Herefordshire Council

Medium Term Financial Strategy 2018/19 – 2020/21

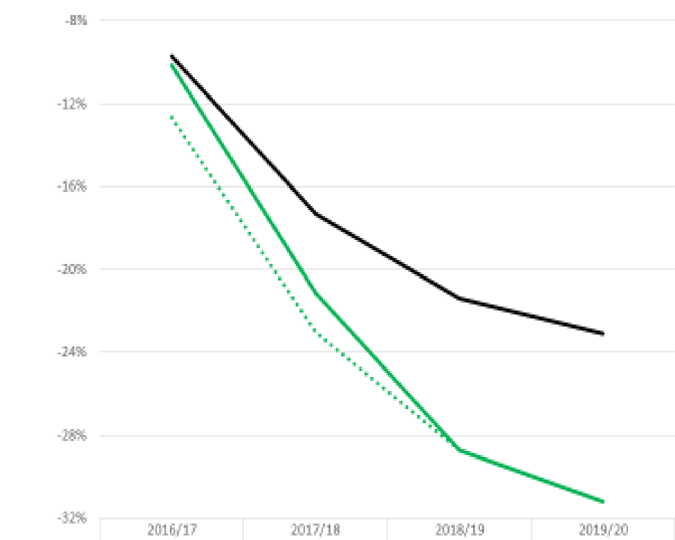
1. Background to the Medium Term Financial Strategy

1.1. Herefordshire is the one of the most sparsely populated counties 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. However, as a rural area, it receives on average, 50% less central government assistance than an urban rural area placing Herefordshire at a disadvantage compared to our urban counterparts.

1.2. In addition, 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.

1.3. 54% of Herefordshire's population live in rural areas of which 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 to ensure council services are maintained for all residents in the county

1.4. The four year funding settlement has partially recognised these additional pressures by increasing support for the most sparsely populated rural areas by increasing the rural services delivery grant (RSDG), £3.1m in 2018/19 for Herefordshire. Despite this rural councils are worse off than urban ones. (Green (bottom) line rural councils/ Black (top) line urban councils)



	2016/17	2017/18	2018/19	2019/20
PR (prov)	-12.65%	-23.03%	-28.73%	-31.21%
PR (final)	-10.16%	-21.14%	-28.73%	-31.21%
PU (final)	-9.69%	-17.31%	-21.39%	-23.07%

Reduction in Government Funded Spending Power 2015/16 to 2019/20

1.5. Herefordshire's economic base is focused on agriculture and as such its business rates base is low compared to other areas. As such a 1% growth in the business base generates an extra £63.50 per person in Westminster but just £2.20 for Herefordshire. While Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in sparsely populated areas it is not enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the county. To redress this imbalance, the council works with the Rural Services Network (known as SPARSE) and its MP's to seek to improve this position.

1.6. Despite these constraints the council has made necessary, difficult decisions to enable it to continue to deliver important services to our residents whilst assessing the challenge of delivering savings of £95m between 2010 and 2021

1.7. Without delivering the challenging changes required, Herefordshire Council would have been unable to meet its financial obligations. The council is committed to work within budget and 2017/18 is expected be the 5th successive year that we have done so.

1.8. Whilst ensuring that the overall budget is balanced, the council has been carefully building reserves to a prudent level to manage financial risk and to support future needs. Over the past three years the council has delivered improvement, positive change and outcomes along the way to deliver our key priorities, including:

Supporting the growth of our economy

- Delivered major public realm improvements to Hereford's centre.
- Opening of the Hereford Greenway and new cycle bridge over the River Wye completing another key link in the city cycle network.
- 368 miles of road resurfaced - 19% of the entire highway network.
- Filled over 200,000 pot-holes.
- Continued rolled out of "Fastershire" broadband to over 83% of residents and businesses in the county.
- Enterprise zone established and flourishing with growing numbers of businesses operating from the zone.

Keeping children and young people safe and giving them a great start in life

- Developed New Horizons to enable young adults with learning disabilities to stay in their own homes to build their independence in Herefordshire rather than out of county.
- Increased the number of local foster carers by 9%, against a national backdrop of reducing numbers.
- Introduction of first Multi Agency Safeguarding Hub in West Mercia.
- Development of new approach to provide housing for vulnerable young adults.
- Development of family based short breaks for children with a disability to give parents more choice.

Enabling residents to live safe, healthy and independent lives

- Restructuring social work teams to provide a clearer service pathway, ensuring rapid assessment for routine cases, along with expert capacity for complex cases, dramatically increasing the proportion of clients reviewed each year,
- Reviewing all contracts and securing cost reductions of 30%-50%, while still maintaining quality and impact in key areas,

All of which have contributed to our objective to secure better service, quality of life and value for money.

1.9. The next three years are expected to be equally challenging but the MTFS is designed to provide a robust financial framework through which even more can be delivered to the residents of Herefordshire.

2. Medium Term Financial Strategy

2.1. This Medium Term Financial Strategy (**MTFS**) covers the financial years 2018/19 to 2020/21 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. 2020/21 is currently an estimate as we are awaiting the outcome of the next Government comprehensive spending review.

2.2. The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This process 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 the corporate priorities set out in the Corporate Plan. Herefordshire's key priority areas are:

- **enable residents to live safe, healthy and independent lives**
- **keep children and young people safe and give them a great start in life**
- **support the growth of our economy**
- **secure better service, quality of life and value for money.**

2.3. All councils 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 but by 2020 almost all council expenditure will be funded locally through council tax and business rates. We remain in an austerity period in which the council has identified savings totaling £93m between 2010 and 2020.

2.4. The demand for services continues 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 ensure future financial resilience alongside increased integrated working with the health sector.

2.5. Balancing the MTFS

The MTFS has been set with regard to known funding reductions, additional cost pressures and identified savings of £19.2m for the period 2018/19 to 2020/21

2.6. Value for money

2.6.1. In managing the financial pressures, the council's strategic and corporate plans set out its vision for the county 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.

2.6.2. These 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. Over the last five years the council's performance has improved across a wide range of services building the foundations for a successful economy and this remains a key priority.

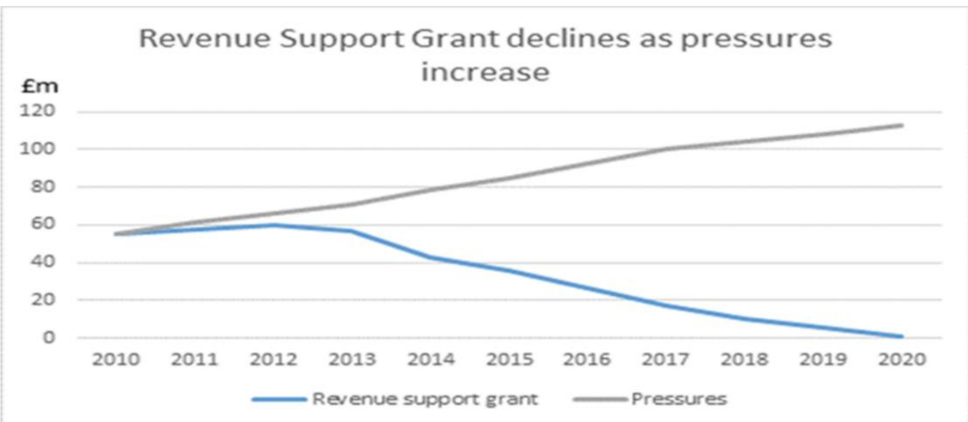
2.6.3. The council has enabled major improvements including the delivery of flood relief schemes, a new livestock market, a privately funded retail and leisure development on the site of the old livestock market, access to superfast broadband, an Enterprise Zone in Rotherwas, improved leisure facilities across the county and improvements to the highway network. A core strategy has been adopted that will provide a blueprint for developing the county over the period to 2031, including the delivery of the Hereford by-pass.

2.6.4. 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 2015/16 and showed that overall Herefordshire Council is ranked second against its thirteen statistical comparator neighbours on the basis of their cost of service (per revenue outturn).

2.6.5. These improvements have been recognized by our external auditors, Grant Thornton who annually review the 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. In respect of the last financial year (2017/18 they were satisfied that, in all significant respects, the council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. During the year the council encountered a number of issues around the refurbishment of Blueschool House, this has been investigated by our internal Auditors, SWAP, who have identified a number of areas that lessons can learned. The council has agreed a process to ensure that the lessons are learnt and will be imbedded.

2.7. National context

2.7.1. The local government finance system has undergone a significant change from a highly-centralised system of funding, with central government grants allocated on the basis of councils' relative spending need, to a system where councils as a group are self-funding and individual councils bear far more spending and revenue risk.



2.7.2. The impact of these changes has meant that councils are less reliant on central government grant and more responsible for their financial management, resulting in an increasing funding gap to be met by savings.

2.7.3. Pressures on social care costs have been recognised through the introduction of an additional 3% levy on council tax referendum thresholds to be used entirely for adult social care; this will generate £2.7m each year for Herefordshire. The 2016 Autumn Statement provided some additional flexibility to the timing and size of this precept, provided that it does not exceed 6% over the three year period from 2017/18 to 2019/20..

2.7.4. The government will introduce the first ever national funding formula for schools, high needs and early years, a detailed consultation was launched in 2016 and the new formulae will be implemented from April 2018.

2.7.5. In addition, discussions continue on the national system of business rates with the proposal for councils to retain 100% of business rates (rather than 50% at present) but potentially without the protections for councils with lower numbers of businesses. This additional funding is likely be accompanied with additional responsibilities, and therefore may require additional savings with an expectation for "national fiscal neutrality". The council is continuing with its current, sound practices to manage these pressures. The council has indicated that it would be prepared to participate in a pilot scheme in respect of retention of business rates.

2.7.6. The 2016 Autumn Statement reflected the latest forecasts from the Office of Budget Responsibility which indicated increasing inflationary pressures and falling government revenues well into 2020 and beyond. This is likely to result in increasing the government's borrowing requirement and introducing greater uncertainty in the growth and resilience of the UK economy.

2.7.7. These national factors create further risk to the council's core income streams and the increased need to hold reserves at a level sufficient to protect the council from unplanned events.

2.7.8. This MTFS period will be extremely challenging for councils and many face difficult decisions about which services are scaled back or stopped altogether. It is against this background that Herefordshire Council's MTFS has been prepared.

3. The Revenue Budget

3.1. The MTFS summarises the council's financial plans for the next three years, is updated annually, and reflects the current year's performance and the next year's budget; it covers the period from 2018/19 to 2020/21,

3.2. It is prepared using the Financial Resource Model (**FRM**) which takes into account the corporate financial objectives and plans. The FRM provides an assessment of the overall resource available over the medium term linking the revenue account with the capital investment plan, treasury management strategy and reserves policy to provide a complete overview of the council's financial positon over time. It sets the financial context for corporate and service planning so that the two planning processes are fully integrated.

3.3. Funding Assumptions

3.3.1. The FRM includes a number of key assumptions in respect of funding on which the financial strategy is based. The council's revenue funding assumes:

- Council Tax - a 1.9% increase for 2018/19 and in future years in council tax plus a further 3% in respect of the Adult Social Care precept for 2018/19 and 1% for the Adult Social Care precept for 2019/20, making an overall increase of 4.9%
- Revenue Support Grant is expected to fall in line with the four year settlement agreed between the government and council;
- Increases in business rate reliefs as set in the Autumn Statement.

3.3.2. These will be reviewed each year against further changes in government funding as part of the annual budget process to ensure all relevant and up to date information is reflected in the budget process. Increasingly the council is becoming more dependent on income from Council Tax and Business Rates than funding from central government and this will continue throughout the years covered by the MTFS. It is worth noting the system of business rates is likely to change in 2020/21 and may reduce the level of business rates retained by the council for future years.

Funding Assumptions	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Council Tax	98,404	101,885	104,577
Locally retained business rates	33,116	33,945	47,146
Revenue Support Grant (RSG)	5,370	620	-
New Homes Bonus (NHB)	2,540	1,760	-
Rural Services Delivery Grant (including transitional grant) RSDG	3,149	4,093	-
Base Budget	**142,579**	**142,303**	**151,723**

*Business rates includes top up and Section 31 grants

3.4. Budget Pressure Assumptions

3.4.1. Current planning assumptions include the following:

- inflation - 2%- 2.4% uplift per annum on income and costs, contract inflation indices on non-pay expenditure;
- pay – increased at 1% per annum;
- Living wage and apprenticeship levy
- interest rates – investment income and borrowing costs in line with the Treasury Management Strategy.

3.4.2. The total of directorate pressures included in the FRM are set out in the following table and also reflect the service demand pressures identified within each directorate.

Budget Pressures	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Legislative changes (living wage)	493	541	595
Adults demographic pressures	926	945	973
Childrens service	3,970	-	-
Adults Wellbeing	3,583	-	-
ECC	90	-	-
Contract and pay inflation	2,154	2,277	2,828
Adults contractual inflation	508	529	545
Base Budget	**11,724**	**4,292**	**4,941**

3.4.3. The potential impact arising from the decision of the UK to leave the European Union is likely to influence future government financing and some indications of this have been provided. These changes will be reflected in future planning as they become clearer.

3.4.4. Following the approval of the budget, directorates will be expected to manage any new or additional budget pressures within their own net spending limits.

3.5. Savings Assumptions

3.5.1. The council delivered almost £77m of savings in the financial years 2010/11 to 2017/18 and will be required to generate an additional £19.2m of savings in the financial period 2018/19 to 2020/21 in order to balance its planned expenditure against its income.

3.5.2. Directorate savings have been identified, or revised, as part of the budget process and these are summarised in the table below:

Budget Savings	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Adults and Wellbeing	5,395	1,500	
Children's Wellbeing	2,232	1,050	650
Economy, Communities and Corporate	3,862	2,017	350
Corporate Savings	1,460	200	500
Total	**12,949**	**4,767**	**1,500**

3.5.3. Adults and Wellbeing

Key savings targets are directed toward the following areas to improve service delivery and reduce costs while protecting the most vulnerable members of the community.

Adults and Wellbeing Directorate	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Review, recommissioning and decommissioning of contracts	1,430	-	-
Reducing the need for formal care services by utilising strengths based practices and application of the wider culture change programme.	1,692	600	-
Managing contract inflation and securing contract efficiencies	640	200	-
Maximise income generation through increased client contributions for care services.	500	100	-
Reduction in staffing through combining roles/functions across the Directorate/Partners.	633	600	-
Use of iBCF funding to support core Adult Social Care use of services.	500	-	-
Total	**5,395**	**1,500**	**-**

3.5.4. **Children's Wellbeing**

Savings proposals have been directed to the following areas to minimize the impact on service delivery

Childrens Wellbeing Directorate	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Manage inflation and secure contract efficiencies	670	200	-
Reduction in the number of looked after children	500	650	650
Capitalisation of the costs of staff working on capital projects	80	-	-
Manage budgets with vacancies	300	-	-
Organisational restructure to reflect the service requirements	682	200	-
Base Budget	**2,232**	**1,050**	**650**

3.5.5. **Economy, Community and Corporate Savings Proposal**

Directorate savings plans are focused on improving the efficient operation of core services through service re-design, operational efficiency and increased parking income:

Economy, Communities & Corporate	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Efficiency savings	100	180	350
Back Office Services and Corporate Accommodation efficiencies	450	250	
Car Parking charges increase	235		
Reduced cost of Public and School / College Transport and moving public transport information to online only	180	150	
Phased removal of subsidy for Community Transport organisations	60	75	
Phased removal of subsidies to parish councils for the Lengthsman and Parish Paths .	100	100	
Community asset transfer of parks and open spaces	90		
Increased income and efficiency within Public Realm Services	25	25	
Waste & Sustainability Increased income from commercial waste collections.	30	30	
Withdrawal of Museum and Heritage Services subsidy	150	250	
Savings in Customer and Library Services	380		
Accommodation Strategy	367	360	
Review of Current Staffing Budgets	200		
Remove Bypass Bass Budget	170		
Procurement Savings		500	
Organisational redesign savings	725	97	
Hoople Savings	600		
Base Budget	**3,862**	**2,017**	**350**

3.5.6. Corporate Savings Proposals

In addition to directorate savings, this MTFS targets savings related to corporately controlled assets and income to generate the following savings:

Corporate	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Organisational redesign	960	200	-
Asset review	1,400		
Treasury management	742	1,000	-
Economic development	-	-	500
Base Budget	**3,102**	**1,200**	**500**

3.6. Summary

The overall impact on the proposed revenue budget is shown below and demonstrates a balanced MTFS in each of the plan years in line with the governments four year funding settlement:

Revenue Budget	2018/19	2019/20	2020/21
	£000s	£000s	£000s
Base Budget	**145,025**	**142,579**	**142,303**
Presures	11,945	4,491	10,921
Savings	(14,391)	(4,767)	(1,500)
Revised Base Budget	**142,579**	**142,303**	**151,723**
Funding Avaiable	**142,579**	**142,303**	**151,723**

3.7. Directorate Net Spending Limits

The proposed revenue budget will be allocated to directorates as set out below:

Directorate Budgets	Adults	Children	ECC	Corporate	Total
	2018/20	£000s	£000s	£000s	£000s
2017/18 base Budget	**51,158**	**21,153**	**44,740**	**27,974**	**145,025**
Pressures	5,966	4,481	1,083	415	**11,945**
Savings	(5,195)	(2,232)	(3,862)	(3,102)	**(14,391)**
2018/19 budget proposal	**51,929**	**23,402**	**41,961**	**25,287**	**142,579**
Pressures	3,497	533	1,111	350	**5,491**
Savings	(1,500)	(1,050)	(2,017)	(1,200)	**(5,767)**
2019/20 draft budget	**53,926**	**22,885**	**41,055**	**24,437**	**142,303**
Pressures	6,882	533	1,111	2,395	**10,921**
Savings	0	(650)	(350)	(500)	**(1,500)**
2020/21 draft budget	**60,807**	**22,768**	**41,816**	**26,332**	**151,724**

4. The Capital Budget

4.1. The capital investment set out in the capital programme will support the corporate plan priorities by:

- **Improving schools**
- **Enhancing infrastructure**
- **Housing delivery and**
- **Creating job opportunities**

4.2. The Capital Programme 2017/18 was approved by council on 16 December 2016 (commitments from previous years are shown in the appendix). The council's Capital Programme is funded by grants, borrowing and capital receipts. The revenue impact of funding schemes by borrowings are included in the budget in accordance with the Treasury Management Strategy and Prudential Borrowing Indicators. The following table summarises the fully funded capital investment programme and the detailed investment plan is set out in appendix 2.

Capital Investment Programme and Financing	2018/19 £000	2019/20 £000	Total £000
Total Expenditure	**65,938**	**36,911**	**102,849**
Prudential Borrowing	22,731	14,547	**37,278**

Grants and contributions	41,082	22,214	**63,296**
Capital Receipts	2,125	150	**2,275**
Total Funding	**65,938**	**36,911**	**102,849**

4.3. As the table demonstrates, capital expenditure can be funded from capital receipts, borrowing, grants and revenue contributions. 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. The capital receipts reserve is available to support spending on the creation or enhancement of assets.

4.4. Government support for capital investment is through the allocation of grants, known grant funding allocations for 2017/18 are listed in the appendix but a number, including disabled facilities grant and schools maintenance, are yet to be announced.

4.5. The challenges given to retaining assets will be based on value for money, 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 the consideration of sacrificing a capital receipt for transfer of the land for use as social housing, or as a community asset transfer.

5. Treasury Management Strategy

5.1. The council is required to adopt an annual Treasury Management Strategy Statement (TMSS) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the minimum revenue provision (MRP).

5.2. The TMSS is a summary of the Treasury Management Strategy (TMS) which provides a more detailed analysis of the council's loans and investments and the future outlook for interest rates and financing, supported by the council's external treasury management advisors.

5.3. The TMS for 2018/19 will set out the council's strategy for making borrowing and investment decisions during the year to meet the capital and revenue spending plans approved by council and considers the impact of anticipated future interest rate movements. The TMS is drafted in line the CIPFA Prudential Code for Capital Finance and CIPFA Treasury Management Code, both of which are currently being revised. We are awaiting the release of the revised codes, and any required amendments to the TMS will be made to council.

6. Borrowing

6.1. Total gross outstanding debt at 30 September 2017 was £168.8m of which £23.0m were short term loans and £145.8m fixed rate, long term loans, which are being repaid via the minimum revenue provision.

6.2. The need for new borrowing is based on the capital programme, with draft additions to the programme for 2018/19 indicating an additional borrowing requirement of £5.7m.

7. Investments

7.1. During 2017/18 interest rates have remained low and in the year to date, the average daily rate achieved on the council's investments has averaged at 0.3%. An increase in the bank base rate, increasing it from 0.25% to 0.5%, was announced in November 2017.

7.2. The council's primary objective in relation to the investment of public funds remains the security of capital and minimisation of risk, which leads to lower returns. The council's Treasury Advisors, Capita, provide regular market intelligence to support the protection of the investment portfolio and cash balances are minimised to reduce the need to borrow.

8. Reserves

8.1. The council's useable reserves are split between general reserves and earmarked reserves that are held for certain purposes.

8.2. Part of the council's general reserve is held as a strategic reserve to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is maintained at a minimum level of between 3% and 5% of the council's net revenue budget.

8.3. The remainder of the council's general reserve is to support one-off and limited on-going revenue spending and, in line with the four year settlement, for smoothing the impact of the late delivery of savings plans.

8.4. The council's earmarked reserves, which include school balances, are held to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed annually. If they are no longer required they will be transferred to the general reserve. The use of earmarked reserves, excluding school balances, requires the approval of the Chief Finance Officer. The predicted earmarked reserves includes a new reserve for the setting aside of savings in minimum reserve provision (MRP) charges following the approval of a revised MRP policy.

8.5. The projected reserve balances are as follows:

Balance as at	Strategic Reserve	General Reserve	School Balances	Earmarked Reserves	Total Reserves
	£m	£m	£m	£m	£m
31 March 2017	7.3	0.6	7.4	37.3	52.6
31 March 2018	7.1	4.0	7.2	29.3	47.6
31 March 2019	6.8	4.0	7.2	32.3	50.3
31 March 2020	6.8	4.0	7.2	33.0	51.0

9. Budget Risks

9.1. 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 risks.

9.2. 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 demand management through disease prevention and behavioral change is critical for medium term change. In addition re-setting our relationship with communities, focusing services on areas of greatest professional need, will support the MTFS.

9.3. There are on-going risks in achieving reductions in children's safeguarding costs, Herefordshire is high spending compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced.

9.4. 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. A full risk and mitigation summary is provided in Appendix 4.

10. Conclusion

10.1 The council's Medium Term Financial Strategy sets out a challenging but robust financial framework through which planned services and investment can be delivered. It is a fully balanced framework so that:

- revenue expenditure is fully covered by income,
- capital expenditure is fully funded and the associated capital financing cost reflected in revenue budgets,
- effective treasury management ensures financial resources are available as required within a prudent framework
- useable reserves are sufficient to meet specific need and protect against unforeseen events.

11. Appendices

Appendix 1	Net Revenue budget
Appendix 2	Approved Capital Investment Programme
Appendix 3	Reserves Policy
Appendix 4	Risk Assessment

Appendix 1
Net Revenue budget and Directorate Spending Limits 2018/19

Draft revenue budget summary 2018-19			
Directorate	**Current base budget 2017/18 £000**	**Net changes £000**	**Proposed base budget 2018/19 £000**
Adults and wellbeing	51,243	686	51,929
Children's wellbeing	21,153	2,249	23,402
Economies, communities and corporate	44,740	(2,779)	41,961
Total directorates net budget	**117,136**	**156**	**117,292**
Centralised corporate costs			4,722
Capital financing - debt repayments			7,827
Capital financing - interest			6,053
Other central budgets			2,885
MRP saving contribution to reserves			3,800
Total net spend (budget requirement)			**142,579**
Financed by			
Council tax			98,404
Business rates			33,116
Revenue support grant			5,370
New homes bonus			2,540
Rural services delivery grant			3,149
			142,579

Appendix 2

Approved capital programme

Scheme Name	Prior years £000	2016/17 budget £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Economy, Communities and Corporate						
Energy from Waste Plant	23,412	16,588				40,000
Hereford City Centre Transport Package (includes Hereford city link road)*	17,575	12,124	5,682	4,000	1,270	40,651
Local Transport Plan (LTP)	annual plan	11,633	11,313	10,341	10,341	
Fastershire Broadband (excludes Gloucester spend in prior years of £9.7m)	9,003	6,605	9,747	7,248		32,603
Hereford Enterprise Zone	5,071	3,150	7,779			16,000
Leisure Centres	7,268	2,784				10,052
Solar Photovoltaic Panels	463	1,671				2,134
Data Centre Consolidation	-	1,170				1,170
Corporate Accommodation	18	1,082	1,771			2,871
South Wye Transport Package (total budget of £35m includes £8m funded by LTP, scheme extends into 20/21)*	1,983	1,000	3,500	14,000	6,200	26,683
Hereford Library Accommodation Works	91	909				1,000
Marches business improvement grants	-	833	833	834		2,500
Highway Depot Improvements	-	800				800
IT Network Upgrade	-	500				500
Software to Enable Remote Access to Desktops and Automate Upgrades	-	500				500
Property Estate Enhancement Works	-	500	500	500	500	2,000
LED street lighting	4,750	905				5,655
Childrens wellbeing						
Colwall Primary School	33	4,800	1,667			6,500
Schools Capital Maintenance Grant	annual plan	1,205				
Peterchurch Primary School	6	1,000	4,494			5,500
Preliminary works to inform key investment need throughout the county			300	1,774		2,074
Expansion for Marlbrook school			2,000	726		2,726
SEN & DDA school improvements			710			710
Schools Basic Need	annual plan	666				
Adults and wellbeing						
Disabled facilities grant	annual plan	1,734	tbc			
Private sector housing improvements			800	800	800	2,400
Subject to funding confirmation						
Herefordshire Enterprise Zone			2,500	3,200	500	6,200
Development Partnership project			600	10,000	10,000	20,600
Highway asset management & major infrastructure investment			14,543	7,735	7,000	29,278
Model Farm, Ross on Wye			2,520	4,250	300	7,070
Other schemes less than £500k		*4,877*	*2,013*	*530*		
Total		**77,036**	**73,272**	**65,938**	**36,911**	
Financed by						
Prudential borrowing		39,582	24,456	22,731	14,547	
Grant and funding contributions		32,188	39,071	41,082	22,214	
Capital receipts allocated to capital schemes		5,266	9,745	2,125	150	
Total		**77,036**	**73,272**	**65,938**	**36,911**	

*** both of these schemes are supported by the Marches Local Enterprise Partnership (LEP) and the funding allocations are based on the details contained within the scheme business cases, however as schemes develop and work completes, the individual scheme costs may vary but remain within the overall funding envelope as shown below**

Scheme		LEP Grant £m	Locally funded £m	Total scheme budget £m
Hereford city centre transport package		16	25	41
South wye transport package		27	8	35
Total		**43**	**33**	**76**

Appendix 3

Reserves Policy

1. Introduction

1.1. The Local Government Act 2003 requires the Chief Finance Officer (section 151 officer) to report on the adequacy of reserves and provisions, and the robustness of budget estimates, as part of the annual budget setting process.

1.2. Best practice guidance does not advise on the actual level of unallocated general reserves, but on the processes that should be in place. There is a broad range within which a council might reasonably operate, depending on its particular circumstances and each council should make its own judgement, based on the advice of its Chief Finance Officer. In making this decision the Chief Finance Officer takes account of strategic, operational and financial risks. The financial risks are assessed in the context of the council's overall approach to risk management.

1.3. CIPFA best practice guidance suggests that a Council should hold a strategic reserve to mitigate the financial impact of major events of between 3% and 5% of its net budget. This guidance has been adopted by the Chief finance Officer for the period of the current MTFS.

2. Adequacy of Proposed Financial Reserves and Robustness of Estimates

2.1. The Chief Finance Officer must ensure that the budget setting process, and the information provided is sufficient, to allow council to come to an informed view regarding the 2017/18 council tax requirement, revenue budget, capital programme and Treasury Management Strategy.

2.2. While the council continues to operate within the financial constraints arising from increasing financial pressures and reductions in central government financial settlements, robust budget monitoring and a thorough financial planning process should determine the required level of reserves. The level of reserves will be reviewed at each quarter end as part of the council's budget monitoring reports.

2.3. Financial and operational risks need to be considered within the context of the Council's overall approach to risk management and account taken of key budget assumptions and existing financial management arrangements.

2.4. The council's financial planning process should be sufficient to identify issues with a significant financial impact in order for these to be highlighted to senior officers in a timely manner.

2.5. An annual review of the council's reserves and balances is undertaken as part of the annual financial planning exercise and as part of the council's preparation of its annual Statement of Accounts. The level of reserves appears adequate for the forthcoming financial year and financial planning period through the continuing commitment to manage service expenditure within approved budgets

2.6. The Council makes appropriate financial provisions for known future liabilities or losses of uncertain timings or amount. These are detailed in the annual Statement of Accounts. The 2015/16 Statement was approved by Audit and Governance Committee on 24 September 2016 and for 2016/17, the draft Statement will be presented to Audit and Governance Committee in July 2017.

3. Review of Reserves

3.1. The overall reserves of the council will be subject to detailed review at the end of each financial year as part of the preparation for the production of the council's statement of accounts, and as part of the council's annual budget setting process to ensure reserves are

3.1.1. Relevant,
3.1.2. Appropriate, and
3.1.3. Prudent.

3.2. The Chief Finance Officer will ensure that the council has in place well established robust and regular budget monitoring processes. These take account of the current level of reserves, the latest budget requirements calling on reserves to meet current commitments and to make contributions to reserves to meet future commitments.

3.3. The Chief Finance Officer must consider strategic, operational and financial risks in assessing the adequacy of the council's reserves position.

4. Use of Reserves

4.1. Approval to use or make contributions to reserves is provided by the Chief Finance Officer, as part of the regular budgetary process, in discussion with the Chief Executive and Leader of the Cabinet

4.2. Movements in reserve will be reported to Council as part of the financial Outturn at the end of the financial year.

5. Conclusion

5.1. The Chief Finance Officer is satisfied that the Council's ongoing approach to its reserves and provisions is robust. The council's strategic reserve is maintained between 3% - 5% of the net budget requirement, at the end of March 2017 the balance was £7.3m (5% of net budget).

5.2. This is sufficient to ensure that the council has adequate resources to fund unforeseen financial liabilities, and that the council's approach to general balances for 2017/18 is deemed appropriate. The level of reserves and expected movement in reserves are set out in the MTFS as part of the annual budget setting process.

Appendix 4
Key risk Assessment

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
1	**Unexpected events or emergencies** By its nature, the financial risk is uncertain	Low	High	• Council maintains a Strategic Reserve at alevel of between 3% and 5% of its revenue budget for emergency purposes • Level of reserve is currently £7.3m (5% of budget)
2	**Increasing demand for Adult Social Care** Demand for services continue to increase as the population gets older	High	Medium	• Demand led pressures provided for within our spending plans • Activity indicators have been developed and will be reported quarterly alongside budget monitoring
3	**Potential Overspend and Council does not deliver required level of savings to balance spending plans** Challenging savings have been identified within our spending plans.	Medium	Medium	• High risk budget areas have been identified and financial support is targeted towards these areas • Regular progress reports on delivery of savings to Management Board and Cabinet • Budget monitoring arrangements for forecasting year end position in place and forecast balanced • Plan to review level of cover available from General reserves in place
4	**Potential delay in delivery of Capital Receipts**	Medium	Low	• Potential new capital receipts may be available from further corporate property sales. • Capital receipts received will be monitored quarterly
5	**Increase in Pension Liabilities** Our contributions are influenced by market investment returns and increasing life expectancy.	Medium	Low	• Spending plans reflect the level of pension contribution required as identified by the Pension Fund's Actuary in 2016 for the next three years
7	**Failure to provide safeguarding and placements for children** There is an increasing requirement to provide sufficient school places There is a rising number of children requiring specific support	Medium	High	• Provision has been made in the capital programme to increase school places • Directorate plans in place to manage and mitigate demand • Ongoing reviews of children already under care of council
8	**Volatility in future funding streams in Government funding streams and Business Rates Retention**	High	Medium	• Prudent assumptions made in budget • Ongoing review of developing business rate changes • Business case to support future investment decisions
9	**Brexit** Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	• Reduced reliance on grant funding in all directorates • Increased local economic and social investment to increase core income