Herefordshire Council

Supplement to the agenda for

Cabinet

Tuesday 20 January 2026

2.30 pm

Conference Room 1 - Herefordshire Council, Plough Lane Offices, Hereford, HR4 0LE

Herefordshire Council

MEDIUM TERM FINANCIAL STRATEGY 2026/27 TO 2029/30

Introduction

1.1 The Medium Term Financial Strategy (MTFS) is the council's key financial planning document and sets out the council's budget for 2026/27 and the financial plan for the years to 2029/30. The strategy sets out how the council's priorities will be funded over the MTFS period and the financial risks and pressures that must be mitigated in order to successfully deliver corporate objectives.

1.2 This MTFS provides the strategic framework for managing the council's finances and ensures that:

- resources are aligned to achieve corporate objectives detailed in the County Plan over the medium/longer term; and
- the Revenue Budget, Capital Investment Budget, Treasury Management Strategy and required Prudential Indicators are appropriately aligned.

1.3 The council has a gross expenditure budget of around £400 million which is used to deliver services to nearly 200,000 residents across rural villages and market towns. These services include maintenance of over 2,000 miles of roads, collection of over 89,000 residential bins, safeguarding around 1,000 children (including 400 in our care) and providing care and support to approximately 2,500 vulnerable adults.

1.4 The council employs over 1,200 staff and supports many more local jobs through contacts with local business. The local economy combines long-standing agriculture and food production industries alongside innovative businesses in cyber and technology, construction and engineering.

1.5 The council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from its resources. This includes taking properly informed decisions and managing key operational and financial risks in order to deliver objectives and safeguard public money. Using resources wisely is a core principal of financial management and the council continues to identify efficiencies in service delivery and maximise purchasing power to ensure value for money is achieved for the residents and businesses of Herefordshire.

1.6 The Herefordshire Council Plan 2024-28 sets out how the council will make its contribution to achieving success across the county; delivering the best for Herefordshire in all areas of service delivery and developing a council that engages with the communities it serves.

1.7 The Plan sets out the vision for the future, with a focus on key priorities of People, Place, Growth and Transformation, with partnership working at the core of all activity. The themes and ambitions which underpin the Council Plan inform the financial plans including the annual budget and MTFS.

1.8 The MTFS proposes a balanced revenue budget which totals £234.1 million for 2026/27; achieved by a 4.99% increase in council tax and planned savings of £20.0 million. The net revenue budget for 2026/27 is detailed at Annex A.

National and Local Financial Risk

Wider Economic Context

2.1 The UK economy remains challenging following a prolonged period of high interest rates and relatively volatile inflation, caused by the global pandemic and the subsequent impact of increases in the cost of living. UK growth is stagnant, with Gross Domestic Product (GDP) at 0.7% for quarter 1 and 0.2% for quarter 2 in 2025.

2.2 Domestic inflation rates are elevated in comparison to the target rate of 2.0%. Consumer Price Index (CPI) has been between 3.2% and 3.8% since April 2025. CPI inflation is expected to decrease to 2.5% in April 2026, falling to 1.8% by the end of the financial year.

2.3 These economic factors, alongside increases in demand for adult and children's social care and home to school travel services, place unprecedented pressures on the council's MTFS during a period of uncertainty around future funding arrangements for local government.

2.4 The MTFS is informed by the estimated impact of these pressures on council budgets at the time of preparation. They remain estimates which are subject to change and will continue to be reviewed over the medium term planning period.

Core Government Funding

2.5 The Local Government Settlement for 2025/26 received in December 2025 represents a multi-year settlement outlining multiple years' allocations of funding covering the three-year period from 2026/27 to 2028/29. Funding allocations for the settlement period have been determined through the Fair Funding Review 2.0.

2.6 **Council Tax:** The Provisional Settlement confirmed that the council tax referendum limits would remain unchanged for 2026/27: councils with social care responsibilities are permitted to increase council tax by up to 3% with an additional 2% to meet adult social care pressures, without a local referendum.

2.7 Each 1% increase in council tax generates approximately £1.5 million of recurrent funding to meet demand pressures and deliver the council's services. The proposed draft revenue budget for 2026/27 assumes the maximum increase of 4.99% in 2026/27: 2.99% increase in core council tax and a 2% adult social care precept.

2.8 This increases the band D equivalent charge to £2,067.63, representing an increase of £8.19 per month (£1.89 per week).At the proposed level of increase, the total Council Tax income for the council is expected to increase by £7.2 million to £153.7 million.

2.9 The maximum level of local Council Tax Reduction scheme discount, approved by Council in 2021/22, has been maintained in all subsequent years to ensure that eligible households receive support as the impact of the rising cost of living continues.

2.10 **Business Rates**: The Business Rates Retention Scheme has been reset as part of the Fair Funding Review. The resetting of Business Rates Baselines from 1 April 2026 aims to ensure funding is targeted where it is needed most; the balance between aligning funding with need and rewarding business rates growth.

2.11 The 2026 reset will be delivered alongside significant changes to the business rates tax system. New business rate multipliers will be introduced into the business rates system, with the introduction of additional business rates multipliers, and a revaluation of business rates will also be delivered.

2.12 The business rates reset has resulted in a reduced budget for business rates income of £31.5 million for 2026/27, comprising £30.1 million baseline funding level (assessed need) and £1.4 million surplus from 2025/26. This budget is significantly lower than the £47.6 million budgeted income in 2025/26 as a result of the system reforms as part of which £11.5 million has been rolled into the Revenue Support Grant for 2026/27, representing the above baseline growth in 2025/26 plus the compensation for under-indexing the multiplier in previous years.

2.13 **Fees & Charges:** The council generates income to fund service delivery by charging for the services it provides to residents and businesses. Aside from income generation from locally raised taxes, this is an increasingly important source of funding. Fees and charges are within the direct control of the council to set and uplift, subject to any legislative, economic and political considerations.

2.14 Alongside an annual review and uplift of fees and charges, work to ensure maximum service cost recovery and to identify new commercial opportunities across Directorates continues as part of wider transformation activity across the council.

Local Context

2.15 In 2025/26, Directorate teams have continued to deliver key priorities and Delivery Plan milestones whilst providing increased support to recognise the impact of the increasing costs of living on residents and businesses in the county. In addition, the council has made significant progress in the delivery of capital projects.

2.16 Planned savings will be achieved through control of costs of service delivery, increasing income from fees and charges, managing demand for services in high-cost, demand-led budgets and delivering efficiencies through transformation of services.

2.17 Year-on-year timely completion and independent audit of the council's statutory accounts provide assurance over the arrangements in place to provide complete, accurate and timely financial statements and the appropriateness of the council's accounting policies and accounting estimates.

2.18 The council's financial position is stable with above average reserve levels compared with similar unitary authorities, low levels of borrowing, positive cashflow and high liquidity and robust financial planning arrangements to identify and manage risks to financial resilience.

Projected Funding Gap over MTFS Period

3.1 The MTFS develops a series of financial projections to quantify the estimated funding gap and determine the medium term financial implications must be addressed in order to continue to deliver council services and strategic priorities.

3.2 To develop these projections, the current year base budget is inflated to reflect estimated price increases across services and goods with additional amounts to include unavoidable spending pressures and the financial impacts of council priorities and decisions. The adjusted base budget is measured against the estimated funding available to determine the future funding gap.

3.3 The projections below, and detailed at Annex B, reflect a funding gap for the medium-term period 2026/27 to 2029/30 of £83.4 million. This is an estimate of the financial gap between what the council needs to spend to maintain services delivery and the funding available. This reflects inflationary costs included as base budget increases from 2027/28 which are not currently matched by increases in core Government funding.

Table 1 Projected Funding Gap to 2029/30

	Proposed 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000	Estimate 2029/30 £'000
Total Funding	234,120	238,331	242,359	253,200
Net Expenditure Budget	234,120	258,902	273,374	285,032
Surplus/(Gap) to be funded	**-**	**(20,571)**	**(31,015)**	**(31,832)**
Surplus/(Gap) as % of net budget		**(7.9%)**	**(11.3%)**	**(11.2%)**
Total (Gap) to 2029/30				**(83,418)**

3.4 Closing the estimated funding gap in future years represents a significant challenge for the council and this will be an immediate focus for the council from April 2026 as part of the council's future financial strategy. Key areas of focus and activity will include:

a. Maximising commercial income from the council's asset base;
b. Collaboration with external specialist partners to deliver efficiencies in high-cost, high-demand areas of service delivery;
c. Review of the council's relationship with subsidiary companies;
d. Creating a lean and resilient council through workforce reviews to determine the future size and scope of the organisation;
e. Use of benchmarking to compare operating costs, working with sector-led experts to identify inefficiencies and opportunities to reduce expenditure; and
f. Investing in the data and digital infrastructure to deliver long-term efficiencies, improvements and transformation in services for resident

3.5 It is a legal requirement to set a balanced revenue budget in each financial year. Any savings proposed in 2027/28 to mitigate the estimated funding gap will result in a reduction in the net expenditure budget requirement for 2028/29 with a corresponding reduction to the estimated funding gap.

Dedicated Schools Grant (DSG)

4.1 The cumulative DSG deficit is accounted for as an unusable reserve on the council's Balance Sheet, as permitted via statutory instrument, which will remain in place until 31 March 2028. This enables all local authorities to ring-fence the DSG deficit from the overall financial position in the statutory accounts.

4.2 Government has confirmed that it will bring forward a full Schools White Paper early in the new year to set out financially sustainable plans for reform of SEND provision. The council awaits confirmation of adequate funding for SEND services in Herefordshire and a real solution to address the cumulative DSG deficit at the end of the statutory override period in March 2028 to minimise the impact on the council's financial position.

4.3 The draft MTFS does not include the impact of planned reform as these cannot currently be quantified. Once plans for reform have been confirmed, including a decision on the statutory override, the MTFS will be updated.

Planning Assumptions

5.1 The key assumptions in developing the medium term financial projections are explained below.

Table 2 Key assumptions by budget area

Budget area	Key assumptions
Contract inflation	For 2026/27 the general rate of inflation is assumed at 3% or the individual contract specific rate, will not be allocated directly to services as an increase in Directorate budget. Instead, each Directorate has been set a target to manage inflationary pressures within Directorate budgets. A centrally managed Contract Inflation Fund will be established to manage inflationary increases which cannot be managed within Directorate budgets. For the remaining three years from 2027/28 to 2029/30, inflation is assumed at 2.5%, 2.0% and 2.0% respectively.
Employee related costs	A pay increase has been assumed for the four year MTFS period. The council is part of the Worcestershire Pension Fund, administered by Worcestershire County Council. The triennial valuation of the Pension Fund took place on 31 March 2025. Contributions included for the MTFS period ensure that the future costs to meet existing members' service benefits continue to be covered.
Council tax	An increase of 4.99% is assumed for 2026/27 and for the three years from 2027/28 to 2029/30.
Council tax base	The council's tax base represents the estimated number of Band D equivalent chargeable dwellings for the year. The tax base is forecast to increase by 1.2% each year for the purpose of modelling income for the MTFS; this increase is informed by prior year increases and latest new dwelling forecasts.
Other Government funding sources	Government funding sources included in the MTFS reflect the levels announced in the Provisional Settlement for the multi-year period with Settlement Funding Assessment (SFA) levels in 2029/20 assumed as per 2028/29.
Enterprise Zone retained business rates income	Income of £1.0 million per annum is assumed over the MTFS period. This income will be reviewed annually as part of the development of the in-year revenue budget in consideration of the rates retained from this source.
Fees & charges	Any increases in fees & charges have been incorporated within the budget proposals.
Capital borrowing	Capital borrowing rates of 4.9%, 4.7%, 4.6% and 4.6% have been assumed in respect of financing the Capital Programme over the next 4 years respectively. This assumption will remain under constant review and will be informed by forecasts provided by our Treasury Management Advisors: MUFG Corporate Markets. External borrowing requirements are as per the proposed capital programme for 2026/27 to 2029/30.
Revenue budget savings	The MTFS assumes delivery of savings in 2026/27 in full.
Use of reserves	The MTFS assumes that the proposed use of reserves in 2026/27 (£3.2 million of the Business Rates Risk Reserve and £7.1 million establishment of the Contract Inflation Fund) will need to be funded recurrently from 2027/28.

Robustness of Budget Estimates and Key Risks

6.1 The 2026/27 budget and MTFS include estimated values, based on key assumptions noted above and expectations of future events that are otherwise uncertain. Estimates are based on historical experience, current trends and other relevant factors. Financial forecasts are monitored as part of routine budget monitoring arrangements to ensure that risks are identified in a timely manner and mitigation action is taken.

6.2 As values cannot be determined with certainty, the table below notes the potential impact of both a positive and negative impact of 1% across the key areas within the MTFS.

Table 3 Impact assessment (1% movement)

	Potential full-year impact of 1% movement (£m)
Council tax	+/- £1.4m
Employee related costs (pay)	+/- £0.8m
Inflation	+/- £2.4m
Demand	+/- £2.0m
Interest on borrowing	+/- £2.1m

6.3 The council has strengthened arrangements to identify and monitor financial risks; implementing additional measures to provide increased support to budget managers to deliver planned savings and contain expenditure within the approved budget. These measures include:

- enhanced in-year financial monitoring and reporting to identify key risks and expected financial impacts;
- improved alignment of activity data and trend analysis to financial forecasts;
- introduction of expenditure controls to provide increased rigour and challenge of expenditure; and
- enhanced check and challenge of key assumptions in the outturn forecast.

6.4 The key financial risks that could affect the delivery of the MTFS as noted in the table below.

Table 4 Key financial risks

Key Financial Risk	Likelihood	Impact (Potential Severity)	Mitigation
Unexpected events and emergencies By its nature, the financial risk is uncertain	Low	High	The Council maintains a strategic reserve at a level of between 3 and 5% of its revenue budget for emergency purposes. The level of this reserve at 1 April 2025 was £10.1 million (4.4% of 2025/26 revenue budget). Additionally, national resources have historically been provided to support national issues.
Not delivering required improvements The council must address the statutory direction and improvements across Children's Services	Low	Medium	Improvements in Children's Services have been recognised with an overall 'Good' rating by Ofsted following the Inspection of Local Authority Children's Services (ILACS) that took place from 10 to 21 November 2021.

			Phase 3 of the Herefordshire Children's Services and Partnership Improvement Plan was endorsed by Cabinet in July 2025. Performance against the Improvement Plan is monitored and reported on a quarterly basis.
Increasing demand for Adult and Children's Social Care Demand for Children's services continue and demand for adult services increases as the population ages.	High	Medium	Demand led pressures are reflected within our spending plans; additional funding to support increased demand has been applied to Community Wellbeing and Children & Young People Directorate base budgets for 2026/27. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand. Increasing demand for social care represents a key financial pressure for all councils. Robust and regular budget monitoring identifies emerging pressures and the financial impact on in-year budgets across the council. Financial monitoring is informed by activity data and trend analysis from the relevant service to ensure that forecasting is reliable and timely.
Potential overspend and non-delivery of savings required to balance the budget	Medium	Medium	High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Directorate and Corporate Leadership Teams and Cabinet enables the timely identification of actions to mitigate the risk of overspends.
Volatility in Government funding streams The government settlement for 2026/27 is a multi-year settlement; the assumed funding for the MTFS period is at levels per the Provisional Settlement.	High	Medium	The MTFS reflects prudent estimates and assumptions in the financial planning over the medium-term period where it is acknowledged that uncertainty over future funding exists. The MTFS will be updated to reflect the impact for the council of the multi-year Settlement and in-year funding allocations as further information is released.
Interest and Inflation There is uncertainty over interest and inflation rates.	Medium	Medium	The Treasury Management Strategy is informed by latest forecast, as provided by our Treasury Management Advisors. Increases in borrowing rates will be managed by

			reference to in-year approved budgets in line with the Treasury Management Strategy.
Dedicated Schools Grant The future cumulative deficit requires direct financial support from Council core budgets	High	Medium	The high needs budgets are funded by the dedicated schools grant, but any overspend becomes a council liability. This risk cannot currently be mitigated; expenditure will be monitored as part of routine budget monitoring arrangements and the council will continue to work with the Department for Education and monitor progress against the DSG Deficit Management Plan. This represents a significant local and national pressure and urgent reform is required. Plans to reform funding arrangements and a future decision on the statutory override to manage the national deficit and minimise the impact on local authority financial positions are expected in early 2026.

Adequacy of reserves

7.1 The council's useable revenue reserves are split between a general reserve (the general fund) and earmarked reserves that are held for certain purposes. The general fund is held as a strategic reserve to emergency events such as unforeseen financial liabilities or natural disasters.

7.2 In line with the council's policy, this reserve is maintained at a minimum level of between 3% and 5% of the net revenue budget. As at 31 March 2025 the general reserve balance totalled £10.1 million, being 4.4% of the council's 2025/26 approved net revenue budget.

7.3 Earmarked reserves are amounts set aside for future expenditure to support specific corporate priorities or for general contingencies and cash flow management. For each reserve established, the purpose, usage and basis of transactions needs to be clearly defined.

7.4 The overall level of reserves balances is reported to Cabinet at least annually; the last report to Cabinet was in June 2025 noting the total balance of £90.8 million comprising the general fund balance of £10.1 million and earmarked reserve balances of £80.7 million at 31 March 2025.

7.5 Earmarked reserve balances include £18.0 million of grant funding carried forward into 2025/26. This represents amounts of grant funding received, with no outstanding grant conditions to be met, which have not yet been applied to relevant expenditure. In accordance with the principles of the CIPFA Code of Practice on Local Authority Accounting and relevant accounting standards, these amounts are accounted for as earmarked reserves, carried forward for application in future accounting periods.

7.6 The council's financial strategy aims to minimise the use of reserves in the medium term and to replenish them to support future sustainability, enable the council to respond to unexpected changes and to invest in the continued transformation and improvement of its services.

7.7 The financial resilience reserve was established to manage risks present in the base budget, for example additional placement costs from unexpected demands. At 31 March 2025, a balance of £2.3 million was held in this reserve.

7.8 Any overspend in 2025/26 must be funded using the council's available reserves. At Quarter 2 (September) 2025/26, the forecast outturn position assumes £2.8 million use of the Budget Resilience Reserve. This will reduce the reserves available to manage risk in future years.

7.9 A forecast of reserves balances at 31 March 2026 and 31 March 2027 will be included at Appendix E to the 2026/27 Revenue Budget Report.

7.10 There are robust controls in place, as part of routine budget monitoring arrangements, to monitor in-year transfers to and from reserves and resulting reserve balances and these transactions are subject to review as part of the annual audit of the statutory accounts.

7.11 The Local Government Act 2003 (Section 25) requires that the chief financial officer considers the adequacy of the proposed financial reserves as part of the annual budget setting process.

7.12 The forecast general fund balance at 31 March 2026 of £10.1 million is within the range required by the council's policy; representing 4.4% of net revenue expenditure in 2025/26. This is sufficient to ensure that the council has adequate resources to fund unforeseen financial liabilities.

Conclusion

8.1 The council has a record of robust and effective financial management and is committed to delivering planned savings and managing expenditure within budget in order to preserve the future sustainability of the council.

8.2 The planning assumptions and estimates which inform the 2026/27 budget and MTFS to 2029/30 are realistic and prudent and there are appropriate arrangements in place to ensure the council is able to identify and manage risks to financial resilience.

8.3 The MTFS provides a balanced budget for 2026/27 and clearly identifies the projected funding gap and risks to delivery. Whilst there are significant challenges ahead, the council's future financial strategy will ensure that the council's finances are aligned to its strategic priorities with a clear focus on required activity to ensure the future sustainability of the council and the services it delivers.

ANNEX A Net revenue budget 2026/27

Detail	2025/26 Base Budget £'000	Unfunded Pressures £'000	Mitigations £'000	Savings £'000	2026/27 Proposed Budget £'000
Community Wellbeing	90,366	9,396	(2,720)	(7,375)	89,667
Children and Young People	58,873	3,545	(657)	(3,348)	58,413
Economy and Environment	40,992	7,303	(2,800)	(7,204)	38,291
Corporate	22,222	1,856	(53)	(1,529)	22,496
Sub Total	**212,453**	**22,100**	**(6,230)**	**(19,456)**	**208,867**
Central	19,055	7,196	(500)	(498)	25,253
TOTALS	**231,508**	**29,296**	**(6,730)**	**(19,954)**	**234,120**
Funded by:					
Council tax	146,451				153,657
Legacy Funding Assessment (LFA)	78,237				-
Settlement Funding Assessment (SFA) Of which: Baseline Funding Level Of which: Revenue Support Grant	-				30,149 41,867
Business rates surplus income	-				1,400
Enterprise Zone Business rate income	1,282				1,750
Extended producer responsibility grant	3,538				-
Collection fund surplus	2,000				2,000
Business rates risk reserve funding	-				3,297
TOTALS	**231,508**				**234,120**

ANNEX B Medium Term Financial Strategy 2026/27 to 2029/30

Detail	Actual 2025/26 £'000	Proposed 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000	Estimate 2029/30 £'000
Funding:					
Council tax	146,451	153,657	163,260	173,464	184,305
Legacy Funding Assessment (LFA)	78,237	-	-	-	-
Settlement Funding Assessment (SFA)		72,016	74,071	67,895	67,895
Business rates surplus income	-	1,400	-	-	-
Enterprise Zone Business rate income	1,282	1,750	1,000	1,000	1,000
Extended producer responsibility grant	3,538	-	-	-	-
Collection fund surplus	2,000	2,000	-	-	-
Business rates risk reserve funding	-	3,297	-	-	-
Total Funding	**231,508**	**234,120**	**238,331**	**242,359**	**253,200**
Expenditure:					
Base Budget b/f		231,508	234,120	258,902	273,374
Pay Award		1,502	2,185	1,792	1,827
Growth – Demand & Pressures		21,064	22,597	12,680	9,831
Savings, efficiencies & mitigations		(19,954)	-	-	-
Net Expenditure Budget	**231,508**	**234,120**	**258,902**	**273,374**	**285,032**
Surplus/(Gap) to be funded		**-**	**(20,571)**	**(31,015)**	**(31,832)**

Herefordshire Council

TREASURY MANAGEMENT STRATEGY 2026/27

Introduction

1.1 Treasury Management is the management of the council's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2 This strategy has been prepared in accordance with the following guidance:

- Department for Levelling Up, Housing and Communities (DLUHC, now MHCLG) Statutory guidance on local government investments (2018)
- Ministry of Housing, Communities & Local Government (MHCLG) Capital finance: guidance on Minimum Revenue Provision (5^{th} edition) (2024)
- Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for capital finance in local authorities (2021)
- CIPFA Treasury management in the public services: Code of practice (2021)

1.3 To support this Treasury Management Strategy (TMS), the council maintains Treasury Management Practices (TMP) that outline how the council's strategic policy objectives for treasury management will be achieved. The operational practices are maintained by the corporate finance team and approved by the Chief Finance Officer.

1.4 The council employs external treasury management advisors, MUFG Corporate Markets (MUFG), who provide advice and guidance on treasury management activities, including interest rate forecasts. This is utilised to inform borrowing and investment decisions.

1.5 This report incorporates prudential and treasury indicators (Annex C) as required by the Prudential Code, and a treasury management policy statement (Annex E) as required by the Treasury Management Code of Practice.

Economic Context

2.1 The UK economy remains a fiscal challenge following a prolonged period of high interest rates and relatively volatile inflation, caused initially by the global pandemic and the subsequent cost of living crisis. UK growth is improving marginally, with Gross Domestic Product (GDP) at 0.7% for quarter 1 and 0.2% for quarter 2 2025.

2.2 Domestic inflation rates are elevated in comparison to the target rate of 2.0%. Consumer Price Index (CPI) has been between 3.2% and 3.8% since April 2025. CPI inflation is expected to decrease to 2.5% in April 2026, falling to 1.8% by the end of the financial year.

2.3 The Bank of England base rate was lowered from 4.25% to 4.00% in August and then to 3.75% in December. MUFG have provided an interest rate forecast in Annex D, showing a forecast steady decrease to 3.25% at the end of the 26/27 financial year.

2.4 There are some significant risks that could impact these forecasts. There are geo-political risks of ongoing conflicts, with a potential impact on oil prices and therefore an upside risk to inflationary pressure. Labour supply shortages could lead to sticky wage growth which also has a potential impact on inflation.

Borrowing Strategy

3.1 The council primarily borrows to fund capital expenditure; with borrowing driven by the requirements of the approved capital investment budget. Borrowing requirements are also driven by the increasing Dedicated Schools Grant (DSG) deficit. The objective of the borrowing strategy is to manage the risk of current and potential future debt.

3.2 The council is not permitted to borrow to invest for the primary purpose of financial return.

3.3 This strategy serves to balance the affordability of loan interest payments from the revenue budget with the long-term stability of the debt portfolio. The strategy aims to achieve a low and certain cost of finance whilst retaining flexibility should financing requirements change in the future. The council will minimise cash balances by utilising internal borrowing where possible.

3.4 The Public Works Loan Board (PWLB) is the preferred route for borrowing across the local government sector. If borrowing is required, then the council will favour short term loans because the interest rates on long term loans are relatively high (PWLB 25-year rate is 5.8%, see Annex D). Longer term borrowing will only be considered when interest rates are lowered. Local Authority to Local Authority borrowing will also be considered.

3.5 The approved sources of borrowing for the council are: -

- Internal borrowing (reserves/balances)
- Public Works Loan Board (PWLB)
- UK Local Authorities
- Any institution approved for investments (see Annual Investment Strategy section)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- Local capital finance company and any other special purpose companies created to enable local authority bond issues

3.6 In addition, capital finance may be raised by the following methods that are not borrowing:-

- Leases
- Hire purchase arrangements
- Private Finance Initiatives
- Sale and leaseback arrangements

3.7 The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer term dated borrowing rates are expected to fall from their current levels.

3.8 PWLB permits the repayment of loans before maturity by either paying a premium or receiving a discount according to a set formula based on current interest rates. This option will be kept under review and will be considered where this is expected to lead to an overall saving or reduction in risk.

3.9 The interest on the LOBO loans becomes due every 6 months. At this point, the lender has the option of increasing the interest rate, and the borrower can accept the interest rate increase, or pay back the loans.

3.10 As at 31 October 2025, the council manages current loan debt of £135.5 million, which is detailed in Annex A (treasury portfolio) and Annex B (borrowing maturity profile). This comprises £123.5 million of Public Works Loan Board (PWLB) loans, which are all fixed interest long term loans, and £12.0 million Lender Option Borrower Option (LOBO) loans.

3.11 The council borrowing is forecast to be £161.4 million at 31 March 2026. This is expected to increase to £225.8 million by 31 March 2027. The estimated movement of £64.4 million in 2026/27 is represented by additional prudential borrowing to fund capital spend of £52.2 million, additional prudential borrowing to fund DSG of £19.9 million less £7.7 million principal repayments.

Investment Strategy

4.1 The objective of the investment strategy is to ensure prudence is applied and risks are managed when the council holds surplus funds (income received in advance of expenditure).

4.2 The council will primarily consider security (protecting the capital sum invested from loss) and liquidity (ensuring the funds are available for expenditure when needed) before yield. For 2026/27 the council will continue to focus on Money Market Funds (MMF) which are liquid, diverse and spread the credit risk. There are currently relatively high rates of interest to be gained on MMFs, whilst keeping the risk levels at an appropriate level. The council will supplement this with some fixed term deposits with varying maturity lags to maximise returns during a period of interest rate cuts.

4.3 The council applies the credit worthiness service provided by MUFG. This service employs a modelling approach utilising credit ratings from three main credit rating agencies (Fitch, Moody's and Standard & Poor's). This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which MUFG allocate a series of colour coded bands with suggested maximum durations for investments.

4.4 Typically, the minimum credit ratings criteria the council use will be short-term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one agency are marginally lower than these ratings but still may be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.5 The council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- (Fitch or equivalents). If investments are to be made overseas, then approval ahead of the investment being made is required from the Chief Finance Officer. Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesdale Bank plc (a subsidiary of National Australia Bank) will be classed as UK banks due to their substantial franchises and the arms-length nature of the parent-subsidiary relationship.

4.6 Investment limits for approved counterparties are detailed in the table below for specified investments. Specified investments are those denominated in pound sterling, due to be repaid within 12 months, not defined as capital expenditure and invested in UK government/Local Authority/a high credit quality investment scheme (A- UK domiciled or AA- non-UK domiciled).

Table 1 Investment limits for approved counterparties

Counterparty	Investment type	Rating	£ limit	Time limit
Banks and Building societies	Term deposits, certificate of deposit or corporate bond	Yellow Purple Orange Blue Red Green No colour	£5m £5m £5m £5m £5m £5m £nil	5 years 2 years 1 year 1 year 6 months 100 days None
Council's banker			£5m	Liquid
Debt Management Account Deposit Facility (DMADF)	DMADF account	UK sovereign	Unlimited	6 months
UK Government	UK gilts or Treasure bills	UK sovereign	Unlimited	364 days
Multilateral development banks	Bonds	AAA	£5m	Liquid
Local Authorities	Term deposits	n/a	£10m	1 year
Money Market Funds (MMF)	MMF	AAA	£10m	Liquid
Pooled funds	Pooled funds		£5m per fund	

4.7 Investment limits are detailed in the table below for non-specified investments. Non-specified investments are those that do not meet the definition of specified investments, for the council, this means those longer than 12 months.

Table 2 Investment limits for non-specified investments

Investment type	£ limit
Total long term investments	£5m
Total investments with unrecognised credit ratings	£5m
Total non-specified investments	£10m

4.8 The council will take an active approach to invest in environmental, social and governance (ESG) entities, but this will be a secondary consideration to security, liquidity and yield.

4.9 As at 31 October 2025, the council has £55.7 million of investments, spread across banks and MMFs. This current investment portfolio is detailed in Annex A.

Annual Minimum Revenue Provision Statement

5.1 Where the council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the notional repayment of debt is known as Minimum Revenue Provision (MRP). The Local Government Act 2003 requires the council to have regard to the MHCLG guidance on MRP most recently issued in 2024. The broad aim of the guidance is to ensure that a prudent provision is made to enable debt to be repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

5.2 MRP is based on the Capital Financing Requirement (CFR). This is a measure of all capital expenditure that has not yet been funded by capital or revenue resources. The elements of the council's CFR are listed in table 3 below.

Table 3 CFR calculation

CFR element	Indicative 1 April 2026 £000	Included in MRP charge
Supported borrowing pre 2017/18	96,325	Yes
Prudential borrowing related to the capital programme spend	205,555	Yes
Leases capitalised under IFRS 16	2,530	Yes
Private Finance Initiatives	44,985	Yes
Adjustment A (historic adjustment from initial statutory guidance)	3,060	No – exclusion permitted under paragraph 47 of statutory guidance
Loan debtor adjustments from waste loan repayments treated as capital	(17,438)	No – exclusion permitted under paragraph 71 of statutory guidance
	335,017	

5.3 The MRP policy is to charge on an annuity basis at a rate of 4% of the applicable components of CFR on an asset-by-asset basis. No MRP is charged in year of addition. For leases and private finance initiatives the MRP charge is equal to the reduction in the liability for that year. There have been no changes to the policy from 2025/26.

5.4 There is no planned voluntary overpayment of MRP for 2026/27.

5.5 In line with the guidance, the policy for the 2026/27 calculation of MRP is as follows:

Table 4 MRP methodology and charge

	MRP methodology	Indicative MRP charge 2026/27 £000
Supported borrowing	Annuity basis at rate of 4%	965
Prudential borrowing	Annuity basis at rate of 4%	11,244
Subtotal		**12,209**
Finance leases and private finance initiatives	Equal to value of payments that reduce the liability each year	3,999
Total		**16,208**

ANNEX A Treasury Portfolio

The table below shows the treasury investment and borrowing positions as at 31 March 2025 and 31 October 2025.

Table 5 Treasury portfolio

Treasury investments	31 March 25 £000	31 March 25 %	31 Oct 25 £000	31 Oct 25 %
Banks	-	-	5,000	9%
Banks – ESG “green” deposits	5,000	12%	-	-
Local authorities	5,000	12%	-	-
Money market funds	31,610	76%	50,740	91%
Total treasury investments	**41,610**	**100%**	**55,740**	**100%**

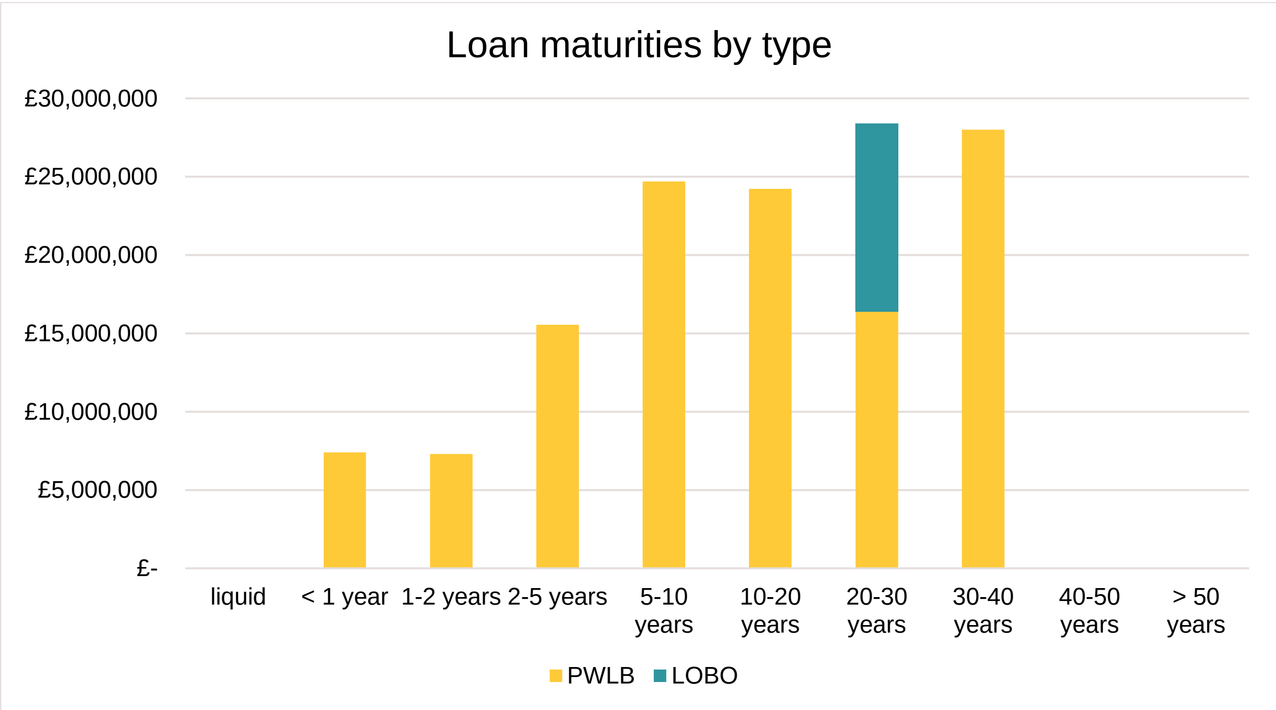
Treasury borrowing	31 March 25 £000	31 March 25 %	31 Oct 25 £000	31 Oct 25 %
Public Works Loan Board (PWLB)	(125,501)	91%	(123,547)	91%
Lender Option Borrower Option (LOBO)	(12,000)	9%	(12,000)	9%
Total treasury borrowing	**(137,501)**	**100%**	**(135,547)**	**100%**

Net treasury investments/(borrowing)	**(95,891)**	**-**	**(79,807)**	**-**

ANNEX B Borrowing Maturity Profile

The chart below shows when each loan matures over the next 50 years. The green block represents the LOBO loans, and the orange blocks represent PWLB loans.

Chart 1 Loan maturity profile



ANNEX C Prudential and Treasury Indicators

Background

1.1 The Local Government Act 2003 requires local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

1.2 To demonstrate that the council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored. The indicators set out parameters within which the council should operate to ensure the objectives of the Prudential Code are met.

Indicator 1: Estimates of capital expenditure

2.1 The Prudential Code requires local authorities to make reasonable estimates of the total capital expenditure that it plans to incur during the forthcoming financial year and at least the following two financial years, as well as actual capital expenditure for the previous financial year.

2.2 The actual amount of capital expenditure that was incurred during 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years, based on the current approved capital programme, are noted in Table 6 below. This excludes the financing need for other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

Table 6 Estimates of capital expenditure and funding

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
Capital expenditure	74,078	107,178	146,940	102,117	60,023
Grants, contributions and capital receipts	50,864	77,174	94,773	58,392	39,885
Prudential borrowing	23,214	30,004	52,167	43,725	20,138
Total funding	**74,078**	**107,178**	**146,940**	**102,117**	**60,023**

Indicator 2: Capital financing requirement

3.1 The Prudential Code requires local authorities to make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years, as well as the actual capital financing requirement for the previous financial year.

3.2 The capital financing requirement (CFR) measures the council's underlying need to borrow for a capital purpose. It represents the capital expenditure not financed by capital receipts, capital grants, contributions or a direct revenue charge. The actual CFR for

2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years are noted in Table 7 below. The CFR includes other long-term liabilities, such as PFI and leasing arrangements. However, the Authority is not required to separately borrow for these because they already include a borrowing facility.

Table 7 Capital financing requirement

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
CFR excluding PFI	269,436	287,502	326,635	356,528	362,317
PFI and finance leases	51,128	47,515	43,784	39,753	35,321
Total CFR	**320,564**	**335,017**	**370,419**	**396,281**	**397,638**

Indicator 3: Gross debt and the capital financing requirement

4.1 The Prudential Code requires local authorities to ensure that the total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

4.2 This indicator monitors the requirement for debt not to exceed the CFR. The actual ratio for 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years. The ratio of gross debt to CFR is below 100% for each of the disclosed years, confirming that gross debt does not exceed CFR, and that the council is operating within the parameters as set out in the Prudential Code. The impact of IFRS 16 has been included in these figures.

Table 8 Ratio of gross debt to CFR

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
External borrowing debt	138,792	161,397	225,753	277,352	307,222
PFI and finance lease debt	47,800	43,979	39,980	35,754	31,275
Total gross debt	**186,592**	**205,376**	**265,733**	**313,106**	**338,497**
CFR	320,564	335,017	370,419	396,281	397,638
Ratio of gross debt to CFR	**58%**	**61%**	**72%**	**79%**	**85%**

Indicator 4: Authorised limit for external debt

5.1 The Prudential Code requires local authorities to set an authorised limit for its gross external debt for the forthcoming financial year and the following two years.

5.2 The authorised limit represents an upper limit of borrowing that the council can legally owe. The actual limit for 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years. By comparing the gross debt figures in table 8 to the authorised limits in table 9, it is confirmed that the council is operating within the parameters as set out in the Prudential Code.

Table 9 Authorised limit

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
External borrowing	350,000	350,000	388,000	411,000	411,000
Other long term liabilities	70,000	70,000	70,000	70,000	70,000
Total authorised limit	**420,000**	**420,000**	**458,000**	**481,000**	**481,000**

Indicator 5: Operational boundary for external debt

6.1 The Prudential Code requires local authorities to set an operational boundary for its gross external debt for the forthcoming financial year and the following two years.

6.2 The operational boundary is the limit beyond which external debt is not normally expected to exceed and provides a parameter to monitor day to day treasury management activity. The actual limit for 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years. By comparing the gross debt figures in table 8 to the operational boundaries in table 10, it is confirmed that the council is operating within the parameters as set out in the Prudential Code.

Table 10 Operational boundary

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
External borrowing	340,000	340,000	376,000	398,000	398,000
Other long term liabilities	60,000	60,000	60,000	60,000	60,000
Total operational boundary	**400,000**	**400,000**	**436,000**	**458,000**	**458,000**

Indicator 6: Ratio of financing costs to net revenue stream

7.1 The Prudential Code requires local authorities to estimate the proportion of financing costs to net revenue stream for the forthcoming financial year and the following two years, as well as actual figures for the previous financial year.

7.2 This ratio highlights the proportion of the revenue budget required to meet financing costs and is an indicator of the affordability of borrowing. The actual limit for 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years. The calculated ratios of between 10% and 15% confirm that the council's borrowing is currently considered to be affordable.

Table 11 Ratio of financing costs to net revenue stream

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
MRP	12,845	15,106	16,208	17,227	18,828
Interest payable	7,721	9,011	12,252	14,561	16,340
Total financing costs	**20,566**	**24,117**	**28,460**	**31,788**	**35,168**
Net revenue stream	202,904	201,827	234,120	238,331	242,359
Ratio of financing costs to net revenue stream	**10%**	**12%**	**12%**	**13%**	**15%**

Indicator 7: Maturity structure of borrowing

8.1 The council sets upper and lower limits for the maturity structure of its borrowing to mitigate against the risk of exposure to interest rate fluctuations on debt refinancing. The table below shows the upper limit, the lower limit, the actual level for 2024/25 and the forecast level for 2025/25. This confirms that the council is operating within the lower and upper limit.

Table 12 Maturity structure of borrowing

	2024/25 actual %	2025/26 forecast %	Lower limit %	Upper limit %
Under 12 months	5%	6%	0%	10%
Between 12 months and 24 months	6%	5%	0%	10%
Between 24 months and 5 years	7%	9%	0%	25%
Between 5 years and 10 years	21%	19%	0%	35%
10 years and above	61%	61%	0%	80%
	100%	**100%**		

Indicator 8: Upper limit of investments over 364 days

9.1 The council sets an upper limit for total principal sums invested over 364 days to mitigate against the risk of exposure to loss due to early repayment requirements. The actual limit for 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years. This is monitored through-out the year in day-to-day treasury management activity.

Table 13 Upper limit of investments over 364 days

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
Upper limit	5,000	5,000	5,000	5,000	5,000

Indicator 9: Ratio of net commercial and service investments income to net revenue stream

10.1 The Prudential Code requires local authorities to estimate the proportion of net income from commercial and service investments to net revenue stream for the forthcoming financial year and the following two years, as well as actual figures for the previous financial year.

10.2 This ratio highlights the proportion of the revenue income budget reliant on commercial income. The actual limit for 2024/25, the forecast amount for 2025/26 and the estimated amounts for 2026/27 plus two further years. The calculated ratios of 1% confirm that the council is not over reliant on this income.

Table 14 Ratio of net commercial and service investments income to net revenue stream

	2024/25 actual £000	2025/26 forecast £000	2026/27 estimate £000	2027/28 estimate £000	2028/29 estimate £000
Total net income from commercial and service investments	2,744	2,808	2,892	2,979	3,068
Net revenue stream	202,904	201,827	234,120	238,331	242,359
Ratio of commercial income to net revenue stream	**1%**	**1%**	**1%**	**1%**	**1%**

Indicator 10: Liability benchmark

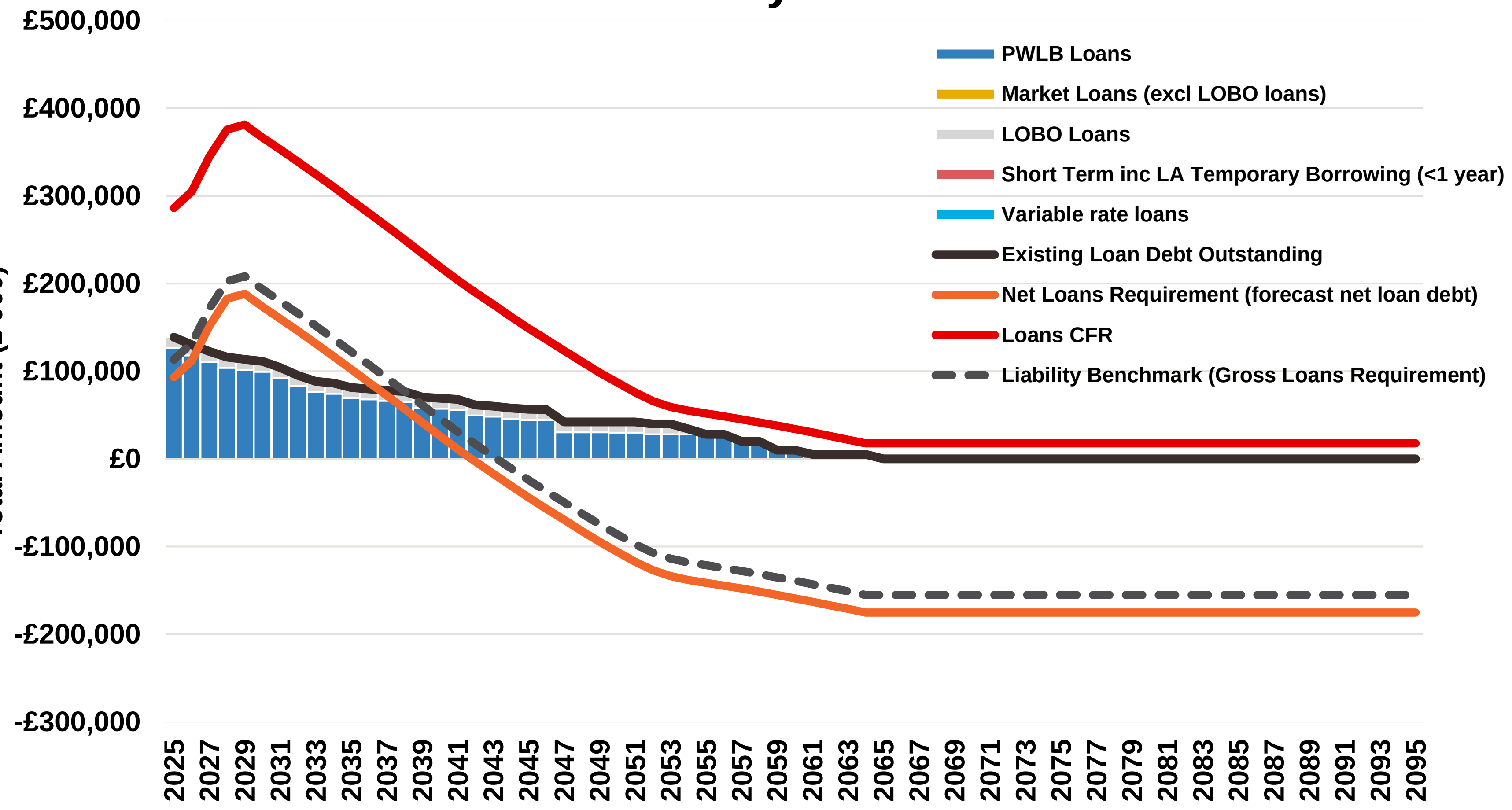
11.1 The liability benchmark provides a measure of how well the existing loans portfolio matches planned borrowing needs for capital. It is calculated by deducting investable resources on the balance sheet from the outstanding debt liability, adjusting for a minimum investment allowance. A borrowing requirement is anticipated where the liability benchmark (grey dotted line) is greater than the existing debt.

11.2 The existing loans portfolio is shown on the chart below as blue and grey bar charts. The liability benchmark is the grey dotted line. By comparing these, it can be seen that the council is under-borrowed in the short term, meaning that it is utilising its strong balance sheet position instead of increasing loan debt. The gap between the black line (total existing loans) and the grey dotted line (the liability benchmark/gross loans requirement) shows the additional borrowing need for the current approved capital commitments.

Appendix D

Herefordshire Council

Liability Benchmark



Herefordshire Council

ANNEX D Interest Rate Forecast

MUFG provide the council with interest rate forecasts as part of their advisory role. The following forecasts for the bank base rate and Public Works Loan Board (PWLB) rates were provided on 22 December 2025.

Table 15 MUFG interest rate forecasts

	Mar 26	Jun 26	Sep 26	Dec 26	Mar 27	Jun 27	Sep 27	Dec 27	Mar 28	Jun 28	Sep 28	Dec 28	Mar 29
Bank base rate %	3.75	3.50	3.50	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
PWLB 5 year rate %	4.60	4.50	4.30	4.20	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
PWLB 10 year rate %	5.20	5.00	4.90	4.80	4.80	4.70	4.70	4.70	4.70	4.60	4.60	4.60	4.70
PWLB 25 year rate %	5.80	5.70	5.60	5.50	5.50	5.40	5.30	5.30	5.30	5.20	5.20	5.20	5.20
PWLB 50 year rate %	5.60	5.50	5.40	5.30	5.30	5.20	5.10	5.10	5.10	5.00	5.10	5.00	5.00

ANNEX E Treasury Management Policy Statement

Statement of Purpose

1.1 Herefordshire Council adopts the recommendations made in CIPFA's Treasury Management in the Public Services: Code of Practice guidance, which was revised in 2021. The council adopts the following key principles and clauses.

Key Principles

2.1 Herefordshire Council adopts the following three key principles (identified in Section 4 of the Code):

- The council will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
- The council will ensure that its policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and that responsibility for these lies clearly with the council. In addition, the council's appetite for risk will form part of its annual strategy and will ensure that priority is given to security and portfolio liquidity when investing treasury funds.
- The council acknowledges that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of business and service objectives, and that within the context of effective risk management, the council's treasury management policies and practices should reflect this.

Adopted Clauses

3.1 Herefordshire Council formally adopts the following clauses (identified in Section 5 of the code):

- The council will create and maintain, as the cornerstones for effective treasury management:

  - ➢ A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
  - ➢ Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

  The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

- Full council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs.

- The responsibility for the implementation and regular monitoring of treasury management policies and practices is delegated to Cabinet and for the execution and administration of treasury management decisions to the Director of Resources and Assurance, who will act in accordance with the organisation's policy statement and TMPs and, if they are a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

- The council nominates Scrutiny Management Board to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Definition of Treasury Management

4.1 Herefordshire Council defines its treasury management activities as: -

'The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

Policy Objectives

5.1 Herefordshire Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the council, and any financial instruments entered into to manage these risks.

5.2 Herefordshire Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Non-treasury investments

6.1 Herefordshire Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries and investment property portfolios.

6.2 Herefordshire Council will ensure that all investments in the capital programme will set out, where relevant, the risk appetite and policy and arrangement for non-treasury investments. The risk appetite for these activities may differ from that of treasury management.

6.3 Herefordshire Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisations risk exposure within its annual statement of accounts.