rural areas by more than quadrupling the Rural Services Delivery Grant from £15.5m in 2015/16, to £65m in 2019/20, £1.3m in 2016/17 rising to £4.1m in 2019/20 for Herefordshire.

## 2.2 Adult Social Care

- 2.2.1 Demographic characteristics have a fundamental influence on the social and economic development of an area, as well as demand for local services. The age distribution of residents has implications for long-term economic activity rates, future service provision and the associated demand led budgets of the council.
- 2.2.2 Demand management in social care continues to be a key issue for Herefordshire, against a backdrop of a demographic of older people that is rising faster than the national average and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on growth management through disease prevention and behaviour change in communities, is critical for medium term change.
- 2.2.3 In Herefordshire the proportion of the resident population in 2014 aged between 0-14 was 15.8% and aged 15-24 was 10.6%, both low by national standards of 17.8% and 17.6%.
- 2.2.4 Those aged over 65 were 22.6% and 3.1% were over 85, which is very high by national standards. This demographic adds additional pressure to the demand and cost of providing services in a rural county. The chart below demonstrates the age demographic of the population of Herefordshire in comparison to the national average, which would be half-way from the centre at 50 for all areas.



2.2.5 Adult social care faces significant future pressures due to increased life expectancy and future demand due to an aging population. Currently 23% of Herefordshire residents are over 65, compared to 19% nationally. This is expected to increase to 31% by 2031, compared to 23% nationally.



Source: ONS Population Trends and Population Projections (selected volumes).

2.2.6 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.

2.2.7 The indicative settlement recognised the demographic pressures being faced by granting authorities with adult social care responsibility with the ability to raise council tax by a 2% levy to fund adult social care. Due to the loss of central government funding and the expected increases in cost pressures, this MTFS has been prepared based on the council levying this precept which will require approving on an annual basis.

2.2.8 The Better Care Fund (BCF) pooled budget first created in 2015/16 aimed to improve the integration of health and care services. Funding was 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 (CCG) have published plans on how this funding will be spent, and continue to actively work on the implications for the county. The Comprehensive Spending Review

announced in November 2015 reinforced and accelerated the timetable for integration by including the requirement for all councils and CCG's to have developed plans for the integration of health and social care by 2017, and for these to be implemented by 2020.

- 2.2.9 The indicative settlement recognised the pressures being faced and confirmed the increase in BCF funding of £1,500m by 2019/20, from which Herefordshire may receive up to £5.1m if current funding ratios are maintained. £800m of this increase is to be funded from changes to the current new homes bonus grant funding which is currently worth £3.5m, giving a potential net increase in funding of only £1.6m for Herefordshire, of which £1.1m may be tied in to an increased disabled facilities grant (capital funding not revenue).

## 2.3 Children

- 2.3.1 The numbers of looked after children increased during 2015/16, and stands at 298 as at 31 October 15, an increase of 9% compared with 31 March 13.
- 2.3.2 The numbers of referrals and children in need remain at very high levels. This combined with the council's commitment to lower 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, and a robust Recruitment Strategy for recruiting and retaining experienced social workers. In addition, the new West Midlands agency social worker protocol came into effect on 1 January 2015, which is addressing the significant cost increase in this area over the past two years.
- 2.3.3 The number of children with complex needs cases continues to rise and indications show an increase in average cost per placement.

## 2.4 Schools

- 2.4.1 Based on provisional October 2015 pupil numbers, primary school numbers (including nursery classes) are predicted to increase in 2015/16 to 13,361, 2.2%. Secondary school numbers are predicted to be 9,434. Since the establishment of Herefordshire Council in 1998, primary school numbers have fallen by 869 from a high of 14,230 in 1998, a reduction equivalent to 6.1%. From a high point in January 2005, secondary numbers have fallen from 10,511 to 9,434, a reduction of 1,077, 10.2%, and are expected to continue to fall until 2017. School funding is based upon pupil numbers in October each year, and the schools block of Dedicated Schools Grant in 2016/17 will be funded on 21,617 pupils (excluding sixth form pupils) at £4,447 per pupil.
- 2.4.2 Herefordshire schools are funded according to formula factors set nationally by the Department for Education (DfE) with limited local discretion as all schools move towards the expected national school funding formula. In February 2016, the DfE is to consult on a national formula for all schools for implementation from April 2017. Schools Forum will be considering the national proposals in detail and responding. Further proposals from the DfE in February 2016 will set out the future of the Education Services Grant which is expected to be cut by 75% for 2017/18, equivalent to a reduction of £1m in the grant received by the council. It is expected there will be an equivalent reduction for academy schools in Herefordshire. The additional fairer funding increase of £2.7m in 2015/16 has been consolidated into Herefordshire's school funding for 2016/17. Whilst school funding is protected in cash terms by government, schools in Herefordshire will face increasing cost pressures arising from increased

pension contributions, national insurance rises and unfunded pay awards which will add at least 15% to school costs over the next five years. Financial viability, particularly for smaller schools, will become increasingly more significant.

## 2.5 Value for Money

- 2.5.1 Alongside this MTFs, the council's strategic and corporate plans sets out its vision for Herefordshire to support a strong, diverse and enterprising business base, operating in an exceptional and connected environment where the transfer of technology and skills foster innovation, investment and economic growth. The council's ambitious plans will accelerate growth and provide opportunities for all who live and work in Herefordshire through strong stewardship and strong partnerships with the private sector.
- 2.5.2 Over the last five years the council's performance has improved across a wide range of services. Building the foundations for a successful economy has been, and will continue to be a key priority. The council has enabled major improvements including the delivery of; flood relief schemes, a new livestock market, a privately funded retail and leisure development on the site of the old livestock market, access to superfast broadband, an Enterprise Zone in Rotherwas, improved leisure facilities across the county and improvements to the highway network. A Core Strategy has been implemented that will provide a blueprint for developing the county over the period to 2031, including the delivery of a relief road.
- 2.5.3 The council recognises that it is in the unique position of acting as a hub for the public sector, the private sector and the third sector. It also accepts the responsibility to work with our partners and to provide leadership through the essential process of change in these challenging financial times, ensuring value for money will be key.
- 2.5.4 Using cost benchmarking data, the council is 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. National benchmarking data is currently available to 2014/15. This shows that overall Herefordshire Council is ranked third against its thirteen statistical comparator neighbours, this is the same position as was reported in 2013/14 and an improvement of three places compared to the sixth position reported in 2012/13. The relative performance by service is summarised below.

	Net Spend (£'m)	2012/13 Ranking	2013/14 Ranking	2014/15 Ranking	Direction of Travel
Adult Social Care	51.9	13	11	7	↑
Children's Services	42.7	7	10	10	→
Education		4	3	3	→
Environment and Regulatory	17.6	10	11	5	↑
Cultural and Related Services	6.9	5	2	7	↓
Planning Services	4.4	10	11	7	↑
Highways and Transportation Services	9.4	9	7	3	↑



Housing Services	3.4	6	6	4	
<b>Total / Overall</b>	<b>136.3</b>	<b>6</b>	<b>3</b>	<b>3</b>	

- 2.5.5 The comparative reduction in adult social care spending while all authorities are implementing efficiencies, is the most positive improvement from the most expensive of our statistical neighbours in 2012/13 to seventh in 2014/15, with more improvements anticipated in 2015/16.
- 2.5.6 The savings set out in the MTFS to 2019/20 reflect areas of comparatively high spending and are intended to bring spend down comparatively with statistical neighbours over the period. Particularly in children's' safeguarding where costs are still comparatively high.
- 2.5.7 Cultural and related services shows an increase in spend per head of population, this is due to a reclassification of open space and verge grass cutting. A compensating improvement is shown in highways and transportation services for the same reason. Without this highways and transportation services would still show a ranking of fifth.
- 2.5.8 Planning services have improved due to increased planning fee income alongside changes in grant funded community development and social inclusion activities in Herefordshire.
- 2.5.9 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. For 2014/15 they rated all areas as green and concluded that the council has:
- proper arrangements for challenging how it secures economy, efficiency and effectiveness - the council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity
  - a robust Corporate Strategy, Medium Term Financial Strategy and savings plan are in place
  - delivered its overall savings target
  - arrangements for governance processes including risk management and the production of the Annual Governance Statement are satisfactory
  - financial management is sound with effective reporting of variances from plans.

### 3. National Financial Context

#### 3.1 2015 Comprehensive Spending Review

- 3.1.1 The comprehensive spending review confirmed the government's commitment to achieve a budget surplus by 2020 through reductions in local government spending by over half by 2020.
- 3.1.2 Half of all local business rate income, £24m for Herefordshire, is currently paid to central government. National consultation on the implementation of 100%

business rate retention by local government by the end of the parliament will commence in 2016. Current proposals include passing additional responsibilities with the additional funding, including funds currently administered by the Department for Works and Pension, and £7m of public health funding. There may be elements of protection but the proposals represent a risk to the council.

- 3.1.3 Pressures on social care costs, currently at £76m annually for Herefordshire were recognised through an additional 2% flexibility on council tax referendum thresholds to be used entirely for adult social care, £1.7m pa for Herefordshire.
- 3.1.4 The government will introduce the first ever national funding formula for schools, high needs and early years, a detailed consultation will be launched in 2016 and the new formulae will be implemented from 2017-18.
- 3.1.5 The Autumn Statement provided £250m nationally over the next five years to tackle potholes and support will be provided to secure launch funding to create a new university in Hereford focused on engineering in 2016.
- 3.1.6 These are challenging times, but the council is continuing to meet those challenges whilst building bold and ambitious plans for the future, including:
- eliminate costs
  - share costs
  - contract management
  - increase existing income streams
  - new income
  - identify services that must be provided
  - aim to reduce costs of delivery
  - grow business rates and new homes.

## 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

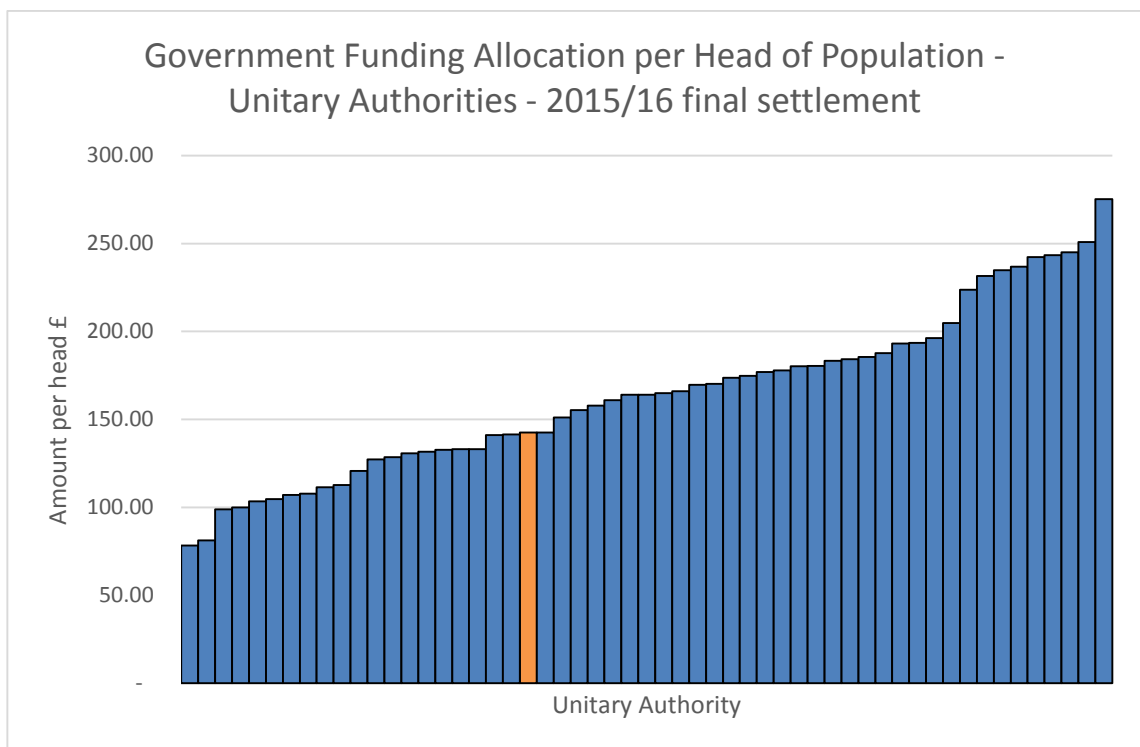
- 4.2.1 Herefordshire is not a well-resourced council. Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in sparsely populated areas but do not do enough for councils like Herefordshire where its sparse population is more evenly distributed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

grant added into the financial settlement, £976k in 2015/16, however this is not enough to bridge the gap in funding requirement.

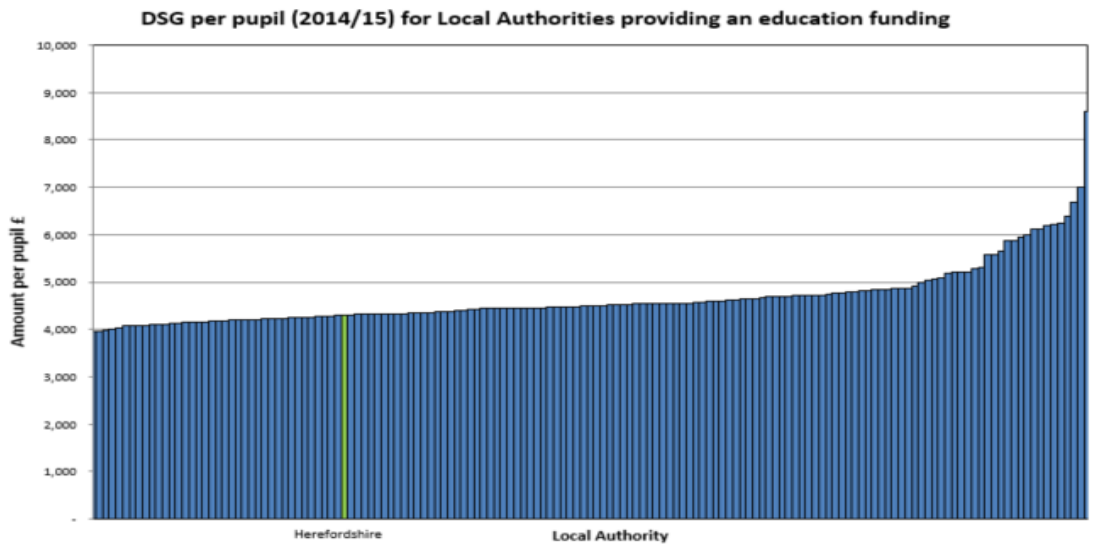
4.2.4 The 2015/16 budget figures show that:

- a) the government funding allocation per dwelling is £675, 24% below the national average of £885; and
- b) Dedicated Schools Grant (DSG) per pupil is £4,447, 4% below the average for education authorities of £4,612.

4.2.5 The graph below shows Formula Grant per head of population for all unitary authorities 2015/16. It shows that Herefordshire receives less on average than the others, being twenty one out of fifty five unitary authorities, despite its sparsity and demographic profile.

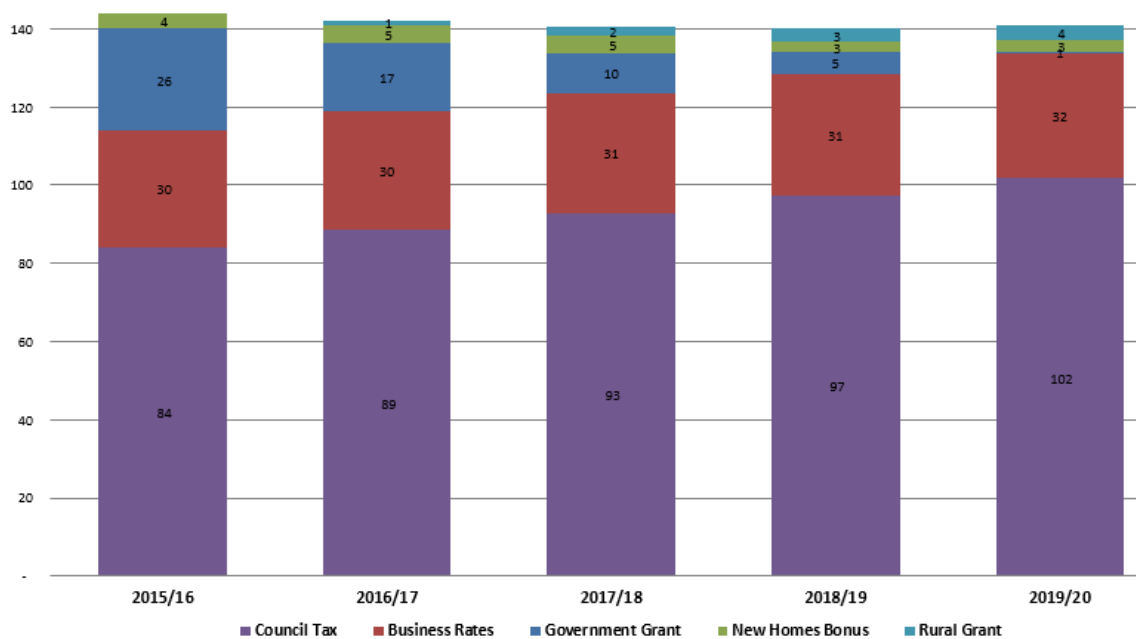


4.2.6 The graph below shows DSG per pupil for local authorities providing education functions (before deductions for academies recoupment and direct funding of academy high needs). Herefordshire is placed 113 out of 151 authorities.



### 4.3 Funding

4.3.1 The chart below shows the projected breakdown of the council's funding, showing less and less funding being provided by Central Government and increased self-financing from council tax and business rates under the MTFS term.



### 4.4 New Homes Bonus

4.4.1 The New Homes Bonus (NHB) grant funding commenced in April 2011. This grant match funds the additional council tax raised for new homes and empty properties brought back into use for the following six years. Herefordshire will receive £4.6m in 2016/17, however a consultation on the continuation of this funding based on the following proposals has begun:

- withholding the NHB from areas where an authority does not have a local plan in place
- abating the NHB in circumstances where planning permission for a new development has only been granted on appeal
- adjusting the NHB to reflect estimates of deadweight

- a reduction in the number of years for which the NHB is paid from the current six years to four years.

4.4.2 Herefordshire may lose £1.8m of this funding in 2018/19 as a result of these changes.

## 4.5 Specific Grants

4.5.1 The table below details some of the larger 2016/17 specific grants for Herefordshire, a number are still to be confirmed.

Grant	2016/17 £000
Housing Benefit Admin Subsidy	581
Public Health Grant	tbc
S31 Grant	1,893
Independent Living Fund	tbc
Education Support Grant	1,412
Dedicated Schools Grant (excludes academies)	74,282
<b>Total</b>	<b>78,168</b>

## 4.6 Council Tax

4.6.1 Increases in council tax are subject to annual approval by council, 2016/17 is expected to increase by the referendum threshold and precept requirements. The council has had to deal with very significant reductions in government funding coupled with increases in demand. Over the past five years, Herefordshire has delivered budget reductions of over £59m on a net budget of £144m.

4.6.2 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.

4.6.3 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.

4.6.4 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.

## 4.7 Business Rates

4.7.1 On 5 October 2015 it was announced that local authorities would be able to retain 100% of business rates by the end of the parliament, 2019/20.



Herefordshire currently retains £23m. Local authorities will also be able to reduce business rates or, for those areas with a devolution deal and an elected mayor, increase business rates with agreement from business members on their local enterprise partnership (LEP).

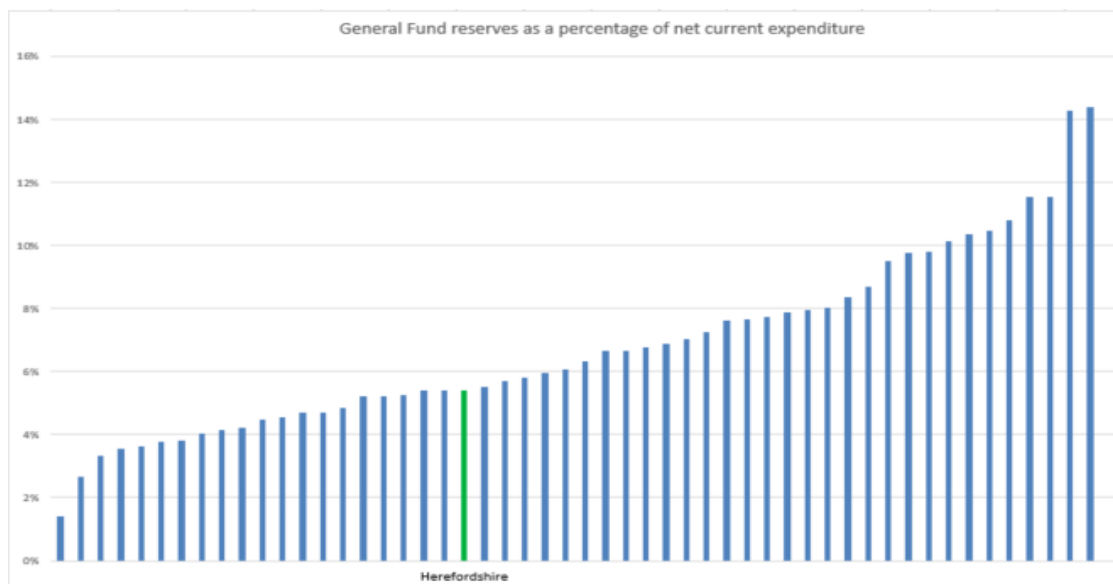
- 4.7.2 Consultation is to be held on which grants would be abolished following the introduction of 100% business rates retention from 2019/20, estimated at a further £25m for Herefordshire. The changes are to be fiscally neutral across the country. Further responsibilities and services will be devolved to local government, including £7m public health funding and possibly £20m of attendance allowance paid to older people with care needs. Formal consultation on the proposals is expected to commence in the summer. Therefore there may be additional pressures to Herefordshire council caused by this initiative rather than additional funding.
- 4.7.3 Business rates are currently undergoing a revaluation, the revalued list is expected to be published 30 September 2016 with revised bills commencing 1 April 2017. This revaluation updates rateable values from the last valuation in 2010, at this stage the impact of this update is unknown but represents a risk of lost income due to potential decreased rental rates.
- 4.7.4 There are a number of risks relating to the retention of business rate income. The revaluation risk of successful appeals and the loss of rates income as schools convert to academies, currently our share of schools business rates is £0.4m pa. A reserve will be maintained to mitigate these risks to the revenue budget of £1.7m.

## 4.8 Reserves

- 4.8.1 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.
- 4.8.2 The following table shows the year-end balance on the general fund for the last three financial years and the estimated position at 31 March 2016.

Balance as at:	General Fund £m	Specific Reserves		Total £m
		Schools	Other	
31.03.13	4.7	5.5	8.4	18.6
31.03.14	5.1	6.3	17.6	29.0
31.03.15	7.1	6.2	20.5	33.8
31.03.16 estimate	6.9	5.5	19.5	31.9

- 4.8.3 £5.5m of the specific reserves belong to schools and cannot be used to help pay for non-schools services. Other reserves include unspent government grants carried forward to be spent in future years.
- 4.8.4 Herefordshire maintains a general fund reserve balance above its minimum requirement, but does not hold an excessive amount in reserves. The chart below shows how Herefordshire reserves are slightly less proportionally to those held by other unitary authorities.



## 4.9 Capital Receipts Reserve

4.9.1 The capital receipts reserve is available to support spending on the creation or enhancement of assets. The following table shows the level of usable capital receipts reserve for the last three financial years and the estimated position at 31 March 2016.

Balance as at:	Opening Balance £m	Receipts £m	Spend £m	Closing Balance £m
31 March 2013	2.7	2.9	(2.9)	2.7
31 March 2014	2.7	5.3	(2.0)	6.0
31 March 2015	6.0	2.0	(3.6)	4.4
31 March 2016 estimate	4.4	4.1	(2.9)	5.6

4.9.2 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.

4.9.3 The council transferred its housing stock to Herefordshire Housing in November 2002, since then it has received a share of right to buy receipts under its preserved rights agreement on transfer. £10m of capital receipts have been received since transfer from the sale of 370 homes. This sharing agreement continues until 2032.

## 4.10 Funding Arrangements for Capital Investment

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

4.10.2 Government support for capital investment is through the allocation of grants, known grant funding allocations for 2016/17 are listed below, a number are yet to be announced:

- Local Highways Maintenance Funding - £10.6m
- Integrated Transport Block - £1.1m
- Basic Need - £0.7m

4.10.3 Council Borrowing - this MTFS reflects the borrowing funding requirement implied by the Treasury Management Strategy to support the Capital Programme.

4.10.4 The capital receipts reserve totalled £4.4m as at 1 April 2015. This is likely to rise to around £5.6m by the end of this financial year. This will be used to fund the Capital Programme avoiding the need to borrow, any excess receipts will be used to repay borrowing.

4.10.5 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.

4.10.6 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.

## 4.11 Capital Programme 2016/17

4.11.1 The Capital Programme 2016/17 approved by council in December 2015 represents funding allocations received to date, commitments from previous years and new capital schemes approved by council. The council’s Capital Programme is funded by grants, borrowing and capital receipts. All schemes funded by borrowing are included in the Treasury Management Strategy and Prudential Borrowing Indicators. The following table summarises the re-profiled 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	-	11,523	10,564	10,244	27,816	<b>60,147</b>
Energy from Waste Plant	6,009	14,000	19,991	-	-	<b>40,000</b>
Fastershire Broadband	8,395	6,200	6,605	4,155	2,845	<b>28,200</b>
Hereford City Link Road	10,658	7,513	5,324	3,505	-	<b>27,000</b>
South Wye Transport Package	-	1,000	1,000	12,300	12,700	<b>27,000</b>

Road Infrastructure	14,613	4,387	1,000	-	-	<b>20,000</b>
Hereford Enterprise Zone	-	2,500	7,100	6,400	-	<b>16,000</b>
Hereford City Centre Transport Package	-		6,800	3,300	3,500	<b>13,600</b>
Leisure Centres	4,013	5,539	-	-	-	<b>9,552</b>
Other Smaller Schemes	-	6,564	41	1,013	50	<b>7,668</b>
Colwall Primary School	-	-	4,800	1,700	-	<b>6,500</b>
Integrated Transport Plan	-	1,069	1,069	1,069	3,207	<b>6,414</b>
LED Street Lighting	766	4,889	-	-	-	<b>5,655</b>
Peterchurch Primary School	-	-	1,000	4,500	-	<b>5,500</b>
Three Elms Trading Estate	-	2,100	400	350	-	<b>2,850</b>
Solar Photovoltaic Panels	35	599	1500	-	-	<b>2,134</b>
Property Estate Enhancement Works	-	-	500	500	1,000	<b>2,000</b>
Corporate Accommodation	-	-	1,100	600	-	<b>1,700</b>
Marches and Worcestershire Redundant Building Grant	-	1,500	-	-	-	<b>1,500</b>
Better Care Fund	-	1,356	-	-	-	<b>1,356</b>
Schools Basic Need	-	634	666	-	-	<b>1,300</b>
Revolving Loans	-	1,277	-	-	-	<b>1,277</b>
Relocation of Broadlands School	-	1,137	120	-	-	<b>1,257</b>
S106 Agreements	-	1,237	-	-	-	<b>1,237</b>
Schools Capital Maintenance Grant	-	1,215	-	-	-	<b>1,215</b>
Data Centre Consolidation	-	-	1,170	-	-	<b>1,170</b>
Hereford Library Accommodation Works	-	-	1,000	-	-	<b>1,000</b>
Brookfield Improvements	-	200	300	-	400	<b>900</b>
Electronic Document and Management System	400	400	-	-	-	<b>800</b>
Highway Depot Improvements	-	-	800	-	-	<b>800</b>
PC Replacement	-	-	380	230	130	<b>740</b>
Westfield School Improvements	-	-	-	710	-	<b>710</b>
Purchase of Gritters	-	250	125	125	-	<b>500</b>
IT Network Upgrade	-	-	500	-	-	<b>500</b>
Software to Enable Remote Access to Desktops and Automate Upgrades	-	-	500	-	-	<b>500</b>
Office and Car Park Lighting Replacement	-	-	300	-	-	<b>300</b>
Purchase of Green Waste Bins	-	-	150	-	-	<b>150</b>
Edgar Street Works	-	-	100	-	-	<b>100</b>
Smallholding Health and Safety Improvements	-	-	100	-	-	<b>100</b>
1A St Owen St Adjacent to Shire Hall	-	-	70	-	-	<b>70</b>
<b>Total</b>	<b>44,889</b>	<b>77,089</b>	<b>75,075</b>	<b>50,701</b>	<b>51,648</b>	<b>299,402</b>

## 4.12 Treasury Management Strategy

4.12.1 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 2016/17 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**

4.12.2 During 2016/17 interest rates have remained low. In the year to date the average daily rate achieved on the council's investments has averaged at 0.6%. The first increase in the bank base rate is not expected until later in 2016. The budget for 2016/17 has been set on a prudent basis assuming low investment balances and low interest rates.

4.12.3 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 and invest funds mainly in money market funds.

### **Borrowing**

4.12.4 Total gross outstanding debt was £165m as at 31 March 2015 of which £19m were short term loans and £146m fixed rate long term loans, which are being repaid at approximately £10m per annum.

4.12.5 The strategy for borrowing based on the Capital Programme includes an estimated additional requirement of £40m for 2015/16, likely to be secured by short term borrowing to realise savings in the cost of carry. This is the net figure after taking account of estimated capital spend, the refinancing of existing loans, MRP and available reserves.

4.12.6 The borrowing requirement is calculated by reference to the capital financing requirement which is set according to capital spend and other long term liabilities including PFIs.

4.12.7 The forecast is for interest rates to stay low for the foreseeable future, climbing at a steady pace over the term of the MTFS.

## **5. Medium-Term Financial Resource Model (FRM)**

### **5.1 Background**

5.1.1 The FRM shown takes into account the corporate financial objectives and approach set out in this MTFS. The FRM is designed to provide an assessment of the overall resource available 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 2016/17 to 2019/20, however it will be refreshed annually.

### **5.2 Assumptions**

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

- a) council tax - a 3.9% increase for 2016/17 and in future years. This will be reviewed each year against further efficiency savings, any changes in government funding, pressures and is subject to annual approval.
- b) government funding – per the indicative settlement
- c) inflation - 2% uplift per annum on income and contract inflation indices on non-pay expenditure.



- d) pay – increased at 1% per annum
- e) employers’ national insurance – increases in employers’ contributions following the ending of contracting out in 2016/17
- f) introduction of the apprenticeship levy - £200k in 2017/18
- g) interest rates – investment income and borrowing costs in line with the Treasury Management Strategy

## 5.3 Pensions

5.3.1 The pension fund’s actuaries will undertake a triennial review of the pension fund assets and liabilities, and the estimated revised the contribution rates required to bring the fund into balance over a period of twenty one years are reflected.

5.3.2 The current pension deficit on the fund for Herefordshire is £211.4m, split between assets and liabilities as shown below:

<b>Pension Fund</b>	<b>31.03.15 £m</b>
Present Value of Obligations	500.0
Fair Value of Assets	(288.6)
<b>Deficit</b>	<b>211.4</b>
<b>Deficit %</b>	<b>42%</b>

5.3.3 The council are repaying this deficit over twenty one years, £7m in 2016/17 (£2m of this relates to schools which is financed from school funds). This proportion of deficit, 42%, 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. The fund is due to be revalued at the end of 2015/16 with the deficit expected to fall.

## 5.4 Funding Assumptions Included in the FRM

5.4.1 The following funding assumptions based on the indicative settlement are included in the FRM. New Homes Bonus (£3,591k in 2015/16) is now included in council funding rather than netted off expenditure to be more comparable with government representations of council funding.

	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
Revenue Support Grant (RSG)	26,461	17,470	10,090	5,370	620
Locally Retained Rates	23,289	23,358	23,708	24,064	24,425
Business Rates Top Up	6,814	6,870	7,010	7,210	7,440
Council Tax	83,963	88,595	92,861	97,271	101,691
New Homes Bonus	3,591	4,558	4,700	2,900	2,800
Rural Grant	0	1,259	2,204	3,149	4,093
<b>Net Budget</b>	<b>144,118</b>	<b>142,110</b>	<b>140,573</b>	<b>139,964</b>	<b>141,069</b>
Collection Fund	(439)	0	0	0	0
General Reserves	1,685	1,419	(65)	0	0
<b>Net Budget Including One Offs</b>	<b>145,364</b>	<b>143,529</b>	<b>140,508</b>	<b>139,964</b>	<b>141,069</b>

5.4.2 2019/20 currently does not show 100% rates retention and is based on the core funding figures published by central government. The retention of business rates is estimated at an additional £25m of funding for Herefordshire however the changes are to be fiscally neutral across the country. Further responsibilities and services will be devolved to local government, including £7m public health funding and possibly £20m of attendance allowance paid to older people with care needs. This and risks of revaluation and successful appeals could result in additional pressures rather than additional resource. Consultation on the changes will commence in 2016.

5.4.3 In addition the council receives specific grants as detailed in section 4.5. These grants are expected to be confirmed in January and will be used to fund specific functions within directorates.

5.4.4 Reductions in revenue support grant over the MTFS term are summarised below.

<b>Government Funding</b>	<b>2013/14 £m</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
RSG	42.9	35.8	26.5	17.5	10.1	5.4	0.6
RSG Reduction	7.1	9.3	9.0	7.4	4.7	4.8	
Cumulative	7.1	16.4	25.4	32.8	37.5	42.3	

## 5.5 Directorate Pressures

5.5.1 The total of directorate pressures which are included in the FRM are as below.

<b>Pressure</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>Total 16/20 £m</b>
Legislative changes	0.7	0.6	0.5	0.5	<b>2.3</b>
Adults demographic pressures	0.9	0.9	0.9	0.9	<b>3.6</b>
Adults preventative measures (including care act)	0.8	(0.6)			<b>0.2</b>
Children's safeguarding	1.0				<b>1.0</b>
Contract and pay inflation and other pressures	2.2	1.9	2.2	2.3	<b>8.6</b>
<b>Total</b>	<b>5.6</b>	<b>2.8</b>	<b>3.6</b>	<b>3.7</b>	<b>15.7</b>
Pension and NI	2.3				<b>2.3</b>
Apprenticeship levy		0.2			<b>0.2</b>
<b>Total of all pressures</b>	<b>7.9</b>	<b>3.0</b>	<b>3.6</b>	<b>3.7</b>	<b>18.2</b>

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

## 5.6 Savings Targets

5.6.1 The council delivered £59m of savings in the financial years 2010/11 - 2015/16. Looking forward an additional £28m of savings in the financial period 2016/17 - 2019/20 is required. This gives total savings for the financial period 2010/11-2019/20 of £87m.

5.6.2 Savings have been reviewed as part of the budget process and revisions made, these are summarised in the table below, some savings have now been removed from the plan and some savings having been replaced with new ones. Savings proposals summary 2016/17 to 2019/20 is set out below.

Directorate	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	Total 16-20 £m
Adults and Wellbeing	4.1	2.3	1.8	1.7	9.9
Children's Wellbeing	1.6	1.3	1.4	1.0	5.3
Economy, Communities and Corporate (ECC)	5.2	3.4	2.3	2.3	13.2
<b>Total</b>	<b>10.9</b>	<b>7.0</b>	<b>5.5</b>	<b>5.0</b>	<b>28.4</b>

5.6.3 Savings in 2016/17 are planned from the following areas:

a) Adults Wellbeing:

- re-commissioning care contracts and supported living agreements, implementation of policy and pricing changes for nursing placements, carers respite and transport services
- introduction of outcomes based assessments and reviews, focusing on high cost care packages and reductions in domiciliary care hours
- increased income from applying the new guidance in the Care Act, including joint assessments and minimum income guarantees. In addition, a small flat rate charge will be applied to service users who are in receipt of telecare
- reduction in staffing will be delivered through a review of the commissioning and contracts team and minor changes to the staffing structures within operational locality teams

b) Children's Wellbeing:

- managing contract inflation and secure contract efficiencies.
- re-unifying children with their families or an alternative family based permanent home including adoption where appropriate. 2016/17 increase reflects spending in 2015/16 as well as reductions in spending
- developing appropriate housing arrangements and options for 17 year olds to promote independent living which removes the need for young people to be in the care of the local authority
- review of allowances paid to families providing homes for other people's children on a permanent basis, including special guardianship, adoption and child arrangements
- accessing government grant to focus early help on the most vulnerable families to reduce the need for higher cost services
- continuing the social worker recruitment and retention strategy (grow our own, cap agency rates, specific recruitment, overseas recruitment and alternative contracts) to increase the number of permanent social workers and reduce agency staff
- reduce numbers of managers, overheads and a reduction in contribution to the Youth Offending Service (YOS) contract.

c) ECC:

- efficiency savings
- increased fees in crematoriums and car parks
- withdrawal of subsidies to cultural services partners
- full year effect of waste and sustainability savings
- council tax reduction scheme changes
- removal of the Council Tax Reduction (CTR) subsidy to parishes as approved by cabinet on 3 December

## 5.7 Budget Proposal 2016/17

5.7.1 The proposed budget for 2016/17 is as follows:

<b>Directorate</b>	<b>Base budget 2015/16 £000</b>	<b>Net changes £000</b>	<b>Proposed budget 2016/17 £000</b>
Adults and wellbeing	53,244	(755)	52,489
Children's wellbeing	22,137	585	22,722
Economies, communities and corporate	50,847	(1,388)	49,459
<b>Total Directorates</b>	<b>126,228</b>	<b>(1,558)</b>	<b>124,670</b>
Capital financing - debt repayments	10,183	140	10,323
Capital financing - interest	6,233	540	6,773
Change management	1,908	(1,180)	728
Government grants	(2,562)	461	(2,101)
Central and one-off budgets	2,446	690	3,136
Transfer to general balances	928	(928)	-
<b>Total net spend (budget requirement)</b>	<b>145,364</b>	<b>(1,835)</b>	<b>143,529</b>

## 5.8 Budget Risks

- 5.8.1 The most substantial risks have been assessed in the budget process and, where possible, 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 Demand management in social care continues to be a key issue, against a backdrop of a demographic of older people that is rising faster than the national average, and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on growth management through disease prevention and behavior change in communities is critical for medium term change.
- 5.8.3 Key areas of focus include, sustaining the current focus on a new relationship with citizens and communities, changing the models of care to more family based provision, managing the price paid where the council is the commissioner and/or where this is taking place with partners with a specific reference to health, improvements in commercial interface including contract management, using technology to enable new ways of working including significant channel shift around self-service and automated business process improvement and a subsequent headcount reduction.