Herefordshire Council

SUPPLEMENT TO THE AGENDA FOR

General Overview & Scrutiny Committee

Friday 1 February 2013

9.00 am

The Council Chamber, Brockington, 35 Hafod Road, Hereford

Herefordshire Council

MEETING:	**GENERAL OVERVIEW AND SCRUTINY COMMITTEE**
DATE:	**1 FEBRUARY 2013**
TITLE OF REPORT:	**BUDGET 2013/14 AND MEDIUM TERM FINANCIAL STRATEGY**
REPORT BY:	**D Powell, Chief Officer Finance and Commercial**

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To receive a presentation on the Budget 2013/14 and the Medium Term Financial Strategy and to consider the report to Cabinet on 5 February 2013.

Recommendation

That the Committee note the presentation and consider the report to Cabinet on 5 February 2013.

Since publication of the agenda for this meeting the report scheduled to go before Cabinet on 5 February 2013, is now available and is attached for Members consideration.

Further information on the subject of this report is available from
David Powell, Chief Officer Finance and Commercial (01432) 383519

Herefordshire Council

MEETING :	**CABINET**
DATE:	**5 FEBRUARY 2013**
TITLE OF REPORT:	**BUDGET 2013/14 AND MEDIUM TERM FINANCIAL STRATEGY**
REPORT BY:	**COUNCILLOR ANTHONY JOHNSON – CABINET MEMBER FOR FINANCIAL MANAGEMENT**

1. Classification

Open

2. Key Decision

This is not a key decision.

3. Wards Affected

County-wide

4. Purpose

To propose the draft financial strategy for 2013/14 to 2015/16 that includes the 2013/14 revenue and capital budget for approval by Council on 18th February, 2013 and to consider the outcome of consultation on proposals for savings. *Note: a supplementary report will be circulated to Cabinet following the closure of consultation on 31 January 2013*

5. Recommendation(s)

THAT:

Cabinet, subject to consideration of the outcome of public and stakeholder consultation, recommends to Council on 18th February:

a) **Approval of the Medium Term Financial Strategy (MTFS) shown in Appendix A, which includes the 2013/14 budget and Treasury Management Strategy and Policy Statement;**

b) **Approval of a 1.9% increase in Council Tax for 2013/14; and**

Further information on the subject of this report is available from David Powell, Chief Officer: Finance & Commercial Services
on Tel: (01432) 383519

c) **Approval of the Capital Programme outlined in paragraph 10.56 of the report; and**

d) **Cabinet notes the arrangements put in place by the Leadership Team to assure delivery of budget savings and the actions from the Root and Branch Reviews.**

6. Key Points Summary

- Herefordshire's funding from central government will reduce by £5.45m (6.9%) in 2013/14. The proposed budget will meet this shortfall and other agreed pressures facing the Council. Additional savings will need to be made in future years as Government grant is reduced further. These figures are based on the Provisional Settlement. The Final Settlement is expected sometime in February.

- The budget is based on a 1.9% Council Tax increase. This would increase a Band D Council Tax by £22.90 per annum to £1,227.99 per annum.

- Based on the provisional settlement the net budget requirement is £150.297m, funded by Revenue Support Grant (£42.862m), retained business rates (£22.726m), Government top-up funding (£6.559m) and Council Tax (£78.911m) less an amount of £761k for a deficit brought forward on the Collection Fund.

- Total savings of £9.142m from the Root and Branch Review programme are included to meet the budget shortfall and demographic and other service pressures that require funding.

- The capital programme for 2013/14 includes new schemes totalling £13.78m. The majority (£8.85m) of the total for new schemes covers self funded schemes.

- The attached Medium Term Financial Strategy (MTFS) covers the period 2013/14 to 2015/16 and includes the Treasury Management Strategy. The document is part of an integrated set of policy and delivery documents designed to match available resources to corporate priorities as set out in the Corporate Plan.

- The Leadership Team have put in place arrangements to assure delivery of budget savings and the actions from the Root and Branch Reviews.

7. Alternative Options

7.1 It is open to Cabinet to amend the proposals in the light of the outcome from the consultation exercise or otherwise; however any amendments to increase expenditure in one area must be accompanied by compensatory savings elsewhere to ensure that an overall balanced budget is maintained.

8. Reasons for Recommendations

8.1 The Council has a legal obligation to set a balanced budget as required by Local Government legislation.

9. Introduction and Background

9.1 In 2012/13 Herefordshire Council is budgeted to spend over £340m gross (£143m net of service income) delivering services across the county. The gross spend is reducing as schools transfer to Academy status.

9.2 Each year Cabinet is required to develop budget proposals for Council to consider. This is in order to stay within the cash limit that includes income from Council Tax. To develop its proposals, Cabinet draws on a wide range of information including the Corporate Plan agreed by Council in November, information about service need and priority gained from a range of sources (and summarised in *Understanding Herefordshire*), views of partners and the community about how and where the council should spend its money, and what is known about other sources of funding.

9.3 The Corporate Plan priorities agreed on 23 November 2012 are:

- Create and maintain a successful economy
- Enable residents to be independent and lead fulfilling lives; and
- Underpinned by efficient and effective operations to deliver value for money

9.4 On 13 December 2012 Cabinet received the initial indication of the updated budget position for 2013/14 and confirmed the financial planning assumptions as well as the approach being taken to achieve savings via the 'Root and Branch' process.

9.5 The provisional local government settlement was announced on 19 December 2012. The provisional settlement reflects the fundamental reform of local government funding that has been a key feature affecting financial planning since the agreement of the current year's budget in 2012. The provisional settlement indicated a reduction of £5.452m (6.9%) for Herefordshire. Government has not confirmed the date when these figures will be agreed but there is an indication that this will be in February.

9.6 On 17 January 2013 Cabinet was updated on the provisional local government settlement and its views on the draft Medium Term Financial Strategy was sought along with the emerging proposals contained in the budget for 2013/14. The comments were used to inform the version contained in this report for agreement as part of the budget policy document.

9.7 General Overview and Scrutiny Committee received a presentation on 14 January and the Committee's views were provided to Cabinet on 17 January. There will be further Overview & Scrutiny Committees on 1 February to consider the budget.

9.8 The Cabinet is requested to consider the budget proposals set out in the paper in order to make a recommendation to Council for setting the 2013/14 revenue budget based on a Council Tax increase of 1.9%. For information the Government has set the 2013/14 Business rate increase at 2.7%. It uses the previous September's retail price index when determining the level of increase.

10. Key Considerations

Budget Background and Future Prospects

10.1 The government has set a four year Comprehensive Spending Review (CSR) over the period 2011/12 to 2014/15. The initial local government settlement covered 2011/12 and 2012/13. The latest announcement provides a two year funding position covering 2013/14 and 2014/15.

Within this context our response has been to develop a corporate savings and transformation programme (Root and Branch) to be brought forward to provide major changes within a reduced funding envelope.

10.2 When the CSR was originally announced by central government, the reductions were principally in the first two years (2011/12 and 2012/13) and our financial plans reflected this position. However the worsening national economic environment has led to a continuing requirement to respond to a reducing funding settlement.

10.3 The Chancellor's Autumn Statement indicated further reductions may be required beyond the lifetime to the current CSR. There was also an indication that this may be until 2016/17.

Provisional Local Government Settlement

10.4 On 19 December 2012, the 2013/14 provisional Local Government Finance Settlement was published. It included details of elements of the business rates retention scheme which will be implemented from 1 April 2013. The provisional settlement was announced late and did not include some important elements of the estimated financial position; the key being the amount to be received for the transfer of public health responsibility to local government from the Health Service, which was subsequently announced on 10 January 2013.

10.5 This new rates retention scheme provides a baseline for business rates funding. Authorities can be categorised as tariff or top-up authorities under the new system. Tariff authorities are those that have more business rates than their baseline funding levels. Tariffs will be used to top up payments to authorities whose business rates are less than their baseline funding levels. The system is in place to ensure that those areas with a below average business rates base continue to receive an element of redistribution when the new system commences in April 2013. Herefordshire is one of those authorities that benefit from redistribution because of its lower than average business rate base and is therefore a top-up authority. In 2013/14 we will receive £6.559m top-up that will remain in our base funding. The opening funding position is known as 'start-up funding' and consists of a formula funding allocation plus allocation of former specific grants transferring from April 2013.

10.6 For Herefordshire the provisional start-up funding allocation is comprised of the following and 2012/13 is included for comparison on a "like for like" basis;

Start Up Funding

	2012/2013 **£000**	**2013/2014** **£000**
Formula Funding	54,462	50,092
Specific Grants		
11/12 Council Tax Freeze	2,153	2,153
Council Tax Support	11,039	9,683
Early Intervention Grant	7,097	5,271
Homelessness	225	206
Lead Flood Authority	200	130
Learning Disability and Public Health Reform Grants	3,738	3,842

Start-up Funding Allocation		**71,377**
Central Education funding		**2,085**
'Like for like' total	**78,914**	**73,462**

10.7 The start-up funding allocation is £71.377m and when added to our estimated education services grant (included in formula grant in 2012/13) means that when compared with our 2012/13 funding Herefordshire has £5.452m (6.9%) estimated reduction in its central government funding allocation.

10.8 Herefordshire may gain as a top-up authority because of its low business rates tax base but it then loses some funding because the Government's overall funding formula has a 'guarantee' designed to provide stability in the financing of local services that covers those authorities who fall below a guaranteed minimum level of funding. Herefordshire loses money through this system and the provisional settlement includes a reduction of £3.576 m.

10.9 Those authorities with a greater than 8.8% reduction in "revenue spending power" in 2013/14 and/or 2014/15 will receive a special grant known as the Efficiency Support Grant. The revenue spending power measure does not adequately reflect the impact of cuts in central government funding as it seeks to include funding received via transfers for the NHS which cannot be used to support the overall budget and must be spent in a manner specified by an external body. Only seven local authorities qualified for this grant, which did not include Herefordshire.

10.10 It appears that DCLG has not considered rural areas sufficiently in its determination of the settlement. It remains the case that providing services in rural areas can cost more and this key point informed our response to the provisional settlement. Adjustments were made to the funding formula, but were then largely lost though the "damping" mechanism. This issue of funding a rural area was noted by the Council's Overview and Scrutiny Committee on 14th January. Government is indicating a willingness to look at this national issue for the 2014/15 settlement.

Specific Grants

10.11 Central government funding also includes the following list of specific grants:

Grant	**2012/2013** **£000**	**2013/2014** **£000**	**2014/2015** **£000**
Social Fund	3	371	366
Local Reform and Community Voices (new in 2013/14)	0	154	159
Lead Local Flood Authority	200	70	70
Housing Benefit Admin Subsidy	1,177	1,075	tbc
Community Right to Bid	5	8	8
Community Right to Challenge	9	9	9
Council Tax Support – new burdens	84	91	98
Community Safety	80	0	0

Home to School Transport	540	tbc	tbc
Social care funding	2,274	3,152	tbc
Public Health Grant (new in 2013/14)	0	7,752	7,969

Council Tax Freeze Grant

10.12 Details of the Council Tax freeze for 2013/14 for England, first announced by the Chancellor on 8 October 2012, were published in December. A local authority will be eligible for the grant providing it does not increase the basic amount of Council Tax in 2013/14, compared to 2012/13. The grant will be equivalent to a 1% increase in the 2012/13 average band D amount multiplied by the Council Tax base for 2013/14.

10.13 Providing the 2013/14 Council Tax is frozen or reduced, the grant will be paid in each of the financial years 2013/14 and 2014/15. DCLG will be writing to local authorities with more details on the way in which the Council Tax freeze will operate and has publishing indicative allocations. The indicative figure for Herefordshire is £875k. Cabinet has agreed that for planning purposes we assume a Council Tax increase of 1.9%

New Public Health Responsibilities

10.14 As a result of the Health and Social Care Act, from 1 April 2013, local authorities will have a range of new responsibilities for public health, including a set of mandatory public health services. The public health functions currently undertaken by Primary Care Trusts (PCT) will transfer, along with their associated budgets and staff, to local authorities and to other legacy organisations;

10.15 The public health grant allocation for Herefordshire has been confirmed for 2013/14 and 2014/15 as £7.752m (2013/14) and £7.969m (2014/15). This is a ringfenced grant which national guidance specifies is to be used:

- To improve significantly the health and wellbeing of local populations
- To carry out health protection functions delegated from the Secretary of State
- To reduce health inequalities across the life course, including within hard to reach groups
- To ensure the provision of population healthcare advice (including core offer to CCG)

Social Care Funding – NHS Transfer

10.16 On 19 December the Department of Health confirmed the funding to be transferred to local authorities to support adult social care services which also benefit health. The arrangements for 2013/14 have been changed to reflect the demise of PCTs. The new approach will see funding transferred via the NHS Commissioning Board. In 2013/14, Herefordshire will receive £3.152m compared to £2.274m in 2012/13. Use of the money will be agreed between the Council and the Clinical Commissioning Group through the Health and Wellbeing Board.

Dedicated Schools Grant (DSG)

10.17 The DSG is a significant amount of expenditure that is included in our gross budget but excluded in our net budget calculation. This is because schools are funded by a specific grant that is not funded by either Council Tax or the other funding sources from Government that make up the funding of our net budget.

10.18 It is important that all areas of funding are considered and the DSG will be subject to change in 2013/14. In future it will be split into three distinct blocks:

- Schools Block - funding delegated to schools as determined by the new national funding formula
- High Needs Block – all funding for special educational needs including post-16

- Early Years Block – funding for Private, voluntary, independent nursery providers and central early years services. This includes a transfer of funding for two year old nursery education previously paid within the Early Intervention Grant

10.19 DSG is the main source of income for schools. Each block within DSG, although not ringfenced, will in future be funded separately. The schools block will be based upon a per pupil formula using the actual pupil numbers from the October school census data, The Early Years block will be calculated on a rolling basis through the year based on three termly pupil census dates. The High Needs Block will be determined on an assessment of the 2012/13 spend as previously submitted by the authority. Responsibility and funding for post-16 high needs is to be transferred to the authority from August 2013.

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

2013/14 DSG Allocations	**£m**
Schools Block 21,060 pupils x £4,306.44 per pupil	90.7
High Needs Block Schools - Pre-16 Colleges – Post-16	 12.0 0.7
Estimated Early Years Block 1,385 pupils x £3,454.43 per pupil	4.8
Additional funding for two year old grant, early years and newly qualified teachers	1.2
Additional funding for hospital education grant and growth in special school places	0.3
TOTAL DSG 2013/14	**109.7**
Less money paid by Government directly to Academies in Herefordshire	**(33.0)**
DSG received by the council	**76.7**

Budget Principles and Corporate Plan

10.21 The Council's budget process has been set within the overall principles agreed as part of the budget setting approach. These principles are as follows:

PRINCIPLE	**WHAT THIS MEANS**
Valued Services	• Focussing on our priorities and what matters to people; our core business • Stopping things we don't need to do or that don't demonstrate value for money
Reducing Bureaucracy	• Less regulation, process and red tape; smaller local government • Making it easier to contact us; right first time delivery

Supporting the Vulnerable	• Targeting resources on individuals, families and communities at risk or disadvantaged • Early intervention and prevention; a shift in social care provision
Value for Money	• Reducing the cost of running the council: the paybill; third party spend; smarter delivery • Reducing public subsidy of services; increasing income and trading; full cost recovery
Local Delivery	• Setting priorities for the nine localities and increasing local decision making • More choice to local councils and the voluntary & community sector to deliver services
Personal Responsibility	• Increasing self-reliance; more people and communities helping themselves; behavioural change • Increase in personalisation and personal budgets

10.22 The principles have been framed in order to support the delivery of the Council's corporate plan agreed on 23 November, 2012. The Corporate Plan contains three overarching priorities for the Council:

- Create and maintain a successful economy
- Enable residents to be independent and lead fulfilling lives; and
- Underpinned by efficient and effective operations to deliver value for money

10.23 In addition the income/charging principles agreed by Cabinet in 2012 support the overarching budget principles.

10.24 The corporate plan provides the context for development of budget proposals that will then be delivered by 2013/14 service delivery planning. This approach has been further developed to allow a more consistent and strategic link between available resources and service delivery. In turn the corporate plan links with the Herefordshire Partnership Community Strategy and the Health and Wellbeing Strategy.

2013/14 Draft Budget – the overall funding position

10.25 Based on the Provisional Settlement and a Council Tax increase of 1.9% the funding available for the net budget (known as the Budget Requirement) is £150.297m. This is funded by Revenue Support Grant (£42.862m), retained business rates (£22.726m), Government top-up (£6.559m) and Council Tax (£78.911m) less an amount of £761k for a deficit brought forward on the Collection Fund. There is a possibility that government funding may change as the Final Settlement has not yet been announced.

10.26 The following table summarises the movements on the Net Budget Requirement from 2012/13. It shows how the new total of £150.297m is funded.

	2013/14 £000	%
2013/14 NET BUDGET FUNDING		
Estimated rates (retained by council)	22,726	15.1
Business Rates Top-up	6,559	4.4
Revenue Support Grant	42,862	28.5
Council Tax (net of discounts from 13/14)	78,911	52.5
Collection fund deficit	(761)	(0.5)
	150,297	**100**

EXPENDITURE REQUIREMENT AND CHANGES TO BUDGET	
2012/13 Base budget	**143,359**
Inflation	2,603
Grants rolled into Rates Retention	9,449
Directorate pressures	5,180
New capital schemes	189
Borrowing budget for existing capital programme	(1,056)
Growth in New Homes Bonus	(654)
Education support grant	(2,085)
Increase general reserves	2,000
Other movements	454
Root and Branch savings	(9,142)
2013/14 Net Budget Requirement	**150,297**

10.27 It is important to note that the 2013/14 budget has not increased in terms of overall funding despite moving from £143.359m in 2012/13 to £150.297m in 2013/14. The "increase" represents money moving from specific grant in 2012/13 to general grant funding in 2013/14. In fact at the point of transfer between sources central government cut the amount we receive.

10.28 The detailed budgets are still being worked through as the delivery plans for Root and Branch reviews are firmed up and other budget adjustments are allocated to specific cost centres. Although subject to further refinement Appendix C illustrates the provisional budget in more detail.

2013/14 Budget Pressures

10.29 The draft budget recognises a number of pressures and initiatives as well as responding to the need to protect the Council's financial standing and manage corporate financial risks. It also ensures the Council's balances and reserves are appropriate.

10.30 As part of the budget process the scale and extent of pressures faced by directorates was reviewed. The outcome is that in 2013/14 £5.18m is recognised as additional financial pressure (ie money we know we must spend but which is not in the 2012/13 budget) with a further £5.33m in 2014/15.

10.31 The following table indicates the areas and amounts where budget additions are included.

Directorate	2013/14	2014/15
	£'000	£'000
Adult services	2,500	5,596
Children's' safeguarding	650	0
Commissioning and transformation support	700	0
Procurement costs (incl public realm)	400	(135)
Local Development Framework (LDF)	430	(310)
Relief road feasibility	500	175
Total	**5,180**	**5,326**

10.32 It is important that the budget makes provision for known or estimated requirements. It includes provision for demographic and inflation changes. The overall inflation uplift includes provision for a 1% pay award for 2013/14 whilst noting this is a matter for national negotiations.

10.33 In addition to the pressures outlined in 10.31 the budget strengthens the base budget in some key areas. The most significant areas (excluding the items in budget pressures table) are outlined below.

	£m
Waste Management Reserve Addition	0.250
Whitecross PFI Requirement	0.075
West Mercia Income reduction	0.374
New Capital Funding requirement	0.189
Investment Income Reduction	0.153
Management of Change Provision	1.000
Council Tax Support Grant for Parishes	0.289
General Reserves	2.000
Total	**4.330**

10.34 The pressures in Adult Services have previously been reported. These are driven by three challenges:

- An increase in demand associated with our ageing population and changing expectations
- A reduction in the growth of public funding for health and social care
- Increasing chronic health conditions meaning more people requiring long term, complex care and support

10.35 The proposals in the budget require a comprehensive approach to vulnerable adults of all ages, changing the way resources are invested over time, and enabling individuals and communities to do more to help themselves remain healthy, independent and involved with a good quality of life.

10.36 The outcomes these changes are set to achieve are:

- Greater engagement of vulnerable adults as partners in planning how they will live an active, independent life
- Better health and well-being though better practical self-help services and support and access to information, leisure, transport, appropriate housing and social opportunities
- Improved ability to cope with social opportunities
- Improved ability to cope with crisis and transitions through reablement, community support, avoidance of admissions to hospital or residential care and timely discharge from hospital
- Extended use of community based housing and support

Root and Branch Review Programme

10.37 The Root and Branch Review Programme has been developed to respond to the many challenges that the Council and other public services are facing over the next decade. The Programme forms part of the Rising to the Challenge Programme, closely linked to the Better Services workstream. The Review Programme was incorporated into the Council's Medium Term Financial Strategy agreed at Council on 3 February 2012. The Reviews seek to deliver the Council's Vision as set out in the Corporate Plan and will also help to shape the future vision of Herefordshire 2020.

10.38 The aims, scope and methodology for the Reviews were approved by Cabinet on 5 April 2012 in the form of a Project Mandate. The overall aims of the Programme are to:

- Redefine the role of Herefordshire Council and other public services
- Set out the priorities for the next decade
- Rebuild budgets, with clear links between spend and results

10.39 The programme consists of twelve reviews (based on cross cutting themes) with four reviews in each phase and each phase lasting six months.

10.40 All reviews use the same gateway methodology to ensure rigour, challenge and consistency. The process includes the following stages and identifies key questions which have been asked as part of the process.

- **Discovery** - What is the core purpose of the service or function? Are we good at delivering the service? How do we compare against other local authorities or organisations?
- **Challenge** - What would be the impact if we didn't provide the services? Who else could provide the service?
- **Options** - What are the different delivery model options for the services? Is there an option to stop providing this service altogether? What would be the impact of any changes to the services?
- **Proposal** – What are the key changes? What would be the benefits of the change? What do we need to do to deliver the change?

10.41 Recommendations from the Phase 1 Reviews were approved by Cabinet on 11 October 2012 and Delivery Plans have been produced and are being implemented.

10.42 In November 2012, it was decided to accelerate the Phase 2 and 3 Reviews to ensure that proposals were made to inform the Medium Term Financial Strategy and, in particular, the budget for 2013/14 in view of the cuts in Government funding and the increased pressures in Adult Social Care.

10.43 Appendix B contains a position statement for each of the 12 Reviews, including further information about how the proposed savings are to be made and the service impact. These statements also set out what further work is required on each Review following the accelerated process. This is important for several reasons:

- To allow further engagement with Members, employees and partners on the proposals
- To conclude work on options for 2014/15 and 2015/16
- To produce any further recommendations on our future policy and approach in the Review areas
- To ensure that the original aims of the Root and Branch Programme are met

2013/14 Budget and Savings

10.44 The financial planning process has been closely linked with the delivery programme for the Root and Branch programme.

10.45 Our budget planning assumptions were based on the targets agreed as part of the programme and the following indicates reductions by each of the 12 reviews. The Older Peoples review is recycling its budget savings to help deliver financial balance in this area.

ROOT AND BRANCH REVIEW	2013/14 £'000	2014/15 £'000
Housing, Environment and Regulatory Services (HERS)	773	186
Street Scene	300	1,417
Customer Services	509	0
Vulnerable People	4,210	500
Travel and transport	252	861
Safer and Stronger communities	178	97

Environment	500	250
Learning and Skills	30	0
Living and wellbeing	500	500
Herefordshire 2020	1,540	0
Children and Young People	350	0
Older People's	0	0
TOTAL	**9,142**	**3,811**

10.46 A schedule setting out the Root and Branch savings is contained in Appendix B.

Assuring Delivery

10.47 The report to Cabinet in October 2012 stated that, just as the Root and Branch programme is intended to be radical and challenging in approach, so should be delivery. This is essential given the scale of the change that we have to deliver, the size of the savings, the tight timescales that we face and the inevitable risks to delivery.

10.48 Accordingly, the concept of *excellence in service delivery* alongside these reviews was agreed, including assuring delivery, linking finance to outcomes and dynamic communications.

10.49 The Leadership Team have developed this objective and are putting in place a number of changes to address the delivery challenges highlighted above:

Delivery Challenge	Assurance
Leadership	• New Leadership Team Delivery Board in place from February 2013 • Monthly meetings to focus on overall delivery plan, track progress, provide challenge and take decisions about resources/priorities • Monthly review of Directorate Delivery Plans at DMTs • Monthly update to Cabinet
Delivery Plans	• Delivery Plans for each project linked to change/savings • Standard format based on learning about "what good delivery looks like" • Plans include: actions and milestones, accountabilities, cross council contribution, resources and risks • Sign off by Assistant Directors/Directors/Chief Finance Officer • Delivery Plans inputted to P+ system
Programme Management	• Master programme plan for all delivery plans (currently circa 140) maintained jointly by the corporate programme office and corporate finance team • Highlight reports and action required reported to Delivery Board, Directors and Chief Finance Officer

Capacity and capability;	• Resource requirements assessed in delivery plans • Skills and knowledge will be reallocated across the Council by Leadership Team to deliver agreed priorities • This will require decisions about stopping or deferring other things to focus on priorities • Additional external capacity and expertise will be brought in on business case basis as required
Profiling savings	• Savings will be profiled month by month to allow monitoring and early identification of any risks to delivery • Assurance statements will be linked to monthly budget monitoring reports • Process will be supported by Internal Audit
Performance management	• Accountabilities for delivery will be built into individual objectives for senior managers and performance managed as part of monthly 1:1s • New competency framework is being introduced to improve appraisals and individual development
Risk management	• Delivery plans include key risks to delivery with mitigation • Programme plan for the Delivery Board includes overall assessment of risks, linked to the corporate risk register
Contingency planning	• Further options for in year savings will be developed from March onwards to provide mitigation against slippage if necessary and/or pump priming delivery
Communications	• Monthly updates to employees from the Delivery Board • Change Champions network will be used for informal feedback • Updates to Members through the quarterly Cabinet performance report

10.50 Cabinet is asked to note the actions put in place by the Leadership Team to assure delivery of savings and to identify any other areas where assurance needs to be increased. Cabinet may wish to request the Overview and Scrutiny Committees to play a role challenging and assuring delivery.

Reserves and Balances

10.51 The Council's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks. This approach has been adopted to reduce the need for a high level of General Fund balance.

10.52 The need for and level of specific reserves as well as the approach to General Fund balances is reviewed annually as part of the budget setting process. The current policy is to hold 3% (£4.5m) of General Fund balances.

10.53 In the 2012/13 budget process Cabinet was advised of the need to put in place appropriate budget contingency over the medium term. As a result, the 2013/14 budget includes a £2m addition to the General Fund reserve. This is required for the following reasons: the continuing pressure on the financial resilience of the Council given demand led pressures in

People's Services, the achievement of budget savings and continuing central government funding reductions. This assessment reflects good practice by using a risk based approach when setting the required level of reserves.

10.54 The Council also maintains reserves set out for specific purposes. A full list of reserves is at Appendix D.

10.55 As indicated it is the intention to continue to strengthen the reserves position in the medium term. A Council's financial health and resilience can be assessed as its level of General Fund Reserves and Specific Reserves. This is a matter that full Council is required to consider advice on from the Council's Section 151 Officer (Chief Finance Officer) as part of budget setting.

Capital Programme Proposals

10.56 The Council's capital programme has been largely funded by grants from Central Government with borrowing, capital receipts and revenue contributions to capital making up the difference. The government is still making some capital grant allocations and the report to Cabinet on 17 January outlined the grants to be received in 2013/14.The following represent the capital schemes proposed as part of the 2013/14 budget.

a. **Yazor Brook Flood Alleviation** – this is for remedial works to stabilise the river bank and floodplain following the completion of the grant funded flood alleviation scheme. The bid represents the worst case scenario with actual costs dependant on the solution and liability determinations. The scheme totals £450k.

b. **Garrick House multi-storey car park**– this is the second part of the previous approved bid to complete the enhancement works underway to prolong the assets safe use. This does not include the installation of pay on foot. The scheme totals £500k.

c. **Blackmarston School** – this is towards the cost of the construction of a substantial extension and significant internal remodelling of the current building mainly funded by grant monies. The scheme will remove all temporary accommodation from the site. The scheme totals £638k.

d. **Leominster & Stretton Sugwas Landfill Sites** – bid to fund pumps and a monitoring system to manage the sites better to maintain remediation measures required. The scheme totals £55k.

e. **Leominster Primary School** – towards the costs of a new build combining the junior and infants school which is mainly a grant funded scheme. The scheme totals £205k.

f. **Traveller Sites Accommodation Units** – improvement works to the 43 accommodation units at the traveller sites that are in very poor condition so that the Council meets the statutory obligation to provide accommodation of minimum standard. Full cost recovery is reflected in rent levels. The scheme totals £430k.

g. **Backlog Maintenance** –an allocation is needed for backlog maintenance works on the Council's residual property holding which will improve energy efficiency and reduce Health and Safety issues. The allocation will also be available for the council's smallholdings estate. The scheme totals £600k.

h. **Funding to support Car Parking Strategy** – As part of the overall review of car parking there is likely to be a requirement to change the location of car parks in Hereford. This will also link to the emerging sustainable transport policy and options for its delivery. The scheme will require detailed costing but a capital allocation of £2m is proposed for inclusion but will be subject to further review.

Self-financed Capital Schemes

10.57 The following are self-financed capital schemes not requiring additional long term revenue budget to meet the cost of borrowing. However they will still need to be included in the programme for agreement.

(a) **Rotherwas Enterprise Zone** - £1.066m of costs to provide serviced deployment plots to inward investors to be funded by the capital receipts generated. The scheme will have access to up to £5m. Recovery of costs will be sought from the uplift in business rates. Alongside capital receipts there will business rate income generated by the site, expected from 2014/15. The use of these funds are to be approved by the Marches LEP which has agreed that the related enterprise zone revenue costs incurred will have first call on this funding resource. There is likely to be a requirement to cash flow this scheme in the short term and it is estimated that the spending profile will be over three years with capital receipts for the plots reducing borrowing.

(b) **LED street lighting** is a self-financing bid for the expansion of the current programme to all public lighting across the County funded by energy costs saved. Salix interest free loans will also be used to part fund the capital cost. This scheme will contribute to the Council's commitment to reduce CO2 emissions. This will require a reduction in revenue budgets to fund the borrowing.

(c) **Solar photovoltaic panels** is a self-financing bid for the insulation of solar panel at 36 sites funded by reduced energy costs, community investment is also being sought and the investment will result in the avoidance of future levies. This will require a reduction in revenue budgets to fund the borrowing.

10.58 If the above schemes are agreed (and assumed to be funded) then £13.8m of capital expenditure will require funding. This splits into two funding sources with £8.9m of the total being self funded with the required revenue budget for borrowing of £133k in 2013/14 rising to £388k in 2015/16 from savings that the schemes generate.

10.59 This leaves a balance of £4.9m for schemes requiring additional revenue funding to meet borrowing costs. This requirement is £189k in 2013/14 rising to £382k in 2015/16.

10.60 Agreement of the proposed schemes will not breach the Council’s prudential indicators for borrowing contained in the Treasury Management Strategy within the MTFS.

10.61 In addition to the above the Buttermarket will be subject to further feasibility studies and this may require a capital programme addition in the future.

11. Community Impact

11.1 The budget proposals are intended to support delivery of the Corporate Plan agreed by Council in November. The agreed plan reflects two broad priorities: supporting the development of a successful economy, and improving quality of life for the people of Herefordshire. For the latter a particular emphasis is placed on ensuring public services are prioritised to meet the needs of the most vulnerable within our communities (i.e. those in need of services to maintain their independence or stay safe) whilst enabling an improved quality of life for the wider population which is less reliant upon existing models of public sector service delivery. The plan was also strengthened from a public health perspective, prioritising the need to reduce social inequalities, increase prevention and encourage greater independence.

12. Equality and Human Rights

12.1 Reducing inequalities are clearly articulated outcomes within the corporate plan, and the budget proposals are intended to support delivery of the corporate plan. The council's budget and charging principles reflect the need for fairness and support the targeting of resources towards those in most need. Where budget proposals are made which require a change to the service being delivered equality impact assessments will be undertaken as an integral part of the planning and implementation of such proposals.

13. Financial Implications

13.1 The financial implications of the report are covered in the contents.

14. Legal Implications

14.1 When setting the budget it is important that Councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and Council Tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.

14.2 The Local Government Finance Act 1992 requires a Council to set a balanced budget. To do this the Council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure. The Act also covers the legal issues around Council Tax setting.

14.3 Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under Local Government legislation.

14.4 Local authorities must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the Council Tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:

- making prudent allowance in the estimates for services; and
- ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

14.5 Local government legislation requires an authority's Chief Finance Officer to make a report to the authority when it is considering its budget and Council Tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the MTFS at Appendix A). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the Chief Finance Officer's statutory report. If they do not they must provide clear reasons for not following the professional advice put forward by the Chief Finance Officer.

15. Risk Management

15.1 The position outlined in the report indicates the state of national public finances means a reducing funding envelope for local government. This creates a number of additional risks to those normally associated with any budget setting process. The following lists specific risks:

a. **Directorate Savings**: the loss of funding requires a significant level of savings. There is a risk of slippage should unforeseen delays occur. Directorates' plans for delivery of savings will need robust management, and action plans to ensure delivery. Contingency plans will form part of the process with regular monitoring by Directors and through the Leadership Team and Delivery Board.

b. **Local Government Resource Review**: 2013/14 sees one of the most significant changes to funding for local government. The proposal to allow councils to retain a proportion of business rates rather than contribute all rates to the national pool creates risk if the level of rates income reduces. Central government will continue to control the level of business rate increase.

c. **Treasury Management**: the council has significant treasury management activity covering borrowing and investment. The current financial climate means this area plays an important part in resource delivery for the council. The decision to refinance existing borrowing and take on additional requirements will need to be timed to take advantage of opportunities provided by historically low interest rates.

d. **Income**: the council's budget is supported by income. The level of income receipt could be affected by factors such as the economic climate. The council's review of income and charging levels will need to play an appropriate part delivering the balanced budget with regular monitoring by Directors and through the Leadership Team.

e. **Council Tax Base**: the level of Council Tax income is directly related to the number of properties that are required to pay Council Tax. The number of properties will be monitored over the year along with levels of payment.

f. **Local Council Tax Reduction**: from April 2013 Council Tax benefit is abolished and it has been replaced by a locally determined Council Tax Reduction Scheme. This transfer of responsibility has been accompanied by a 10% cut in funding. Council in November 2012 agreed a new local scheme that met government's requirements of protecting those aged 65 and over as well as other factors. The new scheme was carefully designed and subject to consultation and aims to ensure expenditure is within the reduced government funding received by the Council. This was required because any demand for support within our policy must be met. A clear risk for 2013/14 is that the Council's level of payment to individuals may increase if the economy deteriorates and employment reduces.

g. **Business Rates Changes**: the new arrangements from April 2013 for localisation of Business Rates means that the Council will keep 50% of growth in Business Rates from April 2013. However, a key risk is that the Council will also have to manage 50% of loss in business rate income. In previous years the national business "pool" absorbed all such charges.

16. Consultees

16.1 The views of residents and the community have been captured and incorporated into the evidence base which was used to inform the development of the Corporate Plan. In addition the recent 'Your Community, Your Say' engagement process began with the Quality of Life survey; a postal survey to 4,125 households in the county, which achieved a response rate of 33%. The key findings of the survey informed a further phase of locality based engagement events held during Autumn 2012. The consultation process was set within the context of significant financial cuts resulting in major changes in the way that public services are commissioned and delivered; residents were provided with a range of opportunities to have their say, including:

- A series of open public meetings in each locality area
- Targeted workshops with minority ethnic groups, young people, people with disabilities and other demographic and geographic 'gaps' identified during the process
- Enlisting support from organisations working with 'seldom heard' individuals / groups
- Recruiting Community Researchers & Young Researchers
- An online discussion forum
- A YCYS Facebook page
- A @haveyoursay_ Twitter account

16.2 The focus across these consultation streams was the collection of qualitative information from residents to help the council understand and explore:

- Whether the council are focusing on the right priorities
- Whether the council are providing the services people believe are needed
- Which services matter most to the residents of Herefordshire and which are less important
- How services could be delivered differently.

16.3 This stage of the process involved 21 events and engaged over 1,400 residents.

16.4 The key findings from this consultation (available on the website at http://www.herefordshire.gov.uk/community_and_living/62347.asp) have been taken into account in identifying budget proposals as part of the Root and Branch Review programme.

16.5 In light of the severity of the cuts in government funding which were published on 19 December combined with the known financial pressures, a further, time limited consultation was held regarding particular proposals to reduce service delivery in some areas. This consultation, which ran between and 31 January 2013, was designed to provide the greatest opportunity for residents, businesses and organisations in the county to make their views known. The final findings of this consultation will be reported to Cabinet to ensure that the feedback is used to inform the decision-making.

16.6 The Overview & Scrutiny Committees will be consulted on 1 February 2013 and views will be reported to Cabinet at the meeting.

16.7 The Council has consulted separately with parishes, business community representatives and the Voluntary Sector.

17. Appendices

A. Draft Medium Term Financial Strategy

B. Root and Branch Review Programme summaries including information on savings

C. Draft Budget for 2013/14

D. List of Reserves

18. Background Papers

18.1 None identified.

DRAFT Medium Term Financial Strategy

2013/16

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Medium Term Financial Strategy 2013/16

Foreword by the Council Leader and Cabinet Member –

The Council is setting its Budget and Medium Term Financial Strategy (MTFS) in the most difficult financial circumstances faced by local government in recent times. The coalition government continues to reduce funding for local authorities as part of its policy to remove the UK's budget deficit. However, recovery from the recession is proving to be more challenging and the Council will be required to continue to plan for reductions in funding and at the same time look at how it can best meet increasing demand for services and improve outcomes for Herefordshire's residents. This means we will have to set clear priorities for the services we will continue to provide and take difficult decisions about those we are no longer able to provide in order to make significant savings over the next 3-5 years.

It is clear that any future growth in our resources is unlikely to come in the form of government grants. This means that we must look for alternative local sources of funding Herefordshire must increase the level of economic activity by attracting new businesses into the county and increasing the number of Council Tax payers through new housing. From 2013/14 local government will see the most significant change to the way it is funded in recent years. We will be able to keep a proportion of new business rates and this puts economic regeneration at the forefront of ensuring we remain sustainable as an authority. Promoting a prosperous local economy, job creation and increasing wage levels are top priorities for the Council and the county.

We will need to help local businesses at a time when they are also facing economic challenges and we will seek to procure our goods and services from within the county wherever possible. Ensuring our local economy employs as many people as possible will be helped by our plans to develop the Enterprise Zone located at Rotherwas. It is to Herefordshire's credit that this site was chosen by the Marches Local Enterprise Partnership as the site of the only Enterprise Zone across Herefordshire, Shropshire and Telford and Wrekin. We are also developing a high tech employment park outside Ross-on-Wye and these initiatives will provide our young people with the skills they need to get work and be able to remain in the county rather than move away to seek employment.

Like many other councils we have been preparing for the changes for some time and also changing our financial planning assumptions. We foresaw this scenario when the impact of the recession first became clear and we have sought to deliver better public services with less funding. This year we have taken our council change programme known as Rising to the Challenge and included a fundamental "root and branch" review of all our services with the aim of saving 20% of our costs over the medium term. This is an ambitious target and we need to have financial resilience when faced by a reduction in our resources and growing demand for services. The Council is committed to delivering value for money through effective commissioning and procurement of services . We have also adopted a policy of optimising income potential and full cost recovery where we can. As part of our efforts to balance the budget we have saved £21m over the past two years and have reduced our workforce by nearly 300 posts

In addition to further reductions in Government grant Herefordshire faces a significant demand for adult social care services and rising pressures in the support needed by children and families at risk .We have agreed the need to prioritise vulnerable people and our Root and Branch process of reviewing all services will continue to identify 20% savings in order to fund our priorities.

The Government is making another council tax freeze grant available but unfortunately it is only for 1% and means we cannot have sustainable income for increasing demand for services. As a result we have taken the difficult decision to propose we increase our council tax by 1.9% in 2013/14. This will be the first council tax rise since 2010/11.

Herefordshire has a significant demand for its social care services and we need to ensure that we protect these services where we are able to do so.

Finally we need to remember that despite the current focus on government cuts we still help people access valued services across the County. During 2012/13 we have:

- Agreed a new broadband contract with BT
- Started work on the Retail development on the Old Cattle Market site
- Attracted the first new jobs to the Enterprise Zone at Rotherwas

Effective and prudent medium term financial planning plays a significant part in our approach to help make Herefordshire a great place to live and work.

Cllr. John Jarvis
Leader of the Council

Cllr Tony Johnson
Cabinet Member – Financial Management

Contents

1. Introduction

1.1. The MTFS covers the financial years 2013/2016 and demonstrates how the council will maintain financial stability, deliver annual efficiencies, and support investment in priority services, whilst demonstrating value for money and maintaining service quality.

1.2. The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities set out in the Corporate Plan agreed by Council in November 2012.

1.3. The continuation of the downturn in the economy has had a direct effect on the income earned from investing balances, income collected from the provision of services and increased service pressures.

1.4. In 2010 the coalition government published a Comprehensive Spending Review for four years 2011/12 to 2014/15 and a two year local government financial settlement. The settlement reduces public sector funding, thus providing a challenge to deliver front line services against severe financial constraints.

1.5. The Government is introducing major changes in the way local authorities are funded from 2013/14 and also to housing and council tax benefits. This has meant that budget planning has been difficult due to the uncertainty of future funding and the lateness of government announcements.

1.6. The Provisional Local Government settlement announced on 19^{th} December sets out the provisional 'Start-up Funding' assessment for local authorities. As expected this settlement confirmed further substantial cuts for the council and local authorities nationally.

2. Herefordshire's Characteristics

2.1 Rural Pressures

2.1.1 Herefordshire Council has consistently argued that the costs associated with delivering services in rural areas are not adequately funded through the current national formula. This is particularly acute for Herefordshire, which is the most sparsely populated county in England according to measures used in this formula – with residents scattered right 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. These factors significantly impact on people's lives and on whether and how their needs and circumstances are met effectively and accounted for by Government.

2.1.2 Social isolation is a growing concern, not least because of the disproportionately increasing number of older people living in Herefordshire – but also due to poverty and deprivation. The cost of living in rural areas, for example transport and domestic fuel costs, can be higher than in urban areas. There is also recognition that it is often the most vulnerable members of the community, such as frail elderly people and deprived families, who suffer most from the loss of local services and the high cost of living.

2.1.3 53% of Herefordshire's population live in rural areas; 42% in the most rural locations. Providing services to a scattered population across a large geographic area is a challenge and additional resources will be required for professionals that need to visit clients across the county. Some health services - such as a dentist and GP - are difficult to access for a significant minority of Herefordshire residents, along with other services such as post office and public transport.

2.1.4 The historic under funding of rural areas means that the range and level of services provided in rural areas was much lower than in urban areas before the introduction of the austerity measures. The impact of the austerity measures has therefore been much greater in rural areas.

2.1.5 The variance in spending power per head of population between urban and rural areas could widen even more as a result of the introduction of the Business Rate Retention scheme and the New Homes Bonus arrangements, the consequences of which are extremely difficult to predict, but which appear likely to be beneficial to urban areas far more than rural.

2.2 Adult Social Care

2.2.1 Adult Social Care faces significant future pressures due to increased life expectancy and future demand due to an aging population

- In 2012, the over 65 population of Herefordshire was 42,500. In 2015, it is projected to be 51,700 and in 2030 it is projected to be 63,300.

- As a proportion of total population, the older population is expected to increase from 2012 by 12% to 2016, 22% to 2020, 34% to 2025, and 49% to 2030

2.2.2 Herefordshire's change is higher than the change for England by 2.8% to 2016 and higher than the change for the region by 3.3% over the same period. In comparison to England, Herefordshire's projected change in over 65 population to 2030 is 6.2% higher. In comparison to the region, the projected change is also higher, by 10.6%.

2.2.3 In Herefordshire many people over 65 years old are active and well. However, there is a sizeable and growing group of over 65s living with chronic health conditions; dementia and increasing frailty.

2.3 Children

2.3.1 Based on October 2012 pupil numbers, Primary school numbers (including nursery classes) are predicted to increase in 2012/13 by 168 pupils or 1.4%. Secondary school numbers are predicted to fall by 35 pupils or 0.4%. Since the establishment of Herefordshire Council in 1998, primary school numbers have fallen by 2,185 from a high of 14,230 in 1998, a reduction equivalent to 13.3%. From a high point in January 2005, secondary numbers have fallen from 10,511 to 9,635, a reduction of 876 (equivalent to 8.3%) and are expected to continue to fall until 2017. School Funding is based upon pupil numbers in January each year and these estimates will be updated when final pupil numbers are confirmed in mid- late December 2012.

2.3.2 The numbers for Looked After Children (LAC) had stabilised in 2012/13 and were on a downward trend. The successful development and expansion of the Herefordshire foster carers produced savings as higher cost residential and agency placements reduced.

2.3.3 The Edge of Care project has been working successfully with children presented to the LAC panel to be placed in care to avoid this outcome. The service is working actively to reduce the numbers of children in high cost placements through a combination of developing additional in house fostering capacity, edge of care intervention and the use of other carers such as special guardians or kinship carers.

2.3.4 Following the recent Ofsted inspection the Children's Safeguarding service has seen a sharp rise in referrals and a sharp growth in Child Protection plans has been experienced. There is also come growth in the numbers of children in care.

2.3.5 The increasing number of children requiring protection or care has placed additional pressures on the Safeguarding staffing budget. The on-going shortage of qualified and experienced social workers has resulted in a need to rely on higher cost agency staff to ensure that appropriate case-loads for social workers are maintained. Management costs are also higher than in previous years due to a short term reliance on agency managers whilst the Council makes permanent recruitments.

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

2.4 Other Pressures

2.4.1 Herefordshire's rural nature means that we face a considerable challenge when seeking to maintain our roads using government funding that does not adequately reflect the need to spend on our transport network. Our road network continues to require considerable investment and we see this as one of our priorities for the future.

3. Herefordshire's Policy Context

3.1 Introduction

3.1.1 This section of the MTFS describes the local policy context for Herefordshire.

3.2 Herefordshire Quality of Life Survey 2012

3.2.1 The Quality of Life survey was a postal survey to 4,125 households in the county, stratified to reflect the three sub-localities of Hereford and the eight other localities.

3.2.2 When asked to choose the most important priorities for Herefordshire, 3 stood out:

- Create a successful economy (79%)
- Improve health and social care (65%)
- Raise standards for children and young people (54%)

3.2.3 Agreement that communities should have a say in the running of various service ranged from 44% to 71%, with the most interest being in road and pavement repairs, public bus services and health and care services. The desire amongst respondents for communities to run certain services if they wished was markedly more muted with facilities and activities for young children and for youths receiving the most support.

3.2.4 The council engaged with approximately 1,427 people during the Your community - your say process, with a total of 1,163 people being involved in meaningful conversations about public services.

3.2.5 There were 295 participants at the 14 locality events, with a further 125 participating through targeted workshops or discussions held as part of a prescheduled meeting. The remainder were either engaged by the YCYS young and community researchers or through organisations that supported the cascading process.

3.2.6 An additional 264 people engaged with YCYS via online channels, with 189 people following the Twitter account, 45 people liking the Facebook page and a further 30 contributing their views via the discussion forum.

3.2.7 Just under half of those involved with the YCYS process were aged between 45 and 74, with over a third being under 25. This compares with 40% of Herefordshire's population aged between 45 and 74, just over a quarter of under 25 year olds and 11% aged 15 to 24. The YCYS locality events and workshops were most commonly attended by those aged between 45 and 74.

3.2.8 Overall, from those who completed an evaluation form, 886 people (81%) had never participated in any form of Herefordshire Council consultation. From the 295 people who attended a locality event, 114 (39%) also said that they had not previously participated in a Herefordshire Council consultation, while 45 (36%) of the 125 people who attended a targeted workshop

3.3 Corporate Plan

3.3.1 The corporate plan provides the overarching policy framework within which decisions will be taken and resources allocated. The plan identifies the council's contribution to meeting the broader county vision set out in the Herefordshire Partnership community strategy (currently under review), and the draft Health & Wellbeing Strategy. It is underpinned by a number of key thematic strategies such as the economic development strategy, child poverty strategy, strategic delivery plan for transforming adult services, and Yes We Can the strategic plan for children and young people.

3.3.2 The Corporate Plan reflects two broad priorities: supporting the development of a successful economy, and improving quality of life for the people of Herefordshire. For the latter a particular emphasis is placed upon ensuring that public services are prioritised to meet the needs of the most vulnerable within our communities (i.e. those in need of services to maintain their independence or stay safe) whilst enabling an improved quality of life for the wider population less reliant upon existing models of public sector service delivery. These priorities are underpinned by a number of organisational objectives including a commitment to deliver value for money in everything that we do. We have also recognised the importance of adopting a corporate approach to prevention and early intervention across all service areas. This includes a new strategy called "Making Every Contact Count" which support residents to be more self reliant and to divert demand for services.

3.4 Corporate Financial Objectives

3.4.1 Herefordshire's financial management objectives are to:

a) Ensure budget service plans are realistic, with balanced budgets and support corporate priorities.
b) Manage spending within budgets; Directorates are required to manage outturn expenditure for each financial year within budget.
c) Ensure sustainable balances, reserves and provisions, within a reasonable limit, consistent with the corporate financial risks and without tying up public resources unnecessarily.
d) Create the financial capacity for strategic priorities for service improvement.
e) Support a level of capital investment to meet the council's strategic requirements.
f) Maintain a strong balance sheet position.
g) Deliver and capture year on year efficiency and Value for Money improvements.
h) Ensure an integrated approach to corporate, service and financial planning in full consultation with key stakeholders.
i) Ensure a whole-life costing approach is taken to both revenue and capital spending decisions.

3.5 Working in Partnership

3.5.1 Herefordshire has a successful track record of partnership working to improve outcomes. The Herefordshire Partnership is being refreshed to address the new challenges that we face and this may lead to greater integration around commissioning and delivery. The new Health and Wellbeing Board will become statutory from 1 April 2013 and will oversee the joint strategic needs assessment (Understanding Herefordshire) and the Health and Wellbeing Strategy.

3.5.2 We are also redefining our relationship with our Health partners. The abolition of Primary Care Trusts across the country has required Herefordshire to look at how it works with new organisations such as the Clinical Commissioning Group that helps GPs deliver their decisions about care. We believe the emerging arrangements mark a new phase in our partnership with health and that we will keep the many excellent features of the former arrangement that means Herefordshire will continue to be a model of good practice for local authority and health joint working. We will also continue discussions with Wye Valley NHS Trust and 2gether NHS Trust about the future model for the delivery of social care and mental health services in the County.

3.5.3 To achieve its corporate financial management objectives, we will always seek to ensure:

a) The financial viability of partners before committing to an agreement.
b) Clarity of respective responsibilities and liabilities.
c) Accounting arrangements are established in advance of operation.
d) Implications of terms and conditions on any associated funding are considered in advance of operation

3.6 Managing External Funding

3.6.1 Grants provide another opportunity to increase financial capacity. The MTFS will be to pursue such opportunities, providing that:

a) Match funding requirements are considered in advance.
b) They support, or do not conflict or distract from, corporate priorities.
c) They have no on-going commitment that cannot be met by base budget savings.
d) They do not put undue pressure on existing resources.
e) The net cost overall is not excessive

3.6.2 ***Managing Developer Contributions*** - This is another source of external funding that can be secured through the planning system. It may be possible to secure funding to support the cost of day-to-day services (e.g. commuted sums for maintenance of public open spaces). Support for capital infrastructure can also be achieved in this way (e.g. developer contributing to cost of new access roads). The council aims to maximise the potential for increasing financial capacity and managing growth in volumes through s106 agreements, where possible. The council is producing an action plan for the implementation of a Community Infrastructure Charging Levy (CIL). It is envisaged that the CIL will be adopted in Spring 2013.

3.6.3 ***Managing Fees and Charges*** - The council's policy is to ensure full cost recovery where feasible and appropriate, and minimise the subsidy from council tax payers. As part of its commitment to Herefordshire residents the council aims to run services on the most cost effective basis to maintain reasonable charges. The council also has a policy of removing subsidies which give unfair advantage to particular providers or suppliers. Appendix C sets out the council's charging principles.

4. National Financial Context

4.1 Introduction

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

4.2 Four Year Spending Review

4.2.1 In 2010 the Coalition Budget gave the overall level of public spending (spending envelope) for the four years from 2011/12 to 2014/15. The Comprehensive Spending Review 2010, announced on 20th October 2010, was the process through which this spending envelope was allocated to pay for all areas of government activity including public services, social security, and administration costs.

4.2.2 The Government was borrowing one pound in every four that it spent and the UK was spending £43 billion on debt interest, which is more than it spent on schools in England.

4.2.3 The Government said that tackling Britain's deficit was its top priority and that it was necessary to secure sustainable economic growth. The consequences of not acting could be serious: higher interest rates, business failures and rising unemployment.

4.2.4 The Spending Review set out spending plans for the four years until 2014/15. In its approach to these choices, the Government prioritised:

- spending that promotes long-term growth, and creating the conditions for a private sector-led recovery and
- fairness, with all sections of society contributing to tacking the deficit, whilst protecting the most vulnerable and providing opportunity for the poorest.

4.3 Subsequent changes to Government Spending Controls

4.3.1 Before calculating how much funding each local authority will receive, the Government first determines how much overall funding will be allocated to the local government sector. The 2010 Comprehensive Spending Review set out the overall spending for the public sector for 4 years from 2011/12 to 2014/15 (with 2 years figures for councils). The local government spending control totals are used to establish the start-up funding assessment for local authorities.

4.3.2 The first changes to the original spending control totals were announced in the Autumn Statement on 29 November 2011. In order to maintain economic stability and meet its fiscal rules, the Government said it would set public sector pay awards at an average of one per cent for each of the two years after the current pay freeze came to an end. Departmental budgets were adjusted in line with this policy.

4.3.3 A number of other changes to the 2010 Spending review totals have been announced;

4.3.4 ***New Development Deals***: The Local Government Finance Act 2012 enables all local authorities to undertake Tax Increment Financing through borrowing against their business rates. The Government is funding a limited number of projects in which business rates uplift will be exempt from the levy on disproportion growth and any resetting of the rates retention system for a period of 25years. These are known as New Development Deals and have been funded within the government spending controls. The Government will make available £120m of funding over six years (£20m in both

2013/14 and 2014/15) to provide investment in growth through financing additional infrastructure.

4.3.5 ***Fire Grants***: The Spending Review spending control totals assumed that certain fire grants paid to authorities to enable them to maintain equipment for national resilience would be rolled into formula grant. It has now been agreed that this will remain as a specific grant and removed from the business rates retention scheme (£48.8m and £50.3m in 2013/14 and 2014/15 respectively).

4.3.6 ***Neighbourhood Planning***: The original Spending Review control totals also included neighbourhood planning grant worth £15 million in 2013/14 and £20 million in 2014/15. However, it has been decided that this will not be included in the Rates Retention scheme at this stage.

4.3.7 ***Capitalisation***: This is the means by which Government permits local authorities to treat revenue expenditure as capital e.g. for redundancy costs. This is treated as revenue expenditure in the national accounts and is counted against revenue spending limits. This will be funded at £100m in both 2013-14 and 2014-15. Any funding that is not needed will be redistributed to local authorities in proportion to their individual authority start-up funding assessment.

4.3.8 ***Safety net***: The Business rates retention scheme will include a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond a set percentage of its baseline funding level. This will be funded by a levy on the disproportionate benefits that some authorities will experience as a result of business rates growth, caused by the uneven distribution of business rates bases. However, in the first few years of the scheme there is a risk that the levy won't be enough to cover the amount required to be paid out via the safety net. The Government has decided that it will be prudent to keep some resources back to cover this (£25m in both 2013/14 and 2014/15). In the same way as for the capitalisation resource, any funding that is not needed will be redistributed to local authorities in proportion to their start-up funding assessment.

4.3.9 ***New Homes Bonus***: In order to ensure that there will be sufficient funding available to fund the New Homes Bonus the Government is holding back £500m in 2013/14 and £800m in 2014/15. Again any funding that is not needed for this will be redistributed back to local authorities in proportion to their individual authority start-up funding assessment.

4.3.10 ***Grants 'transferred in'.*** Adjustments have been made to reflect grants being transferred into the local government spending control total. In May 2012, the Government announced that a number of local government grants would be transferred into the main local government funding stream from 2013/14 rather than being administered as separate, unringfenced grants. The following national totals are for grants being transferred in:

- 2011-12 Council Tax Freeze Grant15 (£593m)
- Council Tax Support Grant 16(£3,295m)
- Early Intervention Grant, excluding funding for free education for two year olds17 (£1,079m)
- Greater London Authority General Grant (£46m)
- A proportion of Greater London Authority Transport Grant (£770m)
- Homelessness Prevention Grant (£80m)
- A proportion of Lead Local Flood Authorities Grant (£21m)
- Learning Disability and Health Reform Grant18 (£1,413m)

- Bus Service Operators' Grant for London (£45m

4.4 Local Authority Central Spend Equivalent Grant

4.4.1 Local authorities deliver a wide range of central education functions on behalf of maintained schools and when a school converts to an academy the responsibility for those functions transfers.

4.4.2 As part of the 2011 Local Government Resource Review, DfE are consulted on transferring all LACSEG funding (i.e. for local authorities as well) out of Formula Grant and the Business Rates Retention Scheme. This funding will form a new unringfenced single grant that will be distributed by DfE directly to local authorities and Academies.

4.4.3 The grant will be distributed using a national per-pupil rate proportional to the number of pupils that the maintained school/Academy is responsible for according to the October 2012 Schools Census.

4.4.4 DCLG have used the January 2012 School Census data to illustrate the effect of the LACSEG Formula Grant transfer in the provisional 2013/14 Local Government Finance Settlement but will include October 2012 School Census data in the calculation of the final 2013/14 Local Government Finance Settlement (mid-January 2013).

4.5 Impact on Control Totals

4.5.1 The effect of all of these changes explained above taken together is given in the table below.

Calculation of the Aggregate Start-Up Funding Assessment	2013/14 £000
SR10 Local Government Control Total	23,223,902
Transfers out	
New Development Deals	-15,000
AS 2011 Pay Restraint	-244,574
Fire Grants	-49,822
Neighbourhood Planning	-15,000
Capitalisation and Safety Net Support	-125,000
New Homes Bonus	-505,890
LACSEG	-1,038,748
Police	-3,067,152
LSC London Councils Transfer	-517
LSC Transfer to YPLA	-222
Ordnance Survey	-20,523

Transfers in

Mobile Homes Act	1
LFEPA	500
LSC Update to Baseline	2
2011/12 Council Tax Freeze Grant	593,350
Council Tax Support Grant	3,295,028
Early Intervention Grant	1,708,918
GLA General Grant	45,711
GLA Transport Grant - *a proportion*	758,450
Homelessness Prevention Grant	80,002
Lead Local Flood Authorities Grant *(proportion)*	21,000
Learning Disability and Health Reform Grant	1,412,710
Bus services Operators Grant - *for London*	44,325
Adjusted Local Government Control Total i.e. Aggregate Start-Up Funding Assessment	**26,101,451**

4.6 Local Government Finance Act 2012

4.6.1 On 1 November the Local Government Finance Act 2012 received Royal Assent from Her Majesty the Queen. This Act 'supports the Government's commitment to delivering economic growth, decentralising control over finance and reducing the deficit.'

4.6.2 Key elements;

- Local Government will keep a 'local share' of business rates and then keep any growth they generate.
- The Act also provides a framework for the localisation of support for council tax (replacing council tax benefits).
- It also makes a number of technical reforms to council tax, including powers to reduce certain discounts and exemptions.

4.7 Business Rates Retention

4.7.1 From April 2013 the system of local government funding will change fundamentally. The business rates retention scheme will create a direct link between business rates collected and local authority income and provides an incentive for economic growth.

4.7.2 The main features of the proposed scheme are;

- Rates will be split between the 'local share' (retained by authorities) and 'central share' held by the Government (a 50/50 split).
- A top-slice will be taken for funding Police, New Homes Bonus and other central funding
- All rates will come back to local authorities through specific grants etc
- There will be a stable starting point for all authorities, i.e they are no worse off than would have been under current system.
- A system of tariffs and top-ups will even out resources by comparing;
    - An authority's business rate baseline (based on average of rates over previous years and after allocation to fire authorities)

- Its baseline funding level (using a slighty adjusted 2012/13 formula and 2013/14 and 2014/15 national control totals)

4.7.3 Councils will benefit from business rate growth over the base position, but are subject to risks of rates decline, losses on appeals and also meet the cost of uncollected rates.

4.8 Localisation of Council Tax Support

4.8.1 Billing authorities are required to adopt a localised council tax reduction scheme by January 2013. There will be a reduction in funding of 10% but at the same time vulnerable groups e.g. pensioners will be protected. This is to be funded within the Rates Retention scheme

4.9 Schools funding

4.9.1 The Department of Education has announced the Dedicated Schools Grant funding for 2013/14. An increase in the Pupil Premium has already been announced;

- Overall DSG is based on the same flat cash sum per pupil, however the calculation for schools and early years have been split out.
- There remains no increase in baseline funding for any authority
- The Minimum Funding Guarantee remains at -1.5%
- Spend on the pupil premium will increase nationally to £1.875bn.
- The pupil premium will be £900 per free school meals pupil and Looked After Children and £300 for service children (up £50 from £250). The basis for payment has been widened so that it includes pupils who have ever had free school meals within the last 6 years. This will widen eligibility by approximately 30% and hence depresses the payment rate per individual pupil.

4.10 Council Tax

4.10.1 At the Conservative Party conference on 8th October 2012, the Chancellor made two announcements on council tax: another freeze, for 2013/14, and the threshold for referendums in 2013/14.

4.11 Council Tax Freeze Grant 2013/14 and 2014/15

4.11.1 Under the terms of the freeze, if an authority sets its Band D council tax for 2013/14 at the same (or lower) level as the 2012/13 Band D amount, the authority will receive a grant equivalent to a 1% increase in the 2012/13 amount, in both 2013/14 and 2014/15. The Department for Communities and Local Government is expected to write to local authorities in the next few weeks with full details of the council tax freeze. An indicative breakdown of estimated grants has been published. The figure for Herefordshire is £875k and is only for two years meaning it is not in our “base” funding.

4.12 Council Tax Referendums

4.12.1 The Chancellor also announced the Government will lower the threshold at which a referendum on council tax increases can be triggered to 2%. If an authority proposes to increase its relevant basic amount of council tax by more than 2% compared to 2012/13, it will be required to subject this decision to a binding referendum. In 2012/13 the threshold was set at 3.5%. The details were formally announced as part of the provisional local government finance settlement in December.

4.12.2 The threshold triggering a referendum has moved from 3.5% in 2012/13 to 2% in 2013/14. This threshold may reduce further in future years as Government seeks to limit public sector spending. If so, the ability to raise council tax in 2013/14 by 1.9% may not be available in future years unless a referendum is held. Any cost of a referendum will have to be met by local funding, wiping out part of the immediate increase in funding.

4.13 Autumn Statement – December 2012

4.13.1 On 5th December 2012 the Chancellor of the Exchequer made his Autumn Statement to the House of Commons updating MPs on economic and fiscal forecasts for the UK economy. At the same time the Office for Budget Responsibility (OBR) published its Economic and Fiscal Outlook (EFO), with its forecasts for the economy and the public finances. Key points for public sector spending are;

4.13.2 **Public Spending**

- Government departments' revenue budgets, known as resource Departmental Expenditure Limits (DELs), will be reduced by 1% in 2013/14 and 2% in 2014/15. This will reduce total government expenditure by £980m in 2013/14 and £2.4bn in 2014/15.
- The DEL savings, as above, and other savings from the welfare budget, will be used to fund £5.5bn of new capital expenditure.
- Overall public expenditure in 2015/16 and 2016/17 will continue to decrease at the same rate as the 2010 Spending Review period. Detailed spending plans for 2015/16 will be published in the first half of 2013. Spending on health, schools and overseas development will be protected from further reductions.
- Public expenditure in 2017/18 will also continue to fall at the same rate as in the SR2010 period.

4.13.3 **Local Government**

- The Local Government Resource DEL will be exempted from the 1% DEL reduction in 2013/14. Council spending will already be in effect reduced by a 'comparable amount through the decision to allow local authorities to hold council tax down in that year'.
- The Local Government DEL will be reduced by £445m (2%) in 2014/15, in line with other departmental budgets.
- As announced in October 2012, the Government will set aside £450m to fund a council tax freeze grant in 2013/14 and 2014/15 for those authorities which freeze or reduce their council tax in 2013/14.
- The Government will provide an additional £333m for essential maintenance of the national and local road network.
- Small Business Rates Relief will be extended to April 2014; it was due to end April 2013.
- All newly built non-domestic property completed between 1 October 2013 and 30 September 2016 will be exempted from empty property rates for the first 18 months, up to the state aids limits and subject to consultation.
- The introduction of the business rates retention schemes will result in some classification changes in the way local government funding and spending is recorded.

4.13.4 **Schools**

- Nationally the Government will provide £275m in 2013/14 and £895m in 2014/15 for capital expenditure on schools. This includes funding for 100 new academies and free schools, as well as investment to expand 'good schools', in the areas experiencing highest demand for places.

- All schools will be given greater freedom to set pay for teachers in line with performance, as recommended by the Schoolteachers' Pay Review Body.

4.13.5 **Local Enterprise Partnerships**

- The Government will support local authorities that wish to create a combined authority or implement other forms of collaboration (for example, shared management). This will involve reviewing whether the existing legislation is fit for purpose.
- The Government will provide £10m per year to LEPs for capacity building. Each LEP will be able to apply for up to £250,000 additional funding per year to support the development and delivery of their strategic plan, which they will be required to develop by Government.
- Funding for growth-related projects will be devolved to LEPs on the basis of the strategic plans developed by LEPs, though a single funding pot for local areas from April 2015.
- Growth-related funding is likely to include some of the funding for local transport, housing, schemes to get people back into work, skills and any additional local growth funding.
- Each LEP will be able to nominate one strategic priority project to benefit from borrowing from PWLB at a 'project rate' 40bps below the PWLB standard rate. Total borrowing at this rate will be capped at £1.5bn for LEPs outside London.
- The Government will provide a further £350m for the Regional Growth Fund by May 2015.

4.14 Provisional Settlement 2013/14 and 2014/15

4.14.1 On 19 December 2012, the 2013/14 and 2014/15 Provisional Local Government Finance Settlement was published, including details of elements of the rates retention scheme which will be implemented from 1 April 2013. Key announcements were as set out below.

4.14.2 ***Adjustment to control totals***;The top-slice funding for New Homes Bonus increased from the recently reduced level of £500m to £505.89m, relating to an overspend in 2012/13. However, the transfer out of funding for the Safety Net Support has been substantially reduced from £250m to £25m. These adjustments have increased the amount of funding left to fund council spending.The main announcements relating to the rates retention scheme and the 2013/14 settlement were as follows;

4.14.3 ***LACSEG Transfer for the Education Services Grant***; In a written ministerial statement the Schools Minister David Laws also announced details of the LACSEG transfer out of the Local Government Department Expenditure Limits (DEL) to support the establishment of the Education Services Grant (ESG) from 2013/14, which will be allocated on a per-pupil basis to local authorities and Academies according to the number of pupils for whom they are responsible. In response to the summer 2012 consultation, the Government has reduced the amount transferred out by £180m in 2013/14 from the proposed £1.22bn to £1.04bn. In 2014/15 £1.03bn is being transferred out.

4.14.4 The new grant will be paid for all pupils aged 3 to 19 in state-funded schools, including maintained schools, academies and Free Schools. In 2013/14 the single, national per-pupil rate will be £116. Multipliers will apply for pupils in PRUs and special schools, of 3.75 and 4.25 respectively. Local authorities will also receive £15 for every pupil in the local authority area, for the statutory duties which do not transfer to academies. Provisional 2013/14 Education Services Grant allocations for local authorities will be confirmed early in 2013, based on the number of pupils in maintained schools and academies at that time.

4.14.5 Whilst the transfer out has reduced, the Government believe that "it would not be right for Academies to lose out as a result". DfE are therefore using money from their own budget to supplement the Education Services Grant (ESG) rate for Academies over the next two years. The ESG rate for Academies will be set at £150 per pupil in 2013/14 and £140 in 2014/15. The intention is to remove this transitional protection for Academies over a limited period of time so that the rates for local authorities and Academies are brought together.

4.14.6 ***Revenue Support Grant;*** The Draft Local Government Finance Report states that in 2013/14 £15.203bn will be provided to local authorities via Revenue Support Grant. This is the difference between the local share of estimated business rates and the adjusted 2012/13 local government control total.

4.14.7 Funding for individual authority start-up assessments will be provided by the Local Share (of business rates) and Revenue Support Grant at a national ratio. In 2013/14 this will be 10.1:15.2.

4.14.8 ***Public Health Grant***; In his teleconference with local government on 20 December Brandon Lewis confirmed that the Department of Health will not be publishing local authority public health budgets until later in January 2013. These were subsequently announced on 10th January. The total available nationally is £2.66bn in 2013/14 and £2.79bn in 2014/15.

5. Herefordshire Council's Financial Context

5.1 Introduction

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

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

5.2 Comparative Funding Position

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

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

5.2.3 Hence the council welcomed the Government's proposals to implement a number of weightings for sparsity to various relative needs formulae for the 2013/14 settlement as proposed by SPARSE.

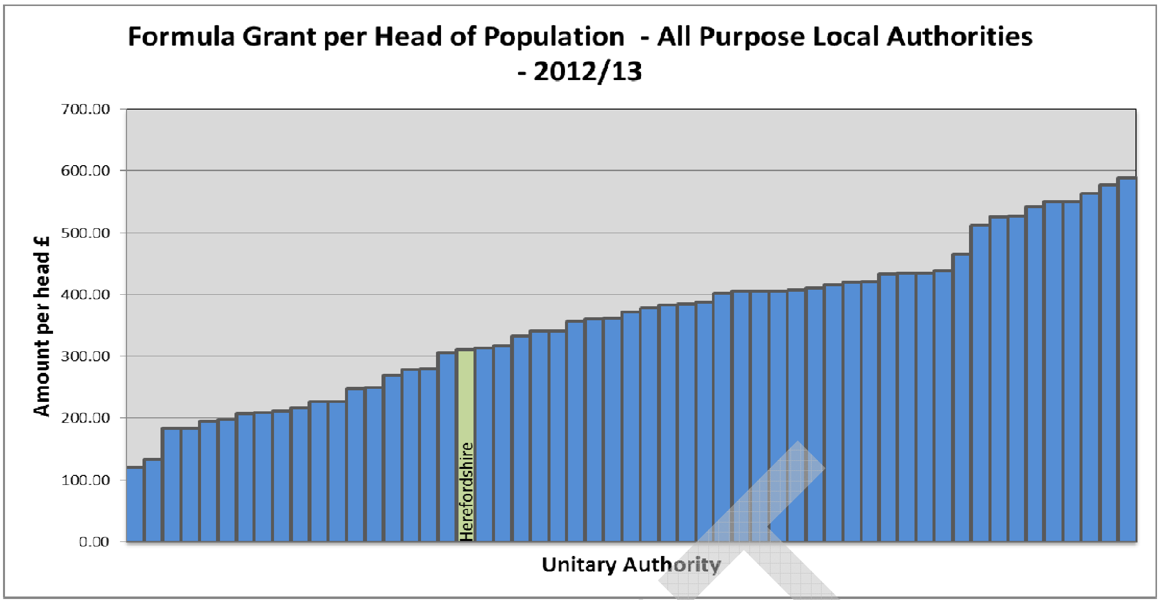
5.2.4 Unfortunately much of the benefit will be lost through the damping element of the formula, which is designed to smooth year on year swings. The council has requested that the Government allow the adjustment for rural services to be reflected in cash terms and excluded from the damping calculation. It is estimated that Herefordshire Council should benefit by the exemplified consultation proposals relating to rural services by £6m per annum pre-damping but is set to lose 74 % of that through damping.

5.2.5 The 2012/13 budget figures show that:

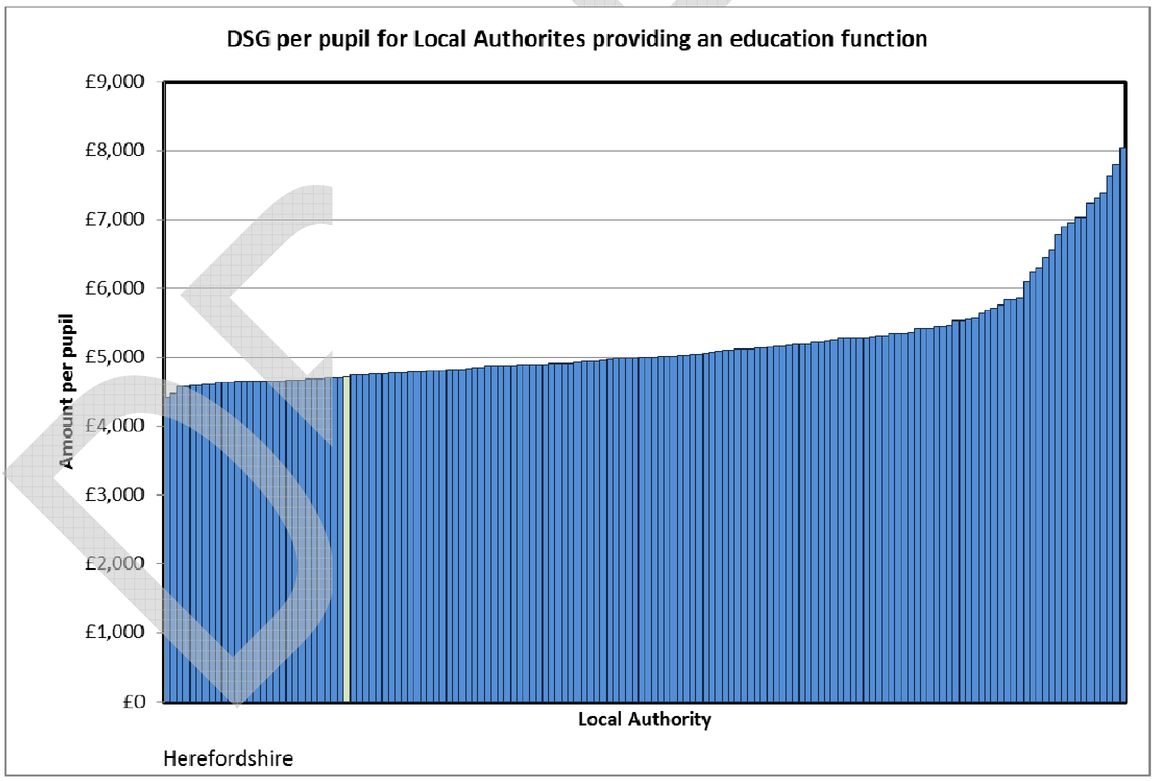
a) Formula Grant per head of population is £311.26, 13% below that national average of £358.36; and

b) Indicative Dedicated Schools (DSG) Grant per pupil is £4723.25, 5% below the average for education authorities of £5,220.

5.2.6 The graph below shows Formula Grant per head of population for all unitary authorities 2012/13. It shows that Herefordshire is 37th out of 55 unitary authorities.



5.2.7. The graph below shows DSG per pupil for local authorities providing education functions. Herefordshire is placed 122 out of 150 authorities.



5.3. Provisional local government settlement for 2013/14 and 2014/15

5.3.1. The provisional local government settlement for 2013/14 was announced on 19th December 2012. The following paragraphs set out the key financial data for Herefordshire;

5.4 Start-up Funding Allocation 2013/14

5.4.1 The 'start-up funding' allocations for the new Rates Retention scheme consist of a formula funding allocation plus allocations of specific grants transferring from April 2013. For Herefordshire this split is as follows;

	2013/14 £000
Formula Funding	50,092
Specific grants	
11/12 Council tax freeze	2,153
Council tax support	9,683
EIG	5,271
Homelessness	206
Lead Flood	130
Learning Disability and Health reform	3,842
Start-up funding allocation	**71,377**

5.4.2 The provisional funding for 2014/15 is £64.931m. The same level of breakdown as 2013/14 has not been supplied (council tax support element not given), but the following former specific grants have been included;

	2014/15 £000
Specific grants	
11/12 Council tax freeze	2,154
EIG	4,935
Homelessness	206
Lead Flood	129
Learning Disability and Health reform	3,938

5.4.3 The start-up funding is made up of the Government's estimate of rates for Herefordshire, a top-up and RSG, as follows

	2013/14 £000	**2014/15 £000**
Baseline rates***	21,956	22,630
Top-up	6,559	6,760
RSG	42,862	35,541
Start-up funding allocation	**71,377**	**64,931**

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

5.5 Comparison to 2012/13

5.5.1 As there has been a fundamental change in the funding system it is difficult to provide a like for like position. In particular, in the table below the funding reduction for Early Intervention grant will be partly offset by money transferring to DSG, but we do not know the amount at this stage. Also, a proportion of the Council tax reduction grant will be paid direct to Fire and Police authorities in the new system, whereas the council receives the full funding allocation into the Collection Fund under current arrangements. An estimated adjustment for Herefordshire portion of the £13.3m current council tax benefit has been added at the bottom of the table.

5.5.2 The table below shows a comparison of funding between 2012/13 and 2013/14 for funding streams within the Rates Retention scheme in 2013/14 and Formula grant in 2012/13.

Comparison of funding 2012/13 to 2013/14			
	2012/13	**2013/14**	
	£000	**£000**	
Formula grant (incl.11/12 freeze grant)	56,615		
Estimated rates		21,956	
Top-up		6,559	
Revenue support grant		42,862	
Start-up funding		**71,377**	
Specific grants			**In Start up funding 13/14**
EIG	7,097		5,271
Homelessness	225		206
Flood levy	200		130
Learning disabilities	3,738		3,842
LACSEG grant (estimated)		2,085	(3,128)
Council tax benefit	13,300		9,683
	81,175	**73,462**	
Less Fire & Police ctax benefit	(2,261)		
	78,914	**73,462**	**(5,452)** **(6.9%)**

5.5.3. The Early Intervention Grant has decreased by £1.9m from 2012/13 to 2013/14, largely as a result of 2 main changes. In 2013/14 and 2014/15 this will exclude £534 million and £760 million respectively, for free education for two year olds, as announced by the Chancellor in his Spending Review and Autumn Statement. £150 million will also be excluded in 2013/14 and 2014/15 and retained centrally for future use in funding early intervention and children's services.

5.5.4 In addition to the above the council has been notified of a provisional allocation of £655k for year 3 of the New Homes bonus (a cumulative figure of £2.069m for 2013/14).

5.6 New Homes Bonus

5.6.1 The New Homes Bonus commenced in April 2011, which match funds the additional council tax raised for new homes and empty properties brought back into use for the following six years.

5.6.2 Herefordshire was awarded £591k per annum for 2011/12 (paid for 6 years from 2011/12) and £824k for 2012/13 (paid for 6 years from 2012/13). The provisional figure for 2013/14 is £654k, a cumulative amount of £2.069m to be received in 2013/14.

5.7 Specific Grants

5.7.1 The provisional settlement also set out the specific grants for Herefordshire:

Grant	2012/13 £000	2013/14 £000	2014/15 £000
*Social Fund	3	371	366
Local Reform and Community Voices	n/a	154	159
**Lead Local Flood authority	200	70	70
Housing benefit admin subsidy	1,177	1,075	tbc
Community right to bid	5	8	8
Community right to challenge	9	9	9
Council tax support – new burdens	84	91	98

The government has not announced some of the 2013/14 grants as of early January 2013.

**Set up funding only in 2012/13*

***In 2013/14 there is also £130k included in the Rates Retention funding*

5.7.2 **Social Care Funding – NHS Transfer;** On 19 December the Department of Health (DH) confirmed the amount to be transferred from the NHS to local authorities to support adult social care services, which also benefit health, at £859m. Previously these transfers, totalling £648m nationally in 2011/12 and £622m in 2012/13, were made by local Primary Care Trusts to authorities. From April 2013 the funding will be transferred from the NHS Commissioning Board, as PCTs are being abolished.

5.7.3 As a condition of the transfer local authorities and clinical commissioning groups must have regard in how the funding is used, to the Joint Strategic Needs Assessment for their local population, and existing commissioning plans for both health and social care. In addition local authorities must demonstrate 'how the funding transfer will make a positive difference to social care services, and outcomes for service users, compared to service plans in the absence of the funding transfer'.

5.7.4 The figure for Herefordshire is £3.152m, compared to £2.274m in 2012/13.

5.7.5 **DH Local Reform and Community Voices Grant;**On 19 December also announced details of a new specific grant, the Local Reform and Community Voices Grant totalling £42m in 2013/14 and £43m in 2014/15. This grant is comprised of five funding streams:

- additional funding for Deprivation of Liberty Safeguards (DOLS) in Hospitals;
- additional local Healthwatch funding;
- funding for the transfer of Independent Complaints Advocacy Service (ICAS) to local authorities;
- funding for the transfer of Independent Mental Health Advocacy (IMHA) to local authorities; and
- funding for the veterans Guaranteed Income Payments (GIPs) social care charges exemption.

5.7.6 The provisional allocations for Herefordshire are £154k in 2013/14 and £159k in 2014/15.

5.7.7 **Public Health Grant;** As a result of the Health and Social Care Act, from 1st April 2013, local authorities will have a range of new responsibilities for public health, including a set of mandatory public health services. The public health functions currently undertaken by Primary Care Trusts will transfer, along with their associated budgets and staff, to local authorities and to other legacy organisations.

5.7.8 The public health grant allocation for Herefordshire has been confirmed for 2013/14 and 2014/15 as £7,752,700 (2013/14) and £7,969,800 (2014/15). This is a ringfenced grant which national guidance specifies is to be used to:

- To improve significantly the health and wellbeing of local populations
- To carry out health protection functions delegated from the Secretary of State
- To reduce health inequalities across the life course, including within hard to reach groups
- To ensure the provision of population healthcare advice (including core offer to CCG)

5.7.9 The scope of the grant / services to be provided include both so-called “mandated/ prescribed” public health services (sexual health, NHS Health Checks, health protection, PH advice, National Child Measurement Programme) and “non-prescribed” functions to meet local needs (long list including e.g. obesity, smoking cessation, physical activity, drug & alcohol misuse services, oral health, health intelligence).

5.7.10 The grant can only be used to meet eligible expenditure in carrying out the public health functions specified in Section 73B(2) of NHS Act 2006 (as amended by the Health and Social Care Act 2012) (ie as set out above under “use of the grant”). It must be spent on activities whose main or primary purpose is to improve the health and wellbeing of local populations and reduce health inequalities.

5.8 Local Authority Central Spend Equivalent Grant (LACSEG)

5.8.1 Herefordshire incurred top-slices of £650k in 2011/12 and a further £500k in 2012/13 for central education funding transferred to academies (£235k has since been refunded in 2012/13 in respect of 2011/12) In 2011/12 and 2012/13 £450k base budget reduction was pass-ported to the People’s Directorate and spread across all children’s budgets, with the balance adsorbed by the rest of the council. An additional £378k will be met by budget reductions in Childrens’ Services in 2013/14.

5.8.2 Provisional figures for transfers out of the rate retention system in 2013/14 were published with the Provisional settlement, but will be updated for revised pupil numbers in the final settlement. No provisional figure has yet been published for the money to be returned to the council for LA pupils through the new Education Services Grant (ESG) The estimated funding impact on the new funding arrangements for Herefordshire in 2013/14 is as follows;

	2013/14 £m
Top-slice for all pupils in Herefordshire	(3.128)
Education Services Grant	2.085
Funding transferred to Academies	**(1.043)**

5.9 Dedicated Schools Grant

5.9.1 The Dedicated Schools Grant (DSG) is paid as a ring-fenced specific grant and funds the Schools Budget. Arrangements for the DSG are changing for 2013/14 as DSG will be split into three distinct blocks as follows,

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

5.9.2. DSG is the main source of income for schools. Each block within DSG, although not ringfenced, will in future be funded separately. The schools block will be based upon a per pupil formula using the actual pupil numbers from the October school census data, The Early Years block will be calculated on a rolling basis through the year based on three termly pupil census dates. The High Needs Block will be determined on an assessment of the 2012/13 spend as previously submitted by the authority. Responsibility and funding for post-16 high needs is to be transferred to the authority from August 2013. There is specific grant certification and audit requirements to ensure appropriate use of the grant and any under or overspends must be carried forward to the next financial year.

5.9.3. A national review of the distribution formula for DSG based around the introduction of a national schools funding formula is expected to be phased in over a number of years from April 2013. As a high delegator of funding to schools early indications from the Institute of Fiscal Studies suggest that Herefordshire schools will lose funding in the move to a national funding formula partly due to "averaging down" and partly due to a gradual move towards a standardised primary/secondary funding ratio which may disadvantage small rural primary schools by up to £25,000 in the medium term.

5.9.4. There is no uplift in DSG for 2013/14 which will continue to be paid at the same rate as in 2012/13 however each funding block is now funded at different rates per constituent pupils. The Schools Block is based on £4,306.44 per school pupil and the Early Years Block will be paid at £3,454.43 per early years pupil. In addition pupil numbers for the Early Years Block will be revised throughout the year so final funding for early years will only be known at year-end.

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

2013/14 DSG Allocations	£m
Schools Block 21,060 pupils x £4,306.44 per pupil	 90.7
High Needs Block Schools - Pre-16 Colleges – Post-16	 12.0 0.7
Estimated Early Years Block 1,385 pupils x £3,454.43 per pupil	 4.8
Additional funding for two year old grant, early years and newly qualified teachers	1.2
Additional funding for hospital education grant and growth in special school places	0.3
TOTAL DSG 2013/14	**109.7**
Less academy recoupment at source	**(33.0)**
DSG received by the council	**76.7**

5.9.6. For 2013/14 spend will need to be contained within each spending block although an increased spend on special educational needs of £190,000 has been provided for within the high needs block. The increase in the pupil premium to £900 per eligible pupil is worth approximately £1.5m extra to Herefordshire in 2013/14.

5.9.7. Academies are publicly funded independent local schools. Academies are independent of the council and responsible directly to and funded directly by government. They are freed from national restrictions such as the teachers' pay and conditions documents and the national curriculum. Many Herefordshire schools have embraced the change and approximately 40% of pupils have been educated in Academies from April 2012. This will potentially increase from April 2013.

5.9.8. Academies provide a teaching and learning environment that is in line with the best in the maintained sector and offer a broad and balanced curriculum to pupils of all abilities, focusing especially on one or more subject areas (specialisms). As well as providing the best opportunities for the most able pupils and those needing additional support, academies have a key part to play in the regeneration of disadvantaged communities.

5.9.9. Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority. Academies can choose to buy these services from the local authority.

5.10. Council Tax

5.10.1. Authorities, which chose to freeze council tax in 2011/12, had the resultant loss to their tax base funded at a rate of 2.5%, (equating to £2.1m for Herefordshire), in each year of the Spending Review period.

5.10.2. The Government also offered a council tax freeze grant for 2012/13, but unlike the 2011/12 grant, this was only for one year.

5.10.3. The council chose to freeze council tax and take up the grant in both years. As the 2012/13 grant was one-off only the funding was used for one-off spending through a transformation fund and contingency budget.

5.10.4. The Government has offered a further council tax freeze grant for 2013/14 equating to 1% of the 2012/13 council tax. This would be paid for two years.

5.10.5. The level at which a referendum has been set is 2%.

5.10.6. Budget planning is currently based on not accepting the council tax freeze and, instead, planning for a 1.9% increase.

5.10.7. The average Band D council tax for 2012/13 is £1,205.09, compared to the average Band D council tax for English Unitary authorities at £1,220.16. A 1.9% increase would result in a Band D council tax for 2013/14 of £1,227.99.

5.10.8. From 2013/14 the local scheme for council tax reduction replaces council tax benefits and becomes a discount against the council tax. The estimated net base after local scheme deductions is estimated to be 64,260.18 and £774k for every 1% on council tax.

5.10.9. A 1.9% council tax increase equates to an increase of £1.47m

5.11. Reserves

5.11.1. Herefordshire has two main sources of reserve funding to support the day to day spending that is recorded in the revenue account, the General Fund balance and Specific Reserves. As the titles suggest, the latter are held for a specific purpose whilst the former could be considered a general contingency.

5.11.2. The following table shows the year end balance on the General Fund and the level of revenue specific reserves for the last three financial years.

Balance as at:	General Fund £000	*Specific Reserves*		Total £000
		Schools	**Other**	
31st March 2010	5,349	5,497	13,745	24,591
31st March 2011	6,349	6,002	11,570	23,921
31st March 2012	6,113	5,789	7,669	19,571

5.11.3 A significant proportion of the specific reserves belong to schools and cannot be used to help pay for non-schools services and unspent government grants carried forward in future years.

5.12. Managing the General Fund Balance and Specific Reserves

5.12.1. Herefordshire's General Fund opening balance for 2012/13 was £6.1m, which was in excess of the policy in place to maintain a minimum balance of £4.5m (3%).

5.12.2. Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks reducing the need for a higher level of General Fund balances. This strategy ensures there is complete transparency about what is resourced, for corporate financial risks that, if realised, would affect the council's financial standing.

5.12.3. All Directorates are expected to manage budget pressures within the overall requirement to deliver an outturn at or below budget. Any in-year budget pressures must be managed by use of a recovery plan.

5.12.4. The need for the range and level of specific reserves and the policy for minimum General Fund balances is continually reviewed as part of the financial planning, monitoring and outturn processes. The current policy is to maintain a general reserve of at least 3% of net revenue budget or £4.5 million. However given the pressures outlined elsewhere in the agenda it is recommended that over the next two years the Council plans to increase the level of reserves over the medium term.

5.13. Capital Reserves

5.13.1. There is one capital reserve that represents cash available to support spending on the creation or enhancement of assets that is recorded in the capital account. It is known as the Usable Capital Receipts Reserve. The following table shows the level of usable capital receipts for the last 3 financial years and an estimate for 2013/14;

Balance as at:	£000
31st March 2010	13,565
31st March 2011	6,754
31st March 2012	2,769
31st March 2013 (est)	1,824

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

5.14. Funding Arrangements for Capital Investment

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

5.14.2. Government support for capital investment is through the allocation of grants (it no longer issues supported borrowing allocations). Known grant funding allocations for 2013/14 are:

Local Transport Plan (£11.376m)
Borders Broadband (£3m)
Marches Redundant Building Grant Scheme (£1.3m)
Destination Hereford (£1.055m)
Disabled Facilities Grant (£0.674m)
Community Capacity Grant (£0.474m)

5.14.3. The Local Transport Plan (LTP) grant funding includes £1.584m roads maintenance funding announced in the 2012 autumn statement. This additional funding has been allocated from a dedicated fund to provide for essential maintenance to renew, repair and extend life of the highway network in England. The amount allocated is based on the County's road length. This added to the original LTP funding allocation represents an increase in funding from 2012/13 however the total funding for 2013/14 is less than the 2010/11 LTPs funding allocation which was reduced to £12.489m.

5.14.4. The Community Capacity Department for Health capital grant represents funding to support development in three key areas: personalisation, reform and efficiency and has been held constant in real terms for 2013/14 and 2014/15 with the distribution based on the total adults social care relative needs formulae.

5.14.5. The council is waiting for grant allocations from the Department of Education which are expected in January 2013. Grant funding has also been applied for to fund refurbishment works at Masters House, Ledbury.

5.14.6. **Council Borrowing** - The medium-term strategy reflects the borrowing requirement implied by the Treasury Management Strategy to support the capital programme..

5.14.7. **Capital Receipts Reserve -** totalled £2.769m as at 1 April, 2012, this is likely to fall to around £1.824m by the end of the financial year and this funding has been committed to fund the capital programme in coming years.

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

- **Maximising Developers' Contributions** – through planning gains and the adoption of a Community Infrastructure Levy.
- **Growing Places Revolving Fund –** this fund provides loans to enable investments that levers in private funding and will support expenditure on the Rotherwas enterprise zone.
- **External Funding Bodies** – to distribute funding for projects that satisfy their key criteria and objectives and bids are submitted where appropriate.
- **New Homes bonus and retained business rate income growth** – these revenue funding streams will support the cost of financing capital expenditure on the new link road.

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

5.14.10. Over the longer term authorities are expected to generate income from selling surplus assets and reduce the costs of running their property portfolios by providing efficiencies including reducing carbon emissions from their capital stock. At the same time there is increasing pressure to provide cross-cutting co-located services to provide a one-stop service provision to the public which is steering authorities to share buildings, pool resources and jointly plan strategic capital programmes with local agencies, private companies, voluntary sector and community organisations. For local authorities to deliver their priorities within the financial constraints officers must demonstrate creativity using greater innovation and ideas, to deliver services differently.

5.14.11. The localities agenda is steering authorities to share buildings, pool resources and jointly plan strategic capital programmes with local agencies, private companies, and voluntary sector and community organisations. This new concept of meaningful engagement at a very local level, critically challenges the historical basis for resource allocation and the effectiveness of services to deliver on local need and is designed to provide a more creative use of the current asset base and support improvements to community based planning and service. This is designed to produce more efficient local spending by pooling budgets and ending duplication.

5.14.12 In recognition of this and the increasing pressure on our capital funding, a comprehensive review of the Council's assets and our policy on retention and disposal will be brought to Cabinet in mid 2013.

5.15 Capital Programme 2013/14 to 2015/16

5.15.1 The 2013/14 to 2015/16 capital programme represents funding indications received to date from grants, existing schemes that commenced in prior years and a contingency sum funded in the FRM but yet to be allocated to capital schemes.

5.15.2 The Council's capital programme has been largely funded by grants from Central Government with borrowing, capital receipts and revenue contributions to capital making up the difference. The government is still making some capital grant allocations and the report to Cabinet on 17th January outlined the grants to be received in 2013/14.The following represent the capital schemes proposed as part of the 2013/14 budget.

a. **Yazor Brook Flood Alleviation** – this is for remedial works to stabilise the river bank and floodplain following the completion of the grant funded flood alleviation scheme. The bid represents the worst case scenario with actual costs dependant on the solution and liability determinations. Members support remedial works but want officers to pursue compensation from scheme designers. The scheme totals £450k.

b. **Garrick House multi-storey car park**– this is the second part of the previous approved bid to complete the enhancement works underway to prolong the assets safe use. This does not include the installation of pay on foot. The scheme totals £500k.

c. **Blackmarston School** – this is towards the cost of the construction of a substantial extension and significant internal remodelling of the current building mainly funded by grant monies. The scheme will remove all temporary accommodation from the site. The scheme totals £638k.

d. **Leominster & Stretton Sugwas Landfill Sites** – bid to fund pumps and a monitoring system to manage the sites better to maintain remediation measures required. The scheme totals £55k.

e. **Leominster Primary School** – towards the costs of a new build combining the junior and infants school which is mainly a grant funded scheme. The scheme totals £205k.

f. **Traveller Sites Accommodation Units** – improvement works to the 43 accommodation units at the traveller sites that are in very poor condition so that the Council meets the statutory obligation to provide accommodation of minimum standard. Full cost recovery is reflected in rent levels.The scheme totals £430k.

g. **Backlog Maintenance** – the deteriorating condition of the council's assets means that an allocation is needed for backlog maintenance works on the residual estate which will improve energy efficiency and reduce Health and Safety issues. The allocation will also be available for the council's smallholdings estate. The scheme totals £650k.

h. **Funding to support Car Parking Strategy** – As part of the overall review of car parking there is likely to be a requirement to change the location of car parks in Hereford. This will also link to the emerging sustainable transport policy and options for its delivery. The scheme will require detailed costing but a capital allocation of £2m is proposed for inclusion but will be subject to further review.

Self-financed Capital Schemes

5.15.3 The following are self-financed capital schemes not requiring additional long term revenue budget to meet the cost of borrowing. However they will still need to be included in the programme for agreement.

a. **Rotherwas Enterprise Zone** - £1.066m of costs to provide serviced deployment plots to inward investors to be funded by the capital receipts generated. The scheme will have access to up to £5m. Recovery of costs will be sought from the uplift in business rates. Alongside capital receipts there will business rate income generated by the site, expected from 2014/15. The use of these funds are to be approved by the Marches LEP which has agreed that the related enterprise zone revenue costs incurred will have first call on this funding resource. There is likely to be a requirement to cash flow this scheme in the short term. This could be £20k in year 1 and possibly as much as £60k in year 2 if the sites are not occupied.

b. **LED street lighting** is a self-financing bid for the expansion of the current programme to all public lighting across the County funded by energy costs saved. Salix interest free loans will also be used to part fund the capital cost. This scheme will contribute to the Council's commitment to reduce CO_2 emissions. This will require a reduction in revenue budgets to fund the borrowing.

c. **Solar photovoltaic panels** is a self-financing bid for the insulation of solar panel at 36 sites funded by reduced energy costs, community investment is also being sought and the investment will result in the avoidance of future levies. This will require a reduction in revenue budgets to fund the borrowing.

5.15.4 If the above schemes are agreed (and assumed to be funded) then £13.783m of capital expenditure will require funding. This splits into two funding sources with £8.855m of the total being self funded with the required revenue budget for borrowing of £133k in 2013/14 rising to £388k in 2015/16 from savings that the schemes generate. This leaves a balance of £4.928m for schemes requiring additional revenue funding to meet borrowing costs. This requirement is £189k in 2013/14 rising to £382k in 2015/16.

5.15.5 Agreement of the schemes will not breach the Council's prudential indicators for borrowing contained in the Treasury Management Strategy within the MTFS.

5.15.6 The Buttermarket will be subject to further feasibility studies and this may require a capital programme addition in the future.

5.15.7 The following table summarises the existing capital investment programme;-

Total 3 year budget 2013/14 to 2015/16				
Scheme	**13/14 Budget £'000**	**14/15 Budget £'000**	**15/16 Budget £'000**	**Total Budget £'000**
Link Road	7,500	9,037	6,179	22,716
Local Transport Plan	11,376	10,645	-	22,021
Borders Broadband	6,000	8,000	5,700	19,700
Corporate Accommodation	10,509	3,346	980	14,835
Leominster Primary School	6,145	2,589	-	8,734
Masters House, Ledbury	2,271	-	-	2,271
Destination Hereford	1,055	1054	-	2,109
Blackmarstons School	2,000	-	-	2,000
Others	606	374	667	1,647
Redundant Building Grant	1,300	-	-	1,300
Community Capacity Grant	474	483	-	957
Disabled Facilities Grant	674	-	-	674
SUB TOTAL	**49,910**	**35,528**	**13,526**	**98,964**
Corporately financed capital bids (subject to Cabinet approval on the 5th February 2013)	**4,712**	**215**	**-**	**4,927**
Self financed capital bids (subject to Cabinet approval on the 5th February 2013)	**3,454**	**1,320**	**1,320**	**6,094**
TOTAL	**58,076**	**37,063**	**14,846**	**109,985**
Financed by;-				
Prudential Borrowing	*30,020*	*18,237*	*12,246*	*60,503*
Capital Receipts Reserve	*1,569*	*355*	*-*	*1,924*
Grant Funding	*26,487*	*18,471*	*2,600*	*47,558*
TOTAL	***58,076***	***37,063***	***14,846***	***109,985***

5.16 Treasury Management Strategy

5.16.1 The council is required to approve an annual treasury management strategy each year as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2013/14 is provided at Appendix A and complies with the detailed regulations that have to be followed.

5.16.2 The Treasury Management Strategy sets out the council's strategy for making borrowing and investment decisions during the year in the light of its view on future interest rates. It identifies the types of investment the council will use and the limits for non-specified investments. On the borrowing side, it deals with the balance of fixed to variable rate loan instruments, debt maturity profiles and rescheduling opportunities. The strategy also included the Minimum Revenue Provision (MRP) policy.

5.16.3 Since the 'credit crunch' a more cautious approach to investment has been implemented, these options deliver lower interest rates, but within a low risk environment. This approach, together with a historically low base rate, has resulted in reduced interest on investments used to support council budgets.

5.16.4 The council's treasury adviser assists the council in formulating views on interest rates. They are predicting that the bank base rate may well remain at 0.50% until 2016, keeping investment returns low for the foreseeable future.

5.16.5 On the borrowing side, PWLB rates are also expected to remain low. The council's treasury advisor is forecasting PWLB rates to increase by only 0.10% per annum over the next few years.

5.16.6 As PWLB rates are expected to remain low for the foreseeable future, the council is able to postpone taking out longer term loans and benefit from the lower interest rates offered on short-term loans from other local authorities.

5.16.7 These short-term loans are currently available at interest rates of around 0.37% for up to 3 months to 0.60% for one year (including broker's commission) and so have the advantage of reducing the cost of carry (the differential between investment and borrowing rates) compared to PWLB borrowing.

5.16.8 PWLB rates will continue to be monitored so that if economic conditions improve and rates start to increase the council will replace its short-term borrowing with longer-term finance.

5.17 Key Corporate & Financial Risks

5.17.1 The council sees risk management as an essential element of the corporate governance framework. All formal reports include a risk management assessment.

5.17.2 Service Plans for each directorate provide a section on risk, assessing the feasibility of delivering their objectives against barriers for delivery.

5.17.3 The delivery of a balanced budget in 2013/14 and future years is a significant challenge, requiring close scrutiny of the proposed savings and at what point those savings are realised. This will be a key task for the Leadership Team in 2013 and a new Delivery Board is being established to give added focus to this task.

6. Medium-Term Financial Resource Model (FRM)

6.1. Background

6.1.1. The FRM shown in Appendix B takes into account the corporate financial objectives and approach set out in this document. The FRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. It sets the financial context for corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2013/14 to 2015/16.

6.2. Financial Choices

6.2.1. The table below sets out key financial choices, which underpin the budget setting process, and the strategy response;

Cash Limits	We will model a three year medium term financial plan We will aim for a savings target that meets the reduction in grant and creates headroom for funding demographic growth, capital investment and a planned increase in reserves
Council Tax	We will model the medium term budget forecast using an increase in council tax of 1.9% in 2013/14 We will develop a communications strategy to explain why the increase is necessary and why the 2013/14 council tax freeze grant has not been accepted Future years will be modelled at 0% increase
Reserves	We will plan for an increase in Reserves over the next three years to balance budget risk associated with the worst case adult social care budget variance and to cover potential rates volatility
Income	We will continue with our policy of full cost recovery
Capital	We will refresh our capital strategy to provide the capital investment required to deliver service priorities As part of this we will use revenue savings to offset the cost of prudential borrowing
Council Tax Benefits	We will develop a council tax benefit policy that will deliver a reduction in funding by 10% from 2013/14 through revised benefits and other changes to council tax
Business Rates	We will consider how we can incentivise local business growth through the new business rates scheme
Base Budgeting	One of the outcomes of the Root and Branch Reviews will be a reconstruction of our budgets to give us a better understanding of the impact we get for the money we spend

6.3. Budget Principles

PRINCIPLE	WHAT THIS MEANS
Valued Services	• Focussing on our priorities and what matters to people; our core business • Stopping things we don't need to do or that don't demonstrate value for money
Reducing Bureaucracy	• Less regulation, process and red tape; smaller local government • Making it easier to contact us; right first time delivery
Supporting the Vulnerable	• Targeting resources on individuals, families and communities at risk or disadvantaged • Early intervention and prevention; a shift in social care provision
Value for Money	• Reducing the cost of running the council: the paybill; third party spend; smarter delivery • Reducing public subsidy of services; increasing income and trading; full cost recovery
Local Delivery	• Setting priorities for the nine localities and increasing local decision making • More choice to local councils and the voluntary & community sector to deliver services
Personal Responsibility	• Increasing self-reliance; more people and communities helping themselves; behavioural change • Increase in personalisation and personal budgets

6.4. Assumptions

6.4.1. The FRM includes the following assumptions;

a) Council Tax - a 1.9% increase for 2013/14 and 0% there-after.

b) Rates Retention scheme (including Formula Grant) – the FRM reflects the two year settlement, including the grants transferred in, plus an estimated further reduction in funding for 2015/16 and 2016/17.

c) New Homes Bonus – the provisional 2013/14 allocation for Herefordshire is £654k, giving a total of £2.069m for the 3 years of the scheme. A similar level of growth has been anticipated for future years.

d) Inflation -the current FRM includes 2% inflationary uplift on non-pay expenditure and income

e) Pay – 1% awards are assumed for 2013

f) Employers' superannuation costs – the FRM includes increases in employers' contributions rates of 0.7% on gross pay in line with latest valuation.

g) Interest Rates – the FRM reflects interest rate assumptions for investment income and borrowing costs in line with the Treasury Management Strategy 2013/14.

6.5. Funding assumptions included in the FRM

6.5.1 The following funding assumptions are included in the FRM.

	2013/14 £000	2014/15 £000
Estimated rates (retained by council)	22,726	23,437
Top-up	6,559	6,760
RSG	42,862	35,541
Funding for net budget requirement	**72,147**	**65,738**

6.5.2 We are currently estimating that the level of rates to be retained by Council is greater than the figure supplied by Government. This is because their assessment in the provisional settlement is based on Herefordshire receiving a proportion of the national rate pool.

6.5.3 The general funding above includes the following former grants;

- Early Intervention Grant
- Homelessness prevention
- Local lead flood authority
- Learning disability and public health reform
- Council tax support (formally council tax benefits)

6.5.4 The government has top-sliced funding to cover the New Homes Bonus and Safety net payments. If the amount held back exceeds the amount required then this will be returned to councils. No estimated amount has been included in the FRM, but if sums are received they will be used to boost reserves.

6.5.5 The provisional settlement also set out the specific grants for Herefordshire:

Grant	2012/13 £000	2013/14 £000	2014/15 £000
*Social Fund	3	371	366
Local Reform and Community Voices	n/a	154	159
** Lead Local Flood Authority	200	70	70
Housing Benefit Admin Subsidy	1,177	1,075	tbc
Community Right to Bid	5	8	8
Community Right to Challenge	9	9	9
Council Tax Support – new burdens	84	91	98
Community Safety	80	0	0
Home to School Transport	540	tbc	tbc
Social care funding	2,274	3,152	tbc
Public Health Grant (new in 2013/14)	0	7,752	7,969

**Set up funding only in 2012/13*

***In 2013/14 there is also £130k included in the Rates Retention funding*

6.5.5 These grants are used to fund specific functions with Directorates. We await details of some grants from central government.

6.6. Directorate pressures

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

Directorate	2013/14	2014/15
	£'000	**£'000**
Adult services	2,500	5,596
Childrens' safeguarding	650	
Commissioning and transformation support	700	
Procurement costs (incl public realm)	400	(135)
LDF	430	(310)
Relief road feasibility	500	175
Total	**5,180**	**5,326**

6.6.2 Any further growth will have to be self-funded by directorates

6.7 Savings Targets and Root and Branch Review Programme

6.7.1 2013/14 and beyond presents the Council with significant financial challenges to deliver a balanced budget. The Root and Branch Review Programme approved by Cabinet in April 2012 has been designed to:

- Redefine the role of the Council and public services
- Set out priorities for Herefordshire to 2020
- Ensure a closer link between what we spend and the outcomes we get for residents

6.7.2 Each Review was allocated 20% savings targets over the next 2/3 years.

6.7.3 The FRM includes the following budget reductions aligned to savings targets;

DIRECTORATE	2013/14 £'000	2014/15 £'000
HERS	773	186
Street Scene	300	1,417
Customer Services	509	0
Vulnerable People	4,210	500
Travel and transport	252	861
Safer and Stronger communities	178	97
Environment	500	250
Learning and Skills	30	0
Living and wellbeing	500	500
Herefordshire 2020	1,540	0
Children and Young People	350	0
TOTAL	**9,142**	**3,811**

6.8 Budget Engagement

6.8.1 A series of 'Your community – your say' events were held in September and October 2012 to consider the services and priorities Herefordshire Council should be focusing on in the future as part of a fundamental review of services

6.8.2 The informal interactive events were an opportunity for local residents to share their views about their local area and to help inform the decisions made about the public services provided on their behalf. There was also the opportunity to meet local elected members / councillors and the council officers responsible for each locality area.

7 Statutory Statement by the Council's Chief Finance Officer

7.1. The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case the Chief Officer (Finance and Commercial) must report on the:

- Robustness of the estimates made for the purposes of the budget calculations.

- Adequacy of the proposed financial reserves.

7.2. Section 25 of the Local Government Act 2003 requires the Chief Officer (Finance and Commercial) to report to the Council when it is setting the budget and precept (Council tax). The Council is required to take this report into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

7.3. The Chief Officer (Finance and Commercial) states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

- The council's corporate plans and strategies;
- The council's budget strategy;
- The need to protect the council's financial standing and manage corporate financial risks;
- This year's financial performance;
- The Government's financial policies;
- The council's medium-term financial planning framework;
- Capital programme obligations;
- Treasury Management best practice;
- The strengths of the council's financial control procedures;
- The extent of the council's balances and reserves; and
- Prevailing economic climate and future prospects.

David Powell
Chief Officer (Finance and Commercial)

Appendix A

Herefordshire Council

Treasury Management Strategy 2013/14

Contents

Appendices

1. Background

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also includes the Annual Investment Strategy as required under Investment Guidance provided by Communities and Local Government (CLG).

1.2 CIPFA has defined Treasury Management as:
"The management of the organisation's investments and cash flows, 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."

1.3 The council has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the council's treasury management strategy.

1.4 The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2013-14
  (Borrowing and Debt Rescheduling – Section 3 and
  Investments and Annual Investment Strategy – Section 4)
- MRP Statement – Section 5
- Prudential Indicators (Appendix 2)
- Use of Specified and Non-Specified Investments – Appendices 4 & 5

2. Capital Financing Requirement

2.1 Capital expenditure can be financed in a number of ways including the application of useable capital receipts, a direct charge to revenue, the application of a capital grant or by securing an up-front contribution from another party towards the cost of a project.

2.2 Capital expenditure not financed by one of the above methods will increase the capital financing requirement (CFR) of the council.

2.3 The CFR reflects the council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements.

2.4 The use of the term "borrowing" in this context does not necessarily imply external debt since, in accordance with best practice, the council has an integrated treasury management strategy. Borrowing is not associated with specific capital expenditure. The council will, at any point in time, have a number of cash flows both positive and negative and will be managing its position in terms of its borrowings and investments in accordance with its treasury management strategy.

2.5 At 31st December 2012 the council had £149 million of debt and £27 million of investments. These are set out in further detail in ***Appendix 1.***

2.6 **Money Borrowed in Advance of Spending Need:** The council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2015/16. The council is likely to only borrow in advance of need if the benefits of borrowing at interest rates now, compared to where they are expected to be in the future, outweigh the current cost and risks associated with investing the proceeds until the borrowing is actually required.

2.7 The forecast movement in the CFR over future years is one of the Prudential Indicators which can be found in Appendix 2. The movement in actual external debt and usable reserves (which have a direct bearing on when internal borrowing may need to be externalised) combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.

Table 1: Balance Sheet Summary Analysis

	2012/13 Estimate £'000	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Capital Financing Requirement	211,496	230,952	238,060	240,143
Less: Existing Profile of Borrowing PWLB and bank loans Short-term loans from other LA's	 140,532 *12,000	 136,535 *12,000	 132,523 *12,000	 124,285 *12,000
Less: Other Long Term Liabilities PFI schemes Finance leases	 27,906 322	 26,841 320	 25,698 320	 24,484 319
Cumulative Maximum External Borrowing Requirement	**30,736**	**55,256**	**67,519**	**79,055**
Usable Reserves	**28,250**	**20,640**	**20,230**	**20,050**
Cumulative Net Borrowing Requirement	**2,486**	**34,616**	**47,289**	**59,005**

*Current short-term borrowing from other local authorities to be rolled over or replaced by loans from the Public Works Loan Board (PWLB).

2.8 The level of useable reserves is difficult to forecast at this stage and the figures above are considered to be prudent estimates. Actual reserves may be higher which would reduce the need to externalise borrowing.

3. Borrowing

Interest Rate Forecast

3.1 The interest rate forecast provided by the council's treasury management adviser, Arlingclose, is that interest rates will remain low for several years to come. Their forecast is for official UK interest rates to remain at 0.50% until 2016 given the poor outlook for economic growth and the extension of austerity measures announced in the Chancellor's Autumn Statement. Until there is a credible resolution of the debt problems in the Eurozone – and that resolution requires full-scale fiscal union which faces many significant political hurdles – then the UK's safe haven status will continue to attract investors in government gilts keeping PWLB interest rates at relatively low levels.

3.2 The economic and interest rate forecast provided by the council's treasury management advisor is attached at ***Appendix 3***.

Borrowing Strategy

3.3 Treasury management, and borrowing strategies in particular, continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between the interest rate paid on the borrowing and that earned on investments.

3.4 As borrowing is often taken out for longer periods (anything up to 50 years) the cost of carry needs to be considered against a backdrop of uncertainty and affordability constraints in the council's wider financial position.

3.5 As indicated in Table 1 above, the council has a gross and net borrowing requirement and will be required to borrow up to £34 million in 2013/14, relating the council's 2013-14 capital programme and anticipated reduction in reserves. In previous years it has been possible to "internally borrow" but due to the projected fall in council reserves some of this borrowing may now need to be externalised.

3.6 The council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk; and
- Borrowing source.

Sources of Borrowing and Portfolio Implications

3.7 In conjunction with advice from its treasury advisor, Arlingclose, the council will keep under review the following borrowing sources:

- Internal
- PWLB
- Local authorities
- European Investment Bank *(NB the EIB will only lend up to 50% towards the funding of a specific project and needs to meet the EIB's specific criteria)*
- Leasing
- Commercial banks

3.8 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The council's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A significant narrowing in the spread (e.g. by 0.50%) will result in an immediate and formal review of the borrowing strategy to determine whether the exposure to shorter dated and variable rates is maintained or altered.

3.9 Short-term borrowing from other local authorities may be regarded as borrowing at variable rates because the loan periods tend to be for periods of one year or less. Apart from short-term borrowing from other local authorities, all the council's debt portfolio consists of fixed rate loans. There is an argument for diversifying the portfolio and keeping a proportion at variable rates to avoid the cost of carry noted above. In the first nine months of the year to 31st December 2012 the council's investment balances have averaged around £30 million and the council may opt to borrow using short dated and variable rate debt up to this amount to more closely align borrowing costs with investment returns and minimise the cost of carry. The alternative is to take out more fixed rate longer term borrowing but this means that the council will have a significant cost of carry for the foreseeable future.

3.10 The council has two LOBO loans (Lender's Option Borrower's Option) of £6 million each on which the council pays interest at 4.5%. Every six months, before the interest payments become due, the lenders have the option to increase the interest rate being charged at which point the council can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the council since the decision to amend the terms is entirely at the lender's discretion.

3.11 Under the contract the council does not have the option to repay these loans unless the lender seeks to amend the terms of the loan. If the lender does seek to change the terms the default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted. The council will consult with their treasury management advisers regarding any possible way of terminating these loans early.

3.12 As interest rates are forecast to remain relatively low, it is considered unlikely that the lender will seek to vary the terms during 2013/14.

Debt Rescheduling

3.13 The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.

3.14 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans (making redemption premiums much more expensive) has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling or repayment would be one or more of the following:

- Reduce investment balances and credit exposure via debt repayment
- Savings in interest costs with minimal risk
- Rebalancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Changing the maturity profile of the debt portfolio to reduce refinancing risks.

3.15 Borrowing and rescheduling activity will be reported to Full Council in the annual end of year treasury management report and in the more regular treasury management reports presented to the Leadership Team and Cabinet.

4. Investments

Annual Investment Strategy

4.1 In accordance with Investment Guidance issued by the CLG and best practice the council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the council's investments is secondary, followed by the yield earned.

4.2 The council and its advisors remain on a heightened state of alert for signs of credit or market distress that might adversely affect the council.

4.3 Investments are categorised as “Specified” or “Non-Specified” within the investment guidance issued by the CLG.

4.4 Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the “high credit quality” as determined by the council and are not deemed capital expenditure investments under Statute. Non specified investments are, effectively, everything else.

4.5 The types of investments that will be used by the council and whether they are specified or non-specified are as follows:

Table 2: Specified and Non-Specified Investments

Investment	**Specified**	**Non-Specified**
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Investments with Registered Providers (Housing Associations)	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills	✓	N/a
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	N/a
Commercial Paper	✓	N/a
Corporate Bonds	✓	✓
AAA-Rated Money Market Funds	✓	N/a
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	N/a

Further details can be found in **Appendices 4. and 5.**

4.6 Registered Providers (Housing Associations) have been included within specified and non-specified investments for 2013/14. Investments with Registered Providers will be analysed on an individual basis and discussed with Arlingclose prior to investing.

4.7 The minimum credit rating for non-UK sovereign countries is AA+ (or equivalent). For specified investments the minimum long term rating for counterparties is A- (or equivalent). As detailed in non-specified investments in Appendix 5 the Chief Officer (Finance and Commercial) will have discretion to make investments with counterparties that do not meet the specified criteria following advice from Arlingclose.

4.8 The other credit characteristics, in addition to credit ratings, that the Council monitors are listed in the Prudential Indicator on Credit Risk (**Appendix 2**).

4.9 Any institution will be suspended or removed should any of the factors identified above give rise to concern. Arlingclose advises the Council on credit rating changes and appropriate action to be taken.

The Council's Bank

4.10 The council banks with National Westminster Bank. Even if the banks long term credit rating falls below the council's minimum criteria the bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements. Unless credit conditions dictate otherwise, these short term liquidity requirements will include the use of instant access deposit accounts.

Investment Strategy

4.11 With short term interest rates expected to remain low for some time, where cash flow permits an investment strategy will typically result in a lengthening of investment periods in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of risk.

4.12 In order to diversify a portfolio largely invested in cash, investments will be placed with various approved counterparties over a range of maturity periods. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.

4.13 Money market funds (MMFs) will be utilised and, whilst MMFs provide good diversification, the council will also seek to mitigate operational risk by utilising at least two MMFs. The council will also restrict its exposure to MMFs with lower levels of funds under management and will not exceed 0.5% of the net asset value of the MMF. In the case of Government MMFs, the council will ensure exposure to each Fund does not exceed 2% of the net asset value of the Fund.

4.14 Collective Investment Schemes (Pooled Funds)

On the advice of Arlingclose, the council may consider using Collective Investment Schemes or Pooled Funds. Pooled funds would enable the council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. However, Pooled Funds should be regarded as a longer term investment because there may be an initial fee and the value of the capital invested can go down as well as up. The council is not currently using any investments which do not guarantee the safe return of the principal invested but this option will remain under review.

4.15 Policy on Use of Financial Derivatives

The CIPFA Code requires councils to clearly detail their policy on the use of derivatives in the annual strategy. Derivatives are instruments which are used to mitigate interest rate risk. The council will only consider the use of standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the council is exposed to. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria.

5. 2013/14 Minimum Revenue Provision Statement

5.1 The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of borrowing. The charge to the Revenue Account is referred to as the Minimum Revenue Provision.

5.2 CLG's Guidance on Minimum Revenue Provision (issued in 2010) places a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

5.3 The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure (which gave rise to the debt) provides benefits.

Options for making 'Prudent Provision'

5.4 There are four options for Prudent Provision set out in the guidance:

Option 1 - Regulatory

For debt which is supported by the Government through Revenue Support Grant (RSG), authorities may continue to use the formulae under the 2003 Regulations, as RSG debt support is calculated in that way. This includes applying an adjustment (the Item A adjustment), which reduces the charge back to the former credit ceiling accounting methodology.

Option 2 - CFR method

This is similar to option 1, but just uses the CFR and doesn't apply the full formula, including the Item A adjustment. Under this option the annual repayment would be higher.

Option 3 - Asset Life method

For new borrowing under the prudential system there are 2 options in the guidance. The first is to make provision over the estimated life of the asset for which the borrowing is undertaken. This can either be on an equal instalment method or an annuity basis.

Option 4 - Depreciation method

An alternative to Option 3 is to make provision in line with depreciation accounting. Although this would follow standard rules for depreciation accounting there would have to be some exceptions, for example, that MRP would continue until the provision is equal to the original debt and then cease.

MRP Policy 2013-14

5.5 In line with the guidance produced by the Secretary of State, the proposed policy for the 2013-14 calculation of MRP (unchanged from previous years) is as follows:

- Borrowing supported through the RSG grant system will be repaid in accordance with the 2003 Regulations.

- Prudential borrowing will be repaid over the life of the asset on an equal instalment basis commencing in the year following the year in which the asset first becomes operational.

- For expenditure under Regulation 25(1)(b), loans and grants towards capital expenditure by third parties, prudential borrowing will be repaid over the life of the asset in relation to which the third party expenditure is incurred.

- MRP in respect of PFI and leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

APPENDIX 1

EXISTING BORROWING & INVESTMENTS AS AT 31 DECEMBER 2012

External Borrowing:	Actual Portfolio £m	Average Rate %
PWLB – Fixed Rate	130	3.99%
PWLB – Variable Rate	0	
Local Authorities	7	0.41%
LOBO Loans	12	4.50%
Total External Borrowing	149	3.86%

Investments:	Actual Portfolio £m	Average Rate %
Investments: (All short-term (one year or less) and all managed in house)		
Nat West Instant Access Account	5	1.10%
Money Market Funds (Instant Access)	4	0.47%
Term deposits:		
UK Banks	12	1.20%
UK Building Society – Nationwide	2	0.76%
Other Councils	4	0.98%
Total Investments	27	1.00%

APPENDIX 2

PRUDENTIAL INDICATORS

1. Background

1.1 There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement which is used for comparison with gross external debt.

2.3 The Chief Officer (Finance and Commercial) reports that the council had no difficulty meeting this requirement in 2012/13, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure

3.1 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax levels.

Capital Expenditure	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Total	**39,362**	**42,055**	**58,076**	**37,063**	**14,846**

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Capital receipts	465	3,164	1,569	355	0
Government Grants	26,992	25,188	26,487	18,471	2,600
Revenue contributions	0	176	0	0	0
Total Financing	**27,457**	**28,528**	**28,056**	**18,826**	**2,600**
Prudential Borrowing	**11,905**	**13,527**	**30,020**	**18,237**	**12,246**
Total Financing and Funding	**39,362**	**42,055**	**58,076**	**37,063**	**14,846**

4. Ratio of Financing Costs to Net Revenue Stream

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code and includes both interest payable and provision for repayment of loan principal.

4.2 The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Net Revenue Stream	143,359	143,359	**150,297**	144,649	138,015
Financing Costs	18,049	17,616	**17,725**	18,880	18,140
Percentage	**12.59%**	**12.29%**	**11.79%**	**13.05%**	**13.14%**

4.3 The net revenue stream comprises council tax receipts plus government funding excluding specific grants. The net revenue stream has increased for 2013/14 because of changes to government funding and the movement of £9.3 million of grants from specific to non-specific.

4.4 The financing costs shown above are stated before deducting any directorate contributions or capitalised interest.

5. Capital Financing Requirement

5.1 The Capital Financing Requirement (CFR) measures the council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and financing.

Capital Financing Requirement	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Total CFR	**209,189**	**211,496**	**230,952**	**238,060**	**240,143**

6. Incremental Impact of Capital Investment Decisions

6.1 This is an indicator of affordability that shows the impact of capital investment decisions on council tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme including new additional capital schemes.

Incremental Impact of Capital Investment Decisions	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
New capital expenditure funded by Prudential borrowing	**7,100**	**1,535**	**1,320**
Interest payable	114	254	307
MRP - Provision for repayment of principal	0	284	345
Total financing costs	**114**	**538**	**652**
	Number	**Number**	**Number**
Estimated tax base	**64,260**	**64,260**	**64,260**
	£	**£**	**£**
Increase in Band D Council Tax (Currently £1,205.09 for 2012/13)	**1.77**	**8.37**	**10.15**
Incremental annual increase	**1.77**	**6.60**	**1.78**

6.2 The above increase in Band D council tax reflects the increase in the provision for capital financing charges arising from the proposed capital programme. The interest payable is calculated assuming that the supporting loans are taken out mid-year at rates ranging from 3.20% to 4.00%.

6.3 As with the other performance indicators, the financing costs shown above are stated before deducting any directorate contributions and associated savings.

6.4 An increase in capital financing charges does not necessarily mean that council tax will be increased by an equivalent amount due to savings in other areas.

7. Authorised Limit and Operational Boundary for External Debt

7.1 The council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the council and not just those arising from capital spending reflected in the CFR.

7.2 The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the council. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

7.3 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit	2012/13 Original £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Authorised Limit for Borrowing	185	185	200	210	210
Authorised Limit for Other Long-term Liabilities	40	40	40	40	40
Authorised Limit for External Debt	**225**	**225**	**240**	**250**	**250**

7.4 The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

7.5 The Operational Boundary links directly to the council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	2012/13 Original £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Operational Boundary for Borrowing	175	175	195	205	205
Operational Boundary for Other Long-term Liabilities	35	35	35	35	35
Operational Boundary for External Debt	**210**	**210**	**230**	**240**	**240**

8. Adoption of the CIPFA Treasury Management Code

8.1 This indicator demonstrates that the council has adopted the principles of best practice.

8.2 The council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices. The council's Treasury Management Policy Statement is attached at **Appendix 6**.

9. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

9.1 These indicators allow the council to manage the extent to which it is exposed to changes in interest rates.

9.2 The upper limit for variable rate exposure has been set to ensure that the council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	2012/13 Original	2012/13 Revised	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate
Upper Limit for Fixed Interest Rate Exposure	100%	100%	**100%**	100%	100%
Upper Limit for Variable Interest Rate Exposure	25%	25%	**25%**	25%	25%

9.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis. The decisions will ultimately be determined by budget constraints and expectations of anticipated interest rate movements as set out in the council's treasury management strategy.

10. Maturity Structure of Fixed Rate Borrowing

10.1 The council will also limit and monitor large concentrations of fixed rate debt needing to be replaced. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

10.2 The maturity of borrowing is determined by reference to the earliest date on which the loans could be repaid. Therefore the council's two LOBO loans are included as being repayable within 12 months although, if the lenders do not increase the interest rates being charged, the loans could remain outstanding until 2054.

Maturity structure of fixed rate borrowing	Estimated level at 31/03/13	Lower Limit for 2013/14	Upper Limit for 2013/14
Under 12 months (including £12m of LOBO loans)	11.38%	0%	30%
12 months and within 24 months	2.85%	0%	30%
24 months and within 5 years	13.76%	0%	30%
5 years and within 10 years	12.82%	0%	30%
10 years and within 20 years	26.45%	0%	40%
20 years and within 30 years	9.25%	0%	40%
30 years and within 40 years	7.12%	0%	40%
40 years and within 50 years	16.37%	0%	40%
Total	100%		

11. Credit Risk

11.1 The council considers security, liquidity and yield, in that order, when making investment decisions.

11.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the council's assessment of counterparty credit risk.

11.3 The council also considers alternative assessments of credit strength and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

11.4 Credit ratings remain the only indicators with prescriptive values. Other indicators of creditworthiness are considered in relative rather than absolute terms.

12. Upper Limit for total principal sums invested over 364 days:

12.1 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the council having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	2012/13 Original £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
	15	15	15	15	15

APPENDIX 3

OUTLOOK FOR INTEREST RATES
(FORECAST & ECONOMIC COMMENT PROVIDED BY ARLINGCLOSE)

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Bank Base Rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
PWLB Rates (%):													
5 years	1.95	1.95	1.95	1.95	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20
10 years	3.00	3.00	3.05	3.05	3.05	3.05	3.10	3.10	3.10	3.20	3.20	3.20	3.20
20 years	3.90	3.90	3.90	3.90	4.00	4.00	4.00	4.00	4.10	4.10	4.10	4.10	4.10
50 years	4.35	4.35	4.35	4.40	4.40	4.40	4.50	4.50	4.50	4.50	4.60	4.60	4.60
The above PWLB rates are noted by Arlingclose as their "central" or most likely forecast, however, they also note that they could be up to 1.00% higher or up to 0.25% lower than the above.													

<u>Underlying Assumptions:</u>

- Consumer Price Inflation has fallen to 2.7% (November 2012) from a peak of 5.2% (September 2011). Near term CPI is likely to be affected by volatility in commodity prices and its decrease towards the 2% target is expected to be slower than previously estimated.
- Strong Q3 growth data has provided encouragement with the larger than expected 1% rise in GDP. Consumers are yet to loosen purse strings and businesses are still reticent to make long-term investments. The momentum in growth is unlikely to be sustained whilst uncertainty over the economic outlook persists.
- In the absence of a large, unexpected decline in growth, Quantitative Easing is likely to remain on hold at £375 billion for now. The availability of cheaper bank borrowing and subsequently for corporates through the Funding for Lending Scheme (FLS) is a supporting factor.
- The US 'fiscal cliff' still remains unresolved. Whilst agreement was reached over tax rises there is another cliff in March 2013 when tougher decisions will need to be made over a further $110 billion of spending cuts which are due to take effect.
- The Eurozone is making slow headway (the European Stability Mechanism is now operational, announcements on the Outright Monetary Transactions programme, slow progress towards banking union) which has placated markets and curtailed some of the immediate risks although peripheral countries continue to struggle. Full-fledged banking and fiscal union is still some years away.

APPENDIX 4

SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

New specified investments may be made within the following limits:

Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits**
Term Deposits	UK	Other UK Local Authorities	No limit
Term Deposits, CDs & Call Accounts	UK	Counterparties rated at least A- Long Term	£5m or 15%, whichever is greater
Term Deposits, CDs & Call Accounts	Non-UK	Counterparties rated at least A- Long Term. Non-UK countries to have a sovereign rating of at least at least AA+	£5m or 15%, whichever is greater
Deposits with Registered Providers (Housing Associations)	UK	Counterparties recommended by Arlingclose (at least A- long term where rated)	£5m or 15%, whichever is greater
Corporate Bonds	UK	Counterparties rated at least A- Long Term	£5m or 15%, whichever is greater
Gilts	UK	DMO	No limit
Treasury Bills	UK	DMO	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/Council of Europe, Inter American Development Bank)	£5m or 15%, whichever is greater
Local Authority Bills	UK	Other UK local authorities	No limit
Commercial Paper	UK and Non-UK	Corporates where the issue is rated at least F1 short-term	£5m or 15%, whichever is greater
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£5m or 15%, whichever is greater – Limit applied per Fund
Other MMFs and Collective Investment Schemes	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments	£5m or 15%, whichever is greater – Limit applied per Fund
Term Deposits	UK	Debt Management Office	No limit

<u>NB</u>
The limit of 15% relates to the proportion invested with that counterparty as a percentage of the council's total investments and, in the case of term deposits, the limit is applied at the time the investment is made.

In the case of call accounts the 15% limit will be calculated on a monthly basis. The limit for each month will be fixed by taking 15% of the average total investments for the previous month and rounded up to the nearest million.

Group Limits - For institutions within a banking group, a limit of 1.5 times the individual limit of a single bank within that group is used. For example, a single bank may have a limit of 15% but if it is part of a group an overall group limit of 22.5% will be applied.

Non-UK Banks - These will be restricted to a maximum exposure of 25% per country to limit the risk of over-exposure to any one country.

MMFs – Arlingclose emphasise diversification for all investments including MMFs and so the council will spread their investments in Money Market Funds between two or more Funds.

APPENDIX 5

NON-SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

Having considered the rationale and risk associated with Non-Specified Investments, the following have been determined for the council's use:

	In-house use	**Maximum maturity**	**Max % of portfolio**	**Capital expenditure?**
Term deposits with banks and building societies which meet the specified investment criteria (on advice from Arlingclose)	✓	2 years	25%	No
Certificates of Deposit and other negotiable instruments with banks and building societies which meet the specified investment criteria (on advice from Arlingclose)	✓	5 years	25%	No
Investments with banks and building societies which **do not** meet the specified investment criteria (on advice from Arlingclose and authority from S151 Officer)	✓	3 months	10%	No
Term deposits with other UK local authorities	✓	10 years	25%	No
Deposits with registered providers (housing associations)	✓ (on advice from treasury advisor	2 years	20%	No
▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	10 years	20% in aggregate	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	These funds do not have a defined maturity date	20%	No
Corporate Bonds	✓	5 years	20%	No
Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓ (on advice from treasury advisor)	N/a – No defined maturity date	£2million	Yes

In determining the period to maturity of an investment, the investment should be regarded as commencing on the date of the commitment of the investment rather than the date on which funds are paid over to the counterparty.

APPENDIX 6

TREASURY MANAGEMENT POLICY STATEMENT

1. Statement of Purpose

1.1 Herefordshire council adopts the recommendations made in CIPFA's *Treasury Management in the Public Services: Code of Practice,* which was revised in 2011. In particular, the council adopts the following key principles and clauses.

2. 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 liquidity when investing funds.
- The council acknowledges that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ in support of business and service objectives, whilst recognising that in balancing risk against return, the council is more concerned to avoid risks than to maximise returns.

3. 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 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.
- 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 Chief Officer-Finance and Commercial, who will act in accordance with the organisation's policy statement and TMPs and, if he or she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. Definition of Treasury Management

4.1 Herefordshire council defines its treasury management activities as: -
'The management of the organisation's investments and cash flows, 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.'

5. 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.

Appendix B

FINANCIAL RESOURCE MODEL 2013/14 to 2015/16

MTFRM	2013/2014 Budget £'000	2014/2015 Budget £'000	2015/2016 Budget £'000	2016/2017 Budget £'000
Base Budget	**143,359**	**150,297**	**144,649**	**138,015**
Total Inflation	**2,603**	**2,931**	**3,011**	**3,068**
Inflated base budget	**145,962**	**153,228**	**147,660**	**141,083**
Grant transfers/changes				
2013/14 Grants rolled into Central Funding				
Early Intervention Grant (excl 2 yr olds)	5,271	(336)		
Homelessness Prevention Grant	206			
A proportion of Lead Local Flood Authorities Grant	130			
DoH Learning Disability & Health Reform Grant	3,842	96		
MTFMS Changes				
- Waste management - PFI Contract	250	500	500	500
- Whitecross PFI requirement	75	75	75	75
- Local Development Framework	(300)			
- Reduce Investment Income West Mercia	374			
- Academy schools/LASCEG	(378)	(283)	(210)	(189)
- Relief road feasibility study	(300)			
Capital Financing Costs				
- Cost of borrowing	(1,056)	571	(744)	504
- New capital funding	189	191		
- Investment Income	153	10		
Identified Pressures				
- Income shortfall (car parking, land charges etc)		(112)	(113)	
- Management change reserve	1,000	(1,000)		
Additional budget pressures identified:				
People	3,150	5,596	5,708	
Places & Communities	1,330	(270)	(750)	
Corporate	700			
Savings				
- Root and Branch incl. Hoople	(9,142)	(3,811)	(1,282)	
Funding				
Move 11/12 freeze grant to Formula Grant				
Council Tax freeze grant 2012/13 only	2,164			
Contingency	(1,000)			
Use Freeze Grant for "Transformational Change"	(1,164)			
New Homes Bonus	(654)	(654)	(654)	(654)
Returned LACSEG	(2,085)	283	210	189
CT Support Grant to be passed to parishes	289	5	6	6
Transitional grant for local ctax support	(259)	259		
Reserves				
Top up contingency/insurance reserves	(450)			
General reserves	**2,000**	**(1,000)**	**0**	**(1,000)**
Capacity to achieve desired Tax increase	**0**	**(8,699)**	**(12,391)**	**(6,292)**
TOTAL BUDGET	**150,297**	**144,649**	**138,015**	**134,222**
Council Tax increase	1.90%	0.00%	0.00%	0.00%

CHARGING PRINCIPLES AS AGREED WITH GENERAL OVERVIEW & SCRUTINY

1. Council should consistently apply the principles for setting or amending fees and charges agreed last year and revised by this group and by PwC. These principles should be set out as part of the annual budget papers where the full schedule of fees and charges is included. Any future presentation of the schedule to members should include a covering report setting out how the principles have been met.
2. Any new charges or any changes to existing charges in excess of inflation, should be tested and reported against the council's stated principles for setting or amending fees and charges. Over a period of time, not exceeding 18 months, <u>all existing charges</u> should be tested against the principles in order to provide a baseline for future review.
3. The council should develop a consistent approach to engaging service users and taxpayers more in decisions about whether and at what level to charge for services. Questions should continue to be asked in consultations about services and wider engagement exercises to do with council finances. As part of this engagement, the council should describe the financial and non-financial contribution of charging, and the rationale for levels of subsidy for services to local people. The council should make this information available on its website and at service hubs and information centres.
4. Staff should receive the necessary training to behave in a business-like/commercial manner in developing and delivering council services
5. The appropriate finance mechanisms and tools should be made available to enable service costs and management overheads to be apportioned and managed effectively to ensure cost recovery.
6. Benchmarking should be undertaken to learn from commercial markets exhibiting functional or capability similarities to council services.
7. Enabling systems and tools should be in place to minimise the implementation and running costs of service charges and to ensure appropriate information about service use and user behaviour is captured to inform future planning and service delivery.
8. Services should be classified to distinguish between those that are mandatory, discretionary and commercial to aid transparency and clarity for staff, councillors and the public.

Appendix B

Root and Branch Review Programme: Housing, Economic Development and Regulatory Services (HERS)

1 SCOPE

- Economic development
- Internal administration and external business support
- Housing strategy and provision
- All regulatory services across People and Place

2 CORE PURPOSE

To deliver a range of housing, regulatory and economic services that minimise red tape and support the delivery of the Council's strategic objectives around vulnerable people and creating a thriving local economy.

3 PROPOSED CHANGES

- Develop changes to strategic policies that will support new service delivery models to address demographic pressures within Adult Social Care, as well as enable infrastructure to deliver economic growth.
- Focus activity onto prevention and early intervention, thereby reducing the demand for services in the longer term, particularly for vulnerable people and enabling people to live longer in their own homes.
- Provide an efficient service with streamlined systems, using the most appropriate model of delivery (e.g. improving our processing of planning applications and enforcement activities).
- Better manage customers' expectations, securing full cost recovery on our core regulatory services wherever appropriate.
- Align services better to customer requirements (e.g. a one stop shop for businesses for advice and support).

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- Re-procure a range of housing related support services, to deliver value for money savings and service improvement.
- Reduce the regulatory burden in planning, environmental health and trading standards.
- Reshape the economic development service to support the delivery of LEP priorities, including the Enterprise Zone.
- Review statutory policies and thresholds to ensure that we focus on those who are most at need.
- Manage expectations in terms of the level of service we provide and enabling self-help for our customers where appropriate.

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- The lean systems thinking work and other review activity has commenced in all relevant projects within HERS but only the Planning Permission work has been completed – other projects to be completed before 28th February which will enable reshaping of services to reduce cost and increase resilience.
- Awaiting recommendations stemming from the Planning Permission work (and other projects).

Appendix B

Root and Branch Template 2013/14 – HERS – PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Staff reductions	80			80	80		
Sampling / subscriptions (£10k)	9			9	9		
Annualised hours re-evaluation	17			17	17		
Gull contract - funded by town council	6			6	6		
Taxi marshalling recharges	2			2	2		
Reduction calibration costs	2			2	2		
Boat licences / End street collection licences	5			5	5		
Reduced Travellers site costs	5			5	5		
Travellers site income	10			10	10		
R&B target details TBC	105			105	105		
Housing Solutions		75		75	56	19	
Economic Development review		80		80	80		
Grants service		25		25	19	6	
Planning policy		100		100	75	25	
Processing of applications	20	110		130	97	33	
Preventative and advisory services	60	40		100	75	25	
Fee generating services	10	50		60	45	15	
Other services supporting permission-based activities	5	25		30	23	7	
Recommissioning within Housing		249		249	193	56	
Savings to be identified		250					
TOTAL SAVINGS	336	1004	0	1090	904	186	0

Savings already accounted for	381	**0**	**0**
BUDGET reduction for medium term strategy	**773**	**186**	**-**

Root and Branch Review Programme: Herefordshire Streetscene

1 SCOPE

SCOPE	WHY	KEY ISSUES
Roads and paths construction	Significant spend	What are the priorities for investment
Street cleaning, lighting, amenities	High resident priority	Relationship between spend and outcomes
Public sector property holdings, including locality asset plans	Need for clear vision for streets in Herefordshire	Opportunities for collaboration, including with residents
Investment in new infrastructure	Significant impact on Council reputation	Opportunities for devolving services to parishes etc.
Construction capital programmes	In flight review (Amey contract)	Links to Amey Contract review
Partnering organisations		Links with regeneration LTP etc.
In flight reviews		

2 CORE PURPOSE

To deliver Public Realm, Property and ancillary services at the best possible value for money whilst meeting customer expectations through a greater emphasis on locality working to tailor the delivery and implementation of services to meet local needs.

3 PROPOSED CHANGES

- Re-commission the services within the scope of the existing Service Delivery Partnership and take forward the commissioning of property services.
- Transformation of public convenience service provision through establishing a community toilet scheme and working with City, Town, Parish Councils and community groups to examine alternative approaches to local service delivery. (Linked to Safer and Stronger Review)

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- The re-procurement of services within the scope of the current Service Delivery Partnership is seeking to deliver value for money savings and service improvement.
- Changes to public convenience services may result in rationalisation of facilities that are no longer required. However, the aim is to deliver higher quality, sustainable, accessible toilet provision to better meet the needs of local people and visitors to Herefordshire through working with partners.

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- The commissioning process is in place but not complete.

None identified

Root and Branch Template 2013/14 – Herefordshire Street Scene – PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Re- procurement of Amey contract		1860		1860	750	1,110	
Property Services Review			557	557	250	307	
TOTAL SAVINGS	0	1860	557	2417	1000	1417	0

	2013/14	2014/15	2015/16
Savings already accounted for:	700	**0**	**0**
BUDGET reduction for medium term strategy	**300**	**1417**	**0**

Root and Branch Review Programme: Customer Services
(Making Every Contact Count)

1 SCOPE

- All customer contact channels
- Customer insight
- Communications
- Identify opportunities for increasing customer base
- Partner customer services/front offices

2 CORE PURPOSE

To improve outcomes for our residents and Herefordshire by making every contact count, so that the following outcomes:

- Predict and prevent the need for services
- Support people to be independent and self- reliant
- Manage and divert demand for services to self- service channels
- Customer led service improvements
- Clear points of access
- Achieve Value for money for residents

3 PROPOSED CHANGES

- Adopting a lean and systems approach will inform the future service delivery model whereby a customer enquiry is answered on first contact and key information made available to other teams / professions in order to make every contact with residents count
- Commissioning effective customer contact through our full range of suppliers
- Reduce opening hours for libraries and info shops
- Reduce management costs
- Shift to more electronic customer contact, communication, accessing information, making payments
- Merging where library services, info shops and registration services operate from
- Merging teams where it makes sense from a customer's perspective and provides a more resilient/flexible service

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- 20% reduction in operating costs of service of Customer Contact Centre and Customer Service Centres (info shops)
- 10% reduction in front-line operating costs of Council services
- 10% reduction in cost of service fulfilment budget (reflected in contracts)

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Delivery Plan sign off
- Development and consultation on the *Digital by Default* strategy
- Development of *Making Every Contact Count* framework for commissioning activities
- Consultation with partners on delivery of *Making Every Contact Count*

Root and Branch Template 2013/14 - Customer Services – PROPOSED SAVINGS

Cashable £000	**Directorate**			**Review total**	**Savings**		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Review of management team	0		350	350	350		
Customer Organisation Project			100	100	100		
Merging of Corn Square & Leominster Library; (not a saving until full disposal).			33	33	33		
Bromyard Halo take responsibility for their Leisure Facility bookings and registration			17	17	17		
Close Sundays at the Bromyard Customer Service & Library service			12	12	12		
Reduce the working hours on a Saturday at Bromyard by 2 hrs			2	2	2		
Reduce library hours across the county – (close Sats at 1pm & reduce late evenings to 6pm)			20	20	20		
Utilising “All Pay” instead of Cash Offices plus potential staff saving + Securicor savings			35	35	35		
Close the Info Shops & Libraries at lunch times (saves 1 hour per day per branch)			14	14	14		
Close in between Christmas & New Year			4	4	4		
To be identified			22	22	22		
TOTAL SAVINGS	0	0	609	609	609	0	0

Savings already accounted for	100	**0**	**0**
BUDGET reduction for medium term strategy	**509**	**0**	**0**

Root and Branch Review Programme: Safer and Stronger Herefordshire

1 SCOPE

- Community Safety
- Resilience / Emergency Planning
- Equality, Integration / Diversity
- Partnership (in particular HPEG and South Wye)
- Support for Parish Councils
- Options for the localised delivery of services
- Support for Advice
- Locality working

Service areas:

- Sustainable Communities: £676k (grants of £400k)
- Emergency Planning: £241k
- Equality, Integration and Partnership: £232k

2 CORE PURPOSE

"Get it right first time"

- **Prevention and preparedness** – assign resources to avoid the need for higher levels of intervention.
- **Localised decision making and delivery** – service design to reflect distinctive local needs.
- **Enable and empowerment** – build self-reliance, proactive and resilient communities.
- **Choices** - options and choices for decisions to be made on allocating resources.

3 PROPOSED CHANGES

- Authority wide policy on support for community involvement
- Local delivery of services
- Support for parish councils through a menu of options
- Reformed Advice provision to be sustainable
- Grant programme designed to meet review priorities
- Designed service level agreements to meet priorities and not duplicate
- Retain Community Safety requirement
- Internal co-ordination to "getting it right first time".

4 WHAT WE ARE PROPOSING TO STOP OR CUT

- Reduce grants
- Revise service level agreements
- One stop shop for parish councils
- Additional income
- Cross partner working
- Reduction in staffing in Diversity, Community Safety, Emergency Planning
- Reductions due to local delivery of services

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Produce Involvement Strategy
- Finalise consultation with town and parish councils
- Confirm contributions from external partners
- Establish income generation model
- Formulate options for the delivery of local services

Appendix B

Root and Branch Template 2013/14 - Stronger and Safer Communities – PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Grants - Community Buildings		57		57	42	15	
Grant - from Diversity			7	7	7		
Grant - HVOSS reduction		18		18	6	6	6
Income: Emergency Planning			50	50	50		
Income: Language Network			10	10	10		
Income: Diversity Training			6	6	3	3	
Joint delivery: South Wye		20		20	10	10	
Joint delivery: Places		60		60		60	
Joint delivery: Diversity			20	20		20	
Joint delivery: Emergency Planning			20	20		20	
Quick win: Diversity			1	1		1	
Quick win: Emergency Planning			1	1		1	
Quick win: Sustainable Communities		1				1	
Community Safety		-40		-40		(40)	
Additional Savings to be identified		50			50		
TOTAL SAVINGS	0	166	115	231	178	97	6

	2013/14	2014/15	2015/16
Savings already accounted for	**0**	**0**	**0**
BUDGET reduction for medium term strategy	**178**	**97**	**6**

Root and Branch Review Programme: Older People in Herefordshire

1 SCOPE

- Services supporting older people including those with dementia and end of life care
- Disabilities Facilities Grant, Shop Mobility, bus passes and concessionary bus fares, equipment for people leaving hospital and specialist out of county placements
- Triggers resulting in vulnerability leading to high level crisis

2 CORE PURPOSE

- Inclusion of those who are most vulnerable in our society
- Access to universal services for all
- Removing barriers inhibiting inclusion and access to universal services for vulnerable older people who have additional needs
- Early identification of triggers leading to crisis and prevention of high level vulnerability

3 PROPOSED CHANGES

- Continue broadening alternatives to residential care through a range of housing and planning options for older adults
- Develop further community support for older people
- Increased focus on information advice and signposting and increased support for carers
- Reshape day opportunities for older adults
- Ensuring an effective and fit for purpose delivery model for re-ablement for older adults and their carers
- Increased use of assistive technologies including telecare
- Reviewing the operation and effectiveness of all major contracts

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- Removal of duplication and improvement in the process for delivery of disabled facilities
- Reduction in high cost packages of care
- Reduction in subsidies, i.e. fee increases for services

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Bringing the Older People and Vulnerable Adults reviews together into an effective programme of work and to respond effectively to the opportunities and challenges of the Care and Support Bill
- Options Appraisal of alternative delivery model including mutual/social enterprise, Social Work practice, Local Authority Trading Company
- Recasting of services through new models of commissioning and joint commissioning
- Workforce Transformation utilising LEAN, Skill mix and integrated pathways
- Implementing market development strategy and maximising people centred approaches and preventable approaches
- Fully assessing impact and opportunities of the Care and Support Bill and preparing for this

Root and Branch Template 2013/14 - Older People – PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Recovery Charging (slippage)	183			183	183		
Reablement (Cashable)	88			88	88		
Reviews	115			115	115		
Disabled Facilities grant	1800			1800	900	900	
Homecare	100			100	100		
High Cost packages	150			150	150		
Direct Payments surplus recovery	92			92	92		
TOTAL SAVINGS	2528	0	0	2528	1628	900	0

Savings already accounted for	1,628	900	**0**
BUDGET reduction for medium term strategy	**0**	**0**	**0**

Root and Branch Review Programme: Supporting Vulnerable People in Herefordshire

1 SCOPE

- Physical disability
- Concessionary fares
- Learning disabilities
- Mental health (adult and children)
- Families at Risk
- People on low income/out of work
- Disability
- Disabled children
- Physical disability
- Younger age dementia
- Acquired brain injuries
- Substance misuse services

2 CORE PURPOSE

- Inclusion of those who are most vulnerable in our society
- Access to universal services for all
- Removing barriers inhibiting inclusion and access to universal services for vulnerable people who have additional needs
- Early identification of triggers leading to crisis and prevention of high level vulnerability

3 PROPOSED CHANGES

- Adopting a lean and systems approach will inform the future service delivery model whereby a customer enquiry is answered on first contact and key information made available to other teams / professions in order to make every contact with residents count

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- Reducing demand for domiciliary care
- Reducing demand for residential care
- Driving down costs
- Commissioning for better outcomes
- Further market development to secure the best providers for services

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Bringing the Older People and Vulnerable Adults reviews together and to respond to the opportunities and challenges of the Care and Support Bill
- Options Appraisal of alternative delivery model including mutual/social enterprise. Social Work practice, Local Authority Trading Company
- Recasting of services through new models of commissioning and joint commissioning
- Workforce Transformation utilising LEAN, Skill mix and integrated pathways
- Implementing market development strategy and maximising people centred approaches and preventable approaches

Root and Branch Template 2013/14 - Vulnerable People: PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	People's	Places	Corporate		2013/14	2014/15	2015/16
10% reduction short breaks	32			32	32		
Budget Hold Lead Professional reduction	37			37	37		
Recovery Charging (slippage)	312			312	312		
Reviews PD/LH/MH	245			245	245		
Market negotiation	220			220	220		
Supported living arrangements	100			100	100		
Recovery Direct Payments surplus	158			158	158		
Disraeli court	50			50	50		
Wye Valley 5% savings target	500			500	500		
2G savings target 5%	35			35	35		
Reduce contractual inflation	100			100	100		
Wye Valley Day care	400			400	400		
Target Learning Disability high cost packages	1000			1000	1,000		
Livability contract LD	250			250	250		
Target mental health high cost packages - balance TBC	780			780	780		
Target mental health high cost packages- dom care +10% above residential	220			220	220		
High cost PD packages	200			200	200		
Resource Allocation System Savings #1	300			300	300		
Resource Allocation System further savings #2	300			300	300		
Mutual / social enterprise delivery model	500			500		500	
TOTAL SAVINGS	5,739	0	0	5,239	5,239	500	0

	2013/14	2014/15	2015/16
Savings already accounted for	1,029	**0**	**0**
BUDGET reduction for medium term strategy	**4,210**	**500**	**0**

Root and Branch Review Programme: Children and Young People in Herefordshire

1 SCOPE

- **Locality services** – including Children's Centres, integrated youth services, education welfare, home education, anti-bullying and Parenting and Family Support services
- **Duke of Edinburgh Award Scheme**
- **Commissioning of agency placements for Looked After Children**
- **Safeguarding** – including FAST, fieldwork, looked after children, fostering, adoption, troubled families, supervised contact and children with disabilities
- **Early Years provision**
- **Schools** – including school performance and standards, admissions, governors, out of school activities, attendance and truancy, learning and achievement services
- **Special Educational Needs and additional support** – including statutory services (SEN, EPS, Re-integration, LAC education), specialist education services (traded and non-traded), equalities team, monitoring and QA role and behaviour system
- **Family support**

2 CORE PURPOSE

To ensure positive and sustainable outcomes for all children and young people in Herefordshire, by ensuring that those who are unlikely to thrive are supported

3 PROPOSED CHANGES

- **The big idea**
  - one child
  - one record
  - one assessment of need
  - one plan
  - one team (around the family)
  - one multi-agency budget
- **What this means**
  - Full child's journey analysis using Lean Systems Thinking (6-8 weeks)
  - The development of a Multi Agency Safeguarding Hub (MASH)
  - The introduction of a Single Assessment
  - A locality model for provision of services

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- Connexions building (close)
- Youth centres (close/transfer to alternate provider)
- Outdoor education centre (transfer to alternate provider)
- Enhanced school budget for Looked After Children (LAC) education support and refocus social care funding for education support
- Education psychology assistants
- Reduction in Children's centres services
- Substance misuse service
- Management costs for parenting and family support
- Reduction in support for early years provision (75% EIG)
- Reduction in school improvement services (60%)
- Educational advisor (transfer to Corporate Services – traded in future)

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Preparatory work for the Child's Journey project is underway
- The project is due to run from 4 February to 29 March
- Findings, recommendations and next steps will be presented from 2 April onwards

- An implementation plan to redesign services focused on what is best for the child will follow, along with a clear idea of anticipated savings and a strategy to increase effectiveness of early intervention to reduce spend on crisis and long term high need costs.

Root and Branch Template 2013/14 - Children & Young People in Herefordshire – PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Closure connexions Building	55			55	55		
Integrated Support Services restructure Financial Year impact	63			63	63		
Outdoor education closure	167			167	167		
Reduction LAC education support	12			12	12		
Education Psychology Assistants	21			21	21		
Children's Centres	54			54	54		
Substance Misuse stop service	47			47	47		
Parenting & Family staff reductions	35			35	35		
Reduction Early Years 75% EIG	419			419	419		
Reduction School Imp 60%	326			326	326		
Reduce ISS commissioning support	160			160	160		
Staffing reduction – Education Advisory Service	19			19	19		
ISS/ Children centre target	500			500	500		
Education Psychology target	100			100	100		
Closure Youth Centres	91			91	91		
Reduction 50% 11-19 Learning	90			90	90		
TOTAL SAVINGS	2,159	0	0	2159	2,159	0	0

	2013/14	2014/15	2015/16
Savings already accounted for	1,809	**0**	**0**
BUDGET reduction for medium term strategy	**350**	**0**	**0**

Root and Branch Review Programme: Transport and Travel in Herefordshire

1 SCOPE

This is a cross directorate review which encompasses the following passenger transport services with a total value of £8.7M:

- Local bus and community transport
- Home to school travel
- 16-19 travel
- Special education needs travel
- Adult social care transport

2 CORE PURPOSE

Core purpose of the services covered by this review is set by the Local Transport Plan:

- To deliver a cleaner, healthier more prosperous county (Create and maintain a successful economy)
- To maintain connectivity for all and to reduce social isolation of the elderly and those without access to a car (Enable residents to be independent and lead fulfilling lives)

3 PROPOSED CHANGES

- Integrate commissioning of all passenger transport services within Places Directorate with Transport Strategy function to coordinate with policy and deliver savings
- Network Review/Service Design
- Public Transport reductions
- Discretionary Provision School Transport

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- Contract efficiencies – reduce wastage on underused vehicles
- Economies of scale on passenger transport services through integrated commissioning
- Full cost recovery for education transport services

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- The key opportunity for savings with passenger transport services is through redesign of services and re-procurement
- This review outlines the need to undertake this review through 2013 with a view to re-procurement in 2014 and savings commencing September of that year (contracting round for buses and school transport)
- The savings plan takes into account best practice examples and the Council's experience of savings from within bus service contracts 2011/12

Root and Branch Template 2013/14 - Travel and Transport in Herefordshire – PROPOSED SAVINGS

Cashable £000	**Directorate**			**Review total**	**Savings**		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Transport savings (statutory minimum)	101			101	68	33	
Staff restructure	20			20	20		
Team integration (invest to save)	- 46	-29		-75	-50	-25	-
Network Review/Service Design	609	391		1,000	-	584	416
Public Transport service reductions		305		305	205	100	-
Discretionary Provision/Fee Income School Transport	409			409	97	202	110
TOTAL SAVINGS	1,093	667	-	1,760	340	894	526

Savings already accounted for	88	33	**0**
BUDGET reduction for medium term strategy	**252**	**861**	**526**

Root and Branch Review Programme: Herefordshire's Environment

1 SCOPE

Landscape and natural environment Waste Flood defences Drainage Carbon reduction agenda Sustainability	Byways Rights of way Outdoor pursuits Walking Bridleways Waste collection Waste disposals Waste local plan Waste management Trade waste Special waste collections Civic amenity sites Garden refuse disposal Recycling collection schemes Bins Flytipping	Clinical waste disposal Minerals local plan Climate and weather Energy and fuel Energy efficiency Country parks Countryside Preservation Ranger services Nature conservation Nature reserves Hedges Common land Flooding Sandbags Emergency planning Sites of Special Scientific Interest Tree preservation

2 CORE PURPOSE

- Promote HC as an environmental exemplar
- Draw together environmental resources to;
  - Deliver renewable energy projects to reduce costs and maximise income
  - Develop energy efficiency projects both in-house and in the community to reduce energy costs
  - Minimise the amount of waste produced to reduce the cost of collection and disposal
  - To view waste as a resource and maximise recovery of value including energy production
  - Protect and enhance Herefordshire's countryside environment for the benefit of residents and visitors

3 WHAT WE ARE PROPOSING TO STOP OR CUT

- Change the payment mechanism with WCC to pay the waste disposal contractors
- Stop the bring site recycling collection of glass from the remaining 42 sites
- Change collection of refuse and recycling to alternate weekly
- Establishing independent governance for Countryside Service and require more income generation to cover operational costs
- Further savings may be forthcoming subject to negotiations with partners and contractors

4 PROPOSED SAVINGS

Refer to table below

5 UNFINISHED WORK

- Review is still working through the benefits framework phase of the R&B Programme.
- Key themes emerging around waste and contract management.
- More work needs to done on process efficiencies and team structures.
- Evaluation meeting with Review leads taking place on Thursday 24th January to ensure that the initial scope has been met and the necessary business cases can be established.

Root and Branch Template 2013/14 – Herefordshire's Environment: PROPOSED SAVINGS

Cashable £000	**Directorate**			**Review total**	**Savings**		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Waste Management Savings		500		500	500		
Alternate weekly collection		500		500		250	250
TOTAL SAVINGS		1,000		1,000	500	250	250

	2013/14	2014/15	2015/16
Savings already accounted for	**0**	**0**	**0**
BUDGET reduction for medium term strategy	**500**	**250**	**250**

Root and Branch Review Programme: Living and Wellbeing in Herefordshire

1 SCOPE

- Culture and leisure services
- Community based health services
- Public Health

2 CORE PURPOSE

To promote and improve:

- the health and wellbeing of the population
- physical and mental wellbeing
- belonging to the community and involvement in activities to enhance life

Whilst promoting individual and community responsibility for their own health.
(Working Draft)

Work is progressing in two stages:
- Stage A: review of Culture and Leisure
- Stage B: review of Community Based Health Services & Public Health

3 PROPOSED CHANGES

Stage A - Culture and Leisure:
- A shift away from subsidy and towards full cost recovery

Stage B - Community Based Health Services and Public Health:
- Changes to be determined post transfer (April 2013)

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- Stage A -: Removal/reduction of the local government subsidy from
  - Halo
  - The Courtyard,
  - Visit Herefordshire

- Stage B – Community Based Health and Public Health
  - Cuts not anticipated to this ringfenced grant – recommissioning for increased impact of activities and funds will be planned over a two-three year cycle.

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Review of public health contracts
- Statement of vision and outcomes for the Council's new public heath responsibilities

Root and Branch Template 2013/14 - Living and Wellbeing in Herefordshire – PROPOSED SAVINGS

Cashable £000	**Directorate**			**Review total**	**Savings**		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Reduction in subsidies to Cultural Services partners etc (currently under negotiation)	0	1500		1500	500	500	500
TOTAL SAVINGS	0	1500	0	1500	500	500	500

	2013/14	2014/15	2015/16
Savings already accounted for	**0**	**0**	**0**
BUDGET reduction for medium term strategy	**500**	**500**	**500**

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Root and Branch Review Programme: Learning and Skills in Herefordshire

1 SCOPE

- Community Learning and Employability Team (Regeneration Programmes)
- Regeneration team
- Economic Development (employment and skills)
- Post 16 Learning and Skills team
  - Planning and Commissioning
  - Statutory duty
  - Apprenticeships
  - Raise of Participation Age
  - NEET
  - HNS LLDD placement process
- Business Advice Services
- Learning and Curriculum Team
- Adult Social Services (supported employment)

2 CORE PURPOSE

To enable effective partnerships between businesses, education/training providers and communities, and maximise external funding in order to:

- Help all residents, including the most vulnerable, to find out what education, training and volunteering support/information is available to them, and what they need to do to gain employment or start a business.
- Help businesses to find out how to develop their workforce and find new employees with the general and specialist skills which they require.
- Work towards realising the full potential of Herefordshire residents and businesses, enabling them to grow, compete and prosper in a global economy.

3 PROPOSED CHANGES

- The Learning and Skills review is now entering the Scoping and Discovery Phase of the Root and Branch process.
- We have identified that there is limited budget associated with the in-scope areas.
- We are seeking to identify linked benefits across the wider economy and other Root and Branch reviews including Older People, Vulnerable People and Children and Young People.

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- At this early stage, no proposals to stop or cut have been recommended.
- Whilst the budget for this area is limited, the review does intend to understand and consider the role of a Local Authority for Learning and Skills

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

Hold a series of workshops with staff across the in-scope areas to:

- Build a coherent ‘bigger picture’ of what services/support is currently provided by the organisation and our partners around ‘Learning and Skills’.
- Identify areas which are problematic or contain untapped potential, in relation to the needs of Herefordshire residents, businesses and its economy.
- Demand analysis, system conditions and process mapping from a customer perspective. If appropriate, external partners will be involved at this stage.
- Assessment of options in relation to service design, delivery and costs, and the accompanying benefits and risks.
- Engage with Members and partners about options

Root and Branch Template 2013/14 - Learning & Skills in Herefordshire: PROPOSED SAVINGS

Cashable £000	Directorate			Review total	Savings		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Reduction 50% 11-19 Learning - moved to CYP				0			
Staff reductions		30		30	30		
TOTAL SAVINGS	0	30	0	30	30	0	0

	2013/14	2014/15	2015/16
Savings already accounted for	**0**	**0**	**0**
BUDGET reduction for medium term strategy	**30**	**0**	**0**

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Root and Branch Review Programme: Herefordshire 2020

1 SCOPE

- Herefordshire 2020 underpins and informs the other reviews, it is as much about the future priorities for the County as the role of the Council
- The budget for the functions in scope is £17.132m, including a number of annual provisions
- Scope includes:
  - Herefordshire Partnership(s)
  - Council vision
  - Council operating model
  - Commissioning plan & market development
  - New governance structures
  - Links to other agencies
  - Corporate and support costs (including Hoople)

2 CORE PURPOSE

- Completion of the Review awaits the conclusion of the other Reviews and the overall impact on the Council's purpose, functions and structure
- However, initial headlines on core purpose are:
  - Unique democratic role
  - Providing community leadership
  - Doing the things only we can do
  - Helping people to help themselves
  - Safeguarding & vulnerable people
  - Economy, jobs, wages
  - Getting the basics right
  - Demonstrating value for money

3 PROPOSED CHANGES

- With the exception of initial scoping, no detailed discussions have taken place and so no firm proposals have been made
- The following high level options are, however, being reviewed

4 WHAT WE ARE PROPOSING TO STOP OR CUT (OPTIONS)

- **Operating Model**:
  - Formal collaboration/integration with other councils (combined authority) eg: social care, highways, education
  - Management and delivery integration with partners in Herefordshire, based on Herefordshire Partnership
  - Joint ventures with the private sector
  - Further reductions to senior management structure and/or changing to a new model eg: locality
- **Commissioning/Outsourcing**:
  - Strategic core model: retention of strategic thinking, statutory posts, client side & contract management
  - Programme of market testing for all services
- **Support Costs**:
  - **Hoople**:
    - Further savings: linked to smaller council and/or reduce service requirement
    - "Sale" of the company, acquire another council partner, or recommission the services
  - **Corporate support**:
    - 20% reduction in all corporate support functions (democratic, legal, policy, research, property etc)
    - Centralisation of functions (hub and spoke model)
    - Sharing functions with others
- **Lean Programme:**
  - Investment in business process and system change across the Council and with partners as necessary
  - Some initiatives already underway eg: child's journey
- **New Technology:**
  - Investment in digital technology and mobile devices to improve productivity and reduce support costs

- Some initiatives already underway eg: customer services, Agresso

5 PROPOSED SAVINGS

Refer to table below

6 UNFINISHED WORK

- Complete the review of high level options
- Outcomes will include:
  - Target operating model for the Council
  - Consolidation of corporate support
  - New partnership framework (inside and outside Herefordshire)
  - New Commissioning and Commercial Strategy

Appendix B

Root and Branch Template 2013/14 - Herefordshire 2020 – PROPOSED SAVINGS

Cashable £000	**Directorate**			**Review total**	**Savings**		
Description of measure	**People's**	**Places**	**Corporate**		**2013/14**	**2014/15**	**2015/16**
Hoople contract savings	0		540	540	540		
Reduction in management and support costs				1,000	1,000		
TOTAL SAVINGS	0	0	540	540	1,540	0	0

Savings already accounted for	**0**	**0**	**0**
BUDGET reduction for medium term strategy	**1,540**	**0**	**0**

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Draft 2013/14 Budget

The following provides detail of the proposed 2013/14 Budget on a gross/income/net basis. It also provides a comparison with 2012/13.

Corporate Directorate

This budget includes executive management costs in relation to the Chief Executive, Deputy Chief Executive and Members and the associated supporting governance team along with other corporate management cost such as charitable relief on NNDR, external audit fees and subscriptions.

The overall total also includes budgets for the management of Housing Benefits and Subsidy Grants.

It also relates to support services such as Finance, Legal, HR and ICT and includes the contract costs in relation to Hoople Ltd of £8.3 million after 2013/14 savings targets.

Income budgets for the Directorate include

	£000	
Government Grants	47,840	Mainly relating to Housing Benefit Subsidy
Customer Receipts	3,990	Includes Rental income and Registrars Fees
Other income	3,653	Includes other contributions and internal recharges
Total	55,483	

	£000s			
	2012/13 Net Budget	2013/14 Gross Exp	2013/14 Gross Income	2013/14 Net Budget
Service Areas				
Asst. Director Customer Services & Communications	419	73	0	73
Customer Service	2,011	2,282	(366)	1,916
Communications & Web	514	540	(23)	517
Total Customer Services & Communications	**2,944**	**2,895**	**(389)**	**2,506**
Assistant Director PPP	156	157	0	157
Organisational Development	328	332	0	332
Herefordshire Partnership	63	12	0	12
Human Resources Retained	1,363	1,536	(400)	1,136
ICT	3,683	4,623	(1,057)	3,566
Policy & Performance	392	437	(21)	416
Transformation & IMT	1,948	1,632	0	1,632
Total People, Policy & Partnership	**7,933**	**8,729**	**(1,478)**	**7,251**
Assistant Director Law & Governance	162	173	(8)	165
Electoral	367	372	(2)	370

Governance	1,369	1,941	(503)	1,438
Resilience	249	359	(105)	254
Legal Services	666	928	(266)	662
Total Law, Governance & Resilience	**2,813**	**3,773**	**(884)**	**2,889**
Commercial	552	246	0	246
Chief Officer Finance & Commercial	186	161	0	161
Internal Audit Services	344	352	(7)	345
Benefits & Exchequer	406	48,622	(48,097)	525
Finance Support	1,078	1,360	(119)	1,241
Property Development	(1,531)	1,249	(3,103)	(1,854)
Property Design & AMP; Maintenance	2,979	4,218	(1,287)	2,931
Property Strategy	1,287	1,165	(119)	1,046
Total Finance & Commercial	**5,301**	**57,373**	**(52,732)**	**4,641**
Corporate Services	2,260	2,449	0	2,449
Total Corporate Management	**2,260**	**2,449**	**0**	**2,449**
Chief & Deputy Chief Executive	479	641	0	641
Directorate Fund	(255)	(611)	0	(611)
Total Director & Management	**223**	**30**	**0**	**30**
Total Corporate	**21,474**	**75,249**	**(55,483)**	**19,766**

Directorate Fund reflects Savings targets not yet allocated.

People's Directorate

The People's Services budget encompasses Adult Social Care, Children's Services, local authority maintained schools (but not academies), Environmental Health and Trading Standards and, from 1st April 2013 will include the new responsibility for Public Health.

Service Area	Expend.	Income	Net Budget
Directorate Costs	533	0	533
Provider Services	28,739	(5,742)	22,996
Commissioning	11,985	(6,705)	5,280
Adult Social Care	66,491	(17,850)	48,641
EHTS	2,139	(878)	1,261
Public Health	7,753	(7,753)	0
Total People's Services	**117,640**	**(38,928)**	**78,712**
Schools/ central	68,154	(68,154)	0
TOTAL	**185,794**	**(107,082)**	**78,712**

The directorate is funded by a combination of LA funding, grants and fees generated through charges for services / contributions to services by partner agencies. LA maintained schools are fully funded by an education grants (formerly Dedicated Schools Grant). The summary below of funding streams shows how the £38.9m income is received.

Funding Profile*	**Total**	**Provider**	**ASC**	**Comm**	**EHTS**	**PH**
Grant Income						
PH grant	(7,753)					(7,753)
DSG	(8,650)	(3,886)		(4,764)		
Troubled Families	(498)	(361)		(137)		
Social Care grants	(7,571)		(7,571)			
Other grants	(1,932)	(212)		(1,720)		
Charging for Services	(10,885)	(1,015)	(8,992)		(878)	
SLA's / Contributions	(1,639)	(268)	(1,287)	(84)		
Total Income	**(38,928)**	**(5,742)**	**(17,850)**	**(6,705)**	**(878)**	**(7,753)**

	£000s			
	2012/13 Net Budget	**2013/14 Gross Exp**	**2013/14 Gross Income**	**2013/14 Net Budget**
Service Areas				
Wve Valley - social care services	8,905	8,595	(1,002)	7,593
2Gether - mental health services	1,506	1,487	0	1,487
Section 75 services	**10,411**	**10,082**	**(1,002)**	**9,080**
AD Other	(9,956)	0	0	0
Other Central Adults services	944	707	(86)	621
Gov Grants	0	568	(3,576)	(3,008)
Total Adults Grants & Other Costs	**(9,012)**	**1,275**	**(3,662)**	**(2,387)**
Learning Disabilities	**14,301**	**18,743**	**(5,262)**	**13,481**
Mental Health	**8,867**	**10,241**	**(2,014)**	**8,227**
Older People	**13,779**	**17,060**	**(4,885)**	**12,175**
Physical Disabilities	**7,895**	**7,854**	**(1,025)**	**6,829**

Adults Commissioning Staff	**884**	**1,236**	**0**	**1,236**
Adult Social Care	**47,125**	**66,491**	**(17,850)**	**48,641**
Commissioning Management	190	115	0	115
Children's Commissioning	1,829	1,824	(136)	1,688
Children's capital and sufficiency	953	2,733	(1,783)	950
Early Years Sufficiency	0	4,627	(4,627)	0
Quality & Improvement	518	515	0	515
Business Support	1,018	1,113	(78)	1,035
HSCB	132	215	(81)	134
Post 16 services	135	111	0	111
Social Care Quality & Review	455	732	0	732
Total People's Services Commissioning	**5,230**	**11,985**	**(6,705)**	**5,280**
DSG Income	(97,819)	0	0	0
Schools Budget	97,819	67,892	(67,892)	0
Total Schools Budget	**0**	**67,892**	**(67,892)**	**0**
Central DSG	0	262	(262)	0
Total Central Schools (DSG)	**0**	**262**	**(262)**	**0**
Early Intervention Grant Funding	**(7,097)**	**0**	**0**	**0**
Directors Office	361	311	0	311
Directorate Costs (severances / pensions)	646	222	0	222
Total Directorate Costs	**1,007**	**533**	**0**	**533**
Total Directorate Costs including Schools	**(6,090)**	**68,687**	**(68,154)**	**533**
Provider Management	122	127	0	127
Total Children's Provider Management	**122**	**127**	**0**	**127**
Additional Needs DSG	0	3,344	(3,344)	0
Additional Needs - DSG Funded	**0**	**3,344**	**(3,344)**	**0**
Complex Needs	1,360	1,483	0	1,483
Education Psychology	388	262		262
Additional Need Mgmt	524	463	0	463
Additional Needs - LA funded	**2,272**	**2,208**	**0**	**2,208**
Total Additional Needs	**2,272**	**5,552**	**(3,344)**	**2,208**
Early Years DSG	0	372	(372)	0
Early Years (EIG/LA)	567	144		144
Governor Services	29	71	(42)	29
Learning & Curriculum	151	273	(211)	62
School Improvement	666	454	(183)	271
School Admissions DSG	0	218	(218)	0
School Transport	4,320	5,175	(850)	4,325
Total I&I School Improvement	**5,733**	**6,707**	**(1,876)**	**4,831**
Education Welfare	143	206	(206)	0

Children's Centres	1,915	1,590	(36)	1,554
Locality Operations	344	364	0	364
Parenting & Family Support	250	304	0	304
Locality Integrated Support Service	1,221	838	(106)	732
Youth Offending Team	259	251	0	251
Children's Locality Services	**4,132**	**3,553**	**(348)**	**3,205**
Adoption Services	700	850	(54)	796
Children with Disabilities	505	566	(1)	565
Children in Need	2,672	2,166	(7)	2,159
Fostering Services	2,394	2,746	(22)	2,724
Looked After Children	2,290	3,147	(10)	3,137
LAC External Placements	2,990	2,506		2,506
Safeguarding Mgt	429	649	(80)	569
Recruitment & training	252	170	0	170
Total Safeguarding Mgt	**12,232**	**12,800**	**(174)**	**12,626**
Total People's Services Provider Services	**24,491**	**28,739**	**(5,742)**	**22,997**
Env Health Admin	388	115	(8)	107
Environmental Health	666	1,189	(574)	615
Environmental Protection	597	835	(296)	539
Total Env Health & Trading Standards	**1,651**	**2,139**	**(878)**	**1,261**
Public Health Grant	0	0	(7,753)	(7,753)
Public Health Admin	0	1,517	0	1,517
Public Health Programme	0	6,236	0	6,236
Total Public Health	**0**	**7,753**	**(7,753)**	**0**
Total People's Services Public Health	**1,651**	**9,892**	**(8,631)**	**1,261**
Total People's Services	**72,407**	**185,794**	**(107,082)**	**78,712**

Places & Communities Directorate

Places and Communities Directorate encompasses a varied range of services which include:

- Highways delivered though the strategic partnership with Amey Wye Valley
- Waste Management delivered in partnership with FOCSA and joint PFI contract with WCC
- Cultural Services including libraries, heritage and libraries and includes partnerships with HALO, Visit Herefordshire and Courtyard
- Economic Development includes Here ford futures
- Planning Services including LDF
- Car parking – on and off street
- Enterprise Zone set up costs

Income budgets for the Directorate include

	£000	
Government Grants	2,188	Waste PFI and Destination Herefordshire Grant
Customer Receipts	8,914	Parking and planning fees
Other grants and contributions	2,248	Includes other contributions and recharges
Total	13,350	

	£000s			
	2012/13 Net Budget	**2013/14 Gross Exp**	**2013/14 Gross Income**	**2013/14 Net Budget**
Service Areas				
Bereavement Services	(408)	586	(1,049)	(463)
Cultural Services	4,415	4,124	(234)	3,890
Community Leisure + Halo	93	93	0	93
Markets & Fairs	(228)	354	(589)	(235)
Planning	1,841	3,527	(2,120)	1,407
Economic Development	1,175	1,361	(55)	1,306
Total Economic, Environment & Cultural Services	**6,888**	**10,045**	**(4,047)**	**5,998**
Car Parking & Comm Prot	(1,846)	1,656	(3,577)	(1,921)
Safer Herefordshire	166	205	(118)	87
Community Regeneration	1,021	940	(46)	894
Housing Services	3,846	4,201	(712)	3,489
Total Homes & Communities	**3,187**	**7,002**	**(4,453)**	**2,549**
Highways	7,308	8,967	(1,290)	7,677

Parks Countryside & Prow	1,818	1,892	(78)	1,814
Directorate Support	169	171	0	171
Sustainability	21	36	(5)	31
Transport	4,405	5,601	(1,077)	4,524
Waste Management	12,509	15,472	(2,293)	13,179
Total Place Based Commissioning	**26,230**	**32,139**	**(4,743)**	**27,396**
Management	185	243	(57)	186
Directorate fund	97	454	(50)	404
Total Director & Management	**282**	**697**	**(107)**	**590**
Total Place & Communities	**36,587**	**49,883**	**(13,350)**	**36,533**

Directorate Fund reflects includes budget savings and non-pay inflation to be re-allocated to meet contract inflation across the Directorate.

Central Budgets

	£000s			
	2012/13 Net Budget	2013/14 Gross Exp	2013/14 Gross Income	2013/14 Net Budget
Borrowing	16,072	15,397		15,397
Interest and investment income	(976)		(449)	(449)
New Homes Bonus	(1,414)		(2,068)	(2,068)
Government grants	(4,623)		(869)	(869)
Transfer to general fund reserve		2,000		2,000
Other centrally held budgets	3,832	1,275		1,275
Centrally held budgets	**12,891**	**18,672**	**(3,386)**	**15,286**

Total Budgets	**143,359**	**329,598**	**(179,301)**	**150,297**

Funded by				
Revenue support grant				42,862
Locally retained rates				22,726
'Top-up'				6,559
Council tax				78,911
Collection fund deficit				(761)
				150,297

Appendix D

Herefordshire Council: Reserves

	31 March 2012 £000
Schools balances	5,789
Grange Court	83
Commuted sums	36
Industrial Estates - maintenance	413
Schools Insurance	495
Schools sickness	84
ICT	91
Members ICT	40
Planning	24
Community Centre	180
Waste Disposal	2,407
Hereford Futures	125
Whitecross school PFI	321
Schools Rates Reserve	106
Economic Development	163
Pool car reserve	10
Three Elms Industrial Estate	362
Unused Grants carried forward	2,729
	13,458