

**Corporate Services**

Dean Taylor, Deputy Chief Executive and Director  
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**TO: ALL MEMBERS OF THE COUNCIL**

26 January 2012

Dear Councillor

**YOU ARE HEREBY SUMMONED** to attend the meeting of the Herefordshire Council to be held on **Friday 3 February 2012** at The Shirehall, St Peter's Square, Hereford. at 10.30 am at which the business set out in the attached agenda is proposed to be transacted.

Please note that car parking will be available at the Shirehall for elected Members.

Yours sincerely



**C CHAPMAN**  
**ASSISTANT DIRECTOR LAW, GOVERNANCE AND RESILIENCE**

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Working in partnership for the people of Herefordshire  
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# AGENDA

## Council

Date: **Friday 3 February 2012**

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Time: **10.30 am**

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Place: **The Shirehall, St Peter's Square, Hereford.**

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Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

**Sally Cole, Committee Manager Executive**

Tel: 01432 260249

Email: [scole@herefordshire.gov.uk](mailto:scole@herefordshire.gov.uk)

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If you would like help to understand this document, or would like it in another format or language, please call Sally Cole, Committee Manager Executive on 01432 260249 or e-mail [scole@herefordshire.gov.uk](mailto:scole@herefordshire.gov.uk) in advance of the meeting.

# Agenda for the Meeting of the Council

## Membership

**Chairman**

**Vice-Chairman**

**Councillor LO Barnett**

**Councillor ACR Chappell**

Councillor PA Andrews  
Councillor CNH Attwood  
Councillor PL Bettington  
Councillor WLS Bowen  
Councillor AN Bridges  
Councillor MJK Cooper  
Councillor BA Durkin  
Councillor DW Greenow  
Councillor RB Hamilton  
Councillor EPJ Harvey  
Councillor JW Hope MBE  
Councillor RC Hunt  
Councillor TM James  
Councillor AW Johnson  
Councillor JLV Kenyon  
Councillor JG Lester  
Councillor G Lucas  
Councillor PJ McCaull  
Councillor JW Millar  
Councillor NP Nenadich  
Councillor FM Norman  
Councillor GA Powell  
Councillor R Preece  
Councillor SJ Robertson  
Councillor A Seldon  
Councillor J Stone  
Councillor DC Taylor  
Councillor DB Wilcox

Councillor AM Atkinson  
Councillor CM Bartrum  
Councillor AJM Blackshaw  
Councillor H Bramer  
Councillor EMK Chave  
Councillor PGH Cutter  
Councillor PJ Edwards  
Councillor KS Guthrie  
Councillor J Hardwick  
Councillor AJ Hempton-Smith  
Councillor MAF Hubbard  
Councillor JA Hyde  
Councillor JG Jarvis  
Councillor Brig P Jones CBE  
Councillor JF Knipe  
Councillor MD Lloyd-Hayes  
Councillor RI Matthews  
Councillor SM Michael  
Councillor PM Morgan  
Councillor C Nicholls  
Councillor RJ Phillips  
Councillor GJ Powell  
Councillor PD Price  
Councillor P Rone  
Councillor P Sinclair-Knipe  
Councillor GR Swinford  
Councillor PJ Watts  
Councillor JD Woodward

## **GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS**

The Council's Members' Code of Conduct requires Councillors to declare against an Agenda item(s) the nature of an interest and whether the interest is personal or prejudicial. Councillors have to decide first whether or not they have a personal interest in the matter under discussion. They will then have to decide whether that personal interest is also prejudicial.

A personal interest is an interest that affects the Councillor more than most other people in the area. People in the area include those who live, work or have property in the area of the Council. Councillors will also have a personal interest if their partner, relative or a close friend, or an organisation that they or the member works for, is affected more than other people in the area. If they do have a personal interest, they must declare it but can stay and take part and vote in the meeting.

Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is. A Councillor who has declared a prejudicial interest at a meeting may nevertheless be able to address that meeting, but only in circumstances where an ordinary member of the public would be also allowed to speak. In such circumstances, the Councillor concerned will have the same opportunity to address the meeting and on the same terms. However, a Councillor exercising their ability to speak in these circumstances must leave the meeting immediately after they have spoken.

**AGENDA**

	<b>Pages</b>
<b>1. PRAYERS</b>	
<b>2. APOLOGIES FOR ABSENCE</b> To receive apologies for absence.	
<b>3. DECLARATIONS OF INTEREST</b> To receive any declarations of interest by Members in respect of items on the Agenda.	
<b>4. MINUTES</b> To approve and sign the Minutes of the meeting held on 18 November 2011.	1 - 34
<b>5. CHAIRMAN'S ANNOUNCEMENTS</b> To receive the Chairman's announcements and petitions from members of the public.	
<b>6. QUESTIONS FROM MEMBERS OF THE PUBLIC</b> There were no questions received from members of the public.	
<b>7. FORMAL QUESTIONS FROM COUNCILLORS TO THE CABINET MEMBERS AND CHAIRMEN UNDER STANDING ORDERS</b> To receive any written questions from Councillors.	
<b>8. DRAFT FINANCIAL STRATEGY AND BUDGET 2012/13</b> To receive the recommendations of Cabinet held on 19 January 2012 to approve the draft financial strategy for 2012/13 to 2015/16 that includes the 2012/13 budget.	35 - 138



# The Public's Rights to Information and Attendance at Meetings

## YOU HAVE A RIGHT TO:-

- Attend all Council, Cabinet, Committee and Sub-Committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public Register stating the names, addresses and wards of all Councillors with details of the membership of the Cabinet, of all Committees and Sub-Committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Committees and Sub-Committees.
- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge (20p per sheet subject to a maximum of £5.00 per agenda plus a nominal fee of £1.50, for postage).
- Access to this summary of your rights as members of the public to attend meetings of the Council, Cabinet, Committees and Sub-Committees and to inspect and copy documents.
- A member of the public may, at a meeting of the full Council, ask a Cabinet Member or Chairman of a Committee any question relevant to a matter in relation to which the Council has powers or duties or which affects the County as long as a copy of that question is deposited with the Monitoring Officer eight clear working days before the meeting i.e. by 12:00 noon on a Monday in the week preceding a Friday meeting.

## Public Transport Links

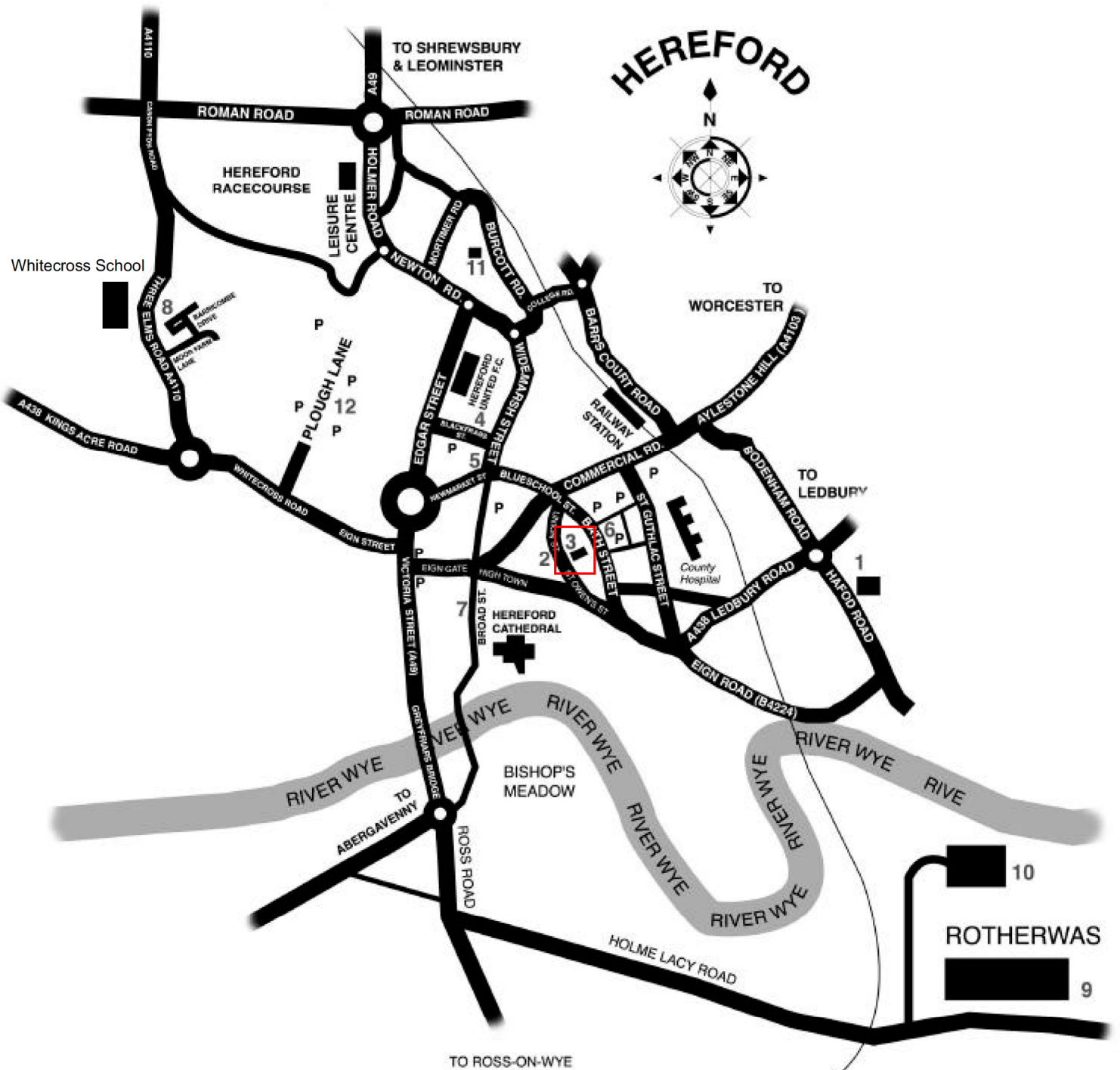
- The Shirehall is ten minutes walking distance from both bus stations located in the town centre of Hereford. A map showing the location of the Shirehall is found opposite.



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- |   |                  |    |                                   |
|---|------------------|----|-----------------------------------|
| 1 | Brockington      | 7  | Kemble House                      |
| 2 | Town Hall        | 8  | Trinity House                     |
| 3 | Shire Hall       | 9  | Thorn Office Centre               |
| 4 | Education Centre | 10 | Herefordshire Commercial Services |
| 5 | Garrick House    | 11 | Merchant House                    |
| 6 | Bath Street      | 12 | Plough Lane                       |



# **FIRE AND EMERGENCY EVACUATION PROCEDURE**

## **IN CASE OF FIRE**

**(no matter how small)**

1. Sound the Alarm
2. Call the Fire Brigade
3. Fire party - attack the fire with appliances available.

## **ON HEARING THE ALARM**

Leave the building by the nearest exit and proceed to assembly area on:

## **GAOL STREET CAR PARK**

**Section Heads will call the roll at the place of assembly.**



HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Council held at The Shirehall, St Peter's Square, Hereford. on Friday 18 November 2011 at 10.30 am**

**Present:** Councillor LO Barnett (Chairman)  
Councillor ACR Chappell (Vice Chairman)

**Councillors:** PA Andrews, AM Atkinson, CNH Attwood, CM Bartrum, PL Bettington, AJM Blackshaw, WLS Bowen, H Bramer, AN Bridges, EMK Chave, MJK Cooper, PGH Cutter, BA Durkin, PJ Edwards, DW Greenow, KS Guthrie, RB Hamilton, J Hardwick, EPJ Harvey, AJ Hempton-Smith, JW Hope MBE, MAF Hubbard, RC Hunt, JA Hyde, TM James, JG Jarvis, Brig P Jones CBE, JLV Kenyon, JF Knipe, JG Lester, MD Lloyd-Hayes, G Lucas, RI Matthews, PJ McCaull, SM Michael, JW Millar, PM Morgan, NP Nenadich, C Nicholls, FM Norman, RJ Phillips, GA Powell, GJ Powell, R Preece, PD Price, P Rone, A Seldon, P Sinclair-Knipe, J Stone, GR Swinford, DC Taylor, PJ Watts, DB Wilcox and JD Woodward

**In attendance:** Councillors

**29. PRAYERS**

The Very Reverent Michael Tavinor, Dean of Hereford, led the Council in prayer.

**30. APOLOGIES FOR ABSENCE**

Apologies had been received from Councillors: AW Johnson and SJ Robertson.

**31. DECLARATIONS OF INTEREST**

Declarations of interest were made by:

COUNCILLOR	AGENDA ITEM	DECLARATION
RJ Phillips	Item 16 Youth Justice Plan	Personal – Youth Magistrate
DB Wilcox	Item 16 Youth Justice Plan	Personal - Youth Magistrate
A Seldon	Item 13 Appointment of the Chairman & Vice-Chairman of the Overview & Scrutiny Committee	Prejudicial – nominated Chairman
Mr D Stevens	Item 14 Chairman and Vice-Chairman of the Standards Committee	Prejudicial – nominated Chairman

**32. MINUTES**

**RESOLVED:** That the Minutes of the Council meeting held on 15 July 2011 were approved as a correct record, subject to the question and answer from Councillor Chave, which had been omitted from the minute, being included:

**Question:** Had there been a 25% reduction in costs relating to the 25% staffing cuts in senior management?

**Answer:** The Leader gave an undertaking to provide a written response to the Councillor.

### **33. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman, in her announcements, informed Council that:

- The Chairman attended the Kington Horse and Agricultural Society Show this September in celebration of its 130<sup>th</sup> year. The Show also received its first royal visitor, The Duke of Gloucester, along with the Lord Lieutenant of the County Lady Darnley.
- The Chairman attended the opening of a new play area in Kington along with the Mayor of Kington, Councillor Bob Widdowson and Councillor Terry James.
- On 16 September attended the opening of the Aspire Music Gym at Point 4, Hereford.
- On 17 November the Chairman attended the official opening of the Hereford Rape and Sexual Abuse Support Centre.
- The Chairman thanked all those Councillors who attended Remembrance Services across the county.
- The Chairman presented to Mrs Davies, mother of Chaz Davies, a certificate of recognition for Chaz in recognition of his achievement in becoming the Supersport World Motorcycle Champion 2011.

### **34. QUESTIONS FROM MEMBERS OF THE PUBLIC**

Copies of all public questions received by the deadline, with written answers, were distributed prior to the commencement of the meeting. Details of the public questions and written answers, together with the supplementary questions and answers asked at the meeting, are attached to the Minutes as Appendix 1.

### **35. FORMAL QUESTIONS FROM COUNCILLORS TO THE CABINET MEMBERS AND CHAIRMEN UNDER STANDING ORDERS**

A copy of the Member questions and written answers, together with the supplementary questions and answers asked at the meeting, are attached to the Minutes as Appendix 2.

### **36. NOTICES OF MOTION UNDER STANDING ORDERS**

Notice of Motion One – The Council's Commitment to Reduce the Threat of Rural Isolation, proposed by Councillor GJ Powell and seconded by Councillor RB Hamilton. During the debate the following points were made:

- The demographics of the county were changing with 15% more people in Herefordshire living to 65 years of age and over. In England and Wales the figure was only 8%.

- Rurality, sparsity and poverty were major issues for the county with 43% of the population living in rural villages and 25% in sparsely populated areas, the highest for an English county.
- Having Services locally based to meet local needs was essential.
- Broadband provision is key to improving services and enabling communities in rural areas.
- Councillors: Durkin, Millar and Phillips spoke in support of the notice of motion.
- Additional comments related to the localities agenda and parish councils not necessarily being in a position to take on additional responsibilities/provision of services.

It was moved and seconded that the motion be put whereupon a vote was taken:

For: 37  
 Against: 0  
 Abstentions: 24

The Notice of Motion was declared carried with:

For: 48  
 Against: 0  
 Abstentions: 0

**RESOLVED: That this Council recognises that the demographics of Herefordshire and the current period of austerity has particular impact on the elderly and vulnerable in our rural communities and that the Council commits to continue to develop strategy and implement policy that reduces the threat of rural isolation.**

Notice of Motion Two - Meeting the Ambitions of the County and Local Communities, proposed by Councillor JG Jarvis and seconded by Councillor AM Atkinson. During the debate the following points were made:

- The notice of motion was to promote a positive attitude throughout the county, for Councillors to serve the people of Herefordshire to the best of their ability, to enhance the lives of residents in their wards and for Councillors to realise what could be achieved for the people of Herefordshire.
- Additional comments from Councillors made reference to Councillors taking exception to the notice of motion and felt that it was not necessarily the best use of Council time.

It was moved and seconded that the motion be put:

For: 24  
 Against: 13  
 Abstentions: 15

Following a vote being taken the Notice of Motion was declared carried with:

For: 28  
 Against: 0  
 Abstentions: 24

**RESOLVED: That this Council urges all Officers, Staff Members, Members and Partner Organisations to embrace a 'can do' attitude to ensure we meet the ambitions of the county and local communities.**

Notice of Motion Three – Sustainable Transport Options, submitted by Councillor MAF Hubbard and seconded by Councillor EPJ Harvey.

Prior to the commencement of the debate the following amendment to the Motion was moved by Councillor MAF Hubbard and seconded by Council EPJ Harvey.

*‘This Council resolves that all sustainable transport options **consulted on in the Herefordshire Council place shaping paper** for Hereford City, are implemented and integrated with improved traffic management systems prior to any work commencing on the outer distributor road.’*

The following points were made during the debate on the amended motion:

- 45% of the traffic directly relating to the Grey Friars bridge was internal to the city with only 15% being through traffic.
- To provide a road around the city additional housing would be required.
- In response to the place shaping document, the public were happy to see traffic reduction proposals if this instigated traffic movement.
- It was felt by some Members that the sustainable transport plan would not solve all the county’s road problems.
- In referring to the statistics it was noted that 92% of the people that had been asked voted yes when asked if they wanted a relief road.
- Some Members felt that a sustainable transport plan on its own would not deliver all that Herefordshire needed. It was noted that both local MPs supported road proposals and the enterprise zone in order for a strong local economy.

It was moved and seconded that that the motion be put:

For: 38  
Against: 02  
Abstentions: 07

Following a vote being taken the Notice of Motion was lost with:

For: 14  
Against: 35  
Abstentions: 5

### **37. LEADER'S REPORT**

The Leader of the Council, Councillor JG Jarvis, presented the report. Members made comments on the following points:

- The Local Development Framework and the consultation that was being carried out across the county. Concern was raised that public meetings had not been held in some areas. Council was advised that 32 public meetings had been held.
- Reference was made to item 6 of the report relating to energy efficient street lighting and traffic signals and the work carried out by the previous Environment Scrutiny Committee in support of this.
- Accommodation strategy – the report was welcomed but concern was raised over the speed of broadband in the county.



- Council congratulated the Chief Officer Finance and Commercial and his team on the unqualified opinion that had been received from the Audit Commission for the Statement of Accounts.
- Council noted the appointment of Councillor Bramer as the new member of Cabinet to overview major contracts such as the waste disposal and Amey contracts.

## **RESOLVED**

### **THAT:**

- (a) the revised timetable for the production of the Local Development Framework, as set out at paragraph 2 of the report, be agreed;**
- (b) Councillor H Bramer be appointed as Cabinet Member Major Contracts, and that the consequent changes to the Cabinet Member portfolios be noted; and**
- (c) the overview of the Executive's activity be noted.**

## **38. REVIEW OF PARLIAMENTARY CONSTITUENCIES**

Council considered the report by the Head of Governance on the Review of the Parliamentary Constituencies, which included a detailed alternative response to the proposals by the Boundary Commission for England. Members expressed concern that the current Boundary Commission proposals would split Herefordshire putting some wards with Ludlow in Shropshire.

Council felt that the proposed constituency of Herefordshire North should be called Herefordshire North and Greater Malvern and that the proposed constituency of Ludlow and Malvern should include reference to Teme Valley.

**RESOLVED THAT: the proposed constituencies as set out in Appendix 2 of the report, as amended, to include the above name changes, be approved and forwarded to the Boundary Commission for England as the Council's formal response to the consultation.**

## **39. THE CONSTITUTION - NEW GOVERNANCE ARRANGEMENTS**

The Leader presented a report by the Assistant Director, Law, Governance and Resilience on new Governance arrangements and Council was advised that in order for the Audit and Governance Committee to extend its remit to cover amendments to the constitution, the membership would need to be increased to ten members so that all groups were represented and the Committee remained proportionate.

## **RESOLVED**

### **THAT:**

- a) the remit of the Audit and Governance Committee be extended to include amendments of the Constitution;**
- b) the membership of the Audit and Governance Committee be increased to ten seats, allocated as to 5 (Conservative) 2 (Independent) 2 (It's Out County) and 1 (Liberal Democrat);**
- c) parts 2 (Articles) and 3 (The Functions Scheme) of the Constitution be amended as indicated in the report; and**

- d) **the Monitoring Officer be authorised to make any further consequential amendments to the Constitution necessary to give effect to (a) above.**

#### **40. KEY DECISIONS AND THE FORWARD PLAN**

The Leader presented the report by the Assistant Director, Law, Governance and Resilience on key decisions and the forward plan. In discussion reference was made to paragraph eight, third bullet point of the report and it was requested that supporting documents were attached to the Forward Plan. Paragraph 15, third bullet point was also referred to and it was requested that if a decision was judged to be a key decision then it would not be made by an officer, but by either Cabinet or the relevant Cabinet Member. The Chief Executive assured Council that there was no plan to change the current Executive arrangements which allowed for key decision to be made by either Cabinet or Cabinet Member.

**RESOLVED THAT: the definition of a ‘key decision’ in Part 8 of the Constitution be amended as described in the report and that the Monitoring Officer be authorised to make any further consequential amendments required.**

The Chairman informed Council that unless the remaining Council business was dealt with promptly, she would be required to invoke standing order 4.1.7.2 as the Council meeting had exceeded its time limit of three hours (standing order 4.1.7 refers).

#### **41. APPOINTMENT OF THE CHAIRMAN AND VICE-CHAIRMAN OF THE OVERVIEW AND SCRUTINY COMMITTEE**

Prior to the commencement of the debate Councillor Seldon left the meeting having earlier declared a prejudicial interest. The Leader presented the report by the Assistant Director, Law, Governance and Resilience on the Appointment of the Chairman and Deputy Chairman of the Overview and Scrutiny Committee and the Vice-Chairmen of the Task and Finish Groups. The Leader advised Council that now Councillor Bramer, the former Chairman of Overview and Scrutiny was to join Cabinet, it was appropriate that Councillor Seldon, as the current Vice-Chairman, should take on the role of Chairman supported by Councillor Millar as the new Deputy Chairman and Councillor Atkinson to take on the role of Vice-Chairman responsible for the themed area of Enterprise and Culture. Further discussion was held on the role of the task and finish groups, the membership, role and work programme of the Committee.

**RESOLVED**

**THAT:**

- a) **Councillor A Seldon be appointed Chairman of the Overview and Scrutiny Committee;**
- b) **Councillor JW Millar be appointed Deputy Chairman of the Overview and Scrutiny Committee; and**
- c) **Councillor AM Atkinson be appointed Vice-Chairman of the Overview and Scrutiny Committee with responsibility for the themed area of Enterprise and Culture.**

#### **42. CHAIRMAN AND VICE-CHAIRMAN OF THE STANDARDS COMMITTEE**

Prior to the commencement of the debate Mr David Stevens left the meeting having earlier declared a prejudicial interest. The Leader presented the report on the Chairman and Vice-Chairman of the Standards Committee. Council noted the resignation of Mr Robert Rogers as Chairman of the Standards Committee, a role Mr Rogers had carried out since the inception of the Committee in 2002 and had played a leading role in establishing, developing and promoting the Council's ethical standards framework. Council congratulated Mr Rogers on his appointment as Clerk of the House of Commons and Chief Executive of the House Service, a role that would prevent him from devoting the time needed to the Standards Committee.

**RESOLVED THAT: Mr David Stevens be appointed Chairman and Mr Jake Bharier be appointed Vice-Chairman of the Standards Committee for the remainder of the current municipal year.**

**43. ECONOMIC STRATEGY FOR HEREFORDSHIRE 2011/16**

The Cabinet Member Enterprise and Culture presented to Council the Economic Development Strategy for Herefordshire. Council noted the report and referred to youth unemployment and a campaign for apprenticeship placements in the county.

**RESOLVED**

**THAT:**

- a) the Economic Development Strategy be adopted; and**
- b) the actions in the strategy be progressed.**

**44. YOUTH JUSTICE PLAN**

The Cabinet Member Health and Wellbeing presented the Youth Justice Plan to Council. Council agreed that any comments Members wished to make on the plan should be forwarded to the Cabinet Member direct.

**RESOLVED THAT: the Youth Justice Plan be approved.**

**45. STANDARDS COMMITTEE**

Mr David Stevens presented the report of the meeting of the Standards Committee held on 14 October 2011. Council noted that Group Leaders were to be provided with a report on the proposed national changes for Standards Committees.

**RESOLVED: That the report of the meeting of the Standards Committee held on 14 October 2011 be noted.**

**46. HEREFORD & WORCESTER FIRE AND RESCUE AUTHORITY**

Councillor Brig. P Jones CBE presented the report of the meeting of the Hereford & Worcester Fire and Rescue Authority which was held on 28 September 2011.

**RESOLVED: That the report of the meeting of the Hereford & Worcester Fire and Rescue Authority which was held on 28 September 2011 be noted.**

**47. WEST MERCIA POLICE AUTHORITY**

Councillor WLS Bowen presented the report of the West Mercia Police Authority held on 27 September 2011.

**RESOLVED: That the report of the meeting of the West Mercia Police Authority held on 27 September 2011 be noted.**

The meeting ended at 2.30 pm

**CHAIRMAN**

**PUBLIC QUESTIONS TO COUNCIL – 18 November 2011****Question from Mr P Mitchell, Herefordshire**

## Question 1

It was recently reported in the Hereford Times that the Council will press ahead with their commitment to a new bypass for Hereford without further public consultation on the assumption that the wider council taxpaying public would support this – and by implication this priority over other capital spend options such as schools, care homes, other essential civic infrastructure maintenance or new build.

Given the adverse Council funding conditions which have been prevailing in recent years and which are likely to continue for some time (inflationary costs have risen significantly ahead of Council's funding receipts):

*Can the Council justify and demonstrate the wisdom, feasibility and financial affordability of committing to its decision (and explain its assumption of public support).*

This against a backdrop of confirming its first priority must always be to meet rising financial costs of maintaining essential public services and support to the vulnerable whilst at the same time also ensuring council tax payments will not be allowed to rise. Even if justifiable in this context, in the absence of suitable asset disposals this will inevitably result in reducing its available funding to meet any of its capital spend aspirations.

There has previously also been implied dependency that developer/s will be sufficiently commercially incentivized to meet a substantial proportion of the 9 figure cost of this bypass. The extent is also a highly questionable contention and equally difficult to justify and demonstrate given that unless the developer can commit to on balance sheet funding they will otherwise (in an unfavorable climate) need to seek very difficult to obtain project finance. In either event to be justifiable any such development will have to generate sufficiently attractive and financially sustainable rates of returns to cover their financing costs, overall development costs (including contribution to the bypass) against realistic and achievable asset valuations and any associated supporting income streams going forward in today's less than rosy economic climate. Always of course assuming mutual desirability of associated proposed developments – with Council meeting their civic duty to ensure they socially and responsibly achieve, not at the expense of, the wishes, aspirations, interests and needs of the people of Hereford.

The wisdom and validity of such assumptions and commitments by the Council and the dependency on the developer to deliver low risk (to the Council / Taxpayer) and suitable support in meeting what the City wants and needs must be very questionable at least for some considerable time to come. Particularly given that council taxpayers themselves are under enormous similar financial pressures and are therefore likely to find **any** increased risk of council tax rises unwelcome if not intolerable.

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing & Planning**

Answer to question 1

**PUBLIC QUESTIONS TO COUNCIL – 18 November 2011**

Whilst it is true that this administration remains committed to the delivery of a Hereford relief road, we are currently carrying out further consultation as part of the development of the Local Development Framework (LDF) for the county. This consultation includes a proposal for a preferred western route for a relief road, on which we are seeking comments. The inclusion of a route in the adopted LDF does not constitute a financial commitment by the Council; it is however an essential first step to securing funding for any such scheme and its deliverability and sources of funding will have been fully tested before the submission of the LDF to the Inspector.

**Supplementary Question**

Mr Mitchell reiterated his concern about the feasibility and financial affordability of the proposals for a bypass for Hereford given their dependence on housing development. Mr Mitchell sought clarification on detailed proposals for funding the road scheme and the effect on services including Council tax.

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

The Cabinet Member stated that there were a variety of potential funding sources available and referred the questioner to his written answer. The detail of any scheme had yet to be finalised so any costing was an estimate and depending on the specification the scheme could cost from £80m-£130m. The Cabinet Member repeated his answer that sources of funding would have been fully tested before the submission of the LDF to the Inspector.

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**Question from Mr P McKay, Hereford**

## Question 2

With a year having passed since I last enquired and it still not being known which of our unsurfaced roads suffer from long term obstructions to equestrians, even though they are inspected annually on foot if need be, and our meeting subject of reply to question at May Full Council meeting being unrecorded, may I enquire if you could confirm that Council is considering modification to the roles of Highways and Rights of Way to make them more efficient and effective, so that highways undertake all surface maintenance functions, that being what they are best at, and more importantly that Rights of Way undertake all access inspections with any follow up actions, that being what they are best at, so that it will be known within 12 months which of our unsurfaced maintained and non-maintained roads are obstructed, ploughed, have broken gates, where signs would be beneficial, etc., they comprising about 30% of available equestrian routes, with appropriate action being taken in similar manner as is done for our ramblers with footpaths?

**Answer from Councillor AJM Blackshaw Cabinet Member Highways, Transportation and Sustainability**

Answer to question 2

## PUBLIC QUESTIONS TO COUNCIL – 18 November 2011

These services are provided for the Council by Amey Herefordshire. Amey are responsible for structuring their service to maximise efficiency and effectiveness; we continue to monitor outcomes achieved within the budgetary constraints existing.

### Supplementary Question

Why should footpaths be maintained to a lower standard than roads?

### Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability

The Cabinet Member responded that the efficiency of Amey Wye Valley's work would be monitored.

### Question from Mr T Packham, Grafton, Hereford

Question 3

I refer to routes A301 SC1 and A302 SC2 in the October 2010 Amey Plan. Link SC2 runs to the south of Hayleasow Wood to avoid what is an area of Ancient Woodland and a SWS, and was the route favoured by the Study of Options Environmental Assessment Report Hereford Relief Road August 2010 (see page 51).

I am therefore very concerned about the 3rd route, shown red, that has now been hastily proposed, without any consultation with the Parish Council or local residents and which has not been assessed for its environmental impacts on the surrounding area, in particular the Ancient Woodland site.

Why has the Council re-routed the road in response to just three objections from the Haywood Lodge area, without wider consultation, and with no environmental assessment of this new proposed route?

### Answer from Councillor AJM Blackshaw Cabinet Member Highways, Transportation and Sustainability

Answer to question 3

The route referred to is based on the previously safeguarded route for the former Hereford bypass scheme between the A49(S) and the A465. Consultation is underway, as part of the Local Development Framework process, on the inclusion of this route within the overall southern route corridor, and the results of that consultation will be taken into account in determining the route corridor to be included within the submission Core Strategy. The eventual route of the relief road within that corridor will only be able to be determined following further scheme engineering design and assessment.

### No supplementary question

**PUBLIC QUESTIONS TO COUNCIL – 18 November 2011****Question from P Churchward, Breinton, Hereford**

## Question 4

Can the Council confirm the value of its assets, loans and liabilities and the ratio of this figure against assets held on the balance sheet?

**Answer from Councillor PD Price, Cabinet Member Corporate Services & Education**

## Answer to question 4

This information can be found in the Council's balance sheet at 31<sup>st</sup> March 2011, forming part of the statement of accounts presented to Audit & Governance Committee in September 2011 the papers for which are available on the council website. The Council's audited accounts have received an unqualified opinion.

Included in the liabilities figures are £145.6m loans outstanding, which is 29.7% of long-term assets.

It should be noted however, that only a relatively small proportion of borrowing is 'prudential' borrowing (the costs of which are met by the local taxpayer); the majority is 'supported' borrowing funded by other government sources. A number of factors, including movement in working capital and investment balances, influence when and how much is borrowed so it is not possible to provide a static figure for the split between the types of borrowing, or indeed the allocation of that borrowing to individual schemes; however on an assumption of average prudential borrow levels for the current capital programme, this percentage reduces to 7.5%.

Without such borrowing it would not be possible to deliver projects which are essential to the local community including: Riverside School, Leominster swimming pool, Hereford crematorium, Rotherwas relief road, enhancements to Hereford city centre, Kington library, the mortgage rescue scheme, the museum resource & learning centre at Friars Street, improvements to public toilets and improvements to disability access.

**Supplementary Question**

Assurance was sought that the Council would not be borrowing a further £130 m to fund the proposed Hereford relief road.

**Answer from Councillor PD Price, Cabinet Member Corporate Services & Education**

The Cabinet Member confirmed that £130 m would not be borrowed to build the relief road.

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**Question from AT Oliver, Hereford**

## Question 5



## PUBLIC QUESTIONS TO COUNCIL – 18 November 2011

In the light of the fact that violence towards women is said to be increasing; that on average one woman per week in the UK is killed by their partner; that apparently a significant number of young people believe it is alright to slap, punch, abuse a female partner for any misdemeanour and that teenage pregnancies are still increasing.

*Would the Cabinet Member for Children's Services give a categorical assurance that this Council will insist on Herefordshire's secondary schools providing comprehensive sex education?*

(Sex education which includes not only the biology of sex but also the issue of relationships between the sexes, which makes clear that it is not acceptable behaviour to abuse, or use violence towards your partner, and also informs young women that it is not normal to be in a relationship which involves physical violence and controlling behaviour and that society will provide help and support if they are trapped in such a relationship.)

### **Answer from Councillor P Price, Cabinet Member Corporate Services & Education**

Answer to question 5

The Council cannot require action as requested, as the responsibility for the school curriculum, including sex and relationship education, lies with the governing bodies and head teachers of maintained schools.

Secondary schools must provide sex education (including education about HIV and AIDS and other sexually-transmitted diseases), and all maintained schools should teach human growth and reproduction as set out in the statutory national curriculum for science. All governing bodies must have a written statement of whatever policy they adopt on sex and relationship education and make it available to parents. The governing body and head teacher should also make sure that Personal, Social, Health and Economic education encourages pupils to consider the moral aspects of sex education and to develop loving and caring relationships.

Parents have the right to withdraw their children from all or part of any sex and relationship education provided (but not from the biological aspects of human growth and reproduction necessary under the national curriculum for science).

It should be said that whilst Herefordshire schools do adopt a strong approach the approaches taken by them are only part of the learning which children have; families and local communities also play a strong part.

### **Supplementary Question**

Concern was expressed that unless action was taken the Council would be failing in its duty and leaving people vulnerable.

### **Answer from Councillor P Price, Cabinet Member Corporate Services & Education**

**PUBLIC QUESTIONS TO COUNCIL – 18 November 2011**

The Cabinet Member reiterated that this was an issue that needed to be addressed by society as a whole. The Director for People's Services encouraged appropriate behaviour both through schools and the wider society.

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011****Question from Councillor Sinclair-Knipe**

- 1 *Given the recent publication of the excellent food and drink strategy document for Herefordshire, produced by the Herefordshire Food Partnership, can you confirm or give some assurance, that the Council will adopt this strategy document, particularly in the area of local food consumption?*

**Answer from Councillor AJM Blackshaw Cabinet Member Highways, Transportation and Sustainability**

Answer to question 1

Herefordshire Council is an active member of the Herefordshire Food Partnership and as Chair of the group that led the development of the strategy I have recommended its adoption. I hope that we all share the enthusiasm for this excellent report that celebrates the rich tradition of food and drink production in the County.

**No supplementary question**

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**Question from Councillor PJ McCaull**

- 2 *Affordable Housing and Housing Associations*

*Young couples without children are unable to find affordable accommodation through Housing Associations in Herefordshire and have to move outside the County as privately rented accommodation has become so expensive due to the high demand. The last housing development in Leominster had the first ten families move in from Manchester, so how is the Council solving the problem of housing for young Herefordshire couples?*

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

Answer to question 2

Since January 2011, 27 affordable homes have been developed in Leominster at Ryelands Road and Quarry Bank Mews. To ensure a balanced and mixed community the size of accommodation secured by the Council ranged from 1 to 3 bed properties for both sale and rental.

With regards to allocating the properties, Ryelands Road was subject to a S106 agreement, local connection criteria and it can be evidenced that all units were allocated to those living or working in Leominster.

With regards to Quarry Bank Mews, this site was originally to be developed by a private house builder, but as the site was stalled due to the economic climate a housing association purchased and built out the site with additional funding from the Homes and Communities Agency. Whilst the site was not subject to a S106 agreement requiring local connection criteria, I can advise that 9 of the properties were let to those living or working in Leominster with the remainder currently living elsewhere in Herefordshire.

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

Housing young couples is a nationally recognised problem but Herefordshire Council is working hard in the context of our agreed Housing Strategy, to deliver affordable homes to meet a wide variety of needs in a challenging economic climate. The Local Development Framework, currently under consultation, is clearly the most important policy tool available to the council in addressing this issue and I would urge everyone to ensure they make their views known on this important issue.

### Supplementary Question

What help can be provided to young people to fund a deposit or meet rental costs for a home?

### Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning

The Cabinet Member acknowledged that the provision of affordable housing was a major issue. He added that he had now held meetings with almost all the Chief Executives of Housing Associations in the county and had highlighted the importance of affordable housing. However, it had to be noted that the Associations were facing 60-70% budget cuts. The Cabinet Member emphasised the importance of the LDF in seeking to address this issue.

### Question from Councillor PJ McCaull

#### 3 Hereford New Market

*The former Leader stated the new market cost £6 million not £10 million as I had stated. Now the market has been completed can the following be provided:*

- 3.1 *Cost of site*
- 3.2 *Cost of road works and ground works*
- 3.3 *The total cost of the building works including the amount that will have been held in retention until any minor faults are dealt with.*
- 3.4 *The cost of interest on money borrowed to do the development.*
- 3.5 *The architects and surveyors fees.*
- 3.6 *The cost of officers' time in seeing the project through from start to finish.*
- 3.7 *The rental income and other income such as a figure per beast sold as the market.*
- 3.8 *Will there be enough funds from the sale of the old market to cover all these costs or will the rate payers of the County be subsidising the Market forever?*

### Answer from Councillor PD Price, Cabinet Member Corporate Services & Education

Answer to question 3

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

Cllr McCaull will know that on the 24 September 2009 Cllr Phillips chaired the cabinet meeting which confirmed the livestock project with the identified cost indicated at £7.7m for building and infrastructure with the potential to drive down that cost. Press releases indicating that figure were released to councillors, staff and media. It was made clear that the figure did not include the purchase of the land. In response to specific questions:

- 3.1 The site was purchased for £1.5m.
- 3.2 The main market infrastructure costs total £250k.
- 3.3 The total cost is £6.9m which includes a £92k retention.
- 3.4 No monies have been borrowed to fund the capital costs incurred. We have used capital receipts rather than borrowing; this is because interest rates on investments are at a very low rate thus making it appropriate to use our reserves.
- 3.5 These costs have been incurred by Amey and payments total £1.2m.
- 3.6 The project formed part of the day to day activity of various officers and as such has been absorbed within base budgets. However, we have identified that £74k relates to specialist officer time and is being charged to the project.
- 3.7 Rental income is calculated at 0.5% of gross turnover. The increased level of activity at the new livestock market that is expected will increase income when the position is calculated at the end of the financial year. In addition the rent "toll" receipts are charged at a rate of 10p per beast, sheep, pigs or goats sold.
- 3.8 (See answer 3.4) – a capital receipt is expected from the development; the actual sum cannot be confirmed at this stage, the amount received will replenish the capital receipts reserve funding used.

### Supplementary Question

A request was made for details of the total cost to be provided once all works had been completed.

### Answer from Councillor PD Price, Cabinet Member Corporate Services & Education

The Cabinet Member agreed to provide the information outside of the Council meeting.

### Question from Councillor PJ McCaull

#### 4. Apprentice Placing and Job Experience

*With the unemployment of young people leaving college and universities rising rapidly and already over 1 million:*

- 4.1 *As one of the highest employers in the County, what has this Council done in finding placements?*

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

4.2 *How many apprentices and job experience placements have the Council provided?*

**Answer from Councillor PD Price, Corporate Services & Education**

Answer to question 4

4.1 Since April 2009 the Council, and its partner NHS Herefordshire, have jointly offered an apprenticeship scheme; this scheme remains under continuing review to ensure it is maximising opportunities available both to young people in our care for whom we have a corporate parenting responsibility, and to those from the wider community seeking employment opportunities. We also work with our major supply partners, such as Amey, as part of the commissioning process, to encourage an increase in the availability of apprenticeships within the county.

We work closely with Job Centre Plus to provide work experience placements to their customers. We have signed up to 'Get Britain Working' to help young people gain experience in a work setting and to update their CV whilst still receiving their benefits through Jobcentre Plus. In addition, we also support schools and colleges in work experience placements.

More broadly we support interview and employment skills workshops within schools and colleges and regularly attend employment and recruitment fairs to promote employment opportunities across the partnership.

4.2 Since the apprenticeship scheme began in April 2009 we have provided 33 apprenticeships within the council; 15 of those apprentices have gone on to find permanent employment within the council.

During the last financial year, we provided 40 work experience placements across the authority.

**Supplementary Question**

Which departments provide placements for the apprenticeship scheme?

**Answer from Councillor PD Price Cabinet Member, Corporate Services & Education**

The Cabinet Member stated that Amey Wye Valley was being proactive with its suppliers' day, which suppliers could participate in at no additional cost. The Cabinet Member agreed to provide further information direct to the Councillor on apprenticeship placements.

**Question from Councillor DW Greenow**

5 *The livestock market has been up and running for nearly 6 months now and appears to be very busy.*

*Is there any evidence that livestock numbers have increased through the market and is the market attracting new buyers?*

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

**Answer from Councillor AJM Blackshaw Cabinet Member Highways, Transportation and Sustainability**

Answer to question 5

The figures provided below relate to the period from 22nd June 2011 (the first day of trading) to 16<sup>th</sup> November 2011. The significant increases these figures demonstrate, justify the investment made to support our local agricultural community, which is not just part of the county's heritage but a real contributor to the local economy.

**Total animals sold against 2010 (% increase)**

June	24%
July	26.4%
August	38%
September	4.26%*
October	15.5%

\*September last year was particularly busy with a total of 34,000 animals sold

<b>2011</b>	<b>136,656 animals (June – November)</b>
<b>2010</b>	<b>114,949 animals whole year</b>

**Animals sold against 2010 figures (% increase)**

Prime Fat Lambs	24.4%
Cull Ewes	18.75
Breeding Ewes	2.0%
Store Lambs	23.53
Breeding Rams	21.9
Cows and calves	62.6
Pigs	55.1
Barren Cows	44.1
Store Cattle	72.3

It is of interest that the auctioneers report the greatest increase of customers to be from the Bromyard to Worcester area.

**Supplementary Question**

Assurance was sought on the Council's support for the livestock market.

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

The Cabinet Member reiterated support for the industry and provided additional statistical evidence to support the contribution the agricultural sector made to the economy.

**Question from Councillor FM Norman**

6.1 *Why are children in our local schools who are eligible for free fruit, being given apples and pears from other countries such as South Africa, Portugal and Germany when our local fruit farmers are having difficulties selling the fruit that is produced*

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

*locally? Purchasing local fruit would benefit the local economy and help to re-establish links between us and our food through schools.*

6.2 *What percentage of food served in Herefordshire schools and hospitals is:*

- a) *local?*
- b) *organic?*

Question 6.3 disallowed on the grounds that it is the same or similar to Question 1 (Herefordshire Council Constitution Part 4, 4.1.15.4 c)

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability.**

Answer to question 6

6.1 The provision of school fruit is through a nationally procured contract and not one held or procured through Herefordshire Council. It should be noted however, that the contract has been awarded to Redbridge (S & A Produce) who are a local supplier; Redbridge currently support the Duchy of Cornwall School Food initiative to promote the supply of local produce. We continue to work with local suppliers to maximise the use of local produce within the county.

6.2 We do not currently collect this information. (It should be noted that the Council does not supply catering services to all schools, or to the hospitals)

**Supplementary Question**

Why were children not getting local fruit, even if there was a national contract the Council should seek to provide as much local fruit as it could and it was asked what percentage was local? it was requested that, if it was not already done, this information should be collated?

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability.**

The Cabinet Member stated he supported the aims of Councillor Norman and the Food Partnership action plan contributed in this area.

**Question from Councillor FM Norman**

7.1 *In March 2009 Herefordshire County Council was awarded PFI credits of £115.3 million towards a new waste treatment facility. How much is the Council committed to spending as our share of the joint Herefordshire and Worcestershire project to build a waste incinerator at Hartlebury in Worcestershire, especially at a time when other Local Authorities have abandoned such plans, and at least one is building an Anaerobic Digester instead, far less polluting and producing far less carbon.*



**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

- 7.2 *How much is Herefordshire's share of the costs of the enquiry taking place later this month?*
- 7.3 *Why is household green waste and food waste going to landfill, instead of for composting, or, if we built one, to an Anaerobic Digester?*
- 7.4 *Why do we not have a 'bring and take' section at our Recycling/Waste centres, as many other counties do, where re-usable, repairable items such as bicycles and furniture could be taken, for removal by anyone who could use them, thus reducing significantly the amount of waste going to landfill. This would help to reduce the huge fines we pay in landfill tax.*

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability.**

Answer to question 7

- 7.1 The Council was awarded PFI Credits under a joint contract with Worcestershire County council 1998, when the contract was originally signed, Herefordshire's share amounts to £1.4 million p.a. for the 25 years of the contract (ie £35m in total). To date there is no financial commitment to the building of a plant at Hartlebury which has not yet received planning permission.
- 7.2 Nothing.
- 7.3 The costs of introducing collection and disposal of green waste and food waste are prohibitively expensive; however we promote a range of recycling opportunities including low-cost compost bins to encourage home recycling. I am pleased to note the recent government announcement about the positive impact of the 'Love Food, Hate Waste' campaign and other national initiatives resulting in the amount of food we throw away every year in the UK dropping from 8.3 million tonnes to 7.2 million tonnes. We have, of course, been actively promoting this campaign providing publicity and advice through regular features in Herefordshire Matters and the local press as well as attendance in High Town and at the Food Festival.
- 7.4 I am pleased to say that re-use facilities are being gradually introduced by our contractors at recycling centres across the two Counties

**Supplementary Question**

If planning permission for the proposed waste incinerator at Hartlebury were to be obtained would the Council be intending to finance this as a Private Finance Initiative, despite Jesse Norman's MPs wish to end PFI schemes in the light of experiences at Hereford Hospital and elsewhere.

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

A public inquiry was to be held in November. The Secretary of State was expected to consider the outcome and announce a decision in March. Whether to pursue the waste incinerator as a PFI scheme was a matter for future debate. Further consideration of funding of the scheme would be given in due course.

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### Question from Councillor FM Norman.

8. *Can the Council consider a comprehensive strategy for insulating our older housing stock to improve energy efficiency, as well as fitting Solar PV panels, as some Councils such as Birmingham are now doing. Such a scheme would lead to warmer homes, lower energy bills and reduced carbon, while creating hundreds of jobs. If introduced before the Government Green Deal is launched, then costs would be lower and local businesses and employment would benefit.*

### Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning.

Answer to question 8

Projects such as that launched in 2010 by Birmingham City Council to fit power generating solar panels to council-owned properties are not practicable in Herefordshire where housing stock is no longer under the control of the council, and private sector incentives through the provision of financial assistance have been removed.

However, Herefordshire Council retains a clear commitment to improving the energy efficiency of the county's housing stock, as demonstrated in the Herefordshire Affordable Warmth Strategy, the Herefordshire Partnership Climate Change Strategy and the Household Sustainable Energy Action Plan.

Indeed, Herefordshire Council's Affordable Warmth and Special Energy Efficiency schemes (SEES) were featured in the 2011 national publication "Our World, Our Wellbeing" by the Chartered Institute of Environmental Health.

During the period July 2007 to March 2011 this Scheme assisted over 3,500 households with financial assistance to install appropriate energy efficiency and micro-generation technologies.

The total amount of funding committed from all sources via these schemes during 2007–2011, excluding local installations by EAGA Warm Front scheme, was £3,666,190.

### Supplementary Question

Why can't the Council lead and co-ordinate work with other bodies on housing insulation?

### Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning

The Cabinet Member stated that the council did not own the housing stock so could only encourage Housing Associations and individuals to take up these schemes. He added

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

that the council had tried to promote energy efficiency and the use of solar panels, but unfortunately the Government had reduced the money that could be recouped from solar panels.

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### Question from Councillor KS Guthrie

9 Queenswood

*Could Councillor Blackshaw please confirm for the public record that he has decided not to accept officers' advice to introduce car parking charges at Queenswood Country Park.*

### Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability

Answer to question 9

Although consideration was given to the introduction of car parking charges at Queenswood, this has not currently been pursued.

### Supplementary Question

Could the Cabinet Member confirm that any future review of Queenswood will ensure that it remains for the benefit of the people of Herefordshire, as the donor intended, and not solely for those that can afford to pay?

### Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability

The Cabinet Member stated that he was conscious that Queenswood was a major tourism asset for the county with over 450,000 visitors a year. It was important that the woods remained sustainable and fit for purpose into the 21<sup>st</sup> century.

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### Question from Councillor KS Guthrie

10 *Speeding Enforcement*

*Is it correct that the decision to not provide funding to the Safer Roads Partnership for 2011/12 has resulted in a reduction in speed enforcement in Herefordshire?*

### Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability

Answer to question 10

No. 576 hours of speed enforcement has taken place in Herefordshire this year (April to September period). This is 2% up on the same period last year.

### Supplementary Question

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**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

Where is speed enforcement taking place, is it only occurring on trunk roads like the A49?

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

The Cabinet Member reported that discussions were taking place with the Highways Agency about a speed enforcement scheme in the Dinmore Hill area.

**Question from Councillor A Seldon**

11 *Given the High Court judgements last week against Sefton and Isle of Wight Councils, what impact is there likely to be on the Adult and Social Care budget in Herefordshire?*

**Answer from Councillor PM Morgan, Cabinet Member Health and Wellbeing**

Answer to question 11

None. The judgements relate to processes undertaken by the two authorities in question that are not being pursued by this authority; they do however underline the importance of undertaking appropriate consultation and equality impact assessment to inform decision making.

**Supplementary Question**

It was suggested that a policy was being operated unofficially.

**Answer from Councillor PM Morgan, Cabinet Member Health and Wellbeing**

The Cabinet Member invited Councillors to submit any evidence to her for investigating.

**Question from Councillor DC Taylor**

12 *How many jobs have gone in Herefordshire Council in the last 18 months? Could the numbers be provided per department?*

**Answer from Councillor PD Price, Cabinet Member Corporate Services and Education**

Answer to question 12

The net reduction in staff numbers for Herefordshire Council, between 1 April 2010 to 31 October 2011, has reduced by 195.

The reduction by Directorate in 2010/11 is as follows:

Children's Services	42
Deputy Chief Executive	15

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

Environment & Culture	6
Integrated Commissioning	7
Provider Services	5
Public Health	-3
Regeneration	9
Resources	10
Sustainable Communities	36
<b>Total</b>	<b>127</b>

The reduction by Directorate in 2011/12, up to 31 October 2011 is as follows:

People's Services	18
CE, DCE & Corporate Services	39
Places and Communities	11
<b>Total</b>	<b>68*</b>

*\*This excludes TUPE transfers to Hoople, Wye Valley NHS Trust and 2gether*

**No supplementary question**

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#### **Question from Councillor DC Taylor**

- 13 *I have been contacted by a resident in my Ward who is concerned about the potential numbers of Herefordshire residents who are affected by the loss of the parking permits for the over 65s. I find that quite a number from my ward are travelling to other towns such as Hay-on-Wye or Abergavenny to do their shopping which must have a detrimental effect on local businesses within the City which we as a Council are trying to promote with the new Edgar Street Grid retail quarter. Due to this would it be possible to revisit the decision to remove concessionary parking for the over 65s?*

#### **Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

Answer to question 13

This change was agreed as part of the council's overall charging strategy and was part of a package of measures needed to ensure a balanced budget. All car parking charges are being monitored to assess the impact and inform any further changes that may be required.

**No supplementary question**

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#### **Question from Councillor WLS Bowen**

- 14 *What help and advice can Herefordshire Council give to Parish Councils who wish to build their own affordable housing? Are you aware that local housing associations are very slow to help, if they can help at all and say that they have very little or no money to spend on housing in parishes.*

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

Question 15 disallowed on the grounds that it is the same or similar to question 8 - Herefordshire Council Constitution Part 4, 4.1.15.4 c.

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

Answer to question 14

A guide to the development of affordable housing specifically for Parish Council's was distributed to all parishes in 2009. The document is amended periodically and Parish Council's are notified of where and how to obtain updated copies. Copies are also available on the council's website.

Parish Council meetings are attended by officers when appropriate to promote housing need surveys and encourage support for potential development opportunities that may arise in specific parishes.

Resources to develop affordable housing are scarce nationally and rural Community Land Trust schemes have delivered comparatively low housing numbers nationally. However, officers are investigating how community-led schemes might work in Herefordshire despite limited national funding and changes are being considered to planning policy through the emerging Local Development Framework currently under consultation; this will provide the framework within which future opportunities for delivering affordable housing can be generated. I have been having discussions with all housing associations locally to ensure we work together to make the best use of the limited resources available for the provision of affordable housing.

**Supplementary Question**

Many Parish Councils do not feel well supported by the Council's Housing Service and Housing Associations.

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

The Council gave what advice it could, but it was acknowledged that matters were not being moved forward as the Cabinet Member would wish.

**Question from Councillor RI Matthews**

16 *Can we please be given the full details of what Council Assets have been disposed of, or are in the process of being so, since this Executive came into power in May 2011?*

**Answer from Councillor PD Price, Corporate Services and Education**

Answer to question 16

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

The management of Council assets, whether acquisition or disposal, are guided by the Council's Asset Management Strategy to ensure that assets are used to best effect to support the delivery of Council policy and priorities, as evidenced by the opening of a new Livestock Market for the county.

Completed asset disposals are listed below; a further thirteen are in process and therefore may be subject to commercial confidentiality.

### Completed:

Burcott Road, Hereford – land  
 No. 135 Eign Street, Hereford – previously Homepoint office  
 Royal College for the Blind, Hereford – land at entrance  
 St Guthlac Street, Hereford – sub-station site  
 Whitfield, (Smallholding Estate) – land  
 Wilton Sports Centre, Wilton Road, Ross on Wye – Sports Centre

### Supplementary Question

What is the total sum obtained?

### Answer from Councillor PD Price, Cabinet Member Corporate Services and Education

The Cabinet Member commented that the disposals listed in his reply had not generated large receipts and included a number of community transfers.

### Question from Councillor RI Matthews

17 *The Info in Herefordshire Offices have recently been moved once again, at great cost, into Franklin House in Blueschool Street, Hereford. Can we be told if this is a permanent move, or are there plans to move this Department once again in the not too distant future?*

### Answer from Councillor PD Price, Corporate Services and Education

Answer to question 17

The Council had a contractual obligation to provide vacant possession of the Garrick House site to Stanhope (developers of the Retail Quarter) by end of July 2011, to enable the delivery of their development to progress. The project will be funded by a future receipt from Stanhope.

As the current development has fully realised the brief for accommodating the customer service organisation and continues to demonstrate enhanced customer outcomes, bringing together a greater number of customer services previously located in other council or NHS owned or leased premises, not solely Garrick House, thereby securing revenue savings through release of surplus property; there are currently no plans to move the location of the service.

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011****No supplementary question**

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**Question from Councillor SJ Robertson**

- 18 *How many employees of Herefordshire Council and Amey Herefordshire have been employed on delivering the Local Development Framework plans over the last three years and how many are expected to work on delivering these plans over the next five year? What is the predicted cost?*

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

Answer to question 18

Given the multi-disciplinary nature of the process it is not possible to give precise numbers of employees involved. The development of the Local Development Framework is a statutory requirement and has to follow a statutory process. Costs to date have been reported in response to questions at a previous meeting of Council; future costs cannot be predicted with accuracy given the number of variables such as length of Examination in Public and the implications of new Neighbourhood Plans.

**No supplementary question**

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**Question from Councillor SJ Robertson**

- 19 *The additional car parking and access road from Plough Lane to Yazor Road has been abandoned? How much has been spent on this project?*

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

Answer to questions 19

Given the significant reduction in space requirement due to the organisation reducing in size, the proposed refurbishment of Plough Lane does not necessitate the delivery of the car park and link road. However the Council is investigating with partners possible opportunities for use of the land adjacent to the existing Plough Lane office. Development of this could involve provision of this car park scheme and link to Yazor Road. In the event of this happening the current designs could be used at that point. Fees incurred to date are £241,602.

**No supplementary question**

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**Question from Councillor MD Lloyd-Hayes**

- 20 *With the integration of Health and Social Care Services, what percentage of the two budgets are pooled?*



**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011****Answer from Councillor PM Morgan, Cabinet Member Health and Wellbeing**

Answer to question 20

The amount within the commissioning line of the pooled budget with the PCT is 65% of total Commissioning (adults) budgets.

I am unable to provide information about the budgets of other bodies.

**Supplementary Question**

Who is to pay for weekend work, GPs, the Council or PCT?

**Answer from Councillor PM Morgan, Cabinet Member Health and Wellbeing**

The Cabinet Member agreed to provide a written response.

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**Question from Councillor JLV Kenyon**

21 *Since becoming a Councillor I have spent a disproportionate amount of time dealing with Parks and Highways, Amey investigating tree problems. How do we remove trees of unsuitable species that are affecting the development of adjacent trees as well as local residents having quiet enjoyment of garden?*

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

Answer to question 21

Any reports of trees which are causing a problem or are inappropriate will be investigated. However due to the considerable amenity value of trees, Herefordshire Council has a policy of not carrying out works on trees unless it is for the health of the tree, safety of the public or if they are encroaching onto neighbouring properties. There is no obligation on the authority to carry out works on a tree for the convenience of the neighbouring property.

**No supplementary question****Question from Councillor PJ McCaull**

Question 15 disallowed on the grounds that it relates to a planning or licensing application - Herefordshire Council Constitution Part 4, 4.1.15.4 e.

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**Question from Councillor EPJ Harvey**

This autumn most energy suppliers have increased their tariffs across the board by ~20%. Herefordshire has one of the highest proportions of timber framed and solid-walled houses, and users of LPG (Liquefied Petroleum Gas)/oil-fired heating systems of any county in the country. Last month:

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

- A Hereford householder was given the first national award under the new European Passivhaus energy standard for upgrading his older-style home; and
- The Council approved the accelerated upgrade of some street-lighting and all traffic lights to reduce energy consumption and maintenance costs.

23 *Where on its risk register does the Council place the subject of fuel poverty, and how is it planning to use its buying power, position of influence and asset base to reduce energy consumption, encourage investment in energy saving/micro-generation and support the many businesses based in Herefordshire which specialise in this technology?*

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

Answer to question 23

Fuel poverty is not a risk to Herefordshire Council and therefore is not on its risk register.

Recognising the significance of this issue for local residents, the Council seeks to mitigate fuel poverty through its Affordable Warmth Strategy where there is a dedicated officer dealing with this and related issues. The Council is using its influence and asset base to reduce energy consumption, encourage investment and support businesses through its sustainable procurement policy that seeks to promote the purchase of goods and services based on best value for economic, environmental and social considerations, and encourage contractors to do the same.

The Council adopted its "Carbon Management Plan" in March 2011 which contains an action plan with a target of 30% carbon reduction by 2015.

We have also adopted a sustainable procurement policy to ensure that we purchase goods and services based on best value for economic, environmental and social considerations, and encourage our contractors to do the same.

**Supplementary Question**

Further information was sought on what initiative the council was undertaking to address the concerns highlighted in the original question.

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

In reply the Cabinet Member reiterated the Council was seeking to mitigate fuel poverty through its affordable warmth strategy and had a dedicated officer dealing with this and related issues.

**Question from Councillor MAF Hubbard**

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

Change in the October version of the background papers to the LDF

In the draft back in July it states on page eight that “Further modelling based upon the proposed reduction in housing numbers still confirms a need for the road”.

In the October version, same page, the wording now reads “Further modelling based upon the proposed reduction in housing numbers is being undertaken”.

*24.1 Please can you explain the need for the revision in the wording; whether the modelling is now complete; if so, what are its conclusions; and if not, how the case can be made for the road and its route under this consultation?*

*24.2 I note you say that the existence of the Rotherwas Enterprise Zone is now recognised in the October version of the Background Paper. What modelling has been done of the impact on the Core Strategy and its evidence base of the EZ as a growth employment area and how has this modelling been related to any associated impact on the Employment Area identified in the plan for Three Elms?*

### **Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

Answer to question 24

24.1 Further traffic modelling based upon the reduction in housing numbers is continuing. The need to carry out such modelling was acknowledged in a LDF report to Cabinet in July. The initial outcomes from this work confirm the continuing requirement for the relief road and full results will be made available as soon as possible. The Draft Background Paper was amended before the final version was published.

24.2 In respect of Rotherwas Enterprise Zone (EZ), it is intended to consider this aspect further as the Core Strategy is progressed. The land presently within the EZ is already allocated employment land. Enterprise Zone status will help to bring forward this employment development effectively implementing existing plans. The Three Elms proposal is part of the positive planning needed to ensure that there continues to be a ready supply of employment land, available in planning terms, with a particular need to make supply available to the north of the Wye to complement Rotherwas to the south.

### **Supplementary Question**

Broad Street is not seen as a barrier, St Owen Street is.

### **Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

The Cabinet Member acknowledged the difficulties but said the LTP contained significant sustainable transport proposals, which would be discussed further in a member seminar.

### **Question from Councillor MAF Hubbard**

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

Modelling Alternatives to Road Building

- 25.1 *The Cabinet has gone to great lengths to test various 'East is Best' alternatives to a Western Relief Road proposed in response to the autumn 2010 consultation. What modelling has been done on the sustainable transport (non road) alternative to a Western Relief Road commissioned by local people from consultants MTRU in 2010 and updated in 2011?*
- 25.2 *What modelling has been done of any No Road Sustainable Options and the Western Relief Road options with the assumptions used in the East is Best modelling — that is, **both** reduced housing numbers and the removal of bus lanes and bus priority from the A49?*

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

Answer to question 25

- 25.1 The proposed housing growth set out in the LDF preferred options has been modelled with reference to a number of strategic transport options including no road, east or west road and strategic sustainable transport options. This work has confirmed that a relief road with complementary sustainable measures which support modal shift performs best in terms of the growth proposals

We will be undertaking more detailed assessments of how specific sustainable transport measures perform, including cycle network improvements and bus priority, in the development of the Local Transport Plan.

- 25.2 None. Let me be perfectly clear that this Council is not currently proposing any action over bus lanes and bus priority on the A49, which is in any event, not within this Council's control.

**No supplementary question****Question from Councillor MAF Hubbard**Protection for Wildlife and the Natural Environment

- 26.1 *What is the Cabinet's position regarding statutory protection for wildlife and the natural environment in national and international law?*
- 26.2 *Are there any circumstances under which the Council would consider alternatives to proposals entailing environmental damage of international significance? If so, what are these?*

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing and Planning**

## MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011

Answer to question 26

- 26.1 The Council always seeks to comply with national and international law; guidance from Natural England is sought to ensure compliance.
- 26.2 The Council **must** consider alternatives to proposals that will cause environmental damage to sites of international significance. It may be that there are no alternatives that would have no (or a lesser) effect on the European site but there must also be Imperative Reasons of Overriding Public Interest (IROPI) as well as provision of compensatory habitat.

**No supplementary question**

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**Question from Councillor MAF Hubbard**

Contribution of Broad Street Shared Space Scheme to Sustainable Travel in Hereford

Sixty percent of the £5 million funding from the Department for Transport for sustainable transport in Hereford will be spent on the Broad Street Shared Space Scheme. The successful 'Destination Hereford' bid to the Department for Transport stated that the Broad Street scheme would 'address' the 'barrier to increasing pedestrian and cyclist use' posed by 'the volume of traffic and the resulting poor quality environment experienced along busy highways' (para B2, 'Peak Hour Congestion').

- 27.1 *What evidence does the Council have of Broad Street's effect as a barrier to walking and cycling in and across Hereford? How does it compare in importance to other streets?*
- 27.2 *What estimates has the council made of the reductions in car use (i.e., sustainable travel) that will be achieved by the £3 million expenditure on enhancing Broad Street?*
- 27.3 *Before bids for the Local Sustainable Travel Fund were invited from local highway authorities, what schemes to promote walking and cycling in Broad Street were in the Council's prioritised programme of sustainable transport measures?*

**Answer from Councillor AJM Blackshaw, Cabinet Member Highways, Transportation and Sustainability**

Answer to question 27

- 27.1 The scheme's aims are to contribute to supporting regeneration and the city economy, creating continuity with existing refurbished areas including the recently completed Widemarsh Street and Cathedral Close and the opportunities it would present to improve pedestrian and cycle access and linkages to the sustainable transport network.
- 27.2 The Council has not estimated car reductions for this element of the bid.

**MEMBERS' QUESTIONS TO COUNCIL – 18 NOVEMBER 2011**

- 27.3 Broad Street is clearly identified in the Streetscape Design Strategy as a 'principal' street and the implementation of this scheme follows on from the recently completed Widemarsh Street scheme. A cycle contraflow for Broad Street has been included in the Local Transport Plan cycle ranking list since 1998 and incorporating cycle contraflow is within the scope of the upgrading scheme.

**No supplementary question**

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**Question from Councillor DC Taylor**

- 28 *In the preparation of the Revised Preferred Options for the Local Development Framework which is at present out for public consultation, what evidence was available to the Council from the Primary Care Trust and Hospital Trust concerning the ability of the existing hospital services to cope, without expansion, with additional hospital episodes resulting from the influx of population to the envisaged 16,500 new homes in Herefordshire, and did this take into account not only inpatient bed occupancy but the full range of services such as maternity services and out patient appointments.*

**Answer from Councillor DB Wilcox, Cabinet Member Environment, Housing & Planning**

Answer to question 28

The PCT have been consulted and have indicated, in response to these discussions, that bed capacity at Hereford Hospital has to be considered alongside other developments in community based local health care. In line with national and local policy, models are being developed that will provide care differently, closer to home, reducing the reliance on hospital beds and improving patient outcomes and experience.

**No supplementary question**

## RESOLUTION OF CABINET 19 JANUARY 2012

### Resolved

**THAT: it be recommended to Council that:**

- (a) the Medium Term Financial Strategy (MTFS) shown in Appendix A, which includes the 2012/13 budget and Treasury Management Strategy and Policy Statement be approved;**
- (b) a freeze of Council Tax for 2012/13 at 2011/12 levels be approved;**
- (c) the Capital Programme outlined in paragraph 67 of the report be approved: and**
- (d) officers be required to further assess those elements which are perceived as engaging the council's duties under the Equalities Act 2010 (including those at paragraphs 48/49, 55-58 and 69) and report further on any necessary amendments to this budgetary framework.**

ATTACHED:

- Cabinet report and appendices
- Extract from the draft minutes of the meeting of the Overview and Scrutiny Committee meeting held on 16 January 2012.





<b>MEETING:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>19 JANUARY 2012</b>
<b>TITLE OF REPORT:</b>	<b>DRAFT FINANCIAL STRATEGY AND BUDGET 2012/13</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES AND EDUCATION</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To propose the draft financial strategy for 2012/13 to 2015/16 that includes the 2012/13 budget for approval by Council on 3 February 2012.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT Cabinet recommends to Council on 3 February 2012**

- (a) Approval of the Medium Term Financial Strategy (MTFS) shown in Appendix A, which includes the 2012/13 budget and Treasury Management Strategy and Policy Statement;**
- (b) Approval of a freeze of Council Tax for 2012/13 at 2011/12 levels; and**
- (c) Approval of the Capital Programme outlined in paragraph 67 of the report.**

### **Key Points Summary**

- Cabinet has recommended that Council accepts the 2012/13 Council Tax freeze grant and does not increase its level of Council Tax.
- The Council will set its Council Tax on 2 March 2012. This must be based on a balanced budget. It cannot budget for a deficit.
- The Council continues to be affected by the reducing level of central government funding.
- The 2012/13 net budget total is **£143.359m** excluding schools funding.

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Further information on the subject of this report is available from  
David Powell, Chief Officer: Finance and Commercial Services on 01432 383518

## Alternative Options

- 1 A balanced budget for 2012/13 is proposed and summarised in the Financial Resource Model (FRM) in the attached MTFs. It incorporates inflation, service pressures and other spending requirements. Funding has been identified from within Council Tax, Formula Grant, service efficiencies and reductions.

## Reasons for Recommendations

- 2 The Council has a legal obligation to set a balanced budget as required by the Local Government Finance Act 1992. The proposed MTFs shown in Appendix A provides a financial planning framework for the next four years.

## Introduction and Background

- 3 The Cabinet is requested to consider the budget proposals set out in the MTFs in order to make a recommendation to Council for setting the 2012/13 revenue budget based on holding Council Tax at current levels.
- 4 The provisional local government settlement was announced on 8 December 2011. The key component is the Formula Grant, which includes Revenue Support Grant and redistributed business rates, which is set at £54.462m (£56.615m after including council tax freeze grant). This is a £5.7m cash reduction on the amount received in 2011/12 and it is unlikely this will change when the final settlement is published in late January 2012.

## Considerations

### Provisional Local Government Settlement 2012/13

- 5 Local government will enter the 2012/13 financial year without certainty about the funding position for 2013/14 onwards. This is because CSR10 announced in October 2010 only provided a finance settlement for two years (2011/12 and 2012/13). However, the council's assessment of funding for budget planning purposes assumes at least 10% reduction over the 2013/14 to 2015/16 period. A more fundamental review of local government funding is anticipated from 2013/14 so outline assumptions are used at this stage.
- 6 The provisional local government settlement for 2012/13 was announced on 8 December 2011. The formula grant (Revenue Support Grant and redistributed business rates) remains unchanged from the figure previously announced of £54.462m (before the council tax freeze). This compares to £60.191m in 2011/12, a cash reduction of £5.7m (9.5%). Some additional funding is provided for in the provisional 2012/13 settlement:
  - a. £1.5m social care funding within formula grant;
  - b. £2.1m of funding for the 2011/12 council tax freeze. This will cease after 2014/15; and
  - c. £2.3m NHS funding to support social care.
- 7 The New Homes Bonus match funds the additional council tax raised for new homes and empty properties brought back into use. The scheme commenced in April 2011 and is paid for six years. Herefordshire was awarded £591k per annum for 2011/12 and has been provisionally awarded £824k for 2012/13 (paid for six years from 2012/13). The council's financial model now reflects the national top slice expected from 2013/14 that will reduce the allocation.

- 8 The Department for Education has indicated that Dedicated Schools Grant (DSG) remains at £4,723.65 per pupil.

### **Autumn Statement – November 2011**

- 9 On 29 November 2011 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. Key points for councils were;
- The Chancellor confirmed that there would be no change to the figures already announced in the 2010 Spending Review. The Chancellor also stated that he had set new Expenditure Totals for the end of the spending review period: 2015/16 and 2016/17. Over these two years, the Total Managed Expenditure is set to fall by 0.9% a year in real terms, excluding one-off investments in infrastructure announced in the Autumn Statement.
  - The Statement reiterated the Government's offer of a one-off council tax freeze grant in 2012/13 "to help with the rising cost of living", which had been announced previously.
  - The Chancellor announced an extra £1.2bn spending on schools. £600m will help the local authorities with the greatest basic need for schools places and is hoped to fund an additional 40,000 places. The remaining £600m will support reforms and build 100 additional Free Schools – including Maths Free Schools for 16-18 year olds. He also announced that the number of childcare places for deprived 2 year olds will double from 130,000 to 260,000.
  - Following the 2-year pay freeze there will be a 1% cap on public sector pay. There will also be a review of regional pay.
  - The small business rate relief "holiday" was extended for a further 6 months to 1 April 2013.
  - 2012/13 business rates are to be up-rated in line with September RPI at 5.6%. Businesses will be given the opportunity to defer 60% of the increase to be repaid in the following 2 years.
  - An extra £1bn was announced for the Regional Growth Fund over the remaining Spending Review.

### **Council Tax Freeze Grant for 2012/13**

- 10 On 3 October 2011 the Chancellor of the Exchequer announced that the Government will pay a grant to authorities which freeze their council tax for 2012/13. This grant is for one year only.
- 11 By accepting the grant Herefordshire Council will freeze council tax bills for a second successive year. However, a careful approach is needed in order to manage the consequences for council tax and budgets in subsequent years as the grant will only fund one year of grant payment at 2.5%.
- 12 The grant covers 2012/13 only and is therefore very different from the funding for the 2011/12 council tax freeze where the government will pay the grant for the four years of the spending review (up to and including 2014/15).

- 13 The grant on offer covers the equivalent of 2.5% increase in council tax (this equates to £2.16m for Herefordshire Council). The grant for Police and Fire and Rescue Authorities is 3%. The grant does not cover parish and town council precepts.
- 14 Payment to the council will be made by a single amount in March or April 2012 and will be made as soon as the council confirms it will freeze the 2012/13 council tax. For Herefordshire this would follow council tax setting. The grant is not ring fenced and can be used for any purpose. It could also be carried forward if not fully used in 2012/13.
- 15 As indicated, accepting the grant rather than increasing council tax by the same amount means losing the “base” effect of a 2.5% council tax increase. Therefore it is proposed, subject to final Council approval, to use the grant as a one off source of funding for transformation (including Root and Branch reviews – see below) and budget contingency in 2012/13. The approach to the use of the funding will be developed before the end of March but it will be based on supporting transformation to enable sustainable budget reductions to be made, with a particular emphasis on Adult Social Care.

### Grants for 2012/13

- 16 In 2010 the government announced a significant reduction in the number and value of grants that affected 2011/12 and to a lesser extent 2012/13. The allocations for 2011/12 and 2012/13 (excluding Council Tax Grant and Dedicated Schools Grant) are as follows:

<b>List of Grants</b>	<b>2011/12</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Early Intervention Grant	6,501	7,097
HCTB Admin	1,228	1,177
Music grant	263	236
Community Safety	158	80
Home to school transport	435	540
Lead Local Flood Authorities	130	200
Learning Disability	3,657	3,738
Preventing Homelessness	225	225
<b>TOTAL</b>	<b>12,597</b>	<b>13,293</b>

- 17 In 2011/12 £13.5m of specific grants and Area Based Grant were moved into formula grant, but reduced to an estimated £10.8m, leaving a funding shortfall of £2.7m. A further £932k reduction in these grants is estimated to be included in the Formula Grant reduction in 2012/13. The above shows an increased total compared with 2011/12 but this comes with additional responsibilities and in some cases increases will be passported to other bodies.
- 18 The Council Tax and Dedicated Schools Grants are the only ring fenced grants. As a result this gives greater flexibility when using the grants outlined above.
- 19 In 2012/13 the Early Intervention Grant increases by £596k but the additional amount is to

cover the responsibilities to provide pre-school places for vulnerable two year olds.

## Budget and Policy Process

20 The 2012/13 budget process has seen greater alignment between policy and budget setting. This builds on the process that commenced in the previous year and led to a series of star chambers in late 2011. The star chambers had the following aims:

- a. To sign off the savings agreed in 2010 as part of the two year process;
- b. To seek additional savings to meet the emerging gap resulting from the Council Tax freeze grant for 2012/13; and
- c. To test the requirement for additional funding built into the current financial model.

21 As part of the overall process the following core principles set out what the council stands for and what residents can expect of it.

PRINCIPLE	IMPACT
Valued Services	• <i>Focusing on our priorities &amp; what matters to people, stopping things we don't need to do</i>
Reducing Bureaucracy	• <i>Less regulation and red tape, smaller local government; right first time delivery</i>
Supporting the Vulnerable	• <i>Targeting resources on individuals, families, communities at risk or disadvantaged; early intervention &amp; prevention; a shift in social care provision</i>
Value for Money	• <i>Reducing the pay bill; third party spend savings; smarter delivery; cutting costs</i>
Local Delivery	• <i>Devolution to parishes and the VCS, local decision making; working through 9 localities</i>
Personal Responsibility	• <i>Self reliance, people and communities helping themselves, behavioural change; increase in personalisation</i>

22 It is important to note that Cabinet of 15 December 2011 agreed to recommend to Council that the 2012/13 Council Tax Freeze Grant announced on 3 October 2011 by the Secretary of State be accepted, which means, subject to Council approval, there will not be an increase in council tax in 2012/13. However, the one year nature of the funding means the permanent ongoing increase that would have occurred from the assumed 2.5% increase in Council Tax is foregone. As a result the Cabinet's policy is to use this as "one off" funding split between transformation (£1.2m) and budget contingency (£1.0m).

## Income Generation

23 During 2009/10, the Council generated £18.1m through fees, charges and sales which was 4.7% of total gross revenue expenditure.

24 According to benchmarking analysis undertaken by the council and Price Waterhouse Cooper, in a number of specific expenditure areas (e.g. pest control, highways planning, water safety),

the council performs well on recovery relative to nearest neighbour authorities. Overall, though, the council has the lowest recovery rate out of 15 comparators.

- 25 The intention is to become a median performer in terms of income recovery, which would mean generating approximately £2.78m of additional net income per year. A 'stretch' target of £12.43m has also been identified, representing average upper quartile performance.
- 26 The 2011/12 budget includes £712k to be delivered through increases in existing income and the development of new income streams within directorates.
- 27 A set of Charging Principles for the council has been agreed by Cabinet, and a process for approving new income proposals has been put in place by the Commercial Board in response to these.
- 28 Cabinet approved three 'quick win' income proposals in June 2011. These covered car parking, pre-application planning advice and school transport. There are a number of further income projects at varying stages of development across the authority.
- 29 The Overview and Scrutiny Committee have also been tasked with "undertaking a review to identify options for the development of budgetary policy to support further income generation". This will influence the outcome of the PwC work and the council's medium term plan.

### **Budget Setting Principles**

- 30 The MTFs, attached to this report, includes the council's financial model. This indicates the variations to the budget including amounts to meet pressures as well as compensating savings. The key points are as follows:
  - a. Inflation: the model includes net inflation of £2.35m.
  - b. Additional funding for Adult Social Care: the council will passport to Adult Social Care the £1.48m included in the formula grant along with funding from the NHS included in the CSR10 announcement.
  - c. Further savings from the Shared Services programme amounting to £571k are included for 2012/13.
  - d. Change management: the budget includes £1.0m to support costs associated with staff reductions. If the government permits capitalisation of such costs in 2012/13 (as it did in 2011/12) the council will make a case to take advantage of this approach.
  - e. Council Tax: the 2012/13 budget includes use of the one year Council Tax Freeze Grant announced in 2011. This means for the second year council tax will not be increased. Future years assume 2.5% increase.
  - f. Council Tax Freeze Grant: the 2012/13 amount on offer from central government will be used to support transformation activity (£1.2m) and the balance of £1.0m will be used as budget contingency.
  - g. Pressures: the budget includes £907k for contract inflation; £785k for service and demographic pressures and £544k for statutory changes. In total the budget includes £2.236m of additional funding to support pressures.

## Financial Management and Reserves

- 31 A key part of the budget process is to ensure the council has appropriate levels of reserves especially at a time of continuing financial challenge. Over the medium term it is proposed that the council will put in place a budget contingency.
- 32 The current level of the general reserve is £6.3m representing 4% of the net budget. Whilst the policy is for a general reserve of 3% it is considered prudent to use any amount in excess of 3% to fund a budget contingency reserve.
- 33 The Council holds a variety of reserves some of which relate to schools. In total the overall level of reserves will be approximately £16m on 31 March 2012 but within this total it is assessed £8.6m will be available for corporate use. These include the General Fund (£6.3m), Waste Disposal Reserve (£1.9m), Whitecross PFI Reserve (£0.3m) and Insurance Reserve (£1.0m).

## 2013/14 Onwards

- 34 The funding position for 2013/14 onwards is much less certain. Currently the government is consulting on a proposal that will see councils retain business rates for their area. This is a significant change to the current arrangements where Herefordshire collects business rates on behalf of the government and receives a formula grant in return.
- 35 The proposed changes give councils some local control and provide an additional incentive to support economic growth. However local changes to collection rates can lead to income fluctuations in any year. Herefordshire gains from the current system and currently gets more funding through the formula grant than it collects in business rates. Herefordshire will need to ensure the “base” position supports the current level of funding in order to avoid additional financial pressure.
- 36 In 2013/14 local government will also see a significant change to Housing and Council Tax benefits. Housing Benefit will become part of the new single universal credit. Council Tax benefit will be funded by a specific grant paid to Unitary and District Councils. The amount paid will be subject to a 10% cut compared with 2012/13 levels of funding. Furthermore, those viewed as “vulnerable” by government regulations will receive a greater proportion of the overall grant than at present.

## Directorate Budget Proposals

DIRECTORATE	ORIGINAL £'000	REVISED £'000
Corporate	1,191	1,256
Peoples	3,500	4,324
Places	1,092	2,170
Council Wide Initiatives	240	1,554
<b>TOTAL</b>	<b>6,023</b>	<b>9,304</b>

## Corporate Services Directorate

- 37 The Directorate has identified total savings for 2012/13 of £1.256m.
- 38 The Directorate's savings plan for 2012/13 includes £571k further savings from Shared Services. The majority of which will be achieved through the contract arrangements with Hoople Limited.
- 39 There are also savings of £302k through further measures to reduce the pay bill across all services along with increased income from Charging Reviews in the Diversity and Registration services of 33k.
- 40 Other savings for the Directorate are as follows:
- Non-pay inflation across most services where contract inflation is not already committed, totalling £350k. Non-pay inflation has only been held back to meet committed pressures on ICT contracts. Root and Branch Reviews within Customer Services and Support Services are expected to achieve a further £250k.

## Places Directorate

- 41 The Directorate has identified savings for 2012/13 of £2.17m. This is in addition to managing over £500k pressures in relation to contract inflation and new government initiatives, such as introduction of Neighbourhood Planning and Enterprise Zone.
- 42 Contract savings of £500k are expected through negotiations with Amey in relation to extending the current Managing Agent Contract beyond September 2013 along with savings from the FOCSA contract of £200k per annum by discontinuing the free provision of black sacks, although this is not be realisable until November 2012.
- 43 There is agreed reduction in Management Fee to partner organisations, Halo, Courtyard and Hereford Futures of 10%. totalling £173k, these fees have been reduce by 5% in each of the previous two financial years.
- 44 There is an expected increase in charges of £389k across the Directorate in line with the Charging Review, which includes increasing Car Park Fee income by £200k.
- 45 The balance of savings for the Directorate is being made from service efficiencies across all services, including £750k from service reviews. These are:
- Cultural Services £150k
  - Regulatory Services £200k
  - Transport £100k
  - Community Protection & Parking £100k
  - Provision of Public Toilets £200k

## Peoples Directorate:

- (a) Children's Services
48. The Directorate has identified savings of £4.32m. This is in addition to managing pressures such as £1.459m in Safeguarding services, due to the growth in child protection and looked



after children, plus other service pressures of £0.593m. The Children's Services budget was substantially reduced in 2011/12 as a result of cuts in both base budget and grants. Significant cuts were actioned across all service areas except for children's safeguarding services (which continue to experience increasing demand).

49. The savings are anticipated to be delivered through a combination of:

- restructure savings (full year effect of 11/12 staffing cuts) £591k,
- increases in grants confirmed of £776k,
- service reconfiguration yielding £421k across youth, connexions and children's centres,
- contract reductions of £235k,
- other early years savings of £150k,
- use of transformation fund £190k, targeted safeguarding savings of £150k,
- schools transport savings of £220k. The balance is expected to be delivered across a range of services with potential additional staffing cuts which have yet to be confirmed.

(b) Environmental Health, Trading Standards and Public Health

50. The Directorate has identified savings of £289k; this will be delivered through a combination of:

- service restructure which has been undertaken,
- increasing income budgets based upon maximum acceptable charges; and
- cutting non-essential expenditure.

51. The service will also operate with a shadow public health budget in 2012/13 in preparation for the budget transfer from 1<sup>st</sup> April 2013.

(c) Adults Services

54. The 2012/13 budget for adult services will see a £1.4m net increase compared to 2011/12 which is a result of additional funding from central government to support social care pressures. In order to achieve a balanced budget however, the Directorate has identified savings, efficiency and transformation schemes of £7.956m. This is to address medium term financial strategy required savings of £2.5m and this is in addition to a brought forward funding shortfall of £6.4m and 2012/13 demographic pressures of £3.6m. Mitigation by the additional funding streams and use of NHS monies for transformation has resulted in the net savings plan.

55. Given the scale of the cost challenge in Adult Services, consideration has been given to altering the threshold for adult social care services to critical. As this would be counter to the principle of early intervention, and unlikely to lead to cost reductions in the longer term, there will be no change to the eligibility criteria, which will therefore remain at substantial and critical needs.

56. Other measures to achieve a balanced budget have been considered including an increase of the threshold to Fair Access to Care Services to critical, rather than substantial and critical and not to award inflation increases to providers. However, following consideration, it has been decided that both would be counterproductive and not in the interests of service users in Herefordshire. Neither action would create sustainable service and budget positions and have therefore been discounted from these budget proposals.

57. The focus in the savings proposals is on transforming and re-shaping how services are provided with emphasis on reducing demand by creating greater independence. Through

different approaches to care. Transformation initiatives which will deliver the savings required are:

- reablement, enablement and substantially increasing the use of assistive technology
- reducing residential care by supporting people to live independently,
- creating a more vibrant market to offer greater choice and control to service users
- increased charges and removal of subsidies
- making better use of existing contracts and gaining better value for money from commissioned services.

58 To be able to achieve this investment of circa £1.4m is required which will support both health and social care to reshape supply from traditional `bed based` models of care.

59 A schedule of directorate savings is in Appendix A.

## **Schools Budget Settlement**

### **Academies**

60 The adjustments for Academies' funding have not changed from those previously announced. However, the Department for Education, in consultation with the Secretary of State for Communities and Local Government, has been reviewing the amount and distribution of the funding transfers from local government for 2011/12 and 2012/13 to reflect the responsibilities transferring from them when schools convert to academies. No final decisions have yet been taken regarding the amount and distribution of these funding transfers.

61 For 2012/13 the top-slice from Formula Grant will remain at £265m, but a new methodology will be used to calculate individual authorities' contributions. Where this methodology suggests authorities have had more taken away than they should they will receive a specific grant. There will be no adjustment where the calculation suggests that an authority should have contributed more.

### **Schools and Children's Services funding**

62 The Department of Education (DfE) made a separate announcement on Dedicated Schools Grant (DSG) and Pupil Premium;

- DSG is to be same flat cash per pupil, the rate therefore remains at £4,723.65 per pupil – so no increase in pupil funding for any authority
- The Minimum Funding Guarantee remains at (minus) 1.5% - as expected
- The spend on the pupil premium will double to £1.25bn. This is as expected.
- The pupil premium is to be £600 per free school meals pupil and Looked After Children and £250 for service children (up £50 from £200). 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 reduces the payment rate per individual pupil.

63 As expected there will be no uplift in DSG for 2012/13. It will continue to be paid at the same rate as in 2011/12 i.e. £4,723.65 per pupil. DfE have not provided an overall total and expect councils to work to their own estimates. Based on the September pupil count we now estimate 22,600 pupils i.e. a reduction of 117 pupils. Final pupil numbers will be confirmed in late February following the 2012 pupil census. Estimated DSG for 2012/13 is:

<b>2012/13 Estimated Allocations</b>	<b>£m</b>
DSG (22,600 pupils at £4723.65 per pupil)	106.75
<b>TOTAL DSG 2012/13</b>	<b>106.75</b>

64 The Schools Forum has already consulted on proposals to address the pressures within the DSG and will be making recommendations to the Cabinet Member in the light of the settlement.

## **Proposed Capital Programme**

65 The Joint Capital and Asset Management Strategy agreed by Cabinet on 16 December 2010 sets out capital priorities and plans as well as how these link to strategic objectives.

66 The strategy listed a number of schemes that are priorities within the Joint Corporate Plan (JCP) and confirmed that if they continue to encapsulate the Herefordshire Public Services (HPS) Vision they could be funded as resources become available and are identified in coming years. These included a number of schemes that remain priorities. There is a key link between the strategy and the HPS strategic aim of "Herefordshire will be a place where people, organisations and business working together within an outstanding natural environment, will bring about sustainable prosperity and well being for all".

67 The strategy includes a number of additional key schemes. These are:

- Broadband – Herefordshire is one of four pilot areas identified that has received government funding. It is a requirement that the council match funds the programme and £6m will be made available.
- Hereford Futures – Hereford has been identified as a regional growth point and planning permission has been granted for a relief road as part of the overall package of infrastructure to facility and enable growth to take place. The relief road will also enable the bringing forward of new homes in partnership with Sanctuary Housing. The estimated cost of the overall scheme will be £27m for the relief road. It is proposed that this scheme is included and therefore funding decisions can be made to enable to council to lock in low rate funding, as the long term savings from borrowing sooner rather than later, may not be available if further postponed. It should be noted that the overall funding needed will be confirmed in 2012 and appropriate contributions will be sought from developers and other funding sources.
- The provision of a replacement Archives facility is required if Herefordshire is to continue to hold its county records. If a facility is not provided there is a likelihood that the county's historical records will need to be moved outside of Herefordshire. It is also appropriate to bring together modern records provision with the archives facility and so an overall facility is proposed up to a maximum capital cost of £6.0m.

- Stretton Sugwas Landfill: this is a £70k scheme to provide routine replacement of infrastructure.

68 The capital programme also includes a budget of £1.0m for repairs to Garrick House car park. These will ensure it continue to provide income and parking capacity for those shopping in Hereford City Centre.

69 In addition the Government supports capital investment through the allocation of grants. This approach replaces the previous supported borrowing model. Known grant funding allocations for 2012/13 are:

### **Local Transport Plan**

- This has been reduced by a further 5% to £10m for 2012/13 split between integrated transport and capital maintenance allocations. Indications are this funding will fall further to £9.8m for 2013/14 and 2014/15.
- Hereford submitted a successful application, (Destination Hereford), for capital funding from the Local Sustainable Transport Fund, for sustainable transport initiatives in Hereford. £3.2m of grant funding is expected to be spent between 2012/13 and 2014/15 on improving Broad Street and providing the non-motorised connection between the city centre and Rotherwas.

### **Schools Capital**

- There have been further substantial changes in the allocation of schools capital funding for 2012/13 due to a number of Herefordshire's schools converting to academies in 2011/12 and changes to the formula mechanisms that the DfE use to allocate capital grant funding.
- The total allocation for maintenance and basic need has reduced by 46% from an allocation of £4.8m in 2011/12 to £2.6m in 2012/13. Capital maintenance funding has been reduced by £0.9m; a separate funding pot is available for academies to bid for funding. Basic need funding has reduced by £1.3m as a result of funding formula changes from allocations being based on pupil growth and capacity in 2012/13 as opposed to being based on pupil growth alone in 2011/12. Further basic need funding available to central government is yet to be allocated. These allocations will be announced in the New Year along with the results of the priority school building review and response to the capital review carried out earlier in the year.

### **Adult Social Care**

- The Department of Health has announced funding of £0.46m towards personalisation, reform and efficiency in adult social care in 2012/13.

## Other Capital Grants

- Herefordshire has been selected as one of four pilot schemes to deliver superfast broadband to rural areas in Herefordshire and Gloucestershire, the procurement process is underway with the successful provider expected to be announced in May. The scheme is to be funded through grants from BDUK, Gloucestershire and corporate match funding.
- Herefordshire Council will receive £1.5m from the Regional Growth Fund for a new Marches Redundant Building Grant Scheme covering the 3 local authority areas in the Marches Local Enterprise Partnership (Herefordshire, Shropshire and Telford & Wrekin).
- Capital grant applications for funding towards the Masters House in Ledbury are to be confirmed, if successful this will enable the completion of the desired scheme.

70 The following summarises funding for the capital programme up to and including 2015/16:

	2012/13	2013/14	2014/15	2015/16
Directorate	£'000	£'000	£'000	£'000
People's Services	12,828	-	-	-
Places & Communities	17,591	16,917	10,842	-
Corporate Services	4,351	12,257	-	-
Funding to be allocated	4,260	11,200	11,492	6,213
<i>Contingency</i>	332	330	283	-
<b>TOTAL</b>	<b>39,362</b>	<b>40,704</b>	<b>22,617</b>	<b>6,213</b>
<b>Funded by</b>				
Prudential Borrowing	11,905	23,787	11,775	6,213
Capital receipts reserve	465	70	-	-
Grants and contributions	26,992	16,847	10,842	-
<b>TOTAL</b>	<b>39,362</b>	<b>40,704</b>	<b>22,617</b>	<b>6,213</b>

## Equality and Human Rights

71. In demonstrating “due regard” in our decision making process, we will ensure that individual directorates and service areas assess the potential impact of any proposed changes that are as a consequence of budgetary constraints, leading to fairer, transparent and informed decisions being made.

## Financial Implications

72 These are set out in the report.

## Legal Implications

- 73 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.
- 74 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, so members will have authoritative advice available to them when they make their decisions.

## Risk Management

- 75 The position outlined in the report indicates the state of 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 in 2012/13 requires a significant level of savings. There is a risk of slippage should unforeseen delays occur. The use of the £1.0m budget contingency will assist along with using anything in excess of 3% on the general fund reserve as a budget contingency reserve. Directorates' plans for delivery of savings will need robust management, and action plans to ensure delivery. Contingency plans will form part of the process.
  - b. Local Government Resource Review: 2013/14 will see one of the most significant changes to funding for local government. The proposal to allow councils to retain business rates rather than contribute to the national pool could create risk if the "base" level is set too low by central government. 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.

## Consultees

- 76 Herefordshire Public Services set out to ask local people for their views on funding priorities so that their feedback could help it to begin to plan how its budget should be used in the future. With current pressures on funding being experienced by public services nationwide, it wanted to explore a new way of engaging with the population at an early stage in the process. As a

result, a series of 10 public events were held across the range of localities in the county during November and December 2011, attended by over 250 people in total. Alternatively, people could give responses through an on-line questionnaire.

- 77 The consultation included four topic areas, on which people were asked a series of high-level questions about general spending principles on which each could cast their vote using an electronic hand-held device. Each section was first introduced by providing some contextual information. Questions were asked concerning finance, adult social care, clinical commissioning of healthcare, and health and wellbeing. This was followed by an opportunity for people to write further comment for each of the four topic areas, and to ask questions of the presenters. The public engagement exercise asked a series of questions and the headline responses are as follows:
- a. Overall 54% agreed with prioritising funding for services for vulnerable people.
  - b. Overall just fewer than 60% of people agreed with the Council not providing some services to protect and develop others; 21% disagreed.
  - c. Overall 47% of people agreed that they would be willing to pay more council tax to help protect services and 40% disagreed, with 12% not voting.
  - d. Overall 65% of people agreed the council outsourcing functions where there was a sound case to do so.
  - e. Overall 69% of people agreed that we should increase the support available to help with access to services on line.
  - f. Overall 59% thought their area could get involved in delivering some services – 30% disagreed.
  - g. Overall 67% of people agreed that it was appropriate to transfer assets to local groups.
- 78 The events showed there is a clear appetite for people to engage in discussion about how public services are funded and organised, but people want an opportunity to have more in depth discussions and access to background information. This will inform the next stage of public engagement.

## **Appendices**

- 79 Identified Directorate Savings for 2012/13 (Appendix A)
- 80 Medium Term Financial Strategy (Appendix B)

## **Background Papers**

- 81 Joint Capital and Asset Management Strategy agreed by Cabinet – 16 December 2010





## SAVINGS IDENTIFIED FOR 2012-13

### DIRECTORATE:

Valued Services -

Service Area - Functional Detail

### PEOPLES

Principles (see key)

2012-13 Original £'000	Revised £'000
150	0
<b>150</b>	<b>0</b>

Transition from Children to Adult Services

### Supporting the Vulnerable -

Social Care

Developing/commissioning 'edge of care' services which will reduce the need for CYP to be looked after, thereby reducing the demand on agency & placement spend

250	250
<b>250</b>	<b>250</b>

### Improvement and Inclusion

Complex Needs - contract price control	Improve contract prices / improve placement cost control by 5% pa	56	151
Youth Offending Team contract reduction	This is a jointly commissioned service for Herefordshire and Worcestershire. The number of young offenders has reduced. The service is subject to review..	35	35
Looked After Children placements	Improve contract prices / improve placement cost control by 5% pa	202	0
Trading, including drama/costume store and other CYPD activities	Increase revenue from trading services to schools, partners and the public	40	0
School Transport	Reductions in relation to route reviews and contract changes and charging	145	145
Youth Service	Changing the service offer as per Cabinet paper and current consultation	100	100
Targeted mental health in schools	Herefordshire bid in 2009 to be a targeted mental health in schools pilot area.	15	0

income generation			
Adult Services	Review of panel process and increased market development	2,083	8
		0	2,383

Cost Improvement Plan covering enablement; contract efficiencies and reviews.

- reablement, enablement and assistive technology which provides greater emphasis on the reduction on prevention and reliance on long-term support by helping people live independently for longer
- reducing residential care by supporting people to live independently
- increased charges in order to remove current subsidy and move towards full cost recovery this is based on the individual's ability to pay
- making better use of existing contracts and gaining better value for money from commissioned services. This includes re-procurement of existing services, gaining more alignment between needs and costs when negotiating rates with providers, and savings identified within existing contracts
- creating a more vibrant market to offer greater choice and control to service users which includes transitions and carers services
- Reduction in management overheads

EHTS - regulatory services	Reduction in Regulatory Services Gross expenditure budget 5% 2011/12, 10% 2012/13	278	141
	Reduced subsidy via increased charges (2% @ 1.4.11)		50
	Inflationary increase on non-salary related budget	0	11
	Reduction in supplies and services	0	30
Improved cost control	Cutting costs stationery / copying etc	10	0
		<b>2,964</b>	<b>3,054</b>

## Rising to the Challenge

Efficiency Savings

A combination of additional grant income and reconfiguration of the Connexions service into the new targeted support services team, additional target for transport route reviews and various other funding reductions.

Regulatory Services	As part of the review of regulatory services an overall savings will be made. This is the amount for 2012.13	0	200
Children & Young Peoples restructure	CYP restructure has twofold focus - to redesign services to provide efficient service model to meet requirements of locality working & to reduce staffing costs to meet financial challenges	0	340
Children's centres - management reduction	As the vision for the future delivery of children's centres develops the centres will have to be reconfigured to reduce costs, and meet national expectations. Children's centre services continue to evolve and develop and central costs have already been reduced by removing children centre specific strategic management in the current restructure. 2011/12 increased responsibility will be given to children's centre managers to develop the services - including those which can be traded, but in 2012/13 management costs will need to be reduced	100	0
		<b>100</b>	<b>1,020</b>
<b>Local Delivery -</b> Locality Development	Move to locality teams and the co - location hubs will achieve savings in both staff time and mileage costs. Initial work has scoped a number of staff weekly movements - city based as now and in future in the hubs. The work has identified the potential for significant staff savings although at this stage are estimates.	20	0
		<b>20</b>	<b>0</b>
<b>Personal Responsibility - self reliance, people and communities helping themselves, behavioural change</b> Daycare charging	Learning Disabilities. - removing subsidies and charging full costs	150	
		<b>150</b>	<b>0</b>
<b>SUMMARY</b>		<b>3,500</b>	<b>4,324</b>

## REVIEW OF SAVINGS IDENTIFIED FOR 2012-13

### DIRECTORATE:

### CORPORATE

#### Cutting Red Tape -

#### Service Area - Functional Detail

#### Principles (see key)

	2012-13 ORIGINAL £'000	REVISED £'000
	345	302
	<b>345</b>	<b>302</b>

Directorate Savings  
Next phase of Organisational Design - further reduction of management overhead (number of posts still to be decided)

#### Cutting Costs -

#### DIRECTORATE WIDE

Efficiency in maintaining non pay costs at 11/12 budget levels

150

Additional Income

Increased income from legal services

33

Inflation adjustment

Review of inflation requirement for budgets

200

Legal

Building capacity to deliver to partners in the Health Sector, in sourcing and delivering to new clients in the local community third sector at competitive rates

30

Communications

Streamlining the business - securing ongoing PCT contribution for communications function, rationalising communications spend, delivering services to new clients, cutting expenditure on publications. No negative impact on service.

5

Human Resource (HC)

Savings will be made through economies of scale and efficiencies in shared services

173

Finance

The delivery of the shared service initiative will deliver back office savings, whilst ensuring front office services are protected.

166

Payroll & Expenses

Reduction as part of the Shared Services initiative

24

Estates

The OD principles will streamline the Estates structure to reduce non front line costs

98

Internal Audit	Outsourcing of Internal Audit in 2011 will produce additional savings	25	25
Revenue & Benefits	The transfer to Hoople will deliver savings in line with original proposed.	25	25
Creditors	The delivery of the shared service initiative will deliver back office savings, whilst ensuring front office services are protected.	0	25
		<b>846</b>	<b>954</b>

<b>SUMMARY</b>	<b>1,191</b>	<b>1,256</b>
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## SAVINGS IDENTIFIED FOR 2012-13

### DIRECTORATE:

### PLACES

#### Valued Services -

#### Service Area - Functional Detail

#### Principles (see key)

		ORIGINAL £'000	REVISED £'000
Bereavement Services charging review	Impact of Charging Policy, 5% increase in both years	30	30
Markets & Fairs - charging review	Impact of Charging Policy, 5% increase in both years	16	16
Pre Application Support for Planning	Charging for Pre Application Support		
Countryside - introduce parking charges at Queenswood	New revenue opportunity would help to reduce the overall cost to the Council of countryside service provision. This would result in cutting costs and also enable the service to focus on delivery of the core business of providing a high quality countryside asset.	50	0
Review of Directorate Income Charging	Identify additional revenue streams and implement full cost recovery in line with Income Charging Policy	138	125
Review of Directorate Income Charging - Arts	Increase charge for Contemporary Craft Fair (November)	0	8
Review of Directorate Income Charging - Waste	Increase bulk waste collection fee from £15 to £20	0	5
Review of Directorate Income Charging - Transport	Increase railcard charge by £2	0	5
		<b>234</b>	<b>189</b>

## Cutting Red Tape - less regulation and bureaucracy, smaller local government

Strategic Housing Efficiency Savings	Disinvestment in non essential commissioned services, reduction in expenditure and identified income generation	25	10
Commissioning of Car park Services & Community Protection	Review of opportunities for alternative delivery models to streamline service delivery, reduce costs and increase revenue	100	100
Partnership development - Transport (AMPS & Fleet)	Opportunity to explore efficiencies and removal of duplication through working with Strategic Service Delivery Partner identified following review of shared services business case.	100	100
		<b>225</b>	<b>210</b>

## Cutting Costs -

Additional Income	Car Parking charges as part of the overall strategy	0	200
Inflation adjustment	Review of inflation requirements for budgets	0	54
Efficiencies	Contract savings (£500k), Cultural Services review (£100k) and Bring Site Collections (£15k)	0	615
Contact	Supporting People review of overall funding against the £4.471m total funding envelope	0	100
Cease issuing black sacks for household waste	To be negotiated with contractor	0	200
Staff Travel Plan - introduce staff parking charges	Reduced cost of service delivery due to removal of concession and resulting increased revenue to support local priorities of economic growth through ensuring car parking priorities for shoppers	35	0
Homelessness Prevention Fund - Service review	Service Efficiency review to demonstrate value for money	20	28
Further Reduction in Staff Establishment	Phase 2 of restructure (to be finalised)	58	18

Arts & Leisure - reduction in management fee through Commissioning Agreement for Halo & Courtyard	Cost saving to council/ reduction in front line service	137	137
Reduction in contribution to Hereford Futures team	Cost saving to council	17	36
Regeneration Scheme	Regeneration in Herefordshire	133	0
		<b>400</b>	<b>1,388</b>

### Local Delivery -

Shop Mobility Re-design	Support for shop mobility varies across the county and redesign of the service should support the desire from local areas	15	15
Community Regeneration - reduction in voluntary sector grants to Herefordshire Voluntary Action, Citizens Advice Bureau, Ledbury Voluntary Action, Voluntary Community First.	Potential Savings anticipated from 3rd Sector Review	18	18
Review of community facilities'		100	200
Cultural Services Review	Establish a Cultural Services Review	100	150
		<b>233</b>	<b>383</b>

### SUMMARY

**1,092**      **2,170**



## REVIEW OF SAVINGS IDENTIFIED FOR 2012-13

### COUNCIL WIDE:

	ORIGINAL £'000	REVISED £'000
-		
-		
Corporate Working		594
	Bringing services together across the Council.	
Corporate Working	240	210
	Bringing services together across the Council. (Business Support, Policy & Performance, Research) Phase 1	
Corporate Working		250
	Bringing services together across the Council. (Business Support) Phase 2	
Corporate Working		500
	A review of former grant based areas affected by the government's funding reduction	
	<b>240</b>	<b>1,554</b>

**OVERALL SAVINGS FOR ALL DIRECTORATES**

<b>DIRECTORATE</b>	<b>ORIGINAL</b>	<b>REVISED</b>
Corporate	1,191	1,256
Peoples	3,500	4,324
Places	1,092	2,170
Council Wide Initiatives	240	1,554
<b>TOTAL</b>	<b>6,023</b>	<b>9,304</b>

# Medium Term Financial Strategy

2012/15

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# Medium Term Financial Strategy 2012/15

## Foreword by the Council Leader and Cabinet Member – Corporate and Education

The Medium Term Financial Strategy (MTFS) is an important document, underpinning our strategic, transformational and operational intentions for Herefordshire Public Services (HPS). The strategy will support, shape and influence the challenging financial environment that public services are facing. The total resource envelope for Herefordshire Public Services is circa £650m. Our strategy is one that will need to enable a culture to develop and is one where there is a movement away from short-term budget setting to an approach that reviews all expenditure and focuses on what matters to the people of Herefordshire. 2012/13 provides a great opportunity to develop service flexibility across public services and this MTFS identifies the transfer of funding between the PCT and Council. We aim for a culture where there is less bureaucracy and where resources can be targeted towards frontline services, a culture where we stop doing things we do not need to do, ensuring a longer-term approach that brings service and financial stability to our service delivery.

The Comprehensive Spending Review (CSR) will have a significant impact on funding from central government. Throughout the coming year we will undertake a root and branch review of services, and consider alternative ways of working, in particular investigating broader partnership arrangements, to mitigate the effects.

The MTFS identifies the scale of the impact of the economic downturn that has affected the world economy and reflects this impact on Herefordshire. However, Herefordshire Council and the PCT as Herefordshire Public Services have been actively planning for the impact of the reduced settlement as part of CSR 10. A number of assumptions about cross cutting service areas that are delivered across both organisations and by working in partnership and in line with government policy will enable improved service delivery. In line with the equality act of 2010 Herefordshire Council and the PCT will ensure that any efficiency savings and service reviews will demonstrate that all financial decisions are made in a fair, transparent and accountable way, considering the needs and rights of different members of our communities. In line with government policy we will be implementing Shared Services to deliver back office savings which will be released for front line service delivery.

2012 will be both challenging and exciting as a result of not only the economic downturn but the further development of HPS to include the Herefordshire Health Care Commissioners, who now operate as a subcommittee of the PCT Board with a defined scheme of delegation.

During 2012/13 it will be more important than ever that we continue to strengthen the partnership between the council, health service providers and other stakeholders in Herefordshire. The level of service transformation, improvement in quality and ensuring services deliver value for money can only be delivered through the strength of maximising the interfaces between primary and secondary care, between health and social care and between empowered service users. This deep partnership has already demonstrated both qualitative and quantitative benefits for Herefordshire in recent years, including the Shared Services partnership, Hoople, in April 2011. However as we move forward, there will be even stronger evidence of the impact of the deep partnership. The Commissioning of integrated care pathways will deliver the service transformation that our

population expects and will maintain financial stability across public services within Herefordshire.

As part of the administration's priority to deliver key projects that support economic prosperity the document includes funding envelopes for key capital projects such as the link road in Hereford for which we already have planning permission.

**Cllr. John Jarvis**  
**Leader of the**  
**Council**

**Cllr Phillip Price**  
**Cabinet Member –**  
**Corporate and**  
**Education**

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# Medium Term Financial Strategy 2012 to 2015

## Foreword by the Chief Executive and Chief Officer: Financial and Commercial Services

The MTFS has helped change Herefordshire's financial management culture; it includes a requirement that responsibility for managing individual budgets rests with our budget managers who operate within our financial policies and procedures. The MTFS helps explain the overall position, so that we all know that financial management is part of our day-to-day activity and that we must demonstrate we provide value for money at a time when the economic downturn is having a widespread effect.

Herefordshire not only faces economic challenges but the demands of an ageing population will require us to transform our services to ensure that people can maintain levels of independence. HPS will need to ensure that packages of care and support do not only contribute to independence but also prevention. It is accepted that service delivery will need to be undertaken in a less institutional setting in order that the additional challenge on the service delivery agenda can be met

Planning the use of public money and transparent accountability for Herefordshire is a key priority, from which we continue to ensure Herefordshire has financial stability and also deploy resources to support agreed priorities. This cannot be achieved if we limit our planning horizon to a single year. The MTFS helps planning over a longer time framework and demonstrates how we will use our resources in the future.

The MTFS forms part of the service planning process and sets a framework for the interpretation of the council's and Herefordshire Public Services' priorities and principles, supporting and driving delivery of the next stage of the Herefordshire transformational agenda. It is an appropriate way to plan our expenditure and has played a part in helping maintain an unqualified value for money conclusion from our external auditor. However, we continue to review and, where appropriate, improve the strategy each year.

**Chris Bull**  
**Chief Executive**

**David Powell**  
**Chief Officer: Finance &  
Commercial Services  
(Council)**

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## 1. Introduction

- 1.1 The MTFS covers the financial years 2012/2015 and demonstrates how HPS 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 HPS'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.
- 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 4 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 In December 2011 the Government announced the second year of the 2 year settlement (2012/13), which confirms further cuts for local government. The Government's Autumn Statement proposes that cuts will continue until at least 2017.
- 1.6 The position for 2013 onwards is less certain. The Government is introducing major changes in the way local authorities are funded and also to housing and council tax benefits. This will be monitored closely over the coming months.

## 2. Economic and Demand Background

### 2.1 Economic Growth

2.1.1 At the beginning of 2011 there was a general belief that the worst of the economic crisis was over. Whilst a long and slow recovery was anticipated, it was forecast that the UK economy would grow by around 2% in both 2011 and 2012. Demand was expected to have recovered sufficiently to enable the Monetary Policy Committee to increase the bank base rate to 0.75% in September 2011, reaching 3.00% by September 2013.

2.1.2 However, high inflation, modest pay rises, job cuts and weak consumer confidence has led to reduced demand and downward revision to growth forecasts. UK economic growth is now expected to be around 1% for 2011 and remain at this subdued level for 2012. As for the first increase in the bank base rate, some forecasts are now pushing this back to 2015.

2.1.3 The outlook for UK growth is hampered by the financial position in the Eurozone as European nations face anaemic growth, excessive debt and a lack of confidence in the ability of certain nations to honour their commitments. UK output is expected to take until 2013 to regain the ground lost since it peaked in early 2008.

2.1.4 The average of various independent forecasts gives the following medium-term projections.

	Independent average				
	2011	2012	2013	2014	2015
<b>GDP Growth</b>	1.0%	1.1%	2.1%	2.3%	2.4%
<b>Inflation rate:</b>					
• <b>CPI</b>	4.5%	2.7%	2.0%	2.2%	2.3%
• <b>RPI</b>	5.3%	3.3%	2.6%	3.2%	3.6%
<b>Claimant unemployment</b>	1.55m	1.75m	1.76m	1.66m	1.52m

### 2.2 Inflation

2.2.1 CPI inflation was 4% in January 2011 and it did not fall below 4% all year, reaching a high point of 5.2% in September before falling back slightly to 5.0% in October and 4.8% in November.

2.2.2 Inflation is expected to be lower in 2012 as the January 2011 VAT increase and past energy price hikes fall out of the statistical comparison.

2.2.3 Forecast inflation figures are shown in the above table.

### 2.3 Economic Summary of Herefordshire

2.3.1 The State of Herefordshire Report 2011 contains information that describes the county. Some of the key findings are:

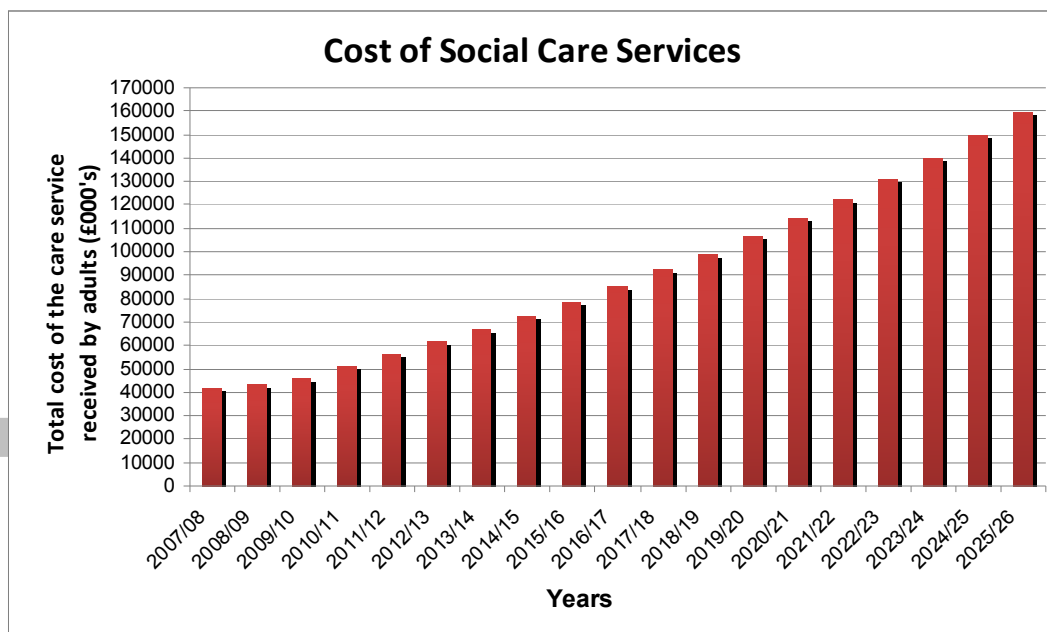
- The population of Herefordshire is increasing due to net in-migration, although growth has slowed during the recession. Herefordshire's resident population grew by 3% between 2001 and 2010, which is the same as that of the West Midlands region overall, but lower than England and Wales (6%).
- Herefordshire's economic output is low compared to regionally and nationally and the gap has widened over the last ten years. This is a result of the lower wages and type of work carried out in the county.
- The age profile of the potential resident workforce is changing due to the aging population structure. The number of people aged 16-64 in Herefordshire has been falling since 2008 and could fall to 104,000 by 2026 (109,900 in 2008).
- The rate of self-employment is higher in Herefordshire than in the West Midlands and England as a whole and the overall employment rate in relatively high. Total unemployment, although comparatively low, is decreasing slowly and remains much higher than prior to the recession. Based on past trends total employment in Herefordshire is projected to decrease.
- Pockets of deprivation are concentrated in urban areas of Herefordshire, but smaller pockets also occur in more rural areas.
- Access to broadband, mobile phone services and other infrastructure is an issue for some residents and businesses in rural areas.
- Businesses and residents identify congestion in Hereford City as in need of improvement.
- There is a high demand for affordable properties in Herefordshire, particularly in Hereford City.

## **2.4 Potential Growth and Changes that will affect Service Need**

- 2.4.1 Adult Social Care faces significant future pressures due to increased life expectancy and future demand due to an aging population
- 2.4.2 Over a fifth (22%) of Herefordshire's population is aged 65 and over (39,800 people), compared to 17% both regionally and nationally. In Herefordshire the number of people over 65 is expected to rise by 18% in the next five years and there are expected to be over 60,000 people aged 65+ living in Herefordshire by 2026, over 50% more than currently.
- 2.4.3 In particular, the number of people aged 85 and over is expected to continue growing at an increasing rate, from 5,600 in 2010 to more than 10,000 by 2026. This group makes by far the greatest demands on health and social care and is at greatest risk of isolation due to living alone and in poor housing.
- 2.4.4 The rate of physical disability and mental health ill health among the adult population under 65 is predicted to remain virtually the same. (Stable prevalence, no population growth until 2030). However, there is an increasing complexity of need.

2.4.5 The rate of learning disability will increase slightly in numbers until 2030. However, within this the population of clients, their carers will age significantly and younger clients joining the cohort have more intense needs. In addition their carers have more expectations for independent living.

2.4.6 The graph below illustrates the potential growth in spending on social care services based on previous years' trends and including assumptions of 2% inflation and 3% increased need due to aging population (based on last 5 years). It does not include any allowance for further changes to levels of need.



2.4.7 Numbers of children in Herefordshire are decreasing, although there have been more births than expected in recent years. The current proportion of Herefordshire's population aged under 16 (17%) is similar to England & Wales (19%), but numbers have fallen from 34,000 in 2001 to 30,800 in 2010. This decline is expected to continue and then stabilise at around 29,000 from 2016 (6% below 2010 levels)

2.4.8 Based on September 2011 pupil numbers, Primary school numbers (including nursery classes) are predicted to increase in 2012/13 by 39 pupils or 0.3%. Secondary school numbers are predicted to fall by 156 pupils or 1.6%. 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 late February 2012.

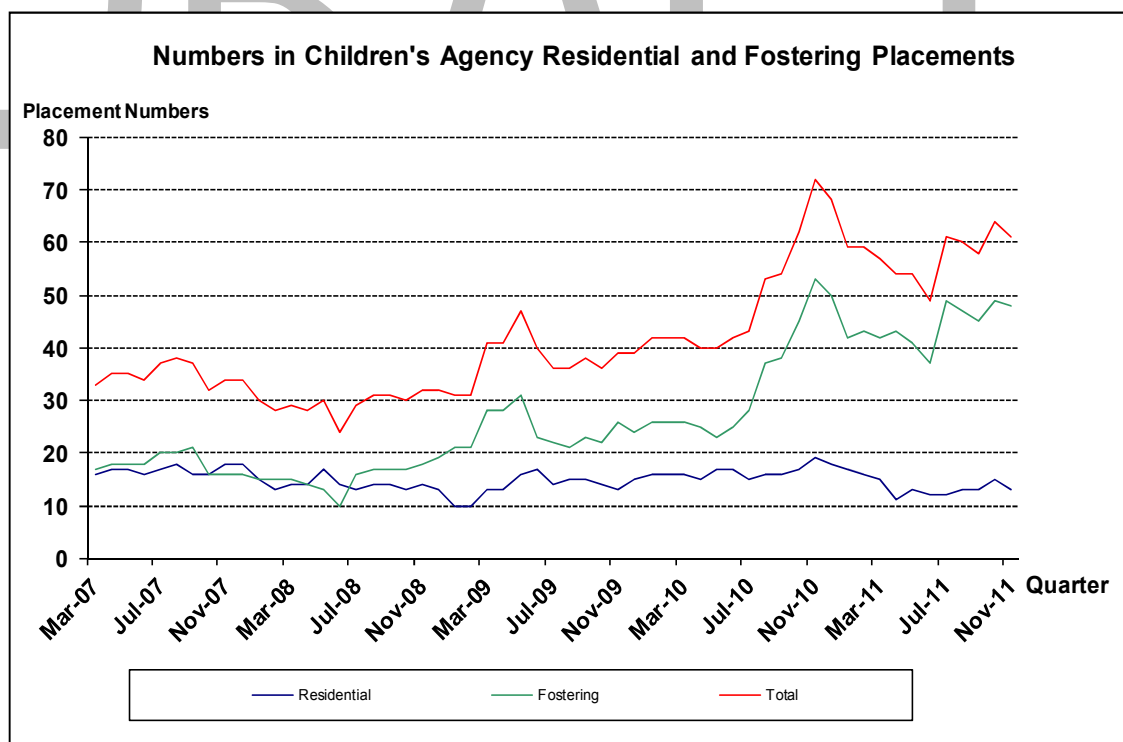
2.4.9 There has been a dramatic increase in numbers of migrant workers coming into Herefordshire, although it is not possible to determine how many have stayed or how many are in the county at any one time. Current evidence suggests that the majority of Herefordshire's migrant workers are seasonal workers and intend to stay in the UK for under a year. Although they are not counted as part of the resident population there is still an impact on services e.g. health services.

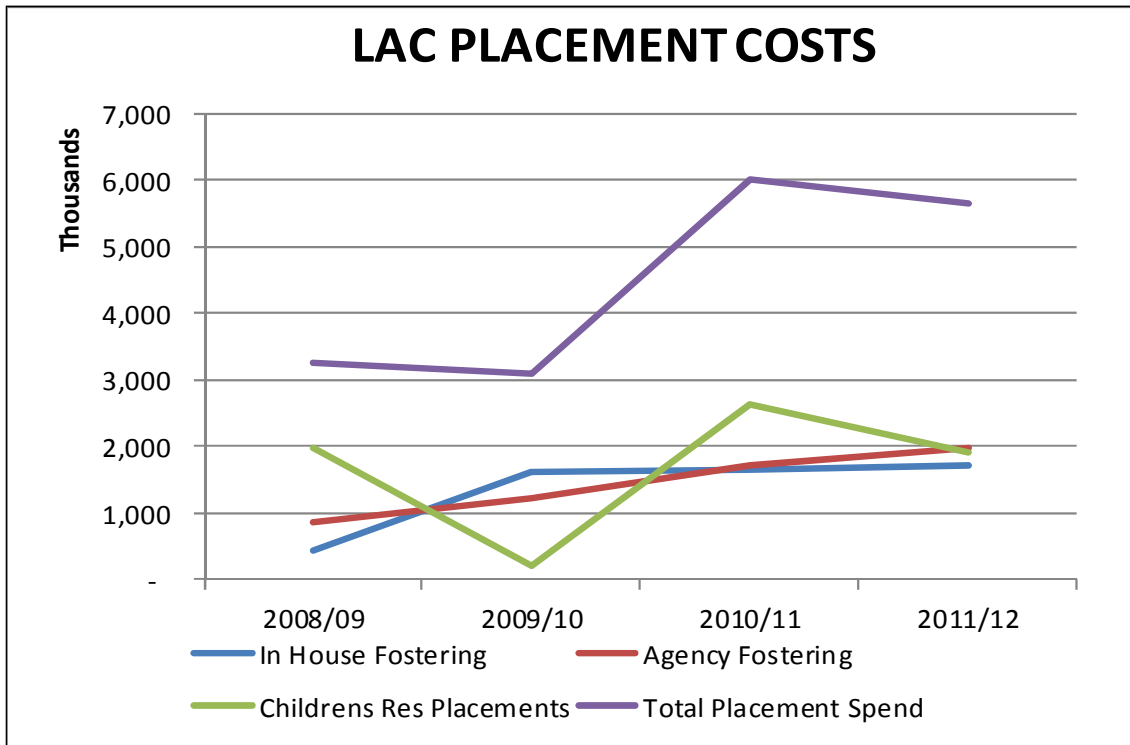
2.4.10 Historically Herefordshire has produced more waste per household and has recycled less than compared to England as a whole. However, the situation is improving to the way waste, particularly recycling, is collected. The amount that households recycle is also improving, but it is just below target. In 2010/11 households recycled on average 40% of their waste compared to 35% in 2009/10.

2.4.11 Significant challenges lie ahead in meeting landfill diversion requirements which will require significant investment in waste treatment infrastructure.

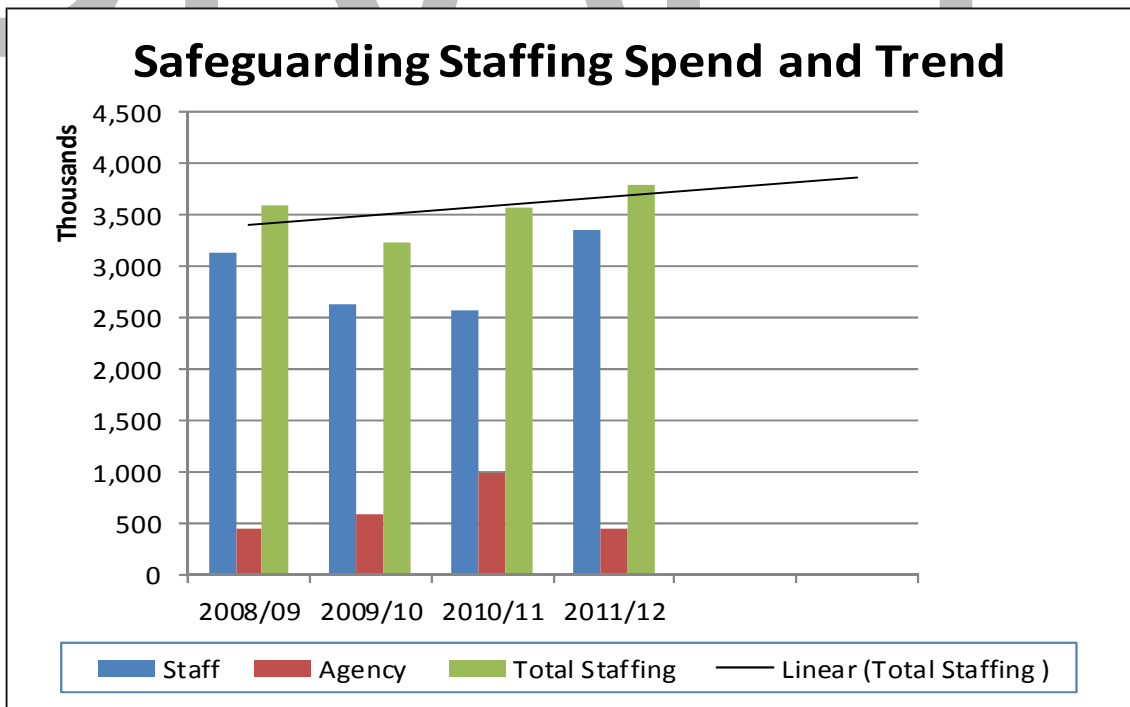
2.4.12 The impact of the 'Baby Peter' case has resulted in an increase in the numbers of children with Child Protection Plans or who become looked after by the local authority. Although there are peaks and troughs the trends for Looked after Children (LAC) continue to be upwards with a peak number in agency fostering and residential placements of 72 children in November 2010. The numbers then fell but rose again through the summer of 2011 reaching 64 in October 2011. Numbers are now falling again as efforts are made to transfer children to in house foster care or return home where it is safe to do so.

2.4.13 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. To date 282 weeks of care costs across 15 children have been avoided saving £133k of additional cost. 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. The tables show the growth in numbers and the increase in cost (including in house foster placements)





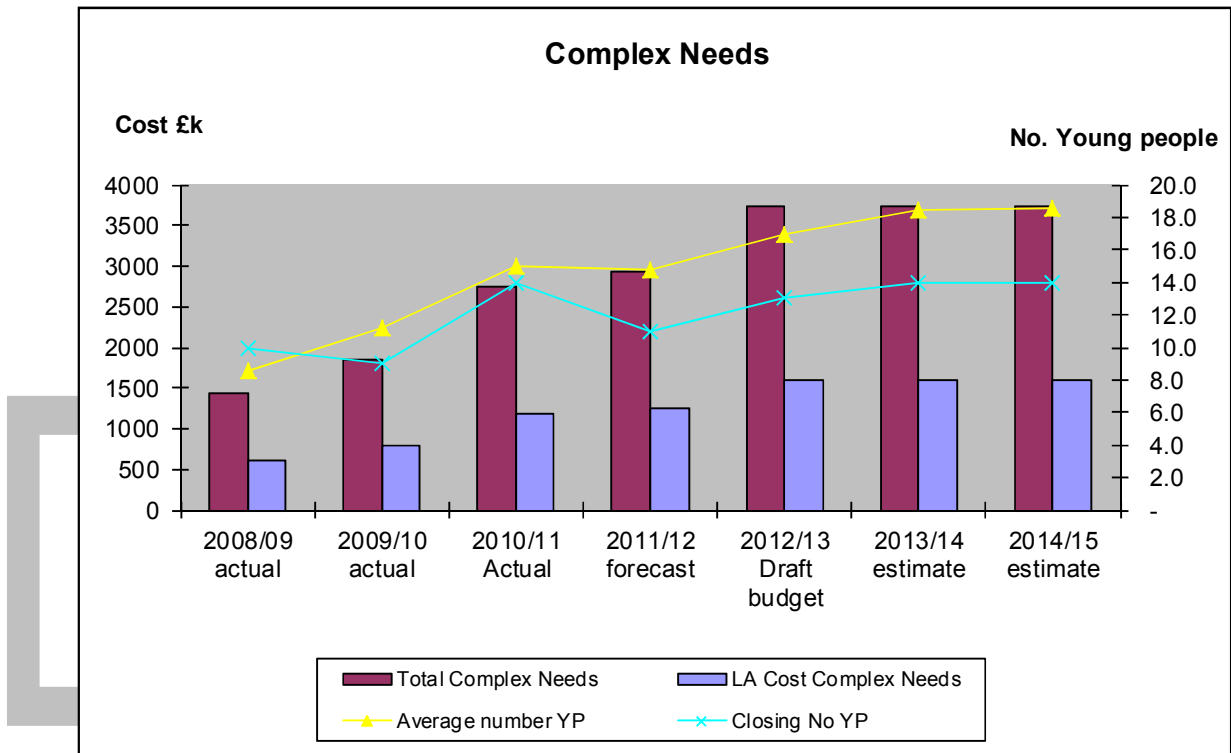
2.4.14 The increasing number of children requiring protection or care has placed additional pressures on the Safeguarding staffing budget. The on-going shortage of qualified and experienced social workers has resulted in a need to rely on high cost agency staff to ensure that appropriate case-loads for social workers are maintained. The patterns and trends are represented graphically below:



2.4.15 Within Complex Needs there have been some cases which have either moved out of Herefordshire or moved to children's or adult's social care with the result that the service is expected to make savings in 2011/12 compared to the budget.

However there have still been 3 new cases accepted in year and this trend is expected to continue. Due to the age profile of the children only 1 child in each of 2012/13 and 2013/14 will reach the age to transfer to adult social care so the budget is projected to stay at a similar level for the next three years, but this can change with a single high cost placement.

2.4.16 Of particular concern is average cost per placement which, based upon current cost will rise from £165k per annum in 2011/12 to £185k per annum in 2012/13 due to increasing complexity of cases and rising costs of placements.





### **3. Herefordshire's Policy Context**

#### **3.1 Introduction**

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

#### **3.2 Herefordshire Sustainable Community Strategy**

3.2.1 *The Herefordshire Sustainable Community Strategy 2006 to 2020* sets out what the council and its partners aim to achieve to make the county an even better place to live and work. The strategy is being reviewed for 2012 to focus even more on the people and places of Herefordshire.

#### **3.3 Corporate Plan**

3.3.1 The council, working with NHTS, have a joint corporate plan that sets out the vision for Herefordshire Public Services 2012-15 including how the aims and objectives of the *Herefordshire Sustainable Community Strategy (HSCS)* will be realised. The vision is 'Working together to deliver efficient excellent services and improve outcomes for the people of Herefordshire'.

3.3.2 The Joint Corporate Plan contains the current overall targets, milestones and actions, together with the current budgets and other resources to achieve them, over the coming years.

3.3.3 The shared values expressed in the Joint Corporate Plan themes are:

- People – treating people fairly, with compassion, respect and dignity,
- Excellence – striving for excellence and the highest quality of service, care and life in Herefordshire,
- Openness – being open, transparent and accountable for the decisions we make,
- Partnership – working together in partnership and with all our diverse communities,
- Listening – actively listening to, understanding and taking into account people's views and needs,
- Environment – protecting and promoting our outstanding natural environment and heritage for the benefit of all.

3.3.4 The priorities of the joint Corporate Plan are:

- Create a thriving economy
- Improve Health Care & Social Care
- Raise standards for Children and Young people
- Promote self-reliant local communities
- Create a resilient Herefordshire
- Commission the right 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 have a 'non-negotiable' pact 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 welcomes the opportunity to work with strategic partners to improve outcomes. However, 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

3.5.2 From April 2011 an Integrated Care Organisation for Herefordshire was established, Wye Valley NHS Trust, comprising the provider arm of the council and NESH, alongside Hereford Hospital Trust. The aim is delivering health and social care which is focused on providing care as close as possible to people's homes, rather than in an institutional setting; a model which is also aimed at identifying our most vulnerable citizens and shifting the emphasis from diagnosis and treatment to prediction and prevention. The creation of the Wye Valley Trust will deliver financial savings across the health sector which will contribute towards financial viability.

3.5.3 Mental health services are being delivered through an established specialist trust (2gether) in order to deliver and modernise services, using the care professionals transferring from the existing organisations.

3.5.4 Back office functions are provided through a joint-venture company, Hoople, established in April 2111. Savings targets for council support have been agreed amounting to £467k in 2011/12, £413k in 2012/13 and £340k in 2013/14.

### **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). HPS aims to maximise the potential for increasing financial capacity and managing growth in volumes through s106 agreements, where possible. The council is in the early stages of producing an action plan for the implementation of a Community Infrastructure Charging Levy. It is envisaged that the CIL will be adopted in Spring 2013.

3.6.3 **Managing Fees and Charges** - The council has developed a charging protocol with the aim of implementing a corporate charging policy. The policy will recognise the potential for discretionary charges to fund services and ensure full cost recovery where feasible and minimise the subsidy from council budgets.

### **3.7 Governance**

3.7.1 Maintaining strong financial control is a prerequisite to achieving the council's corporate priorities and the integrity of the MTFs. Good systems and procedures are in place for regularly reporting on financial performance to Cabinet, as part of the integrated performance framework.

### **3.8 Value for Money and Efficiency**

3.8.1 Herefordshire's strategy for securing efficiency gains is to seek continual improvement in the productivity of all our resources, including people, land, property, ICT and cash.

3.8.2 Herefordshire Council and PCT have a joint Value For Money Strategy. This has built on the development of the routine use of VFM information and benchmarking data to review and challenge VfM throughout services and corporately, supporting continuous service improvement and the drive for efficiencies

3.8.3 We support the drive for VfM through the following mechanisms:

- Ensuring service managers deliver the outputs and outcomes agreed for their service area within budget; managing within budget is a key responsibility for all budget holders embedded in our staff review and development procedures.
- Support from Procurement through efficient tender and other procurement processes that ensure robust quality and price.
- Integrating corporate, service and financial planning processes.
- Planning over the medium-term as well as the short-term.
- Benchmarking our costs and activities, year on year and with other authorities.
- Through internal and external audit reviews.

### **3.9 Root and Branch Reviews**

3.9.1 A programme of root and branch reviews will be undertaken over the medium-term to address the council's funding challenge. The key features are likely to be;

- Ensuring we focus on the priorities for our residents and Herefordshire
- Reshaping service for the future, working with others
- Improving quality and performance
- Reducing our costs still further, providing value for money
- Consultation and engagement with employees, service users and partners

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## 4. National Financial Context

### 4.1 Introduction

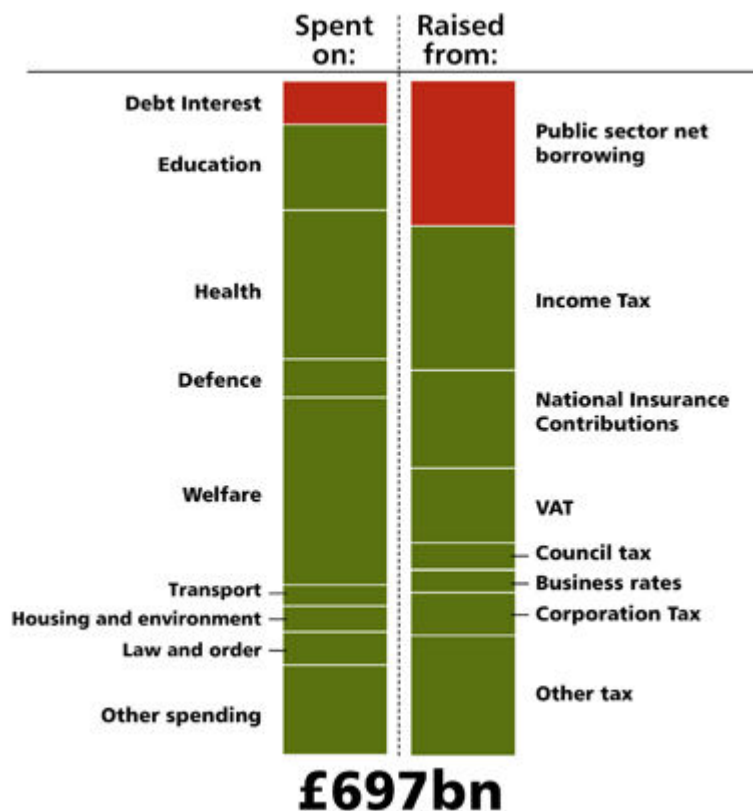
4.1.1 This section of the MTFs sets out the financial context at national level across both NHS and Herefordshire Council. Central government's plans for public spending is documented in the following sections.

### 4.2. Four Year Spending Review

4.2.1 On 22<sup>nd</sup> June 2010 the Coalition Budget gave the overall level of public spending for the four years from 2011/12 to 2014/15 (spending envelope). The Comprehensive Spending Review 2010, announced on 20<sup>th</sup> 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 diagram below shows government spending on debt interest and amount of borrowing as part of the total budget:



4.2.4 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.

4.2.5 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.

4.2.6 This was underpinned by a radical programme of public service reform, improving transparency and accountability, giving more power and responsibility to citizens and enabling sustainable long term improvements in services. It also included further savings and reforms to welfare, environmental levies and public service pensions. Around 490,000 public sector jobs were estimated to be lost over the period and on average departmental budgets will be cut by 19% over the four-year period.

4.2.7 The Spending Review also delivered the Government's specific commitments set out in the Coalition Agreement to:

- increase NHS spending in real terms in each year of this Parliament;
- spend 0.7 per cent of Gross National Income on overseas aid by 2013 and
- restore the earnings link for the basic state pension from 2011, as part of the triple guarantee of using earnings, prices or 2.5 per cent, whichever is highest, from April 2011

4.2.8 The main changes for local government announced in the 2010 Spending Review were:

#### **Formula Grant**

- Formula Grant decreased on average by 9.9% in 2011/12
- From April 2011 grants currently paid outside Formula Grant worth more than £4bn, were rolled into Formula Grant.
- An additional £1bn for personal social services was to be included in Formula Grant by 2014/15.

#### **Un ring fencing Grants**

- From April 2011 onwards, grant streams to local authorities were reduced to less than ten.
- All ring fencing on grants was removed, except from the Dedicated Schools Grant and a new grant for public health, to be introduced in 2013.
- A separate new unringfenced Early Intervention Grant, worth around £2bn was introduced.

#### **Council Tax Freeze**

- 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% in each year of the Spending Review period'.

#### **Social Care**

- £1bn will be put into Formula Grant for Personal Social Services, meaning total funding for social care, including rolled-in grants, will be £2.4bn a year by 2014/15.
- In addition, £1bn of funding will be provided through the NHS budget to support joint working between the NHS and councils in the provision of social care.

### **Transport**

- Bus Operators' Subsidy was reduced by 20%, saving over £300m by 2014/15.
- Statutory concessionary travel entitlements remained.
- Revenue grants to local authorities from DfT were reduced by 28%.
- The number of transport grants to councils reduced, with greater control and flexibility over spending these grants.

### **Education**

- The schools budget for 5 to 16 year olds to increase by 0.1% in real terms each year of the Spending Review period. This included £2.5bn of funding for the new pupil premium.
- £15.8bn of capital funding would be made available for schools over the Spending Review period. The Government would rebuild or refurbish over 600 schools from the Building Schools for the Future and Academies programme.

### **Housing**

- The 'New Homes Bonus' was introduced to incentivise councils to grant planning permission for the construction of new homes, by matching council tax receipts for each new home built or vacant property brought back into use, for a number of years. In addition £350 will be given for every affordable home provided.

### **Economic Growth**

- The Regional Growth Fund was announced, to be worth over £1.4bn over three years. It is designed to help areas most dependent on public sector employment to make the transition to private sector growth. Both private bodies and public-private partnerships will be able to bid for the funding by demonstrating that their proposal will bring in private investment and support sustainable increases in private sector jobs and growth in their area. Bids are likely to exceed £1m, have significant private sector leverage, contribute towards green growth and integrate with planning policy. A panel will assess funding bids from Local Enterprise Partnerships as well as the private sector.

### **Council Tax Benefit**

- From 2013/14 Council Tax Benefit will be localised; Government also plans to reduce spending by 10%.
- Government will consider measures to give authorities more flexibility 'to manage pressures on council tax', to be implemented from the same date.

### **Local Authority Borrowing**

- Interest rates on loans from the PWLB increased to 1% above the rate for British Government gilts, previously the rate tracked gilts. The Treasury

estimated this would lead to a reduction of 17% in self-financed expenditure by councils over the Spending Review period.

#### **Internal Restructuring**

- In 2011/12 a £200m capitalisation fund was made available for capitalisation to support authorities wishing to deliver savings through internal restructuring.

### **4.3 Local Government Settlement 2011/12 and Provisional 2012/13**

4.3.1 The Provisional Local Government Finance Settlement was presented to the House of Commons on 13<sup>th</sup> December 2010, ratified in the Final Local Government Finance Report (England) presented in a written statement to the House of Commons in February 2011.

4.3.2 A key message contained in the settlement was that local government has been given flexibility to take decisions locally to address local priorities. Restrictions were lifted on how local government spends its money by removing “ring fences”. The intention was to give councils extra flexibility to make decisions about where savings are found. However, this is subject to the usual rules to ensure that capital funding is used on capital expenditure.

4.3.3 The settlement included the distribution of Formula Grant totals amongst local authorities for a two year period. A second two year settlement is expected to follow, for which Government intend to adopt a new distributional system.

4.3.4 A significant factor that added to the pressure faced in 2011/12 was the front loading of funding reductions. The profile of reduction is therefore uneven and for Herefordshire is 13.3%, 8.6% for the first two years (the government figures using ‘like-for like comparisons’).

4.3.5 The settlement confirmed the changes set out in the Spending Review including the reduction of specific grants, the council tax freeze grant, and the New Homes Bonus. The ability to capitalise redundancy costs was also confirmed. £1bn additional funding for social care is to be included within the formula grant by 2014/15. NHS Funding of £648m in 2011/12 and £622m in 2012/13 was identified to support integrated working between health and social care.

4.3.6 Other headline changes were;

- Significant formula distribution changes – concessionary fares, social care and transport.
- Damping arrangements were in place based on four banded floors and dependency on formula grant; Herefordshire in Band 3
- Those worst hit by the changes (limited to 8.8% of spending power reduction) were provided with a transitional grant of £85m
- A New Homes Bonus was introduced to incentivise the support of new housing development
- Dedicated Schools Grant had an overall increase of 1%, but this translates into a flat cash per pupil increase, due to pupil number rises. There was a minimum funding guarantee at school level of -1.5%
- Pupil premium of £625m was to be distributed, which has been set at £430 per free school meals pupil for the first year



- Pupil premium was to rise to £1,750 per free meals pupil as the premium increases over the next four years

4.3.7 The Government introduced a measure known as “local authority spending power”. This is based on funding from central government (including formula grants, specific grants and NHS funding to support social care) plus council tax receipts.

#### **4.4 Autumn Statement – November 2011**

4.4.1 On 29 November 2011 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. Key points for councils were;

- The Chancellor confirmed that there would be no change to the figures already announced in the 2010 Spending Review. He added that he had set new Expenditure Totals for the end of the spending review period: 2015/16 and 2016/17. Over these two years, the Total Managed Expenditure is set to fall by 0.9% a year in real terms, excluding one-off investments in infrastructure announced in the Autumn Statement.
- The Statement reiterated the Government’s offer of a one-off council tax freeze grant in 2012/13 “to help with the rising cost of living”, which had been announced previously
- The Chancellor announced an extra £1.2bn spending on schools. £600m will help the local authorities with the greatest basic need for schools places and is hoped to fund an additional 40,000 places. The remaining £600m will support reforms and build 100 additional Free Schools – including Maths Free Schools for 16-18 year olds. He also announced that the number of childcare places for deprived 2 year olds will double from 130,000 to 260,000.
- Following the 2-year pay freeze there will be a 1% cap on public sector pay. There will also be a review of regional pay.
- The small business rate relief holiday was extended for a further 6 months to 1 April 2013.
- 2012/13 business rates are to be up-rated in line with September RPI at 5.6%. Businesses will be given the opportunity to defer 60% of the increase to be repaid in the following 2 years.
- An extra £1bn was announced for the Regional Growth Fund over the remaining Spending Review.

#### **4.5 Provisional Local Government Finance Settlement 2012/13**

4.5.1 2012/13 provisional Formula Grant allocations were republished on the 8 December 2011 and remained unchanged from the January 2011 figures. The Final 2012/13 Settlement is expected in late January/early February.

4.5.2 The following key announcements were made in the Provisional 2012/13 Settlement:

### **Formula Grant**

- Formula grant in total will fall by a further 7.7% on top of the 9.9% fall in 2011/12.
- A transitional grant of £20m has been allocated for 2012/13 for authorities whose revenue spending power would have fallen more than 8.8% (benefiting 12 authorities). Spending power is defined as Formula Grant plus council tax plus some specific grants.
- Damping will continue with floors announced in February 2012

### **Council Tax Freeze Grant**

- Formula Grant figures have also been increased to include the second allocation of 2011/12 Council Tax Freeze Grant.
- There will be a grant for councils who freeze their council tax in 2012/13, which will be paid for one year early. It will be equivalent to an increase of 2.5% on council tax (for 2012/13 only).

### **Specific Grants**

- There have been a number of announcements relating to other key local government grants. Allocations for Herefordshire are set out in paragraph 6.4.1.
- There has been an increase in the Early Intervention Grant (EIG) following the Chancellor of the Exchequer's announcement in the Autumn Statement that early education entitlement for two year olds will be expanded to cover around 260,000 children.

### **New Homes Bonus**

- The 2010 Spending Review allocated £200m in 2011/12 and £250m per annum for the following three years of the Spending Review period. Funding beyond this amount will come from Formula Grant. However, DCLG stated that funding for the scheme in 2011/12 and 2012/13 would be fully met by the Department and no authority will lose further Formula Grant.
- Provisional 2012/13 allocations total £431m (£199m for the second year 1 instalment and £232m for the first year 2 instalment). Based on a central estimate of housing supply £176m was top-sliced from 2012/13 Formula Grant to fund the scheme in 2012/13 along with £250m under the Spending Review. Provisional 2012/13 New Homes Bonus allocations therefore exceed available funding in 2012/13. The Bonus will therefore now be paid in 13 monthly instalments commencing in March 2012 and £6m will be recouped from local government resources in 2013/14. Final allocations will be issued alongside the Local Government Finance Settlement.

### **Council Tax Referendum**

- On 15 November 2011 the Localism Bill completed its passage through Parliament with Royal Assent. The Localism Bill made provisions to give residents the power to instigate local referendums on any local issue and the power to veto excessive council tax increases.

- The statement confirmed what the Government would deem an “excessive” council tax increase. This will be finalised with the publication of the Final 12/13 Settlement. Local authorities will be required to seek the approval of their local electorate in a referendum if, compared with 2011/12, they set council tax increases that exceed:
  - 3.5% for most principal authorities;
  - 3.75% for the City of London;
  - 4% for the Greater London Authority, police authorities, and single purpose fire and rescue authorities.
  - No equivalent principles for town and parish councils for 2012/13 are proposed, although they may in the future.

### **Local Government Resource Review**

- It was confirmed that the Government will shortly be publishing their response to the Local Government Resource Review (LGRR) consultation, which closed on 24 October 2011 (which was subsequently published on 19<sup>th</sup> December). The Local Government Finance Bill will provide the legal framework for the Business Rates Retention proposals.
- The Review has set out proposals for a business rates retention system, giving an incentive for local authorities to promote business development in their area.

### **Academies**

- The adjustments for Academies’ funding have not changed from those previously announced. However, the Department for Education, in consultation with the Secretary of State for Communities and Local Government, has been reviewing the amount and distribution of the funding transfers from local government for 2011/12 and 2012/13 to reflect the responsibilities transferring from them when schools convert to academies. No final decisions have yet been taken regarding the amount and distribution of these funding transfers.
- For 2012/13 the top-slice from Formula Grant will remain at £265m, but a new methodology will be used to calculate individual authorities’ contributions. Where this methodology suggests authorities have had more taken away than they should they will receive a specific grant. There will be no adjustment where the calculation suggests that an authority should have contributed more.

### **Schools and Children’s Services funding**

The Department of Education made a separate announcement on Dedicated Schools grant and Pupil Premium;

- DSG to be same flat cash per pupil, the rate therefore remains at £4723.65 per pupil – so no increase in pupil funding for any authority
- The Minimum Funding Guarantee remains at -1.5% - as expected
- The spend on the pupil premium will double to £1.25bn. This is as expected.

- The pupil premium to be £600 per free school meals pupil and Looked After Children and £250 for service children (up £50 from £200). 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.

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## 5. Herefordshire Council's Financial Context

### 5.1 Introduction

5.1.1 This section of the MTFs describes the council's financial position. It also covers Herefordshire's financial management proposals to achieve the corporate financial objectives set out in Section 3. This section also describes the financial approach for:

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

### 5.2 Comparative Funding Position

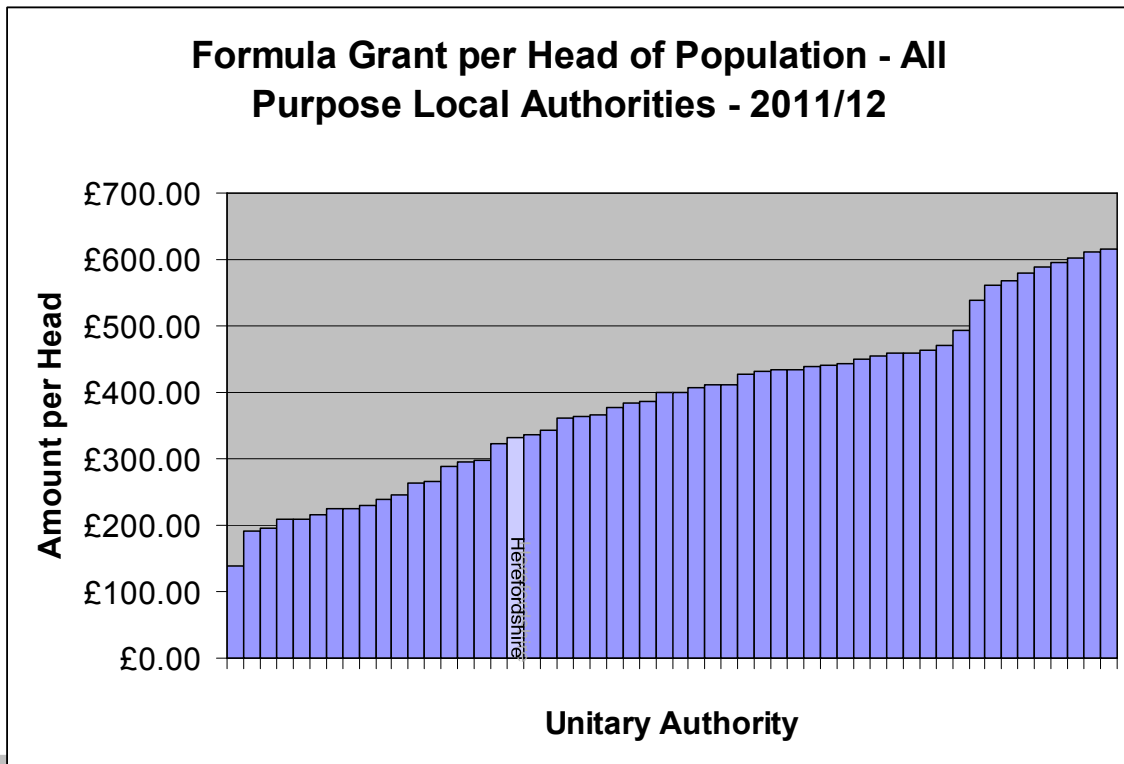
5.2.1 Herefordshire is not a well-resourced council. Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in a sparsely populated area but do not do enough for councils like Herefordshire where its sparse population is more evenly distributed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

5.2.2 The Rural Services Network, a body representing rural councils in England, has established that an urban area on average receives 50% central government greater assistance than a rural area.

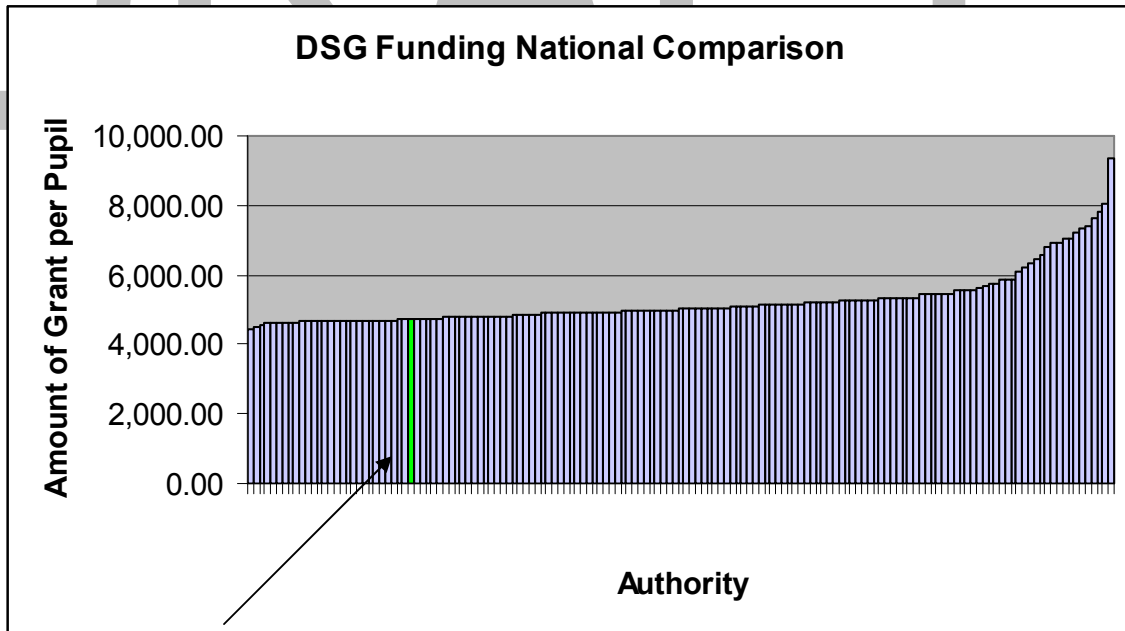
5.2.3 The 2011/12 settlement figures show that:

- a) Formula Grant per head of population is £332.25 – 13% below that national average of £382.23
- b) Indicative Dedicated Schools (DSG) Grant per pupil is £4,723.65 – 7% below the average for education authorities of £5,082.54.
- c) Formula Grant plus indicative DSG per head of population is £808.10 – 18% below the unitary authority average of £984.07

5.2.4 The graph below shows Formula Grant per head of population for all unitary authorities 2011/12. It shows that Herefordshire is 37th out of 55 unitary authorities.

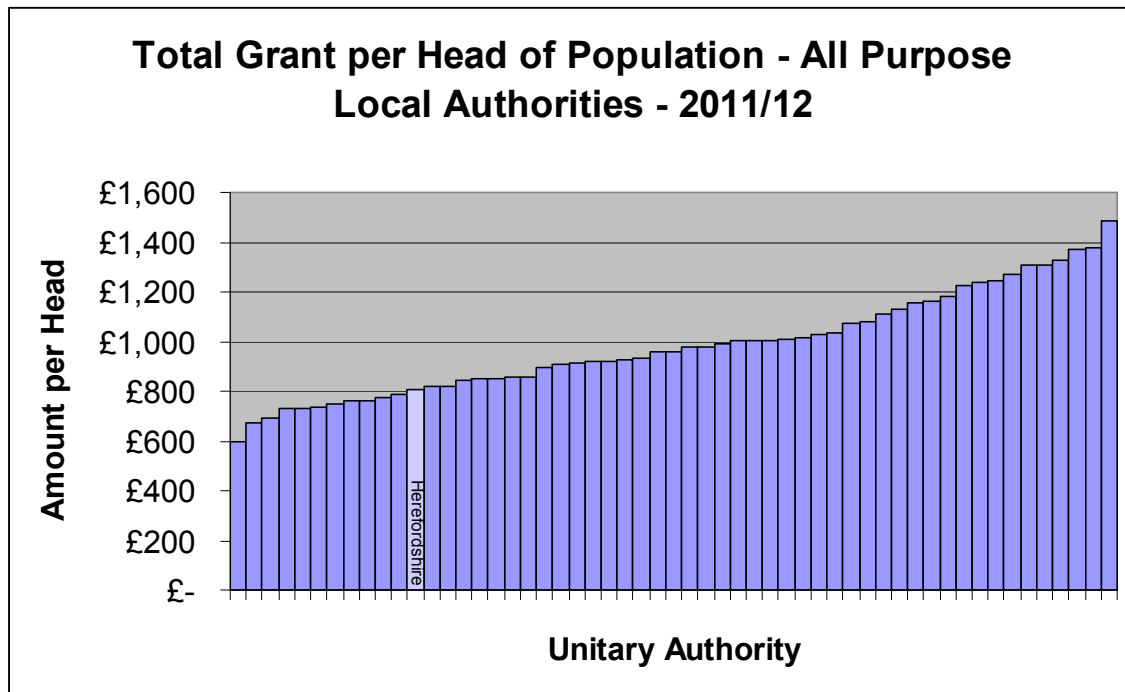


5.2.5 The graph below shows DSG per pupil for local authorities providing education functions. Herefordshire is 123<sup>rd</sup> out of 151 authorities and £358.89 per pupil below the national average.



**Herefordshire**

5.2.6 The final graph below shows the grant per head of population, including both the Formula Grant and the DSG for all unitary authorities for 2011/12. It shows that Herefordshire is 44<sup>th</sup> out of the 55 unitary authorities.



### 5.3 Formula Grant

- 5.3.1 The provisional local government settlement for 2012/13 was announced on 8<sup>th</sup> December 2011. The formula grant for Herefordshire remains unchanged from the figure previously announced of £54.462m, but added to that was the second year of the 2011/12 council tax freeze grant of £2.153m (£56.615m Formula grant in total). This compares to £60.191m in 2011/12 (excluding council tax freeze grant), a cash reduction of £5.7m (9.5%).
- 5.3.2 The government calculates an adjusted figure for 2011/12 to enable a like-for-like comparison with 2012/13, which has been calculated as £59.606m. It is estimated that this calculation has cost the council £584k, the main reason being the way that schools budgets have been transferred to academies. Herefordshire's reduction against the adjusted 2011/12 Formula Grant is £5.144m or 8.6%.
- 5.3.3 As in previous years there are floor-damping arrangements to limit the amount an individual council's funding reduces, which is funded by top-slicing other councils. In 2012/13 Herefordshire is losing £1.16m though floor damping, compared to a gain of £14k in 2011/12.
- 5.3.4 Some additional funding is provided for in the provisional 2012/13 settlement:
- £1.5m social care funding within formula grant
  - £2.1m council tax freeze grant (a one-off grant, unlike the 2011/12 grant which falls out in 2015/16)
  - £2.3m NHS funding to support social care, money which is held by NHS, but will be distributed on submission of robust business cases

## 5.4 Specific Grants

- 5.4.1 The number of specific grants has reduced dramatically, with only the following allocated for 2011/12 and 2012/13 (excluding DSG and council tax grant);

<b>List of Specific Grants</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>
Early Intervention Grant	6,501	7,097
HCTB Admin	1,228	1,177
Music grant	263	236
Community Safety	158	80
Hone to school transport	435	540
Lead Local Flood Authorities	130	200
Learning Disability	3,657	3,738
Preventing Homelessness	225	225

- 5.4.1 In 2011/12 £13.5m of specific grants and Area Based Grant were moved into formula grant, but reduced to an estimated £10.8m, leaving a funding shortfall of £2.7m. A further £932k reduction in these grants is estimated to be included in the Formula Grant reduction.
- 5.4.2 In 2011/12 the Early Intervention Grant replaced non-ring-fenced funding from the Department for Education. Grants totalling £7.07m were transferred into the Early Intervention Grant and reduced to £6.501m in 2011/12, leaving a funding shortfall of £569k. The Early Intervention Grant has increased to £7.097m in 2012/13, an increase of £596k. However, this increase comes with additional responsibilities to provide pre-school places for vulnerable 2 year olds.

## 5.5 Revenue Spending Power

- 5.5.1 In response to concerns that the grant reductions for 2011/12 and 2012/13 were front-loaded the Government focused on a council's 'spending power' rather than just Formula Grant. Spending power includes other government grants, NHS support for health and social care and council tax receipts. The Government have guaranteed that no authority will see their spending power fall by more than 8.8% in 2011/12 or 2012/13.
- 5.5.2 By this definition Herefordshire's spending power reduced by £5.3m (3.16%) in 2011/12 and (£4.8m) 3% in 2012/13.

## 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 has been awarded £591k per annum for 2011/12 (paid for 6 years from 2011/12) and provisionally £824k for 2012/13 (paid for 6 years from 2012/13).
- 5.6.3 The council's Financial Resource Model (FRM) assumes £800k new allocations for future years. However, the Government has indicated that from 2013/14 the



funding will be top-sliced nationally from Formula Grant and therefore an element of top-slice is built into the FRM for Herefordshire.

## 5.7 Capitalisation Direction

5.7.1 In January 2011 local authorities were notified of the process for bidding for capitalisation directions to enable redundancy costs in 2011/12 to be capitalised and funded over more than one year. The Government had allocated £200m to be allocated after taking into account authorities' reserves. Herefordshire submitted a bid and were successful in being allocated £1.543m.

## 5.8 Dedicated Schools Grant

5.8.1 The Dedicated Schools Grant (DSG) is paid as a ring-fenced specific grant and used in support of the Schools Budget. It is the main source of income for schools. DSG is based upon a per pupil formula using the actual pupil numbers from the January school census data each year. Government sets a fixed amount per pupil, which is multiplied by the total pupil numbers to determine the final grant. 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.

5.8.2 National funding reflects factors such as deprivation, sparsity and area cost adjustments which affect urban and rural areas in different ways. The current grant methodology ("Spend Plus") underlying the allocation of DSG to individual authorities is determined by central government. A national review of the distribution formula for DSG based around the introduction of a national schools funding formula has commenced. Implementation is expected to be phased in over a number of years from April 2013. Further consultation papers (due in summer 2012) will set out more detail however early indications from the Institute of Fiscal Studies suggest that Herefordshire schools will lose funding in the move to a national funding formula.

5.8.3 As expected there will be no uplift in DSG for 2012/13 which will continue to be paid at the same rate as in 2011/12 i.e. £4,723.65 per pupil. DfE have not provided an overall total and expect councils to work to our own estimates. Based on the September pupil count we now estimate 22,600 pupils i.e. a loss of 117 pupils. The reduction in secondary pupils is expected to be offset by an increase in early years and primary reception children. Final pupil numbers will be confirmed in late February following the 2012 pupil census. Estimated DSG for 2012/13 is:

2012/13 Estimated Allocations	£m
DSG at 22,600 pupils x £4723.65 per pupil	106.75
<b>TOTAL DSG 2012/13</b>	<b>106.75</b>

5.8.4 For 2012/13 the increased spend on special educational needs and the implementation costs of the mainstreamed school grants review suggests a DSG shortfall of £0.9m, equating to £40 per pupil. There is an increase in the pupil premium to £600 for free school meals pupils and looked after children. The DfE are to widen the eligibility of the pupil premium so that pupils who have been

entitled to free schools meals in the last six years will now receive pupil premium. The increase in the pupil premium is worth approximately £1m extra to Herefordshire in 2012/13.

- 5.8.5 Academies are publicly funded independent local schools that provide a first class free education. 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, the national curriculum and Ofsted inspection requirements. Many Herefordshire schools have embraced the change and approximately 40% of pupils will be educated in Academies from April 2012.
- 5.8.6 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.
- 5.8.7 Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.
- 5.8.8 Herefordshire's reduction for schools moving to academy status from formula grant was £650k in 2011/12, irrespective of the number of academies. The reduction in 2012/13 will be calculated on an amount per pupil (yet to be published) but will be subject to the maximum £500k previously announced. However there will be a rebate if the numbers of pupils transferred to academy schools results in a lesser amount. In addition there will be similar reductions on a per pupil basis to the Dedicated Schools Grant reflecting the transfer of responsibility to academy for some grant funded services. Such services will need to charge to mitigate this reduction, for example within school improvement, strategic management and property.

## **5.9 Council Tax**

- 5.9.1 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 in 2011/12, in each year of the Spending Review period'.
- 5.9.2 The scheme is voluntary; and applies separately to each billing and major precepting authority in England (including police and fire and rescue authorities) rather than to each council tax bill issued. Local precepting authorities, such as town and parish councils, are not included in the scheme.
- 5.9.3 The government has offered a council tax freeze grant for 2012/13, but unlike the 2011/12 grant, this will only be for one –year. The FRM assumes that this will be taken up by the council and used for one-off spending through a transformation fund.
- 5.9.4 The average Band D council tax for 2011/12 is £1,205.09, compared to the average Band D council tax for English Unitary authorities is £1,215.76.
- 5.9.5 Every 1% additional council tax raises £867k and costs taxpayers £12 per annum on a Band D property

## 5.10 Reserves

### 5.10.1 Revenue Reserves

5.10.2 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.

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

Balance as at:	General Fund	Specific Reserves		Total
	£000	Schools	Other	£000
31 <sup>st</sup> March 2009	6,359	5,476	17,472	29,307
31 <sup>st</sup> March 2010	5,349	5,497	13,745	24,591
31 <sup>st</sup> March 2011	6,349	6,002	11,570	23,921
31 <sup>st</sup> March 2012 (est)	6,349	4,300	6,000	16,649

5.10.4 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.

## 5.11 Managing the General Fund Balance and Specific Reserves

5.11.1 Herefordshire's General Fund opening balance for 2011/12 was £6.35m, which is in excess of the current policy in place to maintain a minimum balance of £4.5m (3%). The Chief Officer (Finance and Commercial Services) is content to make his statutory declaration that the minimum level of General Reserves is prudent.

5.11.2 Whilst the policy is for a general reserve of 3% it is considered prudent to use any amount in excess of 3% to fund a budget contingency.

5.11.3 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.

5.11.4 There is an increased level of risk attached to this volatile financial climate, and the use of these reserves is not advisable without a clear strategy for payback in a short timeframe.

5.11.5 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, which is approved at HPSLT.

5.11.6 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.

## 5.12 Capital Reserves

5.12.1 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 4 financial years and an estimate for 2011/12;

Balance as at:	£000
31st March 2009	17,827
31st March 2010	13,565
31st March 2011	6,754
31st March 2012 (est)	3,547

5.12.2 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.

### 5.13.1 Funding Arrangements for Capital Investment

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

5.13.2 Government support for capital investment is through the allocation of grants and it no longer issues supported borrowing allocations. Known grant funding allocations for 2012/13 are:

#### Local Transport Plan

- This has been reduced by a further 5% to £10m for 2012/13 split between integrated transport and capital maintenance allocations. Indications are this funding will fall further to £9.8m for 2013/14 and 2014/15.
- Hereford submitted a successful application, Destination Hereford, for capital funding from the Local Sustainable Transport Fund, for sustainable transport initiatives in Hereford. £3.2m of grant funding is expected to be spent between 2012/13 and 2014/15 on improving Broad Street and providing the non-motorised connection between the city centre and Rotherwas.

#### Schools Capital

- There have been further substantial changes in the allocation of schools capital funding for 2012/13 due to a number of Herefordshire's schools converting to academies in 2011/12 and changes to the formula mechanisms that the DfE use to allocate capital grant funding.
- The total allocation for maintenance and basic need has reduced by 46% from an allocation of £4.8m in 2011/12 to £2.6m in 2012/13. Capital maintenance funding has been reduced by £0.9m; a separate funding pot is available for academies to bid for funding. Basic need funding has reduced by £1.3m as a result of funding formula changes from allocations being based on pupil growth and capacity in 2012/13 as opposed to being based on pupil growth alone in 2011/12. Further basic need funding available to central government is yet to be allocated. These allocations will be announced in the New Year along with the results of the priority school building review and response to the capital review carried out earlier in the year.

### **Adult Social Care**

- The Department of Health has announced funding of £0.46m towards personalisation, reform and efficiency in adult social care in 2012/13.

### **Other Capital Grants**

- Herefordshire has been selected as one of four pilot schemes to deliver superfast broadband to rural areas in Herefordshire and Gloucestershire, the procurement process is underway with the successful provider expected to be announced in May. The scheme is to be funded through grants from BDUK, Gloucestershire and corporate match funding.
- Herefordshire Council will receive £1.5m from the Regional Growth Fund for a new Marches Redundant Building Grant Scheme covering the 3 local authority areas in the Marches Local Enterprise Partnership (Herefordshire, Shropshire and Telford & Wrekin).
- Capital grant applications for funding towards the Masters House in Ledbury are to be confirmed, if successful this will enable the completion of the desired scheme.

5.13.3 **Council Borrowing** - The medium-term strategy reflects the borrowing requirement implied by the Treasury Management Strategy to support the capital programme currently in place and headroom has also been provided for to enable the allocation of capital funding to known capital budget pressures. Capital schemes that represent spend to save/mitigate, demonstrating a clear benefit are also likely to be allocated funding.

5.13.4 **Capital Receipts Reserve** - totalled £6.75m as at 1st April, 2011, this is likely to fall to around £3.5m by the end of the financial year. Capital receipts reserve funding has been committed to fund the capital programme in coming years.

5.13.5 **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 Fund** – this fund is welcoming bids from Local Enterprise Partnerships to quickly restart stalled infrastructure projects that promote the delivery of jobs & housing, prioritise infrastructure needs and establish a revolving fund to enable future reinvestment and lever in private funding.
- **External Funding Bodies** - Distribute funding for projects that satisfy their key criteria and objectives and bids are submitted where appropriate.

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

5.13.7 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.

5.13.8 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 Capital Programme 2012/13 to 2015/16

5.14.1 The 2012/13 capital programme represents funding indications received to date from grants, existing schemes that commenced in prior years and an allocation of corporate borrowing funded in the FRM but yet to be allocated to capital schemes.

5.14.2 A number of capital budget priorities have been identified, which link to the Capital Strategy.

5.14.3 The following business cases have been presented to the Capital Strategy Working Group ;

- Hereford Link Road
- Plough Lane refurbishment, data centre replacement and archive / MRU provision
- Herefordshire Broadband match funding

- Gas control works at Stretton Sugwas closed landfill site

5.14.4 The draft capital programme also includes funding of £1m for repairs to Garrick House car park. This will ensure it continues to provide income and parking capacity for those shopping in Hereford City Centre.

5.14.5 The following table summarises the existing capital investment programme:-

	2012/13	2013/14	2014/15	2015/16
<b>Directorate</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
People's Services	12,828	-	-	-
Places & Communities	17,591	16,917	10,842	-
Corporate Services	4,351	12,257	-	-
Funding to be allocated	4,260	11,200	11,492	6,213
<i>Contingency</i>	332	330	283	-
<b>TOTAL</b>	<b>39,362</b>	<b>40,704</b>	<b>22,617</b>	<b>6,213</b>
<b>Funded by</b>				
Prudential Borrowing	11,905	23,787	11,775	6,213
Capital receipts reserve	465	70	-	-
Grants and contributions	26,992	16,847	10,842	-
<b>TOTAL</b>	<b>39,362</b>	<b>40,704</b>	<b>22,617</b>	<b>6,213</b>

## 5.15 Treasury Management Strategy

5.15.1 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 2012/13 is provided at Appendix A and complies with the detailed regulations that have to be followed.

5.15.2 The Treasury Management Strategy is a key element of the overall financial management strategy. It supports the achievement of several corporate financial objectives, including creating financial capacity within the revenue account as it aims to optimise investment and borrowing decisions.

5.15.3 In summary, 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.

5.15.4 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.

- 5.15.4 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 2015, keeping investment returns low for the foreseeable future.
- 5.15.5 On the borrowing side, PWLB rates are expected to move slowly upwards with short-term loans increasing by an estimated 0.25% over the course of 2012 and longer term loans by an estimated 0.45%.
- 5.15.6 The Treasury Management Strategy also sets the Prudential Code limits for the year and beyond. These limits define the framework within which the council self-regulates its borrowing based on long-term affordability. These link back to the overall size of the capital investment programme and the FRM.
- 5.15.7 The Treasury Management Strategy allows a pragmatic approach to the timing of borrowing. Due to low investment returns and the shortage of good quality counterparties to invest with, the council may postpone borrowing by running down its invested reserves, thus reducing risk and the costs of borrowing. However, it may be prudent to lock in low-rate loans, as the long-term savings from borrowing sooner rather than later, may out-weigh the benefits from further postponement.

## **5.16 Key Corporate & Financial Risks**

- 5.16.1 HPS sees risk management as an essential element of the corporate governance framework. All formal reports include a risk management assessment.
- 5.16.2 Service Plans for each directorate provide a section on risk, assessing the feasibility of delivering their objectives against barriers for delivery.
- 5.16.3 The delivery of a balanced budget in 2012/13 and future years is a significant challenge, requiring close scrutiny of the proposed savings and at what point those savings are realised. The Benefits Board will be used to ensure a project management approach is adopted for the larger reductions, and monitor their progress to ensure the savings targets are delivered as planned.



## 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 2012 to 2015.

### 6.2 Assumptions

6.2.1 The FRM includes the following assumptions;

- a) **Council Tax** - a nil increase for 2012/13 and 2.5% there-after
- b) **Formula Grant** – the FRM reflects the two year settlement, including the grants transferred in, plus an estimated further reduction in funding for 2014/15 and 2015/16.
- c) **New Homes Bonus** – the provisional 2012/13 allocation for Herefordshire is £824k, giving a total of £1.4m for the 2 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** – zero pay awards are assumed for 2011 and 2012, with 1% in the following years.
- f) **Employers' superannuation costs** – the FRM includes increases in employers' contributions rates of 0.7% on gross pay in line with latest valuation which concluded in November.
- g) **Interest Rates** – the FRM reflects interest rate assumptions for investment income and borrowing costs in line with the Treasury Management Strategy 2012/13.

### 6.3 Budget Process

6.3.1 The FRM includes key growth items and budget pressures identified as corporate priorities, alongside service and initiatives council wide to deliver savings.

6.3.2 Given the current settlement only covers two years (2011/12 and 2012/13) more detailed financial planning beyond that is difficult. The system of funding will change in 2013/14 to one based on the retention of business rates. The Government has stated that councils should be no worse off in the first year than they would have been under the current system. 2013/14 also sees changes in the funding of council tax and housing benefits and the transfer of public health responsibilities to councils.

## 2011/12

6.3.3 As the settlement announced in 2010 was worse in terms of total grant reduction and phasing Directors undertook work at that time to a further set of principles to help refine the budget proposals;

- Grant reductions were managed within Directorates.
- Budget growth was funded within Directorates.
- The additional sums provided for Adult Social Care as part of the settlement and also via Health was added to the overall control total for Adult Services.
- No additional capital borrowing in 2011 apart from agreed prior year decisions that still have a sound business case or where borrowing commitments cover projects already being delivered.
- Inflation was applied to budgets, including fees and charges

6.3.4 A Star Chamber process was used to identify and challenge savings proposals and service pressures in setting the budget for 2011/12. Proposals from each Directorate for further savings and service change based on the application of the Core Principles and Priorities of Valued Services, Cutting Red tape, Supporting the Vulnerable, Cutting Costs, Local Delivery and Personal Responsibility.

PRINCIPLE	IMPACT
<b>Valued Services</b>	<ul style="list-style-type: none"><li>• <i>Focusing on our priorities &amp; what matters to people, stopping things we don't need to do</i></li></ul>
<b>Reducing Bureaucracy</b>	<ul style="list-style-type: none"><li>• <i>Less regulation and red tape, smaller local government; right first time delivery</i></li></ul>
<b>Supporting the Vulnerable</b>	<ul style="list-style-type: none"><li>• <i>Targeting resources on individuals, families, communities at risk or disadvantaged; early intervention &amp; prevention; a shift in social care provision</i></li></ul>
<b>Value for Money</b>	<ul style="list-style-type: none"><li>• <i>Reducing the pay bill; third party spend savings; smarter delivery; cutting costs</i></li></ul>
<b>Local Delivery</b>	<ul style="list-style-type: none"><li>• <i>Devolution to parishes and the VCS, local decision making; working through 9 localities</i></li></ul>
<b>Personal Responsibility</b>	<ul style="list-style-type: none"><li>• <i>Self reliance, people and communities helping themselves, behavioural change; increase in personalisation</i></li></ul>

## 2012/13

6.3.5 The provisional local government finance settlement announced in December 2011 confirmed the formula grant funding for 2012/13 of £54.462m (increased to £56.615m by the inclusion of the second year of council tax freeze grant relating to 2011/12), a cash reduction of £5.7m (9.5%).

6.3.6 The Chancellor of the Exchequer has announced that Government will pay a grant to authorities which freeze their council tax for 2012/13. This grant is for one year only and optional for councils. By accepting the grant rather than increasing council tax by the same amount means losing the base effect of a

2.5% council tax increase. The FRM assumes this grant will be used for one-off funding for transformation in 2012/13.

- 6.3.7 Star Chambers were held in December 2011 to;
- confirm savings targets already included in the FRM
  - Explore opportunities for further savings to balance the budget
  - Discuss pressures and mitigating actions

## 6.4 Directorate pressures

- 6.4.1 Following the 2010 Star Chambers a number of the directorate pressures were included in the FRM, as shown below. These pressures relate to growth in demographics activity alongside specific contract inflation obligations. Any further growth will have to be self-funded by directorates.

Directorate	2011/12	2012/13
	£'000	£'000
<b>People</b>	885	<b>1,616</b>
<b>Places and Communities</b>	960	<b>640</b>
<b>Corporate</b>	(36)*	<b>(20)</b>
<b>Total</b>	<b>1,809</b>	<b>2,236</b>

\*Includes reversal of previous year's one-off pressure

## 6.5 Directorate Savings

- 6.5.1 As has been explained earlier, 2012/13 presents Directorates with a series of financial challenges and a requirement that they support the Council to deliver a balanced budget.
- 6.5.2 The original 2012/13 savings target was £6.1m for Directorates plus £638k for Shared Services projects (including Hoople). As part of the budget setting process these savings were confirmed and increased to £9.587m. This is after a review of centrally held non directorate budgets that made a contribution of £1.2m. These are in addition to the £10.3m savings in 2011/12.
- 6.5.3 The FRM includes the following savings targets;

DIRECTORATE	ORIGINAL 2012/13 SAVINGS £'000	REVISED SAVINGS £'000
Corporate	1,191	1,256
Peoples	3,500	4,607
Places	1,092	2,170
Council Wide initiatives	240	1,554
<b>TOTAL</b>	<b>6,023</b>	<b>9,587</b>

## 6.6 Budget Engagement

6.6.1 Starting in November 2011 Herefordshire Public Services ran a series of events to ask local people for their views on funding priorities. This was done so that their feedback could help plan how its budget should be used for the coming year and beyond. With current pressures on funding being experienced by public services nationwide, it wanted to explore a new way of consulting the population at an early stage in the process. As a result, a series of 10 public events were held across the range of localities in the county during November and December 2011, attended by over 250 people in total. Alternatively, the public were able to send responses through an on-line questionnaire.

6.6.2 The consultation included four topic areas, on which people were asked a series of high-level questions about general spending principles on which each could cast their vote using an electronic hand-held device. Each section was first introduced by providing some contextual information. Questions were asked concerning finance, adult social care, clinical commissioning of healthcare, and health and wellbeing. This was followed by an opportunity for people to provide further comment and to ask questions of the presenters. The public also were also invited to complete an evaluation questionnaire to gather feedback on the events and this will help shape future consultations.

6.6.3 The headline feedback showed support for:

- Prioritising funding for services for vulnerable people
- The council not providing some services if it meant being able to protect and develop others
- Getting other organisations to provide some council functions
- Increasing support for access to services on-line
- Getting areas to be involved in delivering services
- Transferring assets to local groups to deliver services of benefit to the community

6.6.4 In addition more people agreed than disagreed that they would be willing to pay more council tax if it protected services.

## **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:

- a) Robustness of the estimates made for the purposes of the budget calculations.
- b) 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 Chief Officer (Finance and Commercial)'s 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)**

Herefordshire Council

Treasury Management Strategy 2012/13

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6. Treasury Management Policy Statement

## 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 Treasury Management is about the management of risk. The council is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.4 The purpose of this TMSS is to approve:
- Treasury Management Strategy for 2012/13 (Borrowing and Debt Rescheduling – Section 3 and Investments and Annual Investment Strategy – Section 4)
  - MRP Statement – Section 6
  - Prudential Indicators (Appendix 2)
  - Use of Specified and Non-Specified Investments – Appendices 4 & 5
- 1.5 As per the requirements of the Prudential Code, the council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The aim is to ensure that treasury management is led by a clear and integrated forward treasury management strategy, and a recognition of the pre-existing structure of the authority's borrowing and investment portfolios.
- 1.6 All treasury activity will comply with relevant statute, guidance and accounting standards.

## 2. Capital Financing Requirement

- 2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of treasury management activity. The estimates, based on the current revenue budget and capital programme, are as follows:

<b>Balance Sheet Summary Analysis</b>				
	<b>31/03/2012</b>	<b>31/03/2013</b>	<b>31/03/2014</b>	<b>31/03/2015</b>
	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Capital Financing Requirement</b>	<b>208,208</b>	<b>209,189</b>	<b>222,311</b>	<b>222,956</b>
<b>LESS:</b>				
<b>Existing Profile of Borrowing</b>	147,516	143,382	139,235	<b>135,073</b>
<b>Other Long Term Liabilities</b>	28,481	27,505	26,438	<b>25,296</b>
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>32,211</b>	<b>38,302</b>	<b>56,638</b>	<b>62,587</b>
<b>Usable Reserves</b>	<b>32,024</b>	<b>31,000</b>	<b>30,000</b>	<b>29,000</b>
<b>Cumulative Net Borrowing Requirement</b>	<b>187</b>	<b>7,302</b>	<b>26,638</b>	<b>33,587</b>

- 2.2 The existing profile of borrowing above assumes that before the end of March 2012 the council will take out an additional £3 million 20 year EIP loan from the PWLB.
- 2.3 The council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The council may consider borrowing 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 funds until the borrowing is actually required.
- 2.4 The council's current level of debt and investments is set out at **Appendix 1**.

### **3. Borrowing**

#### **Interest Rate Forecast**

- 3.1 The economic and interest rate forecast provided by Arlingclose, the council's treasury management advisor, is attached at **Appendix 3**. The council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

#### **Borrowing Strategy**

- 3.2 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. The interest rate forecast provided in **Appendix 3** indicates that an acute difference between short and longer term interest rates is expected to continue. 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. Whilst the cost of carry can be assumed to be a reasonably short-term issue, since borrowing is often for longer dated periods (anything up to 50 years), it cannot be ignored against a backdrop of uncertainty and affordability constraints in the council’s wider financial position.

3.3 As indicated in the table above, depending upon the actual movement in usable reserves, the council has a borrowing requirement in 2012/13 of between £6 and £7 million. The council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

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

### **Sources of Borrowing and Portfolio implications**

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

- PWLB
- Local authorities
- Commercial banks
- European Investment Bank
- Money markets
- Capital markets (stock issues, bond issuance, commercial paper and bills)
- Structured finance (such as leasing etc)

3.5 The cost of carry has resulted in an increased reliance upon shorter dated borrowing. This type of borrowing injects volatility into the debt portfolio in terms of refinancing risk (the risk of having to refinance when interest rates are unfavourable) but is counterbalanced by its affordability and narrowing of the gap between borrowing costs and investment returns. At present all the council’s borrowing is at fixed rates. With rates forecast to rise over the next few years the council has preferred to take out fixed rate loans rather than variable rate borrowing but this strategy will be kept under review.

3.6 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 year 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.

3.7 If a lender seeks to amend the terms of a LOBO loan the available options will be discussed with the council’s treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

3.8 As interest rates are forecast to remain relatively low, it is considered unlikely that the lender will seek to vary the terms during 2012/13.

## **Debt Rescheduling**

- 3.9 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 interest savings.
- 3.10 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope for debt restructuring although occasionally opportunities arise. The rationale for undertaking any debt rescheduling continues to be one or more of the following:
- 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.
- 3.11 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 Herefordshire Public Services 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. Secondary objectives are the liquidity or accessibility of the council's investments followed by yield.
- 4.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of a country's indebtedness have led to a sovereign debt crisis and a more wider banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the council's investment strategy is framed.
- 4.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the CLG.
- 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.
- 4.4 The types of investments that may be used by the council and whether they are specified or non-specified are as follows:

## Specified and Non-Specified Investments

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-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

N/a = This type of investment is not an option for longer-term deposits

4.5 A number of changes have been made to the investment strategy for 2012/13 in response to changes in the CLG Guidance and evolving conditions in financial markets. One change is the inclusion of corporate bonds which the CLG have indicated will become an eligible non-capital investment from 1<sup>st</sup> April 2012. However, the principal amendments are in relation to the individual institutions with which the Authority is prepared to lend its funds.

4.6 The council and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:

- Published credit ratings for financial institutions (minimum long term rating of A- or equivalent for counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in the 2011/12 Strategy and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the financial system.
- Credit Default Swaps (where quoted)
- Economic fundamentals (for example Net Debt as a percentage of GDP)
- Sovereign support mechanisms
- Share Prices
- Corporate developments, news, articles, markets sentiment and momentum
- Subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

It remains the council's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets criteria may be suspended, but institutions not meeting criteria will not be added.

### **The Council's Bank**

- 4.7 The council banks with National Westminster Bank. At the current time, it has a long-term credit rating of A so whilst it does not currently meet the minimum criteria for 2011/12 it will meet the revised criteria of A- for 2012/13. Even if the credit rating falls below the council's minimum criteria National Westminster Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

### **Investment Strategy**

- 4.8 With short term interest rates remaining low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, 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 counterparty risk.
- 4.9 Investments will be placed in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.
- 4.10 Money market funds (MMFs) will be utilised but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by utilising more than one MMF. 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.

#### **4.11 Collective Investment Schemes (Pooled Funds):**

On the advice of Arlingclose Ltd, the council may consider using 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.

- 4.12 Pooled Funds and Collective Investment Schemes currently recommended by Arlingclose are as follows:

- Cazenove UK Corporate Bond Fund
- City Financial Strategic Gilt Fund
- Elite Charteris Premium Income Fund
- Investec short Dated Bond Fund
- Investec Target Return Fund
- Investec UK Alpha Fund
- Payden & Rygel Sterling Reserve Fund
- Prime Rate Sterling Cash Plus Fund
- WAY Charteris Gold Portfolio Fund
- The Local Authorities Mutual Investment Trust – Property Fund
- Lime Property Fund

- 4.13 Pooled Funds are similar in nature to unit trusts in that they should be viewed as a longer term investment, there is an initial subscription 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, however, this option will remain under review.

## **5. Balanced Budget Requirement**

- 5.1 The council complies with the provisions of S32 of the Local Government Finance Act 1992 to set a balanced budget.

## **6. 2012/13 MRP Statement**

### **Background**

- 6.1 For many years local authorities were required by Statute and associated Statutory Instruments to charge to the Revenue Account an annual provision for the repayment of debt associated with expenditure incurred on capital assets. This charge to the Revenue Account was referred to as the Minimum Revenue Provision (MRP). In practice MRP represents the financing of capital expenditure from the revenue account that was initially funded by borrowing.
- 6.2 In February 2008 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] were approved by Parliament and became effective on 31 March 2008. These regulations replaced the formula based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new regulations require a local authority to determine each financial year an amount of MRP which it considers to be prudent. Linked to this new regulation, CLG produced Statutory Guidance which local authorities are required to follow, setting out what constitutes a prudent provision.
- 6.3 The CLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the Full Council.
- 6.4 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. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant.
- 6.5 The move to International Financial Reporting Standards (IFRS) means that Private Finance Initiative (PFI) schemes and finance leases have now been brought on Balance Sheet. Such items are classed in accounting terms as a form of borrowing. CLG has therefore amended the Capital Finance Regulations to ensure that the impact on the revenue account is neutral, with MRP for these items matching the principal repayment embedded within the PFI or lease agreement.

### **Options for making 'Prudent Provision'**

- 6.6 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 2012-13**

6.7 In line with the guidance produced by the Secretary of State, the proposed policy for the 2012/13 calculation of MRP 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.

## EXISTING DEBT &amp; INVESTMENTS AS AT 31 DECEMBER 2011

31/12/11 Actual Debt Position £'000	
External Borrowing:	
Public Works Loan Board	130,597
Bank Loans	12,000
All loans are fixed rate loans	
<b>Total External Borrowing</b>	<b>142,597</b>

31/12/11 Actual Debt Position £'000	
Other Long Term Liabilities:	
- PFI	28,148
- Finance Leases	333
<b>Total of Other Long Term Liabilities</b>	<b>28,481</b>

31/12/11 Actual Investments £'000	
Investments:	
- Instant access Money Market Funds	13,520
- Short-term deposits	20,500
All investments are managed in-house	
<b>Total Investments</b>	<b>34,020</b>

## PRUDENTIAL INDICATORS

### 1. Background:

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. Net Borrowing and the Capital Financing Requirement:

CIPFA refers to this indicator as a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing 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 increases to the capital financing requirement for the current and next two financial years.

The Chief Officer – Finance and Commercial reports that the council had no difficulty meeting this requirement in 2011/12, 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.

Capital Expenditure	2011/12 Approved £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
<b>Total</b>	<b>55,477</b>	<b>57,918</b>	<b>39,362</b>	<b>40,704</b>	<b>22,617</b>

- 3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2011/12 Approved £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
Capital receipts	4,260	4,589	465	70	0
Government Grants	40,297	42,739	26,992	16,847	10,842
<b>Total Financing</b>	<b>44,557</b>	<b>47,328</b>	<b>27,457</b>	<b>16,917</b>	<b>10,842</b>
<b>Prudential borrowing</b>	<b>10,920</b>	<b>10,590</b>	<b>11,905</b>	<b>23,787</b>	<b>11,775</b>
<b>Total Financing and</b>	<b>55,477</b>	<b>57,918</b>	<b>39,362</b>	<b>40,704</b>	<b>22,617</b>



<b>Funding</b>					
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#### 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.
- 4.2 The ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2011/12 Approved £'000</b>	<b>2011/12 Revised £'000</b>	<b>2012/13 Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>
Net Revenue Stream	146,248	146,314	<b>143,359</b>	144,095	144,969
Financing Costs	17,833	17,311	<b>18,049</b>	18,018	18,781
<b>Percentage</b>	<b>12.19%</b>	<b>11.83%</b>	<b>12.59%</b>	<b>12.50%</b>	<b>12.96%</b>

#### 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 its financing.

<b>Capital Financing Requirement</b>	<b>2011/12 Approved £'000</b>	<b>2011/12 Revised £'000</b>	<b>2012/13 Estimate £'000</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>
<b>Total CFR</b>	<b>209,550</b>	<b>208,208</b>	<b>209,189</b>	<b>222,311</b>	<b>222,956</b>

## 6. Actual External Debt:

- 6.1 This indicator is obtained directly from the council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

<b>Actual External Debt as at 31/03/2011</b>	<b>£'000</b>
Borrowing (including £5.5 million of short-term loans)	147,035
Other Long-term Liabilities – Finance leases and PFI schemes	29,390
<b>Total per Balance Sheet</b>	<b>176,425</b>

The Balance Sheet figure for borrowing includes accrued interest and other accounting adjustments. The principal outstanding as at 31<sup>st</sup> March 2011 totalled £145.6m.

## 7. Incremental Impact of Capital Investment Decisions:

- 7.1 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.

<b>Incremental Impact of Capital Investment Decisions</b>	<b>2012/13 Estimate</b>	<b>2013/14 Estimate</b>	<b>2014/15 Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>New capital expenditure funded by Prudential borrowing</b>	<b>4,200</b>	<b>11,200</b>	<b>11,492</b>
Interest payable	84	406	903
MRP - Provision for repayment of principal over 25 years (commencing year after expenditure incurred)	0	168	616
Total financing costs	84	574	1,519
Estimated taxbase	71,982	72,342	72,703
	<b>£</b>	<b>£</b>	<b>£</b>
<b>Increase in Band D Council Tax (Currently £1,205.09 for 2011/12)</b>	<b>1.17</b>	<b>7.93</b>	<b>20.89</b>

- 7.2 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 4.00% to 4.50%.

- 7.3 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. For example, no increase is planned to council tax for 2012/13.

## 8. Authorised Limit and Operational Boundary for External Debt:

- 8.1 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.
- 8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the council. It is measured on a daily basis against all external borrowing 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.
- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.4 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 for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	190	190	185	195	195
Other Long-term Liabilities	40	40	40	40	40
<b>Total</b>	<b>230</b>	<b>230</b>	<b>225</b>	<b>235</b>	<b>235</b>

- 8.5 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.
- 8.6 The Chief Officer – Finance and Commercial has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any

movement between these separate limits will be reported to the next meeting of Full Council.

Operational Boundary for External Debt	2011/12 Approved £m	2011/12 Revised £m	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
Borrowing	175	175	175	190	190
Other Long-term Liabilities	35	35	35	35	35
<b>Total</b>	<b>210</b>	<b>210</b>	<b>210</b>	<b>225</b>	<b>225</b>

## 9. Adoption of the CIPFA Treasury Management Code:

- 9.1 This indicator demonstrates that the Council has adopted the principles of best practice.
- 9.2 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**.

## 10. Gross and Net Debt:

- 10.1 The purpose of this treasury indicator is to highlight a situation where the council is planning to borrow in advance of need.

Gross and Net Debt	2011/12 Estimated £m	2012/13 Estimated £m	2013/14 Estimated £m	2014/15 Estimated £m
Outstanding Borrowing (at nominal value)	148	152	166	168
Other Long-term Liabilities (at nominal value)	28	28	26	25
<b>Gross Debt</b>	<b>176</b>	<b>178</b>	<b>192</b>	<b>193</b>
<b>Less: Investments</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>
<b>Net Debt</b>	<b>156</b>	<b>160</b>	<b>172</b>	<b>173</b>

## 11. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 11.1 This indicator allows the council to manage the extent to which it is exposed to changes in interest rates.
- 11.2 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

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	2011/12 Approved %	2011/12 Revised %	2012/13 Estimate %	2013/14 Estimate %	2014/15 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%

11.3 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 expectations of anticipated interest rate movements.

11.4 The council's borrowing currently relates wholly to fixed interest rate loans. However, it is recognised that it may be desirable to have a variable element in the loans portfolio over the longer term (particularly when interest rates are high or falling) and so the council continues to monitor rates and will take out variable borrowing when it is considered advantageous to do so.

## 12. Maturity Structure of Fixed Rate borrowing:

12.1 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.

12.2 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.

<b>Maturity structure of fixed rate borrowing</b>	<b>Estimated level as at 31/03/12 %</b>	<b>Lower Limit for 2012/13 %</b>	<b>Upper Limit for 2012/13 %</b>
Under 12 months (including LOBO's)	11%	0%	20%
12 months and within 24 months	3%	0%	10%
24 months and within 5 years	14%	0%	30%
5 years and within 10 years	12%	0%	30%
10 years and within 20 years	26%	0%	40%
20 years and within 30 years	12%	0%	40%
30 years and within 40 years	7%	0%	40%
40 years and within 50 years	15%	0%	40%
<b>Total</b>	<b>100%</b>		

### **13. Credit Risk:**

- 13.1 The council considers security, liquidity and yield, in that order, when making investment decisions.
- 13.2 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.
- 13.3 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.
- 13.4 Credit ratings remain the only indicators with prescriptive values. Other indicators of creditworthiness are considered in relative rather than absolute terms.

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

14.1 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	2011/12 Approved £'000	2011/12 Revised £'000	2012/13 Estimate £'000	2013/14 Estimate £'000	2014/15 Estimate £'000
	10,000	10,000	15,000	15,000	15,000

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

	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
<b>Bank Base Rate (%)</b>	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
<b>PWLB Rates (%):</b>													
<b>5 years</b>	2.25	2.30	2.35	2.40	2.50	2.60	2.70	2.80	3.00	3.10	3.30	3.40	3.50
<b>10 years</b>	3.20	3.30	3.40	3.45	3.50	3.55	3.60	3.70	3.75	3.80	3.85	3.90	4.00
<b>20 years</b>	4.00	4.05	4.05	4.10	4.20	4.25	4.30	4.35	4.40	4.45	4.50	4.60	4.75
<b>50 years</b>	4.25	4.40	4.50	4.60	4.70	4.80	4.90	5.00	5.00	5.00	5.10	5.20	5.25
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 0.50% higher or up to 0.25% lower than the above.													

- Whilst the financial crisis in the Eurozone continues, the UK's status as a safe haven remains and keeps Gilt yields (and hence PWLB rates) suppressed.
- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. Arlingclose think that it could be 2016 before official interest rates rise.
- The Bank of England's Monetary Policy Committee embarked on a further round of Quantitative Easing (QE). The view is there will be more to come.

### Underlying Assumptions:

- Arlingclose believe that stress in financial markets continues to build. Rates within Interbank markets (where banks fund the majority of their day to day operations) continue to climb. This situation was a feature of the banking crisis that occurred in 2008 and, whilst the authorities have flooded the markets with liquidity (quantitative easing), it still provides a key barometer of rising risk within markets.
- The MPC's decision to embark on a further £75 billion of QE – which the Minutes showed was unanimously supported – is likely to be expanded in the coming months as some members of the MPC had voted for £100bn of QE.
- Inflation fell back to 5% from what is considered to be its peak of 5.2% reached in October 2011. The Bank of England expects domestic inflation to subside

markedly in 2012 as the twin effects of the VAT increase and surge in oil prices fall out of the twelve month series.

- Economic growth meanwhile remains largely illusive not helped by the considerable uncertainty and expansion of risks presented by the crisis in the Eurozone. Even if a credible and effective policy is implemented, the scale of the problems mean that there is likely to be a prolonged period of subdued growth within the Euro area. A failure to meet the challenges would almost certainly have significant implications for the global economy.
- Recent data and surveys suggest that the UK economy has lost the admittedly fragile momentum since the summer. Business and consumer surveys point to continued weakness in coming months and the situation in the Euro area is likely to further undermine confidence and lead to tighter credit conditions for households and firms.
- Against this uncertain backdrop the ability of the economy (government, companies and individual consumers) to accommodate an increase in the cost of money through higher interest rates – in the absence of a deterioration in the high credit standing that the UK enjoys – remains unlikely. In fact, we believe that it is highly unlikely.

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## SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

Specified Investments will be those that meet the criteria in the CLG Guidance, i.e. the investment:

- is sterling denominated
- has a maximum maturity of 1 year
- meets the “high credit quality” as determined by the council or is made with the UK government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council.
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

“Specified” Investments identified for the council’s use are:

- Term deposits with banks and building societies
- Term deposits with other UK local authorities
- Certificates of deposit (CD’s) with banks and building societies
- Gilts: (bonds issued by the UK government)
- Treasury Bills
- Bonds issued by multilateral development banks
- Local Authority Bills
- Commercial Paper
- Corporate Bonds
- AAA-rated Money Market Funds with a Constant Net Asset Value (CNAV)
- AAA-rated Money Market Funds with a Variable Net Asset Value (VNAV)
- Other Money Market Funds and Collective Investment Schemes– i.e. credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.
- Deposits in the DMO’s Debt Management Account Deposit Facility

For credit rated counterparties, the minimum criteria will be the lowest equivalent short-term and long-term ratings assigned by Fitch, Moody’s and Standard & Poor’s (where assigned).

*Long-term minimum: A- (Fitch); A3 (Moody’s); A- (S&P)*

*Short-term minimum: F1 (Fitch); P-1 (Moody’s); A-1 (S&P)*

The table below shows the complete list of long term credit ratings highlighting those considered acceptable in 2012/13. The short term credit ratings are only examples and

the table does not show all the possible combinations of the long and short term ratings that may exist.

<b>Long Term Credit Ratings – Audit Commission Gradings</b>						
	<b>Fitch</b>		<b>Moody's</b>		<b>Standard and Poor's</b>	
	<b>Long term</b>	<b>Short term</b>	<b>Long term</b>	<b>Short term</b>	<b>Long term</b>	<b>Short term</b>
<b>Extremely strong</b>	AAA	F1+	Aaa	P-1	AAA	A-1+
<b>Very strong grade</b>	AA+	F1+	Aa1	P-1	AA+	A-1+
	AA	F1+	Aa2	P-1	AA	A-1+
	AA-	F1+	Aa3	P-1	AA-	A-1+
<b>Strong grade (But susceptible to adverse conditions)</b>	A+	F1+ or F1	A1	P-1	A+	A-1+ or A-1
	A	F1	A2	P-1 or P-2	A	A-1+
	A-	F1 or F2	A3	P-1 or P-2	A	A-1+ or A-2
<b>Adequate grade</b>	BBB+	F2	Baa1	P-2	BBB+	A-2
	BBB	F2 or F3	Baa2	P-2 or P-3	BBB	A-2 or A-3
	BBB-	F3	Baa3	P-3	BBB-	A-3
<b>Speculative grade</b>	BB+	B	Ba1	NP (Not Prime)	BB+	B-1
	BB	B	Ba2	NP	BB	B-2
	BB-	B	Ba3	NP	BB-	B-3
<b>Very speculative grade</b>	B+	B	B1	NP	B+	-
	B	B	B2	NP	B	-
	B-	B	B3	NP	B-	-
<b>Vulnerable grade</b>	CCC	C	Caa1	NP	CCC+	C
	CCC	C	Caa2	NP	CCC	C
	CCC	C	Caa3	NP	CCC-	C
	CC	C	-	NP	CC	C
	C	C	Ca	NP	C	C
<b>Defaulting grade</b>	D	D	C	NP	D	D

The council will also take into account information on corporate developments and market sentiment towards investment counterparties.

**New specified investments may be made within the following limits:**

<b>Instrument</b>	<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counter-party Limits £m</b>
Term Deposits	UK	Other UK Local Authorities	No limit
Term Deposits, CDs & Call Accounts	UK	Counterparties rated at least A- Long Term and F1 Short Term (or equivalent)	£5m or 15%, whichever is greater
Term Deposits, CDs & Call Accounts	Non-UK	Counterparties rated at least A- Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£5m or 15%, whichever is greater
Corporate Bonds	UK	Counterparties rated at least A- Long Term and F1 Short Term (or equivalent)	£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

**NB**

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.

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.

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## 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?
<ul style="list-style-type: none"> <li>▪ Deposits with banks and building societies over 1 year</li> <li>▪ CDs with banks and building societies</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> </ul>	5 years	25% in aggregate	No
<ul style="list-style-type: none"> <li>▪ Term deposits with other UK local authorities</li> </ul>	✓	10 years	25% in aggregate	No
<ul style="list-style-type: none"> <li>▪ Gilts</li> <li>▪ Bonds issued by multilateral development banks</li> <li>▪ Bonds issued by financial institutions guaranteed by the UK government</li> <li>▪ Sterling denominated bonds by non-UK sovereign governments</li> </ul>	<ul style="list-style-type: none"> <li>✓ (on advice from treasury advisor)</li> </ul>	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%	Yes (currently); No (from 01/04/12 provided legislation is adopted as anticipated)
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.

## 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.

## FINANCIAL RESOURCE MODEL 2012-15

MTFRM	2011/2012 Budget £'000	2012/2013 Budget £'000	2013/2014 Budget £'000	2014/2015 Budget £'000	2015/2016 Budget £,000
<b>Base Budget</b>	142,844	146,314	143,359	144,095	144,969
<b>Total Inflation</b>	2,962	2,345	2,913	3,002	3,098
<b>Inflated base budget</b>	145,806	148,659	146,272	147,097	148,067
- Grants Rolled into Formula Grant (reduced figure)	10,832	(932)	(187)		
- Personal Social Services	1,961	1,480	259		
<b>MTFMS Changes</b>					
- Waste management - PFI Contract	0	0	500	500	500
- Whitecross PFI requirement	0	75	75	75	75
- Local Development Framework	(275)	300	(300)		
<b>Shared Services</b>					
- Revenue Costs	(204)	56			
- Capital Financing	292	8	0		
- Core team costs (rev)	9	(479)			
- Core team costs (capital financing)	(6)	(6)	42		
- Shared Services	250	100	0		
<b>Capital Financing Costs</b>					
- Cost of borrowing	570	(799)	(726)	145	(838)
- New capital funding	0	234	710	729	227
- Investment Income	0	(103)	(156)	(78)	(98)
<b>Emerging Pressures</b>					
- Student Finance	(70)	0	0		
- Income shortfall (car parking, land charges etc)	0	(75)	(112)	(113)	
- Management change reserve	500	0	(500)		
- Winter maintenance	(500)	0	0		
- Statutory changes creating pressures	1,029	544	0		
- Base budget funding issues	130	907	0		
- Other service pressures	650	785	0		
- Academy schools	(300)	(150)	(100)		
- West Midlands Councils	209	(209)	0		
- Retail Quarter Timescales	230	0	0		
- Relief road feasibility study		300	(300)		
<b>Efficiencies &amp; Savings</b>					
- Directorate reductions	(4,594)	(9,288)	0		
- Contingency re timing of delivery of savings	313	177	0		

MTFRM	2011/2012 Budget £'000	2012/2013 Budget £'000	2013/2014 Budget £'000	2014/2015 Budget £'000	2015/2016 Budget £,000
<b>Rising to the Challenge</b>					
- Delaying Savings	(3,148)	0	0		
- Reducing the Pay Bill	0	0	0		
- Shared Services	(2,560)	(571)	(340)	0	0
New Homes Bonus	(660)	(754)	(800)	(800)	(800)
Council Tax Freeze Grant 2011/12 to 2014/15	(2,150)				
Move to show as part of Formula Grant		2,150			
Council Tax Freeze Grant 2012/13 only		(2,164)	2,164		
Use Freeze Grant for "Transformational Change"		2,164	(2,164)		
Top up contingency/insurance reserves		450	(450)		
General reserves	(1,000)	0	0		
Movement from Reserves	(1,000)	500	0		
<b>Capacity to achieve desired Tax increase</b>	<b>0</b>	<b>0</b>	<b>208</b>	<b>(2,586)</b>	<b>(2,884)</b>

TOTAL BUDGET	146,314	143,359	144,095	144,969	144,249
<b>Council Tax increase</b>	0.00%	0.00%	2.50%	2.50%	2.50%
<b>Assumptions</b>					
Assumed Pay and Price Increase					
Employees	0.00%	0.00%	1.0%	1.0%	1.0%
Employers pension contributions - additional on basic pay	0.7%	0.7%	0.7%	0.8%	0.9%
Other costs	2.0%	2.0%	2.0%	2.0%	2.0%
Income C & CR only	2.0%	2.0%	2.0%	2.0%	2.0%
Prov Formula Grant increase on previous year	-13.30%	-8.60%	-2.60%	-2.60%	-2.60%
Assumed Taxbase Increase	1.01%	0.72%	0.50%	0.50%	0.50%



**EXTRACT FROM DRAFT MINUTES OF THE MEETING OF THE OVERVIEW AND SCRUTINY COMMITTEE MEETING HELD ON 16 JANUARY 2012**

**BUDGET 2012/13**

The Committee was asked for its views on the budget for 2012/13 and the principles underlying the Medium Term Financial Strategy.

The report to Cabinet on 19 January had been circulated separately to the Committee.

The Leader of the Council introduced the report highlighting the following issues:

- That the provisional Local Government Settlement for 2012/13 meant a £5.7m reduction in formula grant for the Council.
- The Government's payment of a grant to authorities who agreed to freeze their Council tax for 2012/13 equated to a 2.5% increase in Council Tax but was for one year only.
- The budget proposals involved savings of £9.3m in 2012/13. This followed on from savings of £10.3m in 2011/12.
- A reduction in some services was inevitable but the Council had sought to maintain frontline services.
- The Council was increasingly a commissioning organisation transferring service delivery to other organisations.
- The funding picture after 2012/13 was unclear. There were a number of significant changes ahead.

The Chief Officer – Finance and Commercial Services (CFO) highlighted the following additional points:

- He emphasised that for 2011/12 the Government had offered a grant to those who froze Council tax for four years up to and including 2014/15. A further council tax freeze grant was now being offered for 2012/13 only. It was proposed to use this one-off sum for transformation (£1.2m) and budget contingency (£1m).
- Additional funding for social care within the formula grant was proposed to be passported to that service area. A sum of £2.3m was also to be transferred from the NHS to support social care.
- He also noted provision for a 1% increase in pay from 2013/14; income proposals; the provision of £1m for a change management reserve; savings proposals for directorates as set out in the appendix to the report; the capital programme; and the implications of the transfer of public health responsibilities to local authorities.

In the course of discussion the following principal points were made:

- Paragraph 5.2.3 of Section 5 of the Medium Term Financial Strategy on the Council's financial context noted the extent to which the Council's funding settlement from the Government was below average. The CFO commented that the national funding formula was complex and not transparent so the reasons why the authority fared so poorly were difficult to establish. Members considered that Cabinet should be encouraged, with the Committee's support to make representations to the Government to seek to address the apparent unfairness of the Council's settlement.
- The CFO informed the Committee of the Council's investment policy and provided assurance on the arrangements in place to manage risk to the Council's resources.
- The relationship between NHS and Council funding for social care was discussed. The CFO commented that joint arrangements were in place and national incentives encouraged an appropriate use of funds.

- A Member sought clarification on the proposed use of the council tax freeze grant of £2.2m for 2012/13. It was noted that the Cabinet decision in December had been that the sum would be used for transformation measures. The report before the Committee suggested it was proposed to use £1.2m of this sum for transformation with the remaining £1m being set aside as a budget contingency. The Leader accepted that this point required clarification and that he would request that this be provided.
- In response to questions, the CFO agreed to provide a briefing note showing movements on the Council's general and specific reserves, a breakdown of management fees paid by the Council and a breakdown of PFI funded schemes.
- A Member questioned the inclusion of provision of funding in the capital programme for Hereford Futures. It was asked whether this was in effect subsidising the development of the retail quarter when initially it had been stated that all infrastructure would be provided by the developer.
- It was requested that the wording of paragraph 3.6.2 of the Medium Term Financial Strategy relating to developer contributions should be checked to ensure that it accurately reflected the position.
- The proposed provision of an archives facility was noted. Attention was drawn to West Mercia Police Service's recent construction of such a building. It was suggested this might be a useful model to draw on and might be able to provide the Council with some cost-efficient interim storage.
- The significant pressures on the budget for adult social care services was discussed. It was noted, in addition, that care packages for some individuals with special and/or serious needs could be extremely expensive. The Leader indicated that he would welcome the Committee's assistance as proposals to transform provision were developed. A Member questioned the delay over a number of years in tackling this issue. It was suggested, however, that the graph in the MTFs at page 37 of the agenda papers extrapolating costs up to 2026 at some £160m per annum was unrealistic and therefore unhelpful.
- The Committee was invited to comment on the underlying assumptions underpinning the budget, whether it reflected the Council's priorities and risk management Members did not propose any different approaches. Some Members did, however, express dissatisfaction with the Government's decision that the council tax freeze grant was only for 2012/13, mindful of the consequences for council tax and budgets in future years, considering local authorities generally were being manoeuvred into taking a course that would not be in their financial interests in the longer term.

**RESOLVED:**

- That (a) **Cabinet be encouraged, with the Committee's support, to make representations to the Government to seek to address the apparent unfairness of the Council's settlement;**
- (b) **It was important that the financial reporting was transparent and clear and gave the historical context;**
- (c) **a briefing note be produced showing movements on the Council's general and specific reserves, a breakdown of management fees paid by the Council and a breakdown of PFI funded schemes; and**
- (d) **the Committee's considerations as recorded in the Minutes be made available to Cabinet.**