Herefordshire Council

AGENDA

Cabinet

Date:	**Thursday 17 January 2013**
Time:	**2.00 pm**
Place:	**The Council Chamber, Brockington, 35 Hafod Road, Hereford**
Notes:	Please note the **time, date** and **venue** of the meeting. For any further information please contact: **Sally Cole, Governance Services** Tel: (01432) 260249 Email: scole@herefordshire.gov.uk

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Agenda for the Meeting of the Cabinet

Membership

Chairman	**Councillor JG Jarvis**
	Councillor H Bramer
	Councillor RB Hamilton
	Councillor AW Johnson
	Councillor PM Morgan
	Councillor RJ Phillips
	Councillor GJ Powell
	Councillor PD Price

AGENDA

Pages

HEREFORDSHIRE COUNCIL

Notice has been served in accordance with Part 3, Section ((Publicity in connection with key decisions) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Item No	Title	Portfolio Responsibility	Scrutiny Committee	28 Day Notice Given
6	Update on the Implementation of the Public Health Transition Plan	Cabinet Member Health and Wellbeing	Health and Social Care Overview and Scrutiny Committee	Yes

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

To receive any declarations of interest by Members in respect of items on the Agenda.

3. MINUTES 1 - 4

To approve and sign the minutes of the meeting held on 13 December 2012.

4. MEDIUM TERM FINANCIAL STRATEGY 2013-2016 5 - 78

To update Cabinet on the provisional Local Government Finance Settlement and to seek the views of Cabinet on the draft Medium Term Financial Strategy (MTFS) and the current planning assumptions and emerging proposals in the budget for 2013/14. The comments will then inform the final version to be presented for agreement to Cabinet on 5 February 2013 alongside the views from Overview and Scrutiny as part of the budget.

5. BUDGET MONITORING REPORT 2012/13 79 - 102

To report the financial position for both Revenue and Capital to 30 November 2012. The Treasury Management position is also included.

6. UPDATE ON THE IMPLEMENTATION OF THE PUBLIC HEALTH TRANSITION PLAN 103 - 110

The purpose of this report is to provide Cabinet with assurance that the transition plan for the safe transfer of the public health function, including its staff and contract commitments, from Herefordshire Primary Care Trust to Herefordshire Council in April 2013 is on course.

7. PETITION - CHARGES ON ETNAM STREET CAR PARK, LEOMINSTER 111 - 120

To provide the background and context to allow Cabinet to debate a petition submitted in respect of the introduction of a parking charge on Etnam Street car park Leominster.

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- 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.
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HEREFORDSHIRE COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Cabinet held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Thursday 13 December 2012 at 2.00 pm

Present: **Councillor JG Jarvis (Chairman)**

Councillors: H Bramer, RB Hamilton, AW Johnson, PM Morgan, RJ Phillips, GJ Powell and PD Price

In attendance: Councillors AM Atkinson, NP Nenadich, P Rone, MAF Hubbard, TM James, RI Matthews, A Seldon, PJ Edwards, J Hardwick, FM Norman and AJW Powers

49. APOLOGIES FOR ABSENCE

There were no apologies for absence.

50. DECLARATIONS OF INTEREST

There were no declarations of interest made.

51. MINUTES

RESOLVED: That the Minutes of the meeting held on 12 November 2012 be approved as a correct record and signed by the Chairman.

52. BUDGET UPDATE 2013/14

The Cabinet Member Financial Management presented the report of the Chief Officer Finance and Commercial to Cabinet, which outlined the current budget position and the assumption for the next three years. The following points were made in discussion:

- Government funding figure should be announced on 19 December and it is expected there will be a considerable funding decrease.
- Autumn statement indicated there would be further reductions and it was estimated that there would be a reduction of £3.5m a year for the next two/three years.
- Due to previous government grants there had been a council tax freeze, which had been in place for two years. The latest grant was for 2012/13 only and was not in future years' government grant funding.
- As a result of Cabinet budget planning it is proposed that there should be a council tax increase of 1.9% to ensure public services are maintained.

The Chief Officer Finance and Commercial made the following points to Cabinet:

- Cabinet's attention was drawn to page 9 of the report referring to council tax referendums, and informed Cabinet that under new government legislation in the Localism Act of 2011, a council tax referendum could be triggered should the council exceed an increase in council tax level set by central government.

- The threshold for a council tax increase above which a referendum is required has been set at 2% for 2013/14. The referendum requirement replaces the government's former council tax capping regime. It was noted that a referendum could be held at any time.

- Page 10 of the report sets out the overall approach and financial principles for setting the 2013/14 budget. In referring to paragraph 10.7 (f) of the report Cabinet noted the additional £2m contribution to reserves for the 2013/14 budget.

- In referring to the Local Government settlement announcement expected on 19 December Cabinet was reminded that it was still only provisional until it was put before parliament in January 2013. However, latest planning assumption was that funding would reduce by in excess of £5m in 2013/14 which is on top of a reduction of £3.576m in 2012/13 and a further estimated reduction of £4.654m in 2014/15.

- The Root and Branch process was seeking a 20% saving across all areas of the authority, looking for savings of £10m in 2013/14 with more in future years.

- The public engagement seminars Your Community Your Say would help in the shaping of the budget.

The Chairman of the General Overview and Scrutiny Committee addressed Cabinet and stated that based on the report Scrutiny had received it had been assumed that Cabinet was committed to a 1.9% council tax rise, which scrutiny did not believe was advisable and which could have a considerable effect on families. In response the Leader of the Council stressed that the 1.9% was merely a guide for officers to work to and referred Cabinet to the revised recommendation before them. The Leader added that any increase could only be agreed by a meeting of the full Council.

In response to a question on possible problems with partner organisations impacting on the Council, the Leader stated that there was significant pressure on the Council and national health budgets. In response to comments on the engagement carried out with residents and councillors, the Leader agreed that further discussion was needed with all groups as we go through the process. Cabinet agreed the revised recommendations.

RESOLVED

THAT:

a) The current position be noted;

b) It be confirmed that a council tax increase of 1.9% could be assumed for budget planning purposes, which would be ring fenced for Adult Social Care and Children's Services as part of bridging the budget gap; and

c) The scrutiny committees be requested to look at the People's Services directorate budget plans to ensure it is robust and deliverable.

53. TO CONSIDER FUTURE OPTIONS FOR WASTE CONTRACT

The Cabinet Member Major Contracts presented the report of the Head of Special Projects and advised Cabinet that the report followed on from the report of 16 February this year when all legal parameters were set out. The following points were made in discussion:

- The Cabinet Member stated that the planning and technical parameters had been achieved, and that attention now needed to be given to the costs for the build as it was felt that the financial parameters, and particularly value for money, could be improved. The Cabinet Member added that this report outlined the need to investigate the different opportunities open to the authority for funding, which had not been previously available.
- Enabling works were being carried out on the site at Hartlebury and were being funded by Worcestershire County Council (WCC).
- WCC have considered a similar report to this one and had unanimously accepted its recommendations.
- Mercia Waste Management has started a tender process for the Plant at Hartlebury and are identifying preferred contractors. Herefordshire Council have engaged their own independent financial advisors (KPMG) to ensure the proposal represents value for money for Herefordshire.
- To ensure the financial parameters are met – officers along with independent advisors would like to investigate the value for money element and alternative methods of funding. The authority would also look to obtain the best Contractual and Technical advice possible with regards to any PFI proposal.
- In response to a question by the Chairman of General Overview and Scrutiny with regards to the breakdown of scores and ranking as outlined on page 43 of the report, Cabinet was advised that these would be provided when Cabinet comes to make its final decision. Cabinet unanimously agreed the recommendations before them.

RESOLVED

THAT: Subject to Worcestershire County Council giving approvals substantially in the same form as those contained in the recommendations of this report

(a) Notes, pursuant to the Cabinet Report of 16 February 2012 relating to a variation to the existing waste contract to provide for an Energy from Waste plant at Hartlebury Trading Estate (the EfW Plant), the on-going discussions with Mercia Waste Management Limited (Mercia) in relation to their proposals and the current status of satisfaction of the Parameters identified in that report;

(b) Cabinet authorised the Director for Places and Communities in consultation with the Cabinet Member for Major Contracts, the Chief Officer Finance and Commercial and Worcestershire County Council and through the joint

governance arrangements between the two authorities to pursue terms for alternative methods of finance for the EfW plant;

(c)

(i) authorised the Director for Places and Communities in consultation with the Cabinet Member for Major Contracts and Worcestershire County Council and through the joint governance arrangements between the two authorities, to consider how the commissioning and operation of the EfW Plant could be integrated into the existing arrangements with Mercia, and

(ii) if the Director for Places and Communities considered there was no satisfactory resolution in respect of point (i) above then (subject to f) below) he is authorised if he considers it necessary (in consultation with the Cabinet Member for Major Contracts and Worcestershire County Council and through the joint governance arrangements between the two authorities) to launch a tendering exercise to commence the direct procurement by the 2 Councils of the EfW Plant in accordance with paragraph 9.9 below;

(d) Notes that Worcestershire County Council is authorised to procure and commence enabling works up to a maximum capital cost of £1.8m at Hartlebury in order to maintain the programme for the EfW Plant;

(e) Require the Director of Places and Communities to report back during the summer of 2013 with proposals for financing and procuring the EfW plant (by variation of the existing PFI contract or fresh procurement) to enable Cabinet to take a final decision; and

(f) Notes that Worcestershire County Council is expected to approve similar recommendations and that c ii) is subject to satisfactory negotiation and agreement with Worcestershire County Council of necessary amendments to the current Joint Working Agreement in place between the Councils; and

(g) Requires the Director for Places and Communities to report back to the Cabinet in the report referred to in (e) on the decisions taken by Worcestershire County Council on waste contract management and any implications for Herefordshire Council.

The meeting ended at 3.20 pm **CHAIRMAN**

Herefordshire Council

MEETING:	CABINET
DATE:	17 JANUARY 2013
TITLE OF REPORT:	DRAFT MEDIUM TERM STRATEGY AND UPDATE ON THE PROVISIONAL LOCAL GOVERNMENT SETTLEMENT 2013/14
REPORT BY:	CHIEF OFFICER FINANCE AND COMMERCIAL

1. Classification

Open

2. Key Decision

This is not a key decision

3. Wards Affected

County-wide

4. Purpose

To update Cabinet on the provisional Local Government Finance Settlement and to seek the views of Cabinet on the draft Medium Term Financial Strategy (MTFS) and the current planning assumptions and emerging proposals in the budget for 2013/14. The comments will then inform the final version to be presented for agreement to Cabinet on 5 February 2013 alongside the views from Overview and Scrutiny as part of the budget.

5. Recommendation(s)

THAT Cabinet:

(a) **Comments on the draft Medium Term Financial Strategy (MTFS) shown at Appendix A to the report;**

(b) **Notes the assessment of the Provisional Local Government Finance Settlement announced on 19 December and the impact on Herefordshire; and**

(c) **Endorses a strict cash limit approach to budget management for future years.**

6. Key Points Summary

- The provisional Local Government Finance Settlement announced on 19 December 2012 reduces Herefordshire's funding from Government by £5.45m (6.9%)

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

- Cabinet on 13 December confirmed for budget planning that a council tax increase of 1.9% can be assumed and will be ring fenced for funding Adult Social Care demographic pressures as part of the budget process. It also agreed the planning assumptions and these have been built into the Medium Term Financial Strategy (MTFS)

- The Council's MTFS covers the period from 2013/14 to 2015/16. The document is part of an integrated set of policy and delivery documents designed to match available resources to corporate priorities as set out in the Corporate Plan.

- The final settlement is due to be published by February 2013.

- Taking into account the overall service pressures facing Herefordshire, the further cuts in Government grant mean that the Council will have to find additional savings of approximately £10m for 2013/14 and that further significant savings will be required in 2014/15 and 2015/16

7. Alternative Options

7.1 The MTFS plays a key role in budget setting as it contains a number of planning assumptions.

7.2 The Council can operate without a MTFS but this makes planning beyond an annual cycle more difficult as there would be no overall framework. The MTFS helps support the requirement to set a balanced budget. Cabinet could change the current planning assumptions in the MTFS.

8. Reasons for Recommendations

8.1 The Council has a legal obligation to set a balanced budget as required by the Local Government Finance Act 1992. The proposed MTFS provides a framework to help deliver this over the coming years.

8.2 The requirement that the cash limits form the overall control on financial expenditure is an important discipline to help control expenditure.

9. Introduction and Background

9.1 On 13th December 2012 Cabinet received a report outlining the updated budget position for 2013/14 and confirming the current financial planning assumptions as well as the approach being taken around the Root and Branch process for budget setting. These assumptions have been built into the draft MTFS.

9.2 The provisional Local Government Finance Settlement was announced on 19 December 2012. The final settlement will be announced in February 2013.

9.3 From 2013/14 local government finance is undergoing a fundamental change with local authorities able to keep a proportion of business rates they generate as an incentive to stimulate economic growth. The MTFS forms part of the overall financial planning and budget setting process and it is important that Cabinet comments on the approach being taken as local government continues to work within a reducing funding envelope as part of central government's deficit reduction programme that is likely to continue for a number of years.

10. Key Considerations

Provisional Local Government Settlement

10.1 On 19 December 2012, the 2013/2014 provisional Local Government Finance Settlement was published. It included details of elements of the business rates retention scheme which will be implemented from 1 April 2013. The provisional settlement was announced late and did not include some important elements of the estimated financial position; the key being the amount to be received for the transfer of public health responsibility to local government from the Health Service.

10.2 This new rates retention scheme provides a baseline for business rates funding. Authorities can be categorised as tariff or top-up authorities under the new system. Tariff authorities are those that have more business rates than their baseline funding levels. Tariffs will be used to top up payments to authorities whose business rates are less than their baseline funding levels. The system is in place to ensure that those areas with a below average business rates base continue to receive an element of redistribution when the new system commences in April 2013.

10.3 Herefordshire has previously received more redistributed rates income from Central Government than it collected locally and is a top-up authority. In 2013/14 we will receive £6.559 million top-up. The opening funding position is known as 'start-up funding' and consists of a formula funding allocation plus allocation of specific grants transferring from April 2013.

10.4 For Herefordshire the provisional start-up funding allocation is comprised of the following;

	2013/2014 £000
Formula Funding	50,092
Specific Grants	
11/12 Council Tax Freeze	2,153
Council Tax Support	9,683
Early Intervention Grant	5,271
Homelessness	206
Lead Flood Authority	130
Learning Disability and Public Health Grants	3,842
Start-up Funding Allocation	**71,377**

10.5 The start-up funding allocation is £71.377 million and when added to our estimated education services grant means that when compared with our 2012/2013 funding Herefordshire has £5.452 million (6.9%) estimated reduction in its central government funding allocation.

10.6 Included in our overall allocation is an amount in the Government's funding formula to ensure that a lower limit is set to any individual local authority's change in funding allocation year-on-year. This 'guarantee' is designed to provide stability in the financing of local services. In order for those authorities below the minimum to meet the guaranteed amount money is moved around within the first overall pot of funding agreed in the Spending Review. Herefordshire loses money through this system and the provisional settlement includes a reduction of £3.576 million.

10.7 Those authorities with a greater than 8.8% reduction in "revenue spending power" in 2013/2014 and/or 2014/2015 will receive a special grant. The revenue spending power measure does not adequately reflect the impact of cuts in central government funding as it seeks to include funding received via transfers for the NHS which cannot be used to support the overall budget and must be spent in a manner specified by an external body.

10.8 Local Authorities have until 15 January 2013 to present their views to DCLG on the provisional Local Government Settlement. Herefordshire will send a separate response and is working with the SPARSE Rural Services Network that seeks to raise funding levels for rural authorities.

10.9 It appears that DCLS has not considered rural areas explicitly in its determination of the settlement. It remains the case that providing services in rural areas can cost more and this key point will inform our response.

Specific Grants

10.10 In recent years the Government has stressed that Councils have greater self-determination for funding decisions. Key to this is the reduction in numbers of specific grants. In 2010/2011 Herefordshire received in excess of 80 specific grants and whilst the greater flexibility available under the new arrangements is welcome we have seen funding formerly associated with these grants cut on transfer to our general funding. However, a number of specific grants remain and their allocations have been published with the provisional settlement.

10.11 Our main specific grants are as follows, but we await announcement on our 2013/14 funding levels for some key grants;

Grant	2012/2013 £000	2013/2014 £000	2014/2015 £000
* Social Fund	3	371	366
Local Reform and Community Voices	n/a	154	159
** Lead Local Flood Authority	200	70	70
Housing Benefit Admin Subsidy	1,177	1,075	tbc
Community Right to Bid	5	8	8
Community Right to Challenge	9	9	9
Council Tax Support – new burdens	84	91	98
Community Safety	80	tbc	tbc
Home to School Transport	540	tbc	tbc

* Set up funding only in 2012/13

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

Social Care Funding – NHS Transfer

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

10.13 As a condition of the transfer, local authorities and clinical commissioning groups must have regard in how the funding is used, to the Joint Strategic Needs Assessment for their local population (Understanding Herefordshire), and existing commissioning plans for both health and social care (overseen by the Health and Wellbeing Board). In addition local authorities must demonstrate ‘how the funding transfer will make a positive difference to social care services, and outcomes for service users, compared to service plans in the absence of the funding transfer’.

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

DH Local Reform and Community Voices Grant

10.15 On 19 December a new specific grant was announced. The Local Reform and Community Voices Grant will total £42 million in 2013/14 and £43 million in 2014/15. This grant is comprised of five funding streams:

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

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

Capital Grant Allocations

10.17 Known grant funding allocations for 2013/14 are:

Local Transport Plan	(£11.376m)
Borders Broadband	(£3.0m)
Destination Herefordshire	(£1.055m)
Marches Redundant Building Grant Scheme	(£0.75m)
Disabled Facilities Grant	(£0.674m)
Community Capacity Grant	(£0.474m)
Regional Growth Fund	(£1.3m)

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

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

10.20 The council is waiting for grant allocations from the Department of Education which are expected in January 2013.

Local Authority Central Services Equivalent Grant (LACSEG)

10.21 Government is changing the way it funds the statutory duties that local authorities perform in order to deliver education. The grant reflects the increasing move by central government to reduce the amount spent on central services because of the growth in academy status schools that are independent of local authorities.

10.22 Details of the LACSEG transfer to establish the new Education Services Grant from 2013/14 have been announced. This will be allocated to local authorities and academies according to the number of pupils for whom they are responsible. In 2013/14 the national amount transferred out will be £1.04 billion. In 2014/15 the amount is £1.03 billion.

10.23 The new grant will be paid for all pupils aged 3 to 19 in state-funded schools, including maintained schools, academies and free schools. In 2013/14 the single, national per-pupil rate will be £116 for local authorities. Local authorities will also receive £15 for every pupil in the local authority area, for the statutory duties which do not transfer to academies. Provisional 2013/14 Education Services Grant allocations for local authorities will be confirmed early in 2013.

10.24 The impact on Herefordshire is that £1.043m of central education funding is passported to academies in 2013/14.

Council Tax Freeze Grant

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

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

Council Tax Referendum Principles

10.27 In a written ministerial statement DCLG announced details of the proposed principles which will be used to determine whether a council tax increase in England for 2013/14 is excessive and therefore whether a referendum would be triggered. In 2013/14 the Communities Secretary, Eric Pickles MP, proposes to set the threshold at a 2% increase level in the relevant basis amount of council tax for the majority of local authorities.

10.28 No referendum principle was set for parishes; however, he intends to revisit this issue next year.

DRAFT MEDIUM TERM FINANCIAL STRATEGY

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

10.30 The draft MTFS sets out the specific Herefordshire context that includes our corporate funding position as well as changes to local government funding that have a greater than usual impact from April 2013 with the introduction of the new local government funding model based on business rates retention.

10.31 It includes a financial model covering estimates of future funding levels from central government along with the Council tax income.

10.32 The MTFS also contains the statutory statement that is required by the Local Government Act 2003. There is a duty placed on a Council's Chief Finance Officer to report to the Council when it is setting the budget. The Council is required to take this statement into account. The report must deal with the robustness of the estimates included as part of budget setting and the adequacy of reserves.

10.33 For 2013/14 the Council will need to make savings of nearly £10m in order to set a balanced budget. These are being delivered through the Root and Branch process agreed by Cabinet in April 2012 and will form part of the budget paper to Cabinet on 5 February 2013 prior to budget setting at Council on 18th February.

10.34 The Council Tax base will be set prior to cabinet receiving the draft budget on 5 February. The calculation of the base is complex for 2013/14 because of the new Council Tax reduction scheme that replaces Council Tax Benefit.

Financial Management and Reserves

10.35 A key part of the budget process is to ensure the Council has appropriate levels of reserves. This has taken on a greater significance because of the reduced level of government funding and the increased level of pressure on the Council's finances.

10.36 The current level of general reserve is £6.1m following the requirement to fund a small (£230k) overspend in 2011/12. This was the first time the Council has overspent in recent years and was evidence of the pressure on the revenue budget.

10.37 At £6.1m the reserve is approximately 4% of the revenue budget compared with the current policy to maintain a general reserve of at least 3% of net revenue budget (£4.5 million). However given the pressures outlined elsewhere in the agenda the MTFS proposes that over the next two years the minimum level should be increased to 4%. In order to support this an additional £2 million contribution to the general reserve is included in 2013/14. However this may be used to replenish the projected overspend in 2012/13.

10.38 The Council has other reserves some of which relate to schools. The overall level of reserves is not excessive and the only other significant revenue reserve is £2.4m for the joint waste contract with Worcestershire. This indicates the Council must ensure it maintains an adequate level of reserve to meet any future financial challenge.

Cash Limits

10.39 In order to ensure there is clarity about budget management going forward it is proposed that a strict cash limit approach to budget management is adopted. This will see Directorates given an overall cash limit that is then broken down into detailed budgets. Directorates will be required to manage within the cash limits that will be agreed as part of the budget setting process. If an overspend is projected in the financial year they will submit detailed plans for sign off to demonstrate how they will adjust their budgets to ensure they remain within the cash limit.

11. Community Impact

11.1 The decision arising from the requirement to set a balanced budget within a reduced funding envelope means there is likely to be an impact on the community.

12. Equality and Human Rights

12.1 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

13. Financial Implications

13.1 The report covers the Provisional Local Government Funding Settlement that will determine our overall funding levels.

14. Legal Implications

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

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

14.2 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.

15. Risk Management

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

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

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

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

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

16. Consultees

16.1 The Overview and Scrutiny Committees will consider the draft Medium Term Financial Strategy and budget proposals.

Herefordshire has carried out a Your Community Your Say (YCYS) engagement programme along with a quantitative Quality of Life survey where we added questions about priorities and which areas/services local communities might like to run themselves IF they were willing and if the opportunity arose. It also included what's important and what needs improving. The survey was a postal survey to 4,125 households in the county; 1,346 responses were received, giving a response rate of 33%.The results of this survey informed the qualitative aspect of the YCYS programme that the Council commissioned. A range of methods were used by the commissioned provider: community workshops, locality events (which were focus groups/deliberative), hard-to-reach groups were contacted using community researchers and community workshops as well as social media. Herefordshire sought to reach as residents as possible by various methods. In total 21 events were held and 1427 people were engaged through the whole process. A report on Your Community Your Say has been published on the Council's Website and circulated to all Members.

It is following this up with a consultation on its budget principles and the service changes arising out of the reduction in funding.

Further information about the feedback and how this has influenced the budget process will be included in the report to Cabinet on 5 February 2013.

17. Appendices

17.1 Medium Term Financial Strategy (Appendix A)

18. Background Papers

None identified.

DRAFT Medium Term Financial Strategy

2013/16

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Medium Term Financial Strategy 2013/16

Foreword by the Council Leader and Cabinet Member –

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

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

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

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

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

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

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

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

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

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

Cllr. John Jarvis
Leader of the Council

Cllr Tony Johnson
Cabinet Member – Financial Management

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1. Introduction

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

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

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

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

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

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

2. Herefordshire’s Characteristics

2.1 Rural Pressures

2.1.1 Herefordshire Council has consistently argued that the costs associated with delivering services in rural areas are not adequately funded through the current national formula. This is particularly acute for Herefordshire, which is the most sparsely populated county in England according to measures used in this formula – with residents scattered right across its 842 square miles.. Areas of poverty and deprivation exist in Herefordshire and there are crucial economic, geographic and demographic factors, relating to distance, population sparsity, ageing, social inclusion and market structure. These factors significantly impact on people's lives and on whether and how their needs and circumstances are met effectively and accounted for by Government.

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

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

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

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

2.2 Adult Social Care

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

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

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

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

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

2.3 Children

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

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

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

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

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

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

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

3. Herefordshire's Policy Context

3.1 Introduction

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

3.2 Herefordshire Quality of Life Survey 2012

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

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

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

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

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

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

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

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

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

3.3 Corporate Plan

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

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

3.4 Corporate Financial Objectives

3.4.1 Herefordshire's financial management objectives are to:

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

3.5 Working in Partnership

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

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

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

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

3.6 Managing External Funding

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

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

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

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

4. National Financial Context

4.1 Introduction

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

4.2 Four Year Spending Review

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

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

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

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

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

4.3 Subsequent changes to Government Spending Controls

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

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

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

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

Government will make available £120m of funding over six years (£20m in both 2013/14 and 2014/15) to provide investment in growth through financing additional infrastructure.

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

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

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

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

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

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

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

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

4.4 Local Authority Central Spend Equivalent Grant

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

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

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

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

4.5 Impact on Control Totals

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

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

Transfers in

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

Adjusted Local Government Control Total i.e. Aggregate Start-Up Funding Assessment	**26,101,451**

4.6 Local Government Finance Act 2012

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

4.6.2 Key elements;

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

4.7 Business Rates Retention

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

4.7.2 The main features of the proposed scheme are;

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

- An authority's business rate baseline (based on average of rates over previous years and after allocation to fire authorities)
- Its baseline funding level (using a slighty adjusted 2012/13 formula and 2013/14 and 2014/15 national control totals)

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

4.8 Localisation of Council Tax Support

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

4.9 Schools funding

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

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

4.10 Council Tax

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

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

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

4.12 Council Tax Referendums

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

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

4.13 Autumn Statement – December 2012

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

4.14.2 **Public Spending**

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

4.14.3 **Local Government**

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

4.14.4 **Schools**

- Nationally the Government will provide £275m in 2013/14 and £895m in 2014/15 for capital expenditure on schools. This includes funding for 100 new academies and

free schools, as well as investment to expand ‘good schools’, in the areas experiencing highest demand for places.
- All schools will be given greater freedom to set pay for teachers in line with performance, as recommended by the Schoolteachers’ Pay Review Body.

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

4.14 Provisional Settlement 2013/14 and 2014/15

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

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

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

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

Provisional 2013/14 Education Services Grant allocations for local authorities will be confirmed early in 2013, based on the number of pupils in maintained schools and academies at that time.

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

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

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

4.14.8 ***Public Health Grant***; In his teleconference with local government on 20 December Brandon Lewis confirmed that the Department of Health will not be publishing local authority public health budgets until later in January 2013.

5. Herefordshire Council's Financial Context

5.1 Introduction

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

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

5.2 Comparative Funding Position

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

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

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

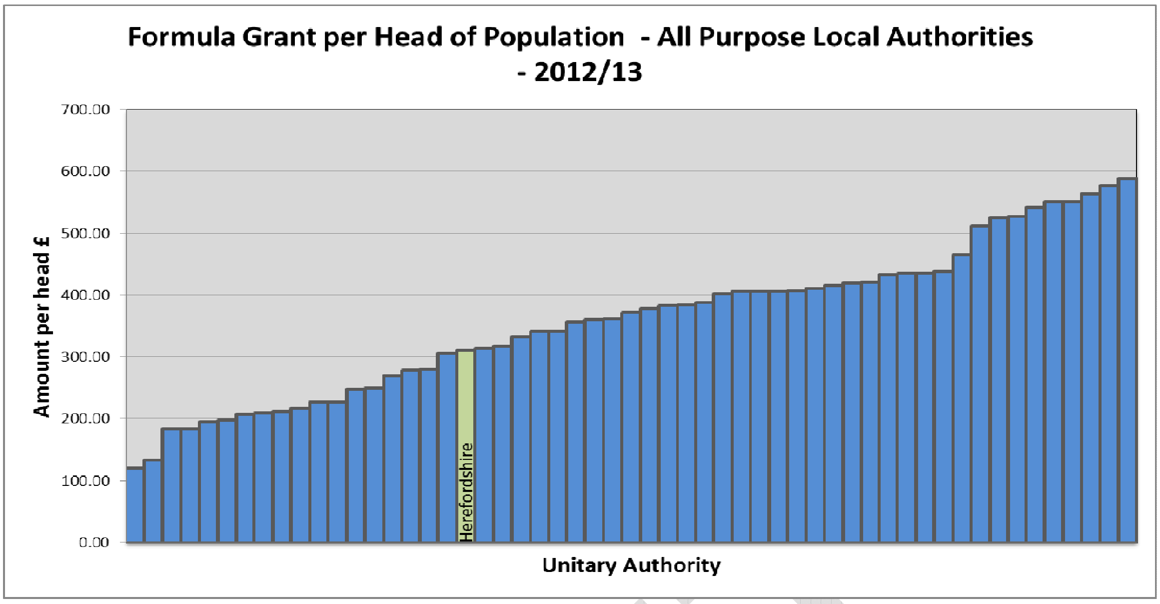
5.2.4 Unfortunately much of the benefit will be lost through the damping element of the formula, which is designed to smooth year on year swings. The council has requested that the Government allow the adjustment for rural services to be reflected in cash terms and excluded from the damping calculation.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

5.2.5 The 2012/13 budget figures show that:

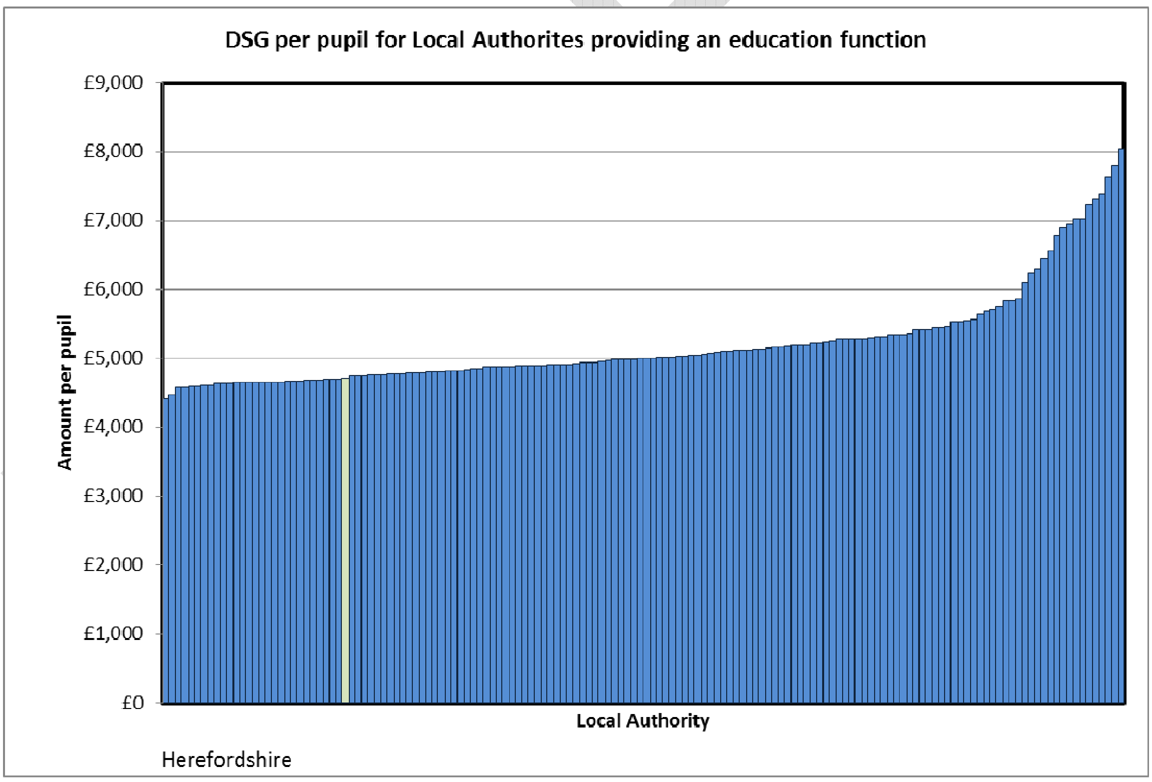
a) Formula Grant per head of population is £311.26, 13% below that national average of £358.36; and

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

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



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



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

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

5.4 Start-up Funding Allocation 2013/14

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

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

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

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

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

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

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

5.5 Comparison to 2012/13

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

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

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

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

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

5.6 New Homes Bonus

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

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

5.7 Specific Grants

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

Grant	2012/13 £000	2013/14 £000	2014/15 £000
*Social Fund	3	371	366
Local Reform and Community Voices	n/a	154	159
**Lead Local Flood authority	200	70	70
Housing benefit admin subsidy	1,177	1,075	tbc
Community right to bid	5	8	8
Community right to challenge	9	9	9
Council tax support – new burdens	84	91	98
Community Safety	80	tbc	tbc
Home to school transport	540	tbc	tbc

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

**Set up funding only in 2012/13*

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

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

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

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

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

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

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

5.8 Local Authority Central Spend Equivalent Grant (LACSEG)

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

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

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

5.9 Dedicated Schools Grant

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

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

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

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

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

5.9.5. The totals for the 3 blocks and top-slice for academies are estimated to be;

2013/14 DSG Allocations	**£m**
Schools Block 21,060 pupils x £4,306.44 per pupil	90.7
High Needs Block Schools - Pre-16 Colleges – Post-16	 12.0 0.7
Estimated Early Years Block 1,385 pupils x £3,454.43 per pupil	4.8
Additional funding for two year old grant, early years and newly qualified teachers	1.2
TOTAL DSG 2013/14	**109.4**
Less academy recoupment at source	**(42.8)**
DSG received by the council	**66.6**

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

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

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

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

5.10. Council Tax

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

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

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

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

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

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

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

5.10.8. The latest estimated number of Band D equivalent properties for 2013/14 before taking account of the local discount scheme is 72,445.70 which would give a gross debit of £874k for a 1% increase in council tax. From 2013/14 the local scheme for council tax reduction replaces council tax benefits and becomes a discount against the council tax. The estimated net base after local scheme deductions is estimated to be 64,061.51 and £772k for every 1% on council tax.

5.10.9. A 1.9% council tax increase equates to an increase of £1.66m and a net yield of £1.47m

5.11. Reserves

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

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

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

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

5.12. Managing the General Fund Balance and Specific Reserves

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

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

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

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

5.13. Capital Reserves

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

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

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

5.14. Funding Arrangements for Capital Investment

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

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

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

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

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

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

5.14.6. **Council Borrowing -** The medium-term strategy reflects the borrowing requirement implied by the Treasury Management Strategy to support the capital programme currently in place. Additional capital schemes that require corporate funding are to be reviewed by Cabinet on 5 February 2013 with the recommendations being reported to Council for approval as part of the 2013/14 Council tax budget setting process.

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

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

- **Maximising Developers’ Contributions** – through planning gains and the adoption of a Community Infrastructure Levy.

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

5.14.6. 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.

5.14.7. 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.

5.14.8. 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.

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

5.15. Capital Programme 2013/14 to 2015/16

5.15.6. The 2013/14 to 2015/16 capital programme represents funding indications received to date from grants, existing schemes that commenced in prior years and a contingency sum funded in the FRM but yet to be allocated to capital schemes. A number of additional capital budget priorities have been identified as detailed in paragraph 5.14.6. On top of this is expected capital investment in Hereford's Buttermarket, which is intended to be self-financing, and the provision of a Hereford relief road, for which external funding will be sought.

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

Total 3 year budget 2013/14 to 2015/16	Total Budget	Prudential Borrowing	Funded by Capital Receipts Reserve	Grants
Scheme	**£'000**	**£'000**	**£'000**	**£'000**
Link Road	22,716	22,316	400	-
Local Transport Plan	22,021	-	-	22,021
Borders Broadband	19,700	10,100	-	9,600
Corporate Accommodation	14,835	14,835	-	-
Leominster Primary School	8,734	-	738	7,996
Masters House, Ledbury	2,271	1,371	-	900
Destination Hereford	2,109	-	-	2,109
Blackmarstons School	2,000	-	-	2,000
Others	1,647	1,527	120	-
Redundant Building Grant	1,300	-	-	1,300
Community Capacity Grant	957	-	-	957
Disabled Facilities Grant	674	-	-	674
TOTAL	**98,964**	**50,149**	**1,258**	**47,557**

5.16 Treasury Management Strategy

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

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

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

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

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

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

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

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

5.17 Key Corporate & Financial Risks

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

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

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

6. Medium-Term Financial Resource Model (FRM)

6.1. Background

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

6.2. Financial Choices

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

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

6.3. Budget Principles

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

6.4. Assumptions

6.4.1. The FRM includes the following assumptions;

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

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

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

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

e) Pay – 1% awards are assumed for 2013

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

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

6.5. Funding assumptions included in the FRM

6.4.1 The following funding assumptions are included in the FRM.

	2013/14 £000	2014/15 £000
Estimated rates (retained by council)	22,726	23,437
Top-up	6,559	6,760
RSG	42,862	35,541
Funding for net budget requirement	**72,147**	**65,738**
Other General Grants		
LACSEG grant	2,085	1,802
New Homes bonus	2,069	2,723
	76,301	**70,263**

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

6.4.3 The general funding above includes the following former grants;

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

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

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

Grant	2012/13 £000	2013/14 £000	2014/15 £000
*Social Fund	3	371	366
Local Reform and Community Voices	n/a	154	159
**Lead Local Flood authority	200	70	70
Housing benefit admin subsidy	1,177	1,075	tbc
Community right to bid	5	8	8
Community right to challenge	9	9	9
Council tax support – new burdens	84	91	98
Community Safety	80	tbc	tbc

Home to school transport	540	tbc	tbc

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

6.6. Directorate pressures

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

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

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

6.6. Savings Targets and Root and Branch Review Programme

6.6.1. 2013/14 and beyond presents the Council with significant financial challenges to deliver a balanced budget. The Root and Branch Review Programme approved by Cabinet in April 2012 has been designed to:

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

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

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

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

6.7. Budget Engagement

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

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

7. Statutory Statement by the Council's Chief Finance Officer

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

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

- Adequacy of the proposed financial reserves.

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

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

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

David Powell
Chief Officer (Finance and Commercial)

Appendix A

Herefordshire Council

Treasury Management Strategy 2013/14

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1. **Existing Borrowing and Investments**
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3. **Outlook for Interest Rates**
4. **Specified Investments for use by the Council**
5. **Non- Specified Investments for use by the Council**
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 The council has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the council's treasury management strategy.

1.4 The purpose of this TMSS is to approve:

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

2. Capital Financing Requirement

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

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

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

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

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

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

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

Table 1: Balance Sheet Summary Analysis				
	2012/13 Estimate £'000	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Capital Financing Requirement	211,496	223,852	229,709	230,187
Less: Existing Profile of Borrowing PWLB and bank loans Short-term loans from other LA's	 140,532 *12,000	 136,535 *12,000	 132,523 *12,000	 124,285 *12,000
Less: Other Long Term Liabilities PFI schemes Finance leases	 27,906 322	 26,841 320	 25,698 320	 24,484 319
Cumulative Maximum External Borrowing Requirement	**30,736**	**48,156**	**59,168**	**69,099**
Usable Reserves	**28,250**	**20,640**	**20,230**	**20,050**
Cumulative Net Borrowing Requirement	**2,486**	**27,516**	**38,848**	**49,049**
*Current short-term borrowing from other local authorities to be rolled over or replaced by loans from the Public Works Loan Board (PWLB).				

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

3. Borrowing

Interest Rate Forecast

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

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

Borrowing Strategy

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

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

3.5 As indicated in Table 1 above, the council has a gross and net borrowing requirement and will be required to borrow up to £27 million in 2013/14. Of this amount £17 million relates to the council's 2013-14 capital programme and the balance relates to borrowing postponed from prior years. In previous years it has been possible to "internally borrow" but due to the projected fall in council reserves some of this borrowing may now need to be externalised.

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

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

Sources of Borrowing and Portfolio Implications

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

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

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

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

3.10 The council has two LOBO loans (Lender's Option Borrower's Option) of £6 million each on which the council pays interest at 4.5%. Every 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.

3.11 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.

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

Debt Rescheduling

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

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

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

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

4. Investments

Annual Investment Strategy

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

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

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

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

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

Table 2: Specified and Non-Specified Investments

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

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

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

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

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

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

The Council's Bank

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

Investment Strategy

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

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

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

4.14 Collective Investment Schemes (Pooled Funds)

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

4.15 Policy on Use of Financial Derivatives

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

5. 2013/14 Minimum Revenue Provision Statement

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

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

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

Options for making 'Prudent Provision'

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

Option 1 - Regulatory
For debt which is supported by the Government through Revenue Support Grant (RSG), authorities may continue to use the formulae under the 2003 Regulations, as RSG debt support is calculated in that way. This includes applying an adjustment (the Item A adjustment), which reduces the charge back to the former credit ceiling accounting methodology.

Option 2 - CFR method
This is similar to option 1, but just uses the CFR and doesn't apply the full formula, including the Item A adjustment. Under this option the annual repayment would be higher.

Option 3 - Asset Life method
For new borrowing under the prudential system there are 2 options in the guidance. The first is to make provision over the estimated life of the asset for which the borrowing is undertaken. This can either be on an equal instalment method or an annuity basis.

Option 4 - Depreciation method
An alternative to Option 3 is to make provision in line with depreciation accounting. Although this would follow standard rules for depreciation accounting there would have to be some exceptions, for example, that MRP would continue until the provision is equal to the original debt and then cease.

MRP Policy 2013-14

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

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

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

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

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

EXISTING BORROWING & INVESTMENTS AS AT 31 DECEMBER 2012

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

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

APPENDIX 2

PRUDENTIAL INDICATORS

1. Background

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

2. Gross Debt and the Capital Financing Requirement

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

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

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

3. Estimates of Capital Expenditure

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

Capital Expenditure	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Total	39,362	42,055	49,910	35,528	13,526

3.2 Capital expenditure will be financed or funded as follows:

Capital Financing	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Capital receipts	465	3,164	503	355	0
Government Grants	26,992	25,188	26,487	18,471	2,600
Revenue contributions	0	176	0	0	0
Total Financing	**27,457**	**28,528**	**26,990**	**18,826**	**2,600**
Prudential Borrowing	**11,905**	**13,527**	**22,920**	**16,702**	**10,926**
Total Financing and Funding	**39,362**	**42,055**	**49,910**	**35,528**	**13,526**

4. Ratio of Financing Costs to Net Revenue Stream

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

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

Ratio of Financing Costs to Net Revenue Stream	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Net Revenue Stream	143,359	143,359	**150,312**	144,664	138,030
Financing Costs	18,049	17,616	**17,472**	17,972	17,318
Percentage	**12.59%**	**12.29%**	**11.62%**	**12.42%**	**12.55%**

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

5. Capital Financing Requirement

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

Capital Financing Requirement	2012/13 Original £'000	2012/13 Revised £'000	2013/14 Estimate £'000	2014/15 Estimate £'000	2015/16 Estimate £'000
Total CFR	**209,189**	**211,496**	**223,852**	**229,709**	**230,187**

6. Authorised Limit and Operational Boundary for External Debt

6.1 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.

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

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

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

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

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

Operational Boundary	2012/13 Original £m	2012/13 Revised £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m
Operational Boundary for Borrowing	175	175	190	195	195
Operational Boundary for Other Long-term Liabilities	35	35	35	35	35
Operational Boundary for External Debt	**210**	**210**	**225**	**230**	**230**

7. Adoption of the CIPFA Treasury Management Code

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

7.2 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**.

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

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

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

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

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

9. Maturity Structure of Fixed Rate Borrowing

9.1 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.

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

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

10. Credit Risk

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

10.2 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.

10.3 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.

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

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

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

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

APPENDIX 3

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

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Bank Base Rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
PWLB Rates (%):													
5 years	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.20
10 years	2.90	2.90	3.00	3.00	3.00	3.00	3.10	3.10	3.10	3.20	3.20	3.20	3.20
20 years	3.80	3.80	3.80	3.80	3.90	3.90	3.90	3.90	4.00	4.00	4.00	4.00	4.00
50 years	4.30	4.30	4.30	4.40	4.40	4.40	4.50	4.50	4.50	4.50	4.60	4.60	4.60
The above PWLB rates are noted by Arlingclose as their “central” or most likely forecast, however, they also note that they could be up to 1.00% higher or up to 0.25% lower than the above.													

<u>Underlying Assumptions:</u>

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

APPENDIX 4

SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

New specified investments may be made within the following limits:

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

<u>NB</u>

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

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

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

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

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

APPENDIX 5

NON-SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

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

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

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

APPENDIX 6

TREASURY MANAGEMENT POLICY STATEMENT

1. Statement of Purpose

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

2. Key Principles

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

- The council will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
- The council will ensure that its policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and that responsibility for these lies clearly with the council. In addition, the council's appetite for risk will form part of its annual strategy and will ensure that priority is given to security and liquidity when investing funds.
- The council acknowledges that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ in support of business and service objectives, whilst recognising that in balancing risk against return, the council is more concerned to avoid risks than to maximise returns.

3. Adopted Clauses

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

- The council will create and maintain, as the cornerstones for effective treasury management:
  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;
  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

  The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the council. Such amendments will not result in the organisation materially deviating from the Code's key principles.
- Full council will receive reports on treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.
- The responsibility for the implementation and regular monitoring of treasury management policies and practices is delegated to Cabinet and for the execution and administration of treasury management decisions to the Chief Officer-Finance and Commercial, who will act in accordance with the organisation's policy statement and TMPs and, if he or she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.
- Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. Definition of Treasury Management

4.1 Herefordshire council defines its treasury management activities as: -
'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

5. Policy Objectives

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

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

Appendix B

FINANCIAL RESOURCE MODEL 2013/14 to 2015/16

MTFRM	2013/2014 Budget £'000	2014/2015 Budget £'000	2015/2016 Budget £'000	2016/2017 Budget £'000
Base Budget	**143,359**	**150,312**	**144,664**	**138,030**
Total Inflation	**2,603**	**2,931**	**3,011**	**3,068**
Inflated base budget	**145,962**	**153,243**	**147,675**	**141,098**
Grant transfers/changes				
2013/14 Grants rolled into Central Funding				
Early Intervention Grant (excl 2 yr olds)	5,271	(336)		
Homelessness Prevention Grant	206			
A proportion of Lead Local Flood Authorities Grant	130			
DoH Learning Disability & Health Reform Grant	3,842	96		
MTFMS Changes				
- Waste management - PFI Contract	250	500	500	500
- Whitecross PFI requirement	75	75	75	75
- Local Development Framework	(300)			
- Reduce Investment Income West Mercia	374			
- Academy schools/LASCEG	(378)	(283)	(210)	(189)
- Relief road feasibility study	(300)			
Capital Financing Costs				
- Cost of borrowing	(925)	571	(744)	504
- New capital funding	73	72		
- Investment Income	153	10		
Identified Pressures				
- Income shortfall (car parking, land charges etc)		(112)	(113)	
- Management change reserve	1,000	(1,000)		
Additional budget pressures identified:				
People	3,150	5,596	5,708	
Places & Communities	1,330	(270)	(750)	
Corporate	700			
Savings				
- Root and Branch incl. Hoople	(9,142)	(3,811)	(1,282)	
Funding				
Move 11/12 freeze grant to Formula Grant				
Council Tax freeze grant 2012/13 only	2,164			
Contingency	(1,000)			
Use Freeze Grant for "Transformational Change"	(1,164)			
New Homes Bonus	(654)	(654)	(654)	(654)
Returned LACSEG	(2,085)	283	210	189
CT Support Grant to be passed to parishes	289	5	6	6
Transitional grant for local ctax support	(259)	259		
Reserves				
Top up contingency/insurance reserves	(450)			
General reserves	**2,000**	**(1,000)**	**0**	**(1,000)**
Capacity to achieve desired Tax increase	**0**	**(8,580)**	**(12,391)**	**(6,292)**
TOTAL BUDGET	**150,312**	**144,664**	**138,030**	**134,237**
Council Tax increase	1.90%	0.00%	0.00%	0.00%

CHARGING PRINCIPLES AS AGREED WITH GENERAL OVERVIEW & SCRUTINY

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

Herefordshire Council

MEETING:	CABINET
DATE:	17 JANUARY 2013
TITLE OF REPORT:	BUDGET MONITORING REPORT 2012/13
REPORT BY:	CHIEF OFFICER FINANCE & COMMERCIAL

1. Classification

Open

2. Key Decision

This is not a key decision

3. Wards Affected

County-wide

4. Purpose

To report the financial position for both Revenue and Capital to 30th November 2012. The Treasury Management position is also included.

5. Recommendation(s)

THAT:

(a) **the report and the forecast position be noted;**

(b) **it be noted the Leadership Team undertake to deliver a further level of savings for 2012/13 with the objective of achieving a balanced budget; and**

(c) **the Treasury Management report at Appendix C to the report be noted.**

6. Key Points Summary

- As at 30 November 2012 the overall budget position showed a projected overspend of £3.7m by the end of the financial year, as shown in Appendix A. This is approximately 2.6% of the council's £143.4m revenue budget (excluding Dedicated Schools Grant funding).
- The Leadership Team are implementing a recovery plan and have undertaken to deliver a further level of savings for 2012/13 with the aim of achieving a balanced budget by year end. Details of actions taken by Directorates are included in Appendix A.
- The general reserve balance as at 31st March 2012 was £6.1m. Any overspend on the

Further information on the subject of this report is available from Heather Foster: Head of Corporate Finance on Tel: (01432) 260248

revenue account at the year-end would have to be met largely from this reserve.

- At 1 April 2012 the council held £13.5m of earmarked reserves, which are detailed in Appendix A. The specific nature of those reserves means that some are not available for reclassification as general reserves, for example the balance held for schools. However, the requirement for other reserves is being reviewed as part of the recovery plan.

- Under the current medium term plan, any use of reserves would need to be "paid back" as part of the 2013/14 budget.

- In addition to the revenue overview the forecast outturn spend on capital schemes is £42.1m compared to the original budget of £44m. Further details are attached in Appendix B.

- The overall position is mitigated by projected savings on borrowing and investments (£360k net).

7. Alternative Options

7.1 There are no Alternative Options as this report is for information purposes.

8. Reasons for Recommendations

8.1 To keep Cabinet informed about the projected revenue and capital out-turn position for 2012/13 including Treasury Management activities.

9. Introduction and Background

9.1 Cabinet receives regular budget monitoring reports. The last report was presented to Cabinet on 18 October 2012, which included the revenue and capital projected out-turn as at September 2012.

10. Key Considerations

10.1 The detailed revenue budget monitoring report at Appendix A shows a projected overspend of £3.7 million by the end of the financial year 2012/13. This is approximately 2.6% of the council's £143.4m revenue budget (excluding Dedicated Schools Grant funding).

10.2 The 2012/13 budget reflects the overall savings of £10.8m required to meet the reduced funding levels from central government and budget pressures, particularly on Adult Social Care budgets.

10.3 The Leadership Team are implementing a recovery plan including actions such as the lock-down of discretionary spend, use of unspent grants, review of reserves, use of agency staff and vacancy management. Further details of actions taken by Directorates are included in Appendix A. The Leadership Team have undertaken to deliver a further level of savings for 2012/13.

10.4 The People's Directorate is currently projecting a £6.3m overspend. This includes a projected overspend of £7.8m on the Adult Social Care commissioning budget. The Directorate's overall position is assisted by savings within Children's Services where significant reductions in residential and agency placements have been identified.

10.5 The Places & Communities Directorate is currently showing an underspend of £663k for the year. The improved position since last reported to Cabinet as at end of September 2012 (£178k overspend) reflects the Director's Recovery Plan actions.

10.6 The Corporate Services Directorate has reviewed its budgets and put in place actions to deliver a £1m contribution to mitigate the position.

10.7 The Treasury Management projected out-turn is an underspend of £450k on borrowing costs partly due to slippage on the capital programme, but mainly through managing borrowing. Investment income is anticipated to underachieve by £90k as investment balances are less than budgeted due to the delay in borrowing, but the savings on borrowings exceed the reduced investment income. Appendix C includes a detailed analysis of Treasury management activities.

10.8 Further mitigation is from the £1m revenue contingency agreed as part of the budget.

10.9 The general reserve balance as at 31 March 2012 was £6.1m. This amount is above the council's policy of maintaining a minimum of £4.5m of general reserves as a contingency against unforeseen emergencies and events. Any overspend on the revenue account at the year-end would have to be met largely from this reserve.

10.10 At 1 April 2012 the council held £13.5m of earmarked reserves, which are detailed in Appendix A. The specific nature of those reserves means that some are not available for reclassification as general reserves, for example the balance held for schools. However, the requirement for other reserves is being reviewed as part of the recovery plan.

10.11 In accordance with the current medium term planning assumptions, any use of reserves to balance the 2012/13 budget would need to be repaid as part of the 2013/14 budget.

11. Community Impact

11.1 The actions being taken to reduce in year spend are likely to have some impact on the public, including service levels and response times etc. Every effort is being made to keep this to a minimum.

12. Equality and Human Rights

12.1 There are no specific implications in the report and recommendations.

13. Financial Implications

13.1 These are contained within the report.

14. Legal Implications

14.1 None.

15. Risk Management

15.1 Effective financial reports used to facilitate robust budget monitoring are an essential element in the management of risks and the delivery of the Council's priorities.

16. Consultees

16.1 None

17. Appendices

17.1 Appendix A – Revenue Budget Monitoring

17.2 Appendix B – Capital Monitoring

17.3 Appendix C – Treasury Management

18. Background Papers

18.1 None identified.

Herefordshire Council

Appendix A

REVENUE BUDGET MONITORING

Summary

1. The following table summarises the 2012/13 projected outturn based on the financial position as at 30th November 2012.

£'000	Pay/Non Pay Budget	Income Budget	Net Budget	Projected (over) or under spend
People's Services	195,382	(122,976)	72,406	(6,288)
Places and Communities	49,716	(13,229)	36,487	663
Corporate Services	88,682	(67,137)	21,545	1,013
Directorate Position	***333,780***	***(203,342)***	***130,438***	***(4,612)***
Capital funding			16,072	450
Investments			(352)	(90)
WMS Profit Share			(624)	(624)
Centrally Held Budgets (net)			1,092	(102)
Government grants			(4,623)	235
Contingency			1,000	1,000
Transfer to/from Reserves			356	
Total			**143,359**	***(3,743)***

2. As of the end of November 2012 the overall revenue budget position for 2012/13 shows a projected £3.743 million overspend. This is approximately 2.6% of the council's £143.4m revenue budget (excluding Dedicated Schools Grant funding).

3. The 2012/13 budget includes savings targets of £10.8m, approved in the council's Financial Resource Model as part of the budget setting process. A further target of £5.6m was allocated to adult social care as part of the recovery plan to bring the budget into balance, resulting in a savings plan for adult social care of £7.9m. In addition, there was slippage on the procurement savings programme from 2011/12 of £1.5m plus a top-slice to cover consultancy costs. The £1.5m procurement target includes £483k of social care projects which are being monitored as part of the £7.9m recovery plan. These targets are included in the Directorate budget monitoring projections detailed in this Appendix.

4. The Treasury Management projected out-turn is an underspend of £450k on borrowing costs partly due to slippage on the capital programme, but mainly through delaying taking out PWLB loans by utilising internal reserves. Investment income is anticipated to underachieve by £90k as investment balances are less than budgeted due to the delay in borrowing, but the savings on borrowings exceed the reduced investment income. Appendix C includes a detailed analysis of Treasury management activities.

Revenue Reserves Position

5. The general reserve balance as at 31st March 2012 was £6.1m. This amount is above the council's policy of maintaining a minimum of £4.5m of general reserves as a contingency against unforeseen emergencies and events.

6. At 1st April 2012 the council held £13.5m of earmarked reserves, which are detailed in the table below. The specific nature of those reserves means that some are not available for reclassification as general reserves. One such example is the balance held for schools.

Earmarked Reserves

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

PEOPLE'S SERVICES DIRECTORATE

Overall Projected Outturn

£'000	Expen-diture Budget	(Income) Budget	Annual Net Budget	Under / (Over) Spend
Children's Safeguarding	12,284	(28)	12,256	129
Other Children's Provider Services	19,299	(17,119)	2,180	993
CYP Provider Services	**31,583**	**(17,147)**	**14,436**	**1,122**
Commissioning - Adult's Social Care	74,537	(28,297)	46,240	(7,817)
Commissioning Staff	7,447	(100)	7,347	255
Commissioning Other Services	4,455	(1,723)	2,732	162
Total Commissioned Services	**86,439**	**(30,120)**	**56,319**	**(7,400)**
Health & Wellbeing- EHTS	2,710	(859)	1,851	190
Root and Branch Savings Target -HERS	(200)		(200)	(200)
Total Health and Wellbeing	**2,510**	**(859)**	**1,651**	**(10)**
Total Local Authority	**120,532**	**(48,126)**	**72,406**	**(6,288)**
Schools	**74,850**	**(74,850)**	**0**	**0**
Total Peoples Services	**195,382**	**(122,976)**	**72,406**	**(6,288)**

Headlines

7. The last reported outturn to Cabinet was £3.805m overspend as projected at the end of September 2012. The current outturn includes the result of the detailed forecasts prepared in early December and now has a predicted overspend of £6.288m. This is £2.483m worse than the reported September position due to 4 key factors: -

   a. Inclusion of Ofsted pressures: The detailed growth has now been incorporated into the Safeguarding forecasts and totals £168k across Children in Need (CIN) and Family Assessment and Safeguarding team (FAST) teams with an increase in Children with Disabilities (CWD) pressures of £45k to £107k, a total of £213k not included in the September outturn of £3.805m. In addition the Safeguarding Management cost centre now includes the additional cost on an interim Head of Service, giving a pressure of £44k. This is a total increase of £257k compared to the September position.

   b. A review of the savings schemes has confirmed additional schemes as red or non-cashable but more significantly several amber rated schemes where no savings have yet been identified. In the September report this shortfall totalled £2.387m, but has now increased to £4.249m as a result of further investigation, an increased pressure of £1.862m.

   c. The overall outturn for ASC has also worsened as a result of identifying £634k of opening demographic pressure that had not previously been identified. In addition a claim from WVT for sickness cover of £120k for which there was no budget has been included within the projection.

d. The overall outturn for Older People has also increased by £496k, but has been offset by £410k of savings on s256. (s256 monies refer to the funding passported to local authorities through the NHS). It is suspected that not all terminations are being captured with the result that the forecast may be overstated. However, the review of the schemes has identified that in some cases the savings, for example reduction in package costs, either through reviews or re-ablement, have been captured within the detailed forecast. In doing so they are offsetting pressures within the service area rather than being allocated against savings projects.

8. The above pressures listed at points (a) to (d) total £2.959m. Additional £476k of savings have been identified in mitigation of the pressures summarised above. This is made up of an additional £127k across commissioning services and £372k from provider services.

9. To date £1.725m of savings have been confirmed, leaving £2.097m of the projected out-turn to be achieved.

Adult Social Care and Commissioning

Key Points

10. The forecast overspend of £7.817m comprises:

    a. The £2.841m demographic pressures identified as part of the detailed budget setting, plus a further £634k identified as demographic / inflation not previously captured and reported.

    b. in year service pressures principally within Older People of £853k,

    c. Improvement plan shortfall of £4.249m,

    d. Wye Valley sickness claim £120k

    e. Partly offset by planned capitalisation of £470k, and other S256 (NHS passported funding) savings of £410k

11. The Older Peoples pressures include an estimate for additional packages until the year end based upon current activity and trends.

12. The commissioning forecast now includes savings on short breaks of £48k, and assumed transfers to DSG of £135k for 2 year old funding and related staff costs.

13. £39k of post 16 grant will not be required to deliver the programme and has been offered to offset staffing costs.

Risks

14. The improvement plan requires £2.097m of savings to be achieved in the last four months. At particular risk are the savings from reviews / transfers to supported accommodation and Care Funding Calculator (CFC) clients.

Opportunities

15. It has been identified that when care packages end they are not always being reflected in the detailed forecasts which has a particular impact in Older People. However any savings which can be identified are likely to offset risks in the balance of the improvement plan.

Health and Wellbeing – Environmental Health and Trading Standards

Key Points

16. Some in year savings from holding vacancies and other non pay savings have been identified to mitigate the pressure. These currently total £75k, but the service has also identified potential additional savings, which are assumed deliverable giving total savings of approximately £130k.

17. The last forecast anticipated not paying the Q3 and Q4 contributions to the PCT for the Public Health consultants of £120k. However, on further consideration this may not be achievable but there is mitigation from other areas within the service.

Risks

18. There may be risks in delivery of the income targets but have the potential to be offset through cost savings / vacancy management

Opportunities

19. No additional opportunities above those included in the forecast at present.

Children's Provider Services

Key Points

20. Children's Provider Services have now been split to show Safeguarding and other Provider services separately.

21. Safeguarding services are reporting a net under spend of £129k.

    a. This comprises net savings on Looked After Children (LAC) of £356k, principally on placement costs of £477k, offset by some pressures in staffing and post 16 of. This is a net change of £53k from the £303k reported in September.

    b. Additional agency staff placements have been required following Ofsted. In addition management costs have increased by £44k as a result of the additional interim Head of Service.

    c. Other savings have been achieved within Adoption services and the previously estimated £75k saving from Troubled Families Grant (included in September position) now being confirmed within the Intensive Family Support team due to the delays in recruiting the team.

22. Children's Provider Services project an outturn saving of £993k:

    a. Savings within locality services including Children's Centres now stand at £337k. This is an increase of £149k from the £188k saving identified in the September outturn.

    b. Savings within Learning and Achievement total £87k compared to £21k in the September report – principally due to additional savings in Early Years.

    c. The current forecast also includes £55k of grant release from 11-19 grants.

    d. The projected position assumes recovery of expenditure from Dedicated Schools Grant.

    e. Savings include £300k for school severance payments, an estimated saving of £45k for complex needs cases, and offsets to grants of £16k, with an expected additional £14k of EIG.

Risks

23. There is a risk of increased Looked After Children numbers and associated costs following Ofsted. However, residential placements remain steady at 3 and agency placements at the end of November were 31, the lowest figure since July 2010, indicating that the risk is low. In house placements have increased from 84 in April to 92 at the end of October.

24. Additional staffing pressures within Safeguarding have been factored into the Ofsted pressure and are therefore not flagged separately.

Opportunities

25. There may be further opportunities within the Children's centres as detailed forecasts were not prepared for the South centres due to staff sickness. This will be completed in early January and reflected in the next forecast.

PLACES AND COMMUNITIES DIRECTORATE

Overall Projected Outturn

£'000	Pay/Non Pay Budget	Income Budget	Annual Budget	Under / (Over) Spend
Economic, Environment and Cultural Services	10,912	(4,061)	6,851	33
Homes and Community Services	7,561	(4,474)	3,087	179
Place Based Commissioning	30,867	(4,637)	26,230	344
Director and Management	376	(57)	319	107
Total	**49,716**	**(13,229)**	**36,487**	**663**

Summary

26. The Directorate is currently showing an underspend of £663k for the year. The improved position has improved since last reported to Cabinet when an underspend of £178k was projected, and reflects the Director's Recovery Plan actions. The Director and his Management Team and the Strategic Finance Advisor met with all service managers within the Directorate to identify and challenge discretionary spend and use of grant reserves to drive out further in year savings which address the Directorate budget pressures and also help mitigate the council's overall deficit position.

27. This position also incorporates the Directorate Savings Plan, (£2.81 million), of which £100k, relating to the review of income from Car Parking, is currently at high risk and reflected as a pressure which will be met through in year savings.

28. Of the remaining savings target £1.85 million has a low risk rating and the remaining £860k, including the Amey savings above, has medium risk of not being achieved.

29. Whilst in year pressures on income budgets in relation to Planning Fees and Car Parking will be met by in year savings, the Directorate carries the risk of bad winter conditions in relation to both the cost of the highways winter service and the cost in relation to the homeless and rough sleepers.

Economic, Environment & Cultural Services

30. Planning Fee income is currently 27% lower than the same period in 2011/12. This would mean a shortfall of income of £462k for the year. This pressure is partly mitigated by a planned underspend in the services through the halt on discretionary spend and use of unused grant reserves.

31. Fees are currently set by the Government and have not been increased since 2008. The Government has therefore proposed a one-off adjustment to "up-rate" fees in line with inflation, which amounts to around 15%, from 23rd November 2012. Based on the income levels in previous years, this would mean an additional £50k income in 2012/13. This will help meet the annual savings target in 2012/13.

Homes & Communities

32. There is currently a pressure on parking budgets of £148k largely due to the shortfall in income on car parking charges. This includes projections of increased income from changes to parking fees introduced in November 2012. As previously reported the pressure partly reflects' the closure of 58 spaces on the Garrick Surface Car Park.

33. There is further risk on income budgets on the additional savings target of £100k in relation to the review of car parking at free car parks.

34. There are in year savings to mitigate this position from the discretionary spend budgets and the use of unused grant reserves.

Place Based Commissioning

35. The Directorate carries a risk relating to winter weather conditions. The current outturn assumes a 'normal' winter with a budget of £1.3 million which covers:

- 57 full salt runs on priority routes
- 5 full runs on secondary routes
- 2 snow days (1 light, 1 heavy)

36. Whilst the number of gritting runs to date is as expected, severe weather or a prolonged period of marginal weather conditions will put pressure on the budget.

37. There is also a risk in relation to disputed items in the Amey contract. These disputed items total £3million and impact on both capital and revenue items, some which will be met within the current annual budgets managed by Amey through the contract. In accordance with contract management procedures, the client team are working to resolve these items and the next step is to take a sample of disputes to formal adjudication over the next three months.

38. Following the wet weather conditions in September, Herefordshire registered a further intention to claim from the Bellwin Scheme for the essential works totalling £110k as a result of the flood damage. However central government has not activated a scheme for September and Herefordshire is the only authority with costs above threshold. Herefordshire is now making the case to Ministers that the flooding in Herefordshire was exceptional. A further claim notification has also been made for the end of November with costs of repair to damage estimated at £600-700k.

39. In a letter to Amey on 10th August, revenue savings have been identified in excess of £1m. This is mainly achieved though the re prioritisation of annual routine works to capital works along with one off contract dispute settlements. These contract variations will meet the annual savings targets, previously reported at high risk and the Bellwin threshold liability.

Director and Management

40. There is currently underspend in relation to the Directorate's annual non pay inflation budget which is will be used to mitigate the pressures within the Directorate with further discretionary spend savings of £70k.

CORPORATE SERVICES DIRECTORATE

Overall Projected Outturn

£'000	Pay/Non Pay Budget	Income Budget	Annual Budget	Under / (Over) Spend
Customer Services and Communications	3,231	(287)	2,944	231
People, Policy and Partnership	9,486	(1,609)	7,877	346
Law, Governance and Resilience	3,769	(931)	2,838	(102)
Chief Finance Officer and Commercial	69,602	(64,100)	5,502	538
Corporate Management	2,160	0	2,160	0
Chief and Deputy Chief Executive	434	(210)	224	0
Total	**88,682**	**(67,137)**	**21,545**	**1,013**

Summary

41. The Directorate is expected to underspend by £1.013 million for the year. This improved position since last reported to Cabinet as at the end of September (£741k underspend), reflects the Directorate's actions to help mitigate the council's overall deficit position, although there are a number of significant risks already identified which will need to be managed in the year.

42. This position includes achievement of the Directorate Savings Plan, totalling £1.8m, of which the following are at high risk of not being achieved and will therefore be met from other in year savings.

Service Area	Principles	Risk	Savings Target 2012/13 £000
Legal (HC)	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	Additional work not requested by WVT & PCT and HWFRA appointed own legal staff.	30
Support Services	Root & Branch Review	Savings unlikely to be identified through reviews for 2012/13.	150
	Total		**180**

43. Of the remaining savings target £1.49m has a low risk rating and £360k has medium risk of not being achieved.

Customer Services & Communications

44. The Customer Organisation project continues in 2012/13 introducing a new system and look at our business processes for delivering front line services. It is estimated that staff

costs of £100k are attributable to the projects and will therefore be funded from capital.

45. Savings of at least £100k are expected to be driven out in 2012/13 in Customer Services as part of the Root and Branch Review.

People, Policy and Partnership

46. The service continues to review all discretionary spend budgets to identify savings for the year. The service is expected to achieve £100k on discretionary spend savings along with a further £230k in relation to the hold on ICT Strategy Projects.

47. A review of unused grant reserves has also identified £16k saving, relating to the use of reserves in place of 2012/13 base Migration Impact budget.

Law, Governance and Resilience

48. Along with the high risk of not being able to achieve £30k income from partners, noted above, there is further risk on achieving £50k of the service total savings target of £125k from staff savings. This is due to slippage in Legal Services restructure and the proposed transfer of Registration Service to Customer Services, which has now been agreed by General Register Office. The transfer of staff is now expected to take place imminently and the risk of achieving the associated savings is mitigated.

49. Legal proceedings have been commenced against the council (and other councils) by private search companies which could result in this council having to repay around £200k. The outcome of this claim is still awaited but it will have an impact on the way we deliver this service in the future.

Chief Finance Officer and Commercial

50. Through a review of discretionary spend budgets, the service is expected to make annual savings of £200k which includes a hold on emergency maintenance.

51. A review of expenditure in Property Services has also identified £300k which can be classified as capital spend.

52. There is also £38k saving from the use of grant reserves.

53. However, pressure remains on the Property budgets in relation to the Corporate Accommodation Project, meaning maintenance costs of vacated building continue to be incurred, and the impact of the disaggregation of PCT staff from council offices, resulting in loss of income.

Chief and Deputy Chief Executive

54. Whilst in year savings of £150k have been identified from the Chief Executive and Deputy Chief Executive's annual budget, this will be utilised in year to meet pressures identified above in relation to the Directorate's annual savings plan.

Appendix B

Capital Forecast

1. The capital outturn forecast for 2012/13 as at the end of November totals £42.1m, an increase of £1.3m from the last forecast mainly due to the inclusion of the remaining Rotherwas funding and re-profiling of the corporate accommodation capital budget. Individual scheme budget changes include;-

   - The allocation of £257k Salix interest free loan funding towards providing more energy efficient street lights and traffic signals.

   - The allocation of £210k capital funding from the contingency fund to fund additional costs being incurred on the Yazor brook flood alleviation scheme in relation to land payments, legal fees and riverbank collapse costs.

   - The allocation of £200k from the strategic housing capital receipts reserve to pump prime a revolving loans fund to bring empty spaces back into use as residential units.

2. A summary by directorate and funding source is provided in Table A below.

Table A – Funding of 2012/13 Capital Outturn Forecast

Directorate	2012/13 Forecast £'000	Prudential Borrowing £'000	Grants & Contributions £'000	Revenue Contribution £'000	Capital Receipts Reserves £'000
People's Services	9,060	647	8,349	-	64
Places & Communities	28,503	6,876	16,755	146	4,726
Corporate Services	4,454	4,297	84	30	43
Contingency	38	38	-	-	-
Total	**42,055**	**11,858**	**25,188**	**176**	**4,833**

3. **Table B - Schemes with an outturn forecast exceeding £500k in 2012/13**

Scheme	Spend to end Nov £'000	2012/13 Original Forecast £'000	2012/13 Forecast £'000	Comments
People's Services				
Blackmarstons Special School	605	3,000	2,425	SEN school extension in progress
Basic Need – Schools	253	-	1,748	This funding has been allocated to schools through a structured bidding process. This relates to grant funding brought forward from previous years.
Condition property works	695	1,807	1,267	Annual programme of works at various sites committed on a highest need first basis. The funding has decreased in 12/13 as a result of a number of schools converting to academies

Hampton Dene	603	750	708	SEN school specialist unit works complete
Leominster Primary school	214	6,807	520	Scheme options under consideration
Places & Communities				
Local Transport Plan	4,632	9,985	9,985	Annual programme of capital works to highways, footways and bridges, this funding has been cut by 5% from 2011/12s funding allocation
Link Road	6,084	4,593	4,593	Key property purchase complete, re-phased budget profile being complied
Connect 2	151	1,779	1,736	Non-motorised connection between the city centre and Rotherwas
Disabled Facilities Grant	420	-	1,440	There is a large demand for these grants, processing is dependent on the rate of referrals. This represents grant funding (unknown when original budget set) plus match funding brought forward.
Grange Court	316	-	1,152	Refurbishment works nearing completion, expected completion date slipped by contractor
Rotherwas Enterprise Zone	502	-	1,100	To enable the provision of serviced plots to private sector inward investors.
Garrick House multi storey car park	245	1,000	918	Essential lift and enhancement works
Rotherwas Relief Road	584	-	806	Final compensation payments falling due
Putson Community Building	162	-	765	S106 funded new build
Marches Redundant Building Grant Scheme	54	750	750	Various LEP grant funded schemes
Affordable Housing Grants	43	-	729	Various grants awarded to approved schemes, budget fully committed
Hereford Active Travel Schemes	35	-	623	Detailed design works commenced
Ledbury Library	411	2,537	591	Phase 2 restoration works not to start until February
Broadband	-	4,035	500	Contract for works expected to be let in December
Corporate Services				
Corporate accommodation	1,415	4,580	3,265	Works planned to start in February at Plough Lane, works started on the civic hub and better ways of working projects. The new heritage, archive and record centre is in the planning stage
Hereford Leisure Pool	994	-	906	Scheme complete. Forecast spend represents budget brought forward from 2011/12
Sub Total	**18,418**	**41,623**	**36,527**	
Schemes with a budget <£500k in 2012/13	**3,329**	**2,406**	**5,528**	
Total	**21,747**	**44,029**	**42,055**	

Prudential Borrowing

3. A summary of the forecast Prudential Borrowing (PB) position is set out below.

	£'000	£'000
2012/13 Original Prudential Borrowing Forecast		11,905
Less: Slippage into 2013/14	(2,540)	
Removal of Halo driving range funding	(346)	
Add: Revenue financed IKEN capital scheme	65	
Slippage from 2011/12	2,774	
		(47)
Expected use of Prudential Borrowing in 2012/13		11,858

Capital Receipts Reserve

4. The opening capital receipts reserve balance was £2.8m as at 1st April 2012; this has been increased by £1.4m from the capital receipt share from the sale of West Mercia Supplies and £1.5m from the sale of the old livestock market. Of this total £4.8m will be used to fund capital expenditure in 2012/13 with the balance remaining of £0.9m earmarked to fund future year's capital expenditure.

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

1. The Economy

1.1. Recent economic events and statistics show the following:

- The final estimate of economic growth for the third quarter showed the economy growing by 0.90% over the quarter and by 0% year on year. There are concerns over the result being influenced by one-off factors such as the Olympics and growth is not expected to be sustained.
- The Consumer Price Index (CPI) was 2.70% for both October and November. Its decrease towards the 2% target is anticipated to be slower than previously estimated due to volatility in commodity prices.
- Members of the Monetary Policy Committee voted unanimously to hold the Bank Rate at 0.50% at their meeting in December.
- The Eurozone is making slow headway, which has influenced markets and curtailed some of the immediate risks, although peripheral countries continue to struggle.
- The UK's safe haven status and minimal prospect of rate rises are expected to keep gilt yields (and hence PWLB rates) at low rates for the foreseeable future.

2. The Council's Investments

2.1 At 30th November 2012 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested £m	Amount invested £m
Instant Access Bank Accounts:					
National Westminster	N/A	N/A	1.10%	5.00	5.00
Instant access Money Market Funds:					
Prime Rate	N/A	N/A	0.52%	4.52	
Ignis	N/A	N/A	0.53%	4.87	
Deutsche	N/A	N/A	0.42%	2.00	11.39
Fixed Term Deposits:					
Lloyds	100 days	07/02/13	1.40%	2.00	
Lancashire C C	364 days	06/03/13	0.85%	2.00	
Bank of Scotland	120 days	15/03/13	1.20%	2.00	
Bank of Scotland	120 days	20/03/13	1.20%	1.00	
Bank of Scotland	136 days	22/03/13	1.40%	2.00	
Lloyds	182 days	31/05/13	1.00%	0.50	
Barclays	365 days	01/11/13	1.07%	2.00	
Gateshead Council	549 days	18/11/13	1.10%	2.00	
Barclays	549 days	29/11/13	1.00%	1.00	14.50
Certificate of Deposit:					
Nationwide	32 days	17/12/12	0.40%	1.00	1.00
Total			**0.89%**		**31.89**
Shaded lines are term deposits placed between 30/09/12 and 30/11/12 (i.e. since last report)					

2.2 Since the beginning of the year the council's eligible UK counterparties, together with the maximum maturity periods (as recommended by the council's treasury advisers Arlingclose), have been as follows:

	Date revised					
	1st Apr	**3rd May**	**18th May**	**1st Jun**	**30th Jul**	**31st Oct**
Santander UK	35 days	35 days	overnight	overnight	35 days	100 days
Nat West and RBS	100 days	35 days	35 days	overnight	35 days	6 months
Bank of Scotland and Lloyds TSB	100 days	35 days	35 days	overnight	100 days	6 months
Nationwide	100 days	100 days	100 days	100 days	100 days	12 months
Barclays	100 days	100 days	100 days	100 days	100 days	12 months
HSBC and Standard Chartered Bank	6 months	6 months	6 months	6 months	12 months	12 months

2.3 Limits were increased from 31st October 2012 due to the creditworthiness of institutions showing signs of stabilisation and, in some cases, considerable improvement.

2.4 The rates of interest receivable on the council's investments have continued to fall. For example, interest rates on the following investments have been as follows:

Investment		**2nd Apr**	**2nd Jul**	**28th Sep**	**27th Dec**
Prime Rate Money Market Fund (instant access)		0.87%	0.69%	0.61%	0.46%
Ignis Money Market Fund (instant access)		0.82%	0.72%	0.65%	0.50%
Nationwide	E.g. 3 month term deposit	0.98%	0.60%	0.51%	0.44%
Barclays	E.g. 3 month term deposit	0.91%	0.83%	0.53%	0.46%
Lloyds Group	E.g. 3 month term deposit	1.40%	1.40%	1.35%	0.70%

2.5 the above indicates that some banks have significantly cut rates in the last few months.

2.6 On the recommendation of Arlingclose, the council has opened a custody account so that the council has the option to use a number of alternative approved investment instruments and diversify the investment portfolio. Such instruments include Treasury Bills, Certificates of Deposit and Gilts.

2.7 In November the supplier of the custody account announced that they were entering the market for local authority lending. This is of real benefit to the council as the commission charged on borrowing is 0.03% per annum compared to 0.10% traditionally charged by brokers.

2.8 Arlingclose has issued the following forecast of the Bank Base Rate (issued 14th December 2012). As previously noted, Arlingclose believe that it could be 2016 before the first increase in the Bank Base Rate.

Bank Rate	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun 15
Upside risk			+0.25	+0.25	+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Central case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

There is no change in the above forecast from that previously reported.

2.9 The council has earned interest on its investments as follows:

Month	Amount invested		Average rate of interest earned		Amount of interest earned £	Budget £	Short-fall £
	Actual £m	Budget £m	Actual %	Budget %			
Apr-12	22.11	30	1.15	0.90%	20,643	22,500	(1,857)
May-12	31.94	40	1.09	0.90%	29,247	30,000	(753)
Jun-12	32.57	45	1.07	0.90%	28,657	33,750	(5,093)
Jul-12	32.34	50	0.93	0.90%	25,676	37,500	(11,824)
Aug-12	31.33	45	0.98	0.90%	26,190	33,750	(7,560)
Sep-12	28.82	45	1.00	0.90%	23,542	33,750	(10,208)
Oct-12	28.00	45	1.00	0.90%	23,760	33,750	(9,990)
Nov-12	25.61	40	0.98	0.90%	20,505	30,000	(9,495)
Total to 30 November 2012					**198,220**	**255,000**	**(56,780)**
Dec-12	*25.00*	35		0.90%	*18,000*	26,250	*(8,250)*
Jan-13	*25.00*	35		0.90%	*18,000*	26,250	*(8,250)*
Feb-13	*21.00*	30		0.90%	*16,000*	22,500	*(6,500)*
Mar-13	*15.00*	30		0.90%	*13,000*	22,500	*(9,500)*
Projected outturn					***263,220***	**352,500**	***(89,280)***

2.10 The interest received in the eight months to 30th November 2012 has fallen short of the amounts budgeted by £56,780. Whilst the average rates achieved each month have been higher than the budgeted rate of 0.90% the average amounts invested have been lower.

2.11 The investment budget was set on a consistent basis with the borrowing budget assuming that the council may take out further borrowing totalling £11.5 million at the end of 2011/12 and/or at the beginning of 2012/13. The postponement of this borrowing has caused investment income to fall but the reduction in income is outweighed by savings made on the borrowing side.

2.12 In view of falling interest rates, and continuing restrictions on the maximum maturity periods with some banks, actual investment income may fall short of the amount budgeted by around £90,000. This is a further deterioration since the last forecast at the end of September of a £75,000 shortfall.

3. The Council's Borrowing

Short-term borrowing

3.1 During the first eight months of the year the council has taken out short-term loans from other local authorities as follows:

Date Borrowed	Local Authority	£m	Period (days)	Date Repayable	Interest Rate – gross including brokers commission	Interest Payable (including brokers commission)
01/05/12	Worcestershire	3.00	7	08/05/12	0.39%	£224.38
02/05/12	Rhondda	3.97	8	10/05/12	0.39%	£339.35
08/05/12	Worcestershire	3.50	7	15/05/12	0.39%	£261.78
10/05/12	Coventry	3.50	21	31/05/12	0.38%	£765.21
28/05/12	Caerphilly	3.00	10	07/06/12	0.38%	£312.33
24/08/12	Leicester	2.00	83	15/11/12	0.36%	£1,637.27
24/08/12	London Borough of Hammersmith & Fulham	2.00	52	15/10/12	0.37%	£1,054.25
12/09/12	East Renfrewshire	2.00	50	01/11/12	0.37%	£1,013.70
15/10/12	Worcestershire	2.00	50	04/12/12	0.37%	£1,013.70
19/11/12	Leicester City	1.50	28	17/12/12	0.37%	£425.75
20/11/12	West Mercia Police	1.00	56	12/01/13	0.37%	£567.68
26/11/12	Merseyside Transport	2.00	224	08/07/13	0.40%	£4,909.59
30/11/12	South Yorkshire	2.00	255	12/08/13	0.42%	£5,868.49
30/11/12	Merseyside Transport	2.00	283	09/09/13	0.44%	£6,823.02
Total interest and commission payable on loans taken out to 30th November 2012						**£25,216.50**
Less interest and commission relating to 2013/14						**£9,090.41**
Total short-term interest for 2012/13 on loans taken out to 30th November 2012						**£16,126.09**
Shaded lines are those loans repaid as at 30th November 2012						

3.2 it is good practice to use short term loans to provide additional liquidity at a time when balances were relatively low. More recent borrowing has been to fund capital expenditure.

3.3 It is anticipated that further short-term borrowing will be taken out before the year end. In previous years the council has utilised internal borrowing to finance the capital programme. This was done due to the large cost of carry of investments (the difference between interest paid on PWLB loans and interest earned on investments) and the high credit risk involved.

Long-term borrowing

3.4 No long-term loans have been taken out in the year to date.

3.5 There are currently good reasons to postpone further borrowing from the Public Works Loan Board (PWLB), including:

- The expectation that PWLB rates will remain low for some months to come;
- The large differential between PWLB rates and the amount currently earned on the council's investments;
- The availability of cheap short-term loans from other local authorities; and
- The flexibility offered by short-term borrowing in terms of repaying loans and reducing investments should financial conditions deteriorate.

3.6 The council's borrowing budget was based on taking out new PWLB loans of £11.50 million. However, Arlingclose is forecasting that PWLB rates will remain at relatively low levels for the foreseeable future. Therefore the current strategy is to utilise cheaper short-term loans from other local authorities.

3.7 It is anticipated that at the year end the council will have short-term loans outstanding but the difference in the budgeted PWLB interest rate of 4.00% and the interest rates payable on the short-term loans (less than 0.40%) will result in significant budget savings. The current underspend can be estimated as follows:

Summary of Borrowing Budget	**Budget**	**Forecast**	**Saving**
	£m	**£m**	**£m**
Minimum Revenue Provision	9.95	9.79	0.16
Interest on existing loans (January 2012 position)	5.76	5.76	-
Provision for borrowing of £5.50m to be taken out before the end of 2011/12 at 4.00%	0.22	-	0.22
Borrowing requirement for 2012/13 of £6m, included at an interest rate of 4.00%	0.24	-	0.24
Interest payable on short-term borrowing in lieu of longer-term loans		0.02	(0.02)
Additional budget towards property disposal costs	0.05	0.05	-
Original budget	**16.22**	**15.62**	**0.60**
Budget adjustment relating to a reduction in capital financing contributions from directorates	**(0.15)**	**-**	**(0.15)**
Forecast budget surplus as at 31 March 2013	**16.07**	**15.62**	**0.45**

4. Summary of Outturn Position

4.1 The outturn position will depend upon the timing of any new longer term borrowing. However, assuming that no PWLB borrowing is taken out before the year end and all borrowing is from other local authorities, the current forecast is for an underspend of £360,000. The underspend comprises a borrowing underspend of £450,000, as detailed above, but a shortfall on interest earned of around £90,000.

4.2 The council is able to capitalise interest costs relating to interest paid on borrowing used to fund large capital schemes that take substantial periods of time to get to the point at which the assets may be utilised. Such interest, incurred at the construction or installation phase, may be added to the cost of the associated asset. It is difficult to provide an estimate at this stage, however, any interest that the council is able to capitalise will increase the underspend noted above.

4.3 The use of short term loans will continue to be a key part of our treasury management and means we are able to deliver savings against this year's revenue budget for funding the capital programme.

Herefordshire Council

MEETING:	**CABINET**
DATE:	**17 JANUARY 2013**
TITLE OF REPORT:	**UPDATE ON THE IMPLEMENTATION OF THE PUBLIC HEALTH TRANSITION PLAN**
REPORT BY:	**DIRECTOR OF PUBLIC HEALTH**

1. Classification

Open

2. Key Decision

This is a Key Decision because it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relate and is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the County.

(Notice has been served in accordance with Part 3, Section 9 (Publicity in connection with key decisions) of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

3. Wards Affected

County-wide

4. Purpose

The purpose of this report is to provide Cabinet with assurance that the transition plan for the safe transfer of the public health function, including its staff and contract commitments, from Herefordshire Primary Care Trust to Herefordshire Council in April 2013 is on course.

It also asks Cabinet to approve the receipt of the function, its staff, the resource commitments and contract liabilities.

5. Recommendation(s)

THAT Cabinet:

a) **Notes that the transition plan for the safe transfer of the public health function, including its staff and contract commitments, from Herefordshire Primary Care Trust to Herefordshire Council in April 2013 is on course and that the Director of Public Health is given delegated authority to implement additional guidance on the transition as it is published;**

b) **Approves the novation of public health contracts to the council as confirmed nationally for 2013/14;**

c) **Approves the TUPE process for the public health staff as mapped nationally from**

the PCT to the council.

6. Key Points Summary

- The Health and Social Care Bill that received Royal Assent on 27 March 2012 introduces wide-ranging NHS reforms and establishes a new public health system in England;
- The Act will result in the disestablishment of Primary Care Trusts and Strategic Health Authorities, and the establishment of Health and Wellbeing Boards, Clinical Commissioning Groups, the NHS Commissioning Board, Commissioning Support Organisations, Healthwatch and Public Health England;
- Under the Act, and with effect from 1 April 2013, local authorities will have a range of new responsibilities for public health, including a set of mandatory public health services. The public health functions currently undertaken by Primary Care Trusts will transfer, along with their associated budgets and staff, to local authorities and to other legacy organisations;
- As a result of the Health and Social Care Act 2012 a number of changes will need to be made to Herefordshire Council's constitution once the provisions of the Act are implemented. A programme is under way to identify which sections of the constitution will be affected and draft proposed amendments. These amendments will be presented to Cabinet/Council in May 2013;
- The transfer of public health to Herefordshire Council provides exciting new opportunities for councillors, council officers and public health specialists to work together to improve the health and wellbeing of people of all ages in Herefordshire;
- A vision and set of principles has been agreed for the Health and Wellbeing Board. This will inform the development of Herefordshire Council's vision for Public Health. The Health and Wellbeing Board's vision is that:

  "Herefordshire residents are resilient; lead fulfilling lives; are emotionally and physically healthy and feel safe and secure, with the overall outcome to reduce the difference in healthy life expectancy in Herefordshire".

- A comprehensive Herefordshire Public Health Transition Plan has been developed using Prince2 methodology and is on track to ensure the safe transfer of Public Health responsibilities from Herefordshire Primary Care Trust to Herefordshire Council and other legacy organisations;
- A Director of Public Health (DPH) has been jointly appointed by Herefordshire Primary Care Trust and Herefordshire Council who will provide leadership and expertise to develop the new public health system in Herefordshire. The responsibilities required of the role are outlined in a key document from the Department of Health in line with the Health and Social Care Act 2012.

  https://www.wp.dh.gov.uk/publications/files/2012/10/DsPH-in-local-government-i-roles-and-responsibilities.pdf

- The Council will receive a ring-fenced public health grant to support it in carrying out its new public health functions based on historical spend on the services transferring. The indicative allocation for Herefordshire for 2013/14 is approximately £6.5 million. An announcement of the actual figure is expected in mid-January.
- Existing public health-related contracts that currently sit within the primary care trust will be transferred to the council along with the public health function in April 2013. This is a nationally-driven process of novation that will ensure that mandatory and statutory services continue into the next financial year and seeks to mitigate destabilisation in the system.
- Current contracts will be maintained in the first instance for 2013/14, to minimise the risk of

any break in service or destabilisation of providers during the transition. These contracts will be re-procured thereafter on the basis of opportunities for savings and contract value, risk of challenge, and the effectiveness and impact on Public Health Outcomes. The current section 75 agreement which enables the authority to commission health services will be utilised to continue essential services through the transition.

- Public Health staff were given formal notification that the transfer of their employment to Herefordshire Council would be handled in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 1981 (the TUPE Regulations). The formal consultation with staff took place between the 16 November 2012 and 13 December 2012;
- Public Health staff relocated from PCT accommodation at Belmont to the Town Hall on 14 November 2012 in advance of the formal transition of public health functions and staff to the Council on 1 April 2013. This has brought the team closer to Council colleagues and is promoting integrated working. It is anticipated that the public health team will move into Plough Lane in 2014 following the refurbishment;

7. Alternative Options

7.1 There are no alternative options as the changes come about as a result of the Health and Social Care Act (2012).

8. Reasons for Recommendations

8.1 The purpose of this report is to provide Cabinet with assurance that the transition plan for the safe transfer of the public health function, including its staff and contract commitments, from Herefordshire Primary Care Trust to Herefordshire Council in April 2013 is on course. It also asks Cabinet to approve the receipt of the function, its staff, the resource commitments and contract liabilities.

9. Introduction and Background

9.1 The Health and Social Care Act 2012 introduces a series of NHS reforms and establishes a new public health system in England including new public health responsibilities for local authorities.

9.2 From 1 April 2013 Herefordshire Council will have a range of new public health duties which will include:

a. promoting the health of the local population by taking "such steps as it considers appropriate for improving the health of the people in its area";
b. specific responsibility for commissioning or providing a range of mandatory public health and health improvement services including:
    i. ensuring appropriate access to sexual health services;
    ii. the NHS Health Checks programme;
    iii. the National Child Measurement Programme;
    iv. providing public health advice to NHS commissioners (the "core offer"), and ;
    v. ensuring that robust plans are in place to protect the health of the public including immunisation and screening plans;
c. appointing a Director of Public Health who will have a central role in ensuring that the public's health and wellbeing is reflected in local authority policies and decisions and

who will be responsible for preparing an annual report on the health of the people in the local authority area which the local authority will be required to publish;

d. leading on the development of the Joint Strategic Needs Assessment (JSNA) and the Joint Health and Wellbeing Strategy;

e. ensuring a community-wide approach to the public's health and wellbeing.

9.3 Apart from their new mandatory public health services, and the general duty to improve the health of the local population, local authorities will be expected to determine their own Public Health priorities and services in line with local needs and local priorities. This will allow them to build on local knowledge and experience to tackle the wider determinants of healthy and differences in healthy life expectancy

9.4 A ring-fenced public health grant will support local authorities in carrying out their new public health functions.

9.5 A new national executive agency, Public Health England, will deliver some public health services (health protection, health information and intelligence, healthy lifestyle marketing campaigns), provide national public health leadership and support the development of the specialist and wider public health workforce.

9.6 The NHS will have a new legal duty to play its part in improving healthy life expectancy and reducing differences in healthy life expectancy.

10. Key Considerations

10.1 A Director of Public Health has been jointly appointed by Herefordshire Primary Care Trust and Herefordshire Council who will provide leadership and expertise to develop the new public health system in Herefordshire. The responsibilities required of the role are outlined in a key document from the Department of Health in line with the Health and Social Care Act 2012.

10.2 A comprehensive Herefordshire Public Health Transition Plan has been developed using Prince2 methodology and is on track to ensure the safe transfer of Public Health responsibilities from Herefordshire Primary Care Trust to Herefordshire Council and other legacy organisations;

10.3 Public Health staff were given formal notification that the transfer of their employment to Herefordshire Council would be handled in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 1981 (the TUPE Regulations). The formal consultation with staff took place between the 16th November 2012 and 13th December 2012;

10.4 The Council will receive a ring-fenced public health grant to support it in carrying out its new public health functions based on historical spend on the services transferring. The indicative allocation for Herefordshire for 2013/14 is approximately £6.5 million. An announcement of the actual figure is expected in mid-January.

10.5 Existing public health-related contracts that currently sit within the primary care trust will be transferred to the Council along with the public health function in April 2013. This is a nationally-driven process of novation that will ensure that mandatory and statutory services continue into the next financial year and seeks to mitigate destabilisation in the system.

10.6 Existing public health-related contracts that currently sit within the primary care trust will be transferred to the Council along with the public health function in April 2013. There are approximately 35 contracts totalling approximately £5m and ranging in value from a few thousand pounds to £1.5m in value. This is a nationally-driven process of novation that will ensure that mandatory and statutory services continue into the next financial year and seeks to mitigate destabilisation in the system.

10.7 There are a range of types of contracts that will be a part of this novation. The main bulk of these cover the mandatory services that will be part of the Public Health function in the local authority. For example:

a) Sexual Health Services – This includes services such as access to contraception and STI diagnosis and treatment. The value of these are in the region of £1.5m;

b) Drugs and alcohol services – This includes large complex acute services with a value in the region of £1.3m to community based services and information services with values in the order of £10k – 20k;

c) NHS Health Checks – This mandatory programme includes a broad scope of individual services to meet client needs which total approximately £550k.

10.8 Current contracts will be maintained in the first instance for 2013/14, to minimise the risk of any break in service or destabilisation of providers during the transition. These contracts will be re-procured thereafter on the basis of opportunities for savings and contract value, risk of challenge, and the effectiveness and impact on Public Health Outcomes. A timeline for review and re-procurement of all contracts, including considering decommissioning and re-commissioning has been developed to support this process. The current section 75 agreement which enables the authority to commission health services will be explored to continue essential services through the transition.

10.9 The DPH report scheduled to go to Cabinet in March 2013 will provide further detail behind the vision for the future of public health in the local authority in Herefordshire.

10.10 As a result of the Health and Social Care Act 2012 a number of changes will need to be made to Herefordshire Council's constitution once the provisions of the Act are implemented. A programme is under way to identify which sections of the constitution will be affected and draft proposed amendments. These amendments will be presented to Cabinet/Council in May 2013.

10.11 Public Health staff relocated from PCT accommodation at Belmont to the Town Hall on 14 November 2012 in advance of the formal transition of public health functions and staff to the Council on 1 April 2013. This has brought the team physically closer to council colleagues and is promoting integrated working. It is anticipated that the team will move into Plough Lane in 2014 following its refurbishment.

11. Community Impact

11.1 The Department of Health's vision is to build on local government's long history of public health leadership, and for local authorities to use their new responsibilities and resources to put health and wellbeing at the heart of everything they do, thereby helping people to lead healthier lives, both mentally and physically. This means:

a. including health in all policies so that each decision seeks the most health benefit for the investment, and asking key questions such as "what will this do for the health and wellbeing of the population?" and "will this reduce health inequalities locally?";

a. investing the new ring-fenced grant in high-quality public health services;

b. encouraging health promoting environments, for example, access to green spaces and transport and reducing exposure to environmental pollutants;

c. supporting local communities - promoting community renewal and engagement, development of social networks for young families and isolated elderly people;

d. tailoring services to individual needs – taking a holistic approach, focusing on wellness services that address multiple needs rather than single issue services, and using new technologies to develop services that are easier and more convenient for users;

e. making effective and sustainable use of all resources, using evidence to help ensure these are appropriately directed to areas and groups of greatest need and represent the best possible value for money for local citizens.

11.2 To do this successfully will require a willingness to use all the tools at local authorities' disposal in a new way and not just rely on commissioning traditional services. Local authorities will need to work with a wide range of partners across civil society, not least the third sector, including through their leadership of Health and Wellbeing Boards. They will be supported in this by Healthwatch which through its seat on the local Health and Wellbeing Board will better enable people to help shape and improve health and social care services.

11.3 Local authorities already do this up and down the country. From 2013, with their new powers and resources they will be ideally placed to go further in creating healthier communities.

12. Equality and Human Rights

12.1 The Public Health transition programme is compliant with existing Equality and Diversity Policies and has carried out an Equality Impact Assessment as part of the transfer of Public Health Staff.

13. Financial Implications

13.1 The Council will receive a ring-fenced public health grant to support it in carrying out its new public health functions based on historical spend on the services transferring. The indicative allocation for Herefordshire for 2013/14 is approximately £6.5 million. Around £5m of this is committed within contracts which will be dealt with as described in section 10.8. Approximately £1.5m of the resource covers staffing, overheads, and other running costs of the public health function. An announcement of the actual figure is expected mid-January.

14. Legal Implications

14.1 A review has taken place to determine the legal implications for Herefordshire Council of the Health and Social Care Bill and associated regulations. This review summarised the new responsibilities for Herefordshire Council and has led to the programme to determine the changes needed for the constitution.

15. Risk Management

15.1 A risk analysis has been done and is regularly reviewed. The key risks can be summarised as:

a. Actions to transfer staff, contracts, pensions and finances don't happen in time to transfer by the deadline;

b. Insufficient financial resources to cover Public Health responsibilities;

c. Herefordshire Council fails to understand the new duties and doesn't prepare itself sufficiently;

d. Insufficient capacity to both maintain key public health functions during the transition period and to implement the Public Health Transition Plan;

e. Transition work diverts staff from important public health work that could impact on performance against public health targets.

f. Insufficient assurance in relation to functions transferring to other legacy organisations, for example screening and immunisation programmes and Emergency Preparedness, Resilience and Response (EPRR).

16. Consultees

16.1 A comprehensive Communications and Engagement Strategy and supporting 90 Day Action Plan has been developed which the Department of Health has reviewed and rated as green describing it as “A very comprehensive strategy and plan”.

17. Appendices

17.1 None

18. Background Papers

Cabinet – Thursday 12 July 2012 – Item 9 – Update on the Implementation of the Public Health Transition Plan

Public Health Transition Plan Cabinet Report 12th July 2012

Overview of the Health and Social Care Act 2012

Public Health in Local Government – Department of Health Factsheets (Dec 2011)

(www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/documents/digitalasset/dh_131904.pdf)

- Local government leading for public health
- Local Government’s new public health functions
- The role of the Director of Public Health
- Commissioning responsibilities
- Public health advice to NHS commissioners
- Professional appraisal and support, and capacity building

Herefordshire Council

MEETING:	**CABINET**
DATE:	**17 JANUARY 2013**
TITLE OF REPORT:	**PETITION – CHARGES ON ETNAM STREET CAR PARK, LEOMINSTER**
REPORT BY:	**COMMUNITY PROTECTION MANAGER**

1. Classification

Open.

2. Key Decision

This is not a key decision.

3. Wards Affected

Leominster North, Leominster South.

4. Purpose

To provide the background and context to allow Cabinet to debate a petition submitted in respect of the introduction of a parking charge on Etnam Street car park Leominster.

5. Recommendation(s)

THAT:

Cabinet debate a petition submitted by 'Friends of Leominster Town' and that as a result of the debate the Cabinet Member, Education & Infrastructure, prepare a response to the petition.

6. Key Points Summary

- A petition submitted by the 'Friends of Leominster Town' has reached the trigger in terms of numbers of signatures to initiate a debate.
- The petition is submitted on the basis that the decision to introduce a charge to park on Etnam Street car park, Leominster, will result in shoppers and visitors staying away from the town which will damage local businesses and the economy.
- There is a projected shortfall in the car park income budget 2012-13. This is just a

Further information on the subject of this report is available from Shane Hancock, Community Protection Manager on Tel: (01432) 261752

part of a more significant budgetary challenge faced by the council.

- Following the annual car parking charges review 2012-13 a charge was introduced to park in the previously free short stay Etnam Street car park, Leominster, with effect from 19 November 2012.

- The charge introduced is believed to be reasonable in the context of the budget position faced by the council, and in terms of benchmarking against neighbouring and peer authority parking charges.

- The charge was introduced following consultation with Leominster Town Council and an open invitation to them to propose other options.

- Car parking charges, whilst a part of the economic mix, are not the sole determinant of the economic prosperity of an area.

7. Alternative Options

7.1 There are no alternative options to debating the petition. The Herefordshire Council Constitution, Part 5 Codes and Guidance, allows for a petition which pertains to an area or locality to be formally recognised within the petitions scheme and, using the electoral roll for the area as a baseline, should such a local petition receive a number of signatures equivalent to or greater than 5% then this could trigger a debate.

8. Reasons for Recommendations

8.1 The petition subject of this report has met the trigger point for a debate at a relevant council meeting.

9. Introduction and Background

9.1 In line with the council's charging principles an annual review of car park charges resulted in a Cabinet Members Report that recommended an increase to existing car park tariffs in a number of car parks across the County and the introduction of charges in two free car parks.

9.2 Specifically, in relation to the petition subject of debate, the report recommended the introduction of charges on Etnam Street car park, Leominster. The report was presented to the Leadership Team, Leaders Briefing, and was the subject of Ward Member briefings and consultation with the City and Town Councils. The decision to implement the recommendations was made by the Cabinet Member Education & Infrastructure on 11 October 2012 with the new charges being implemented with effect from 19 November 2012.

9.3 A petition has been submitted to preserve free parking on Etnam Street car park. This submitted petition, together with an e-petition, contained approximately 2,350 signatures, sufficient to trigger a debate.

10. Key Considerations

10.1 Following a review of car park charges, recommendations made to the Cabinet Member Education & Infrastructure were agreed and implemented with effect from 19 November.

This included a decision to implement parking charges on the previously free Etnam Street car park in Leominster.

10.2 Etnam Street car park is a short stay car park situated in the centre of Leominster town. It has around 160 car park spaces. Notwithstanding that it was a free car park it represented a cost to the council in terms of rates payable and enforcement of the limited waiting restriction.

10.3 The review of car parking charges was carried out in the context of the council's charging principles which aim to maximise income from fees and charges, a challenging budgetary position for the council particularly around social care provision, but also a projected shortfall in the car park income budget of £320,000, and an emerging Local Transport Plan seeking in part to influence driver behaviour over choice of mode of travel.

10.4 The decision to introduce a parking charge was influenced by a view that continued free parking was no longer affordable for the council in the context of its budget, and that ongoing free parking was unlikely to encourage people to think about alternative modes of travel.

10.5 Notwithstanding the desire to maximise income and influence travel behaviour, the greater dependence on cars in the market towns was acknowledged in the level of tariff applied to the car park, a charge that mirrors the charge in place on the other short stay car park (Central Area) in Leominster. This is an approach taken in all of the market towns. Tariffs also try to reflect the different economic challenges the market towns have over Hereford, and the prevailing economic position was also considered as a part of the review. As a consequence parking charges in Leominster for short stay car parking are 50% lower than in Hereford to reflect this.

10.6 Benchmarking carried out against neighbouring towns and against market towns in a wider range of peer authorities also formed a part of the review in determining charges. Whilst this exercise did reveal some free parking in some market towns, it also showed that the average charge for short stay parking, where charges were made, was between 23% and 40% higher across tariff lines than the average charge for short stay parking in Herefordshire market town car parks.

10.7 The availability of free on-street street parking in around Leominster town centre, so providing a degree of choice, was also a factor in determining that a charge for parking in Etnam Street car park was reasonable.

10.8 The issue of reasonableness is also evident in the context that, across all council car parks, the level of increase agreed by the Cabinet Member was such that projected additional income remained less than the shortfall in the car park income budget, which is now projected at around £120,000. The level of charge increase required to meet the shortfall was considered, but rejected on the basis of what was reasonable in the current economic climate.

10.9 In arriving at the proposed final charging structures across all areas the Cabinet Member was mindful of providing the respective City and Market Town Councils with an opportunity to influence and shape decisions. In respect of Leominster specifically, in furtherance of this a briefing session was held with Local Members on 25 July 2012. Following this, on 27 July a letter, with the proposals, was sent to the Clerk at Leominster Town Council. This invited the town council to put forward alternative charging options to those proposed if they felt that was appropriate. The town council responded to the consultation on 20 August. The response objected to the proposal to introduce charges on Etnam Street car park stating that it "is a key feature of the town centre in that it provides free parking for small shops in competition with supermarkets and the free parking which they provide". The response did not propose any alternative parking charges. On 12 September the town council was sent, for consideration, a modelled option that showed increased charges across other town car parks that might realise the projected income and allow Etnam Street to remain as a free car park. A response to this was not received. A reminder seeking comment was sent on 21 September, but no response was received.

10.10 Whilst the consultation timescale was tight there is evidence from the process that it worked, with changes being made to the proposals for Hereford car parks as a consequence of feedback from the City Council, and in respect of Ledbury in particular, where significant work and local consultation by the town council resulted in their proposal for car parking charges across all town car parks being broadly accepted as an alternative to the proposal put to them.

10.11 The petition is submitted on the basis that the charge introduced will result in fewer visitors and shoppers going to the town which in turn will have a detrimental impact on businesses and the economy.

10.12 There is in fact limited hard research evidence to support a direct link between parking and either a strong or weak local economy, albeit it is often the argument put forward against parking charges. Whilst parking is undoubtedly a part of the economic mix, much of the limited evidence that is available suggests that it is a town's broader retail, commercial, leisure and/or tourism offer which is the primary factor affecting a towns' competitiveness, not parking charges.

10.13 It appears that at the heart of the debate is the issue of whether the principle of a charge on the car park, and the level of the charge, will have a serious detrimental impact on the local economy.

10.14 It is not unusual that when car park charges are raised or introduced for the first time there will be a fall off in usage at the car park(s) affected. This is currently being seen at Etnam Street with less people parking there than when it was free. Counts have been taken at different times and dates by enforcement officers and these are shown at Appendix A. Photographs taken on 17 December are shown at Appendix B.

10.15 Income off the car park in the period 19 November to 18 December was £5,842 net.

10.16 The projected full year income assumed off the car park is circa £79,000. If the level of parking remains at current levels the full year income is more likely to be circa £50,000.

11. Community Impact

11.1 Not applicable in the context of this report.

12. Equality and Human Rights

12.1 Not applicable in the context of this report.

13. Financial Implications

13.1 A decision to re-instate free parking at Etnam Street car park will have a financial impact. The projected full year income off the car park is circa £79,000. This is an estimated figure calculated on the basis of income being achieved on the other short stay car park in Leominster and the estimated occupancy of the car park. This figure could be less or more depending on actual use. Current levels of use would indicate a full year income of circa

£50,000.

14. Legal Implications

14.1 Not applicable in the context of this report.

15. Risk Management

15.1 Not applicable in the context of this report.

16. Consultees

16.1 Not applicable in the context of this report.

17. Appendices

17.1 Appendix A – occupancy count Etnam Street Car Park

Appendix B – photographs taken on 17 December 2012.

18. Background Papers

18.1 Car Parking Charges Review 2012-13 - a Report to Cabinet Member, Education & Infrastructure.

Appendix A – Occupancy counts – Etnam Street Car Park, Leominster

Etnam Street car park occupancy (capacity 160)	
Time/Date	**Number of cars parked**
12.10 hrs 28/11/12	58
14.20 hrs 29/11/12	51
11.50 hrs 30/11/12	140
13.00 hrs 01/12/12	66
13.15 hrs 03/12/12	65
13.40 hrs 04/12/12	69
11.50 hrs 05/12/12	72
14.55 hrs 05/12/12	41
11.00 hrs 06/12/12	58
11.40 hrs 07/12/12	114
12.00 hrs 10/12/12	53
09.45 hrs 11/12/12	26
11.35 hrs 12/12/12	62
12.55 hrs 17/12/12	86
Occupancy survey across all car parks on 23/04/12	
11.00 hrs 23/04/12	91

APPENDIX B – PHOTOGRAPHS TAKEN ON ETNAM STREET CAR PARK 17/12/12