

AGENDA

General Overview & Scrutiny Committee

Date: **Tuesday 13 December 2016**

Time: **4.30 pm**

Place: **Council Chamber, The Shire Hall, St Peter's Square,
Hereford, HR1 2HX**

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

For any further information please contact:

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If you would like help to understand this document, or would like it in another format, please call Tim Brown, Governance Services on 01432 260239 or e-mail tbrown@herefordshire.gov.uk in advance of the meeting.

Agenda for the meeting of the General Overview & Scrutiny Committee

Membership

Chairman **Councillor WLS Bowen**
Vice-Chairman **Councillor CA Gandy**

Councillor JM Bartlett
Councillor MJK Cooper
Councillor J Hardwick
Councillor EPJ Harvey
Councillor JF Johnson
Councillor MT McEvelly
Councillor AJW Powers
Councillor NE Shaw
Councillor EJ Swinglehurst
Councillor A Warmington
Councillor SD Williams

(co-optees educational issues)

Mr P Burbidge
Mrs A Fisher

Mr P Sell

Roman Catholic Church
Parent Governor Representative: Primary
Schools
Church of England

AGENDA

		Pages
1.	<p>APOLOGIES FOR ABSENCE</p> <p>To receive apologies for absence.</p>	
2.	<p>NAMED SUBSTITUTES</p> <p>To receive details of members nominated to attend the meeting in place of a member of the committee.</p>	
3.	<p>DECLARATIONS OF INTEREST</p> <p>To receive any declarations of interest by members.</p>	
4.	<p>MINUTES</p> <p>To receive the minutes of the meeting held on 14 November 2016.</p>	7 - 14
5.	<p>SUGGESTIONS FROM THE PUBLIC</p> <p>To consider suggestions from the public on issues the committee could scrutinise in the future.</p> <p>(There will be no discussion of the issue at the time when the matter is raised. Consideration will be given to whether it should form part of the committee's work programme when compared with other competing priorities.)</p>	
6.	<p>QUESTIONS FROM THE PUBLIC</p> <p>To note questions received from the public and the items to which they relate.</p> <p>(Questions are welcomed for consideration at a scrutiny committee meeting subject to the question being directly relevant to an item listed on the agenda below. If you have a question you would like to ask then please submit it no later than 5.00 pm on Thursday 8 December 2016 to tbrown@herefordshire.gov.uk)</p>	
7.	<p>DRAFT 2017/18 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY (MTFS) UPDATE</p> <p>To seek the committee's views on the budget proposals for 2017/18 and update term financial strategy (MTFS).</p>	15 - 56
8.	<p>DATE OF NEXT MEETING</p> <p>The next scheduled meeting is Tuesday 17 January 2017 at 10.00am.</p>	

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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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- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Cabinet, committees and sub-committees.
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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of General Overview & Scrutiny Committee held at Council Chamber, The Shire Hall, St Peter's Square, Hereford, HR1 2HX on Monday 14 November 2016 at 11.00 am

Present: Councillor WLS Bowen (Chairman)

Councillors: JM Bartlett, J Hardwick, EPJ Harvey, JF Johnson, MT McEvelly, GJ Powell, AJW Powers, A Seldon, NE Shaw, EJ Swinglehurst and SD Williams

In attendance: Councillors H Bramer- cabinet member - contracts and assets, AW Johnson - leader of the council, JG Lester - cabine member young people and children's wellbeing and PM Morgan – cabinet member health and wellbeing.

Officers: G Hughes – director economy, communities and corporate, R Ball – assistant director environment and place, S Burgess – head of transport and access services, A Harris - head of management accounting, I Higgs – development manager, A Lewis – passenger transport manager, J Rushgrove – head of corporate finance, M Taylor - interim director of resources.

39. APOLOGIES FOR ABSENCE

Apologies were received from Councillors CA Gandy and A Warmington. Apologies were also received from Councillor P Rone – cabinet member – transport and roads and from Mrs A Fisher, one of the statutory co-optees.

40. NAMED SUBSTITUTES

Councillor GJ Powell substituted for Councillor CA Gandy and Councillor A Seldon for Councillor A Warmington.

41. DECLARATIONS OF INTEREST

Agenda item 10 – Passenger Transport Review Consultation

Councillor A Seldon declared a non-pecuniary interest as Chairman of Bromyard Community Transport.

42. MINUTES

RESOLVED: That the minutes of the meeting held on 27 September 2016 be approved as a correct record.

43. SUGGESTIONS FROM THE PUBLIC

No suggestions had been received.

44. QUESTIONS FROM THE PUBLIC

Questions had been received in relation to agenda item 8: Proposed 2017/18 Capital Budget from Mrs E Morawiecka and Mrs V Wegg-Prosser.

The questions and responses had been published in a supplement to the agenda.

45. DRAFT 2017/18 BUDGET AND MEDIUM TERM FINANCIAL STRATEGY UPDATE

(This meeting followed on from the Health and Social Care Overview and Scrutiny Committee, to which members of the General Overview and Scrutiny Committee had been invited. The presentation made to that Committee on the draft 2017/18 budget and medium term financial strategy had also been circulated to members of the General Overview and Scrutiny Committee as a supplement to the agenda.)

The interim director of resources reiterated that a further report would be made to the Committee in December updated in the light of the Autumn Statement.

The Chairman invited further questions and comments from committee members. In discussion the following principal points were made:

- The budget proposals and savings plans indicated that there would be increasing pressure on local communities to take on responsibility for delivering services if they wished them to continue in their locality. It was suggested that the Council should promote discussions with Parish and Town Councils about funding services in a co-ordinated way. It was also noted that in response to question 4 in the budget consultation that a number of respondents thought that their parish council should charge extra to carry out certain activities. A further suggestion was made that there might be different discussions to be had with the Town Councils and larger Parish Councils compared with the smaller more rural councils.
- It was questioned whether houses were being built at a sufficient pace to meet the council's targets. Only some 10% of development for which planning permission had been granted appeared to be being progressed. The largest housebuilding companies seemed to be more interested in maintaining land banks. Infrastructure issues were also holding back development in the county.

The interim director of resources (IDR) commented that the updated version of the budget report would comment on the robustness of the budget assumptions about housing delivery.

The IDR acknowledged the uncertainty over the implications of the government's proposals for business rate retention and that the position would need to be monitored.

- In response to a question about the Council's legal proceedings against Amey as its former contractor the Director of Economy, Communities and Corporate (DECC) commented that Amey was seeking leave to appeal the recent decision of the Court to award a sum to the Council. The Council was proceeding on the basis that it might take some 18 months to resolve all the matters under dispute and it would not be prudent to allocate any of the funds secured until the process had been finalised.
- With reference to paragraph 47 of the report the weight that could be given to the response to the budget consultation was discussed. A view was expressed that it was clear from the responses that the consultation had reached a wide demographic. The respondents also included a number of Parish Councils and other groups which represented the views of many residents. The suggestion in the report that the respondents may not represent the views of the general population was therefore challenged. The consultation response that 53% of responses supported the Council

in making a further increase in council tax above 3.9% was highlighted. It was asked how the consultation findings had influenced the budget proposals.

The IDR commented that matters arising from the consultation would be discussed with the executive and any changes reflected in the next, updated version of the report..

- The presentation of the new homes bonus and the rural service delivery grant (RSDG) as part of the pooled funding supporting expenditure was questioned. It was suggested that proposals for the use of the RSDG should have formed part of the budget consultation. Officers commented that clarification could be provided. However, neither grant was ring-fenced. The DECC commented that the RSDG had been allocated as a “smoothing” grant recognising the higher costs of delivering services in rural areas. Under the MTFs the most challenging year was yet to come and some of the grant was being held in reserve mindful of the risks that lay ahead including the government’s proposals for business rates. In response a Member suggested that the sum should therefore be shown as part of the reserves.
- In response to a question about car parking income the DECC commented that the targeted income for the year had not been achieved and any further increase in charges would need to be carefully considered. A member requested that as the shortfall had arisen as a result of a reduction in income from the City that Market Towns were not penalised to offset the shortfall.
- It was requested that any new homes fund income generated as a result of development not included in the Core Strategy should be the subject of a consultation exercise as to how it was spent.
- A member expressed regret that savings in the ECC directorate appeared disproportionate and would have an impact on services that most residents experienced.
- Short term savings could lead to unintended consequences. For example the increased car parking costs could lead to more traffic regulation orders to control unwelcome parking.
- It was suggested that the responses to the budget consultation contained a number of incorrect assumptions and it would be helpful if these could be corrected in a covering note.

A number of requests were made for amendments to be reflected in the next iteration of the budget report. These included:

- With reference to paragraphs 22-24 of the report it would be helpful if the report provided a summary of the position on reserves and balances up until 2020.
- It was proposed that the executive be asked to take full account of the consultation on the budget and reflect the views expressed in their budget proposals, indicating in the next report back to the committee the extent to which the consultation findings had influenced budget proposals, and, if the findings had been discounted, the rationale for taking that course.
- Clarification of what was included in the budget line: central corporate costs.
- Inclusion of information on gross income and expenditure figures
- Information on the uplift in council tax revenue and the trend over recent years to establish if the income expectations were being met.
- It was requested that there should be consistency of terminology and additional information to show changes, including virements, between one budget report and another to ensure transparency. It was observed that the external auditors in reporting to Audit and Governance Committee had commented on difficulties users of financial reports faced in this regard.

RESOLVED:

- That
- (a) the executive be recommended to work with Parish and Town Councils to explore options for service delivery;
 - (b) the executive be recommended to make representations to local MPs and others to ensure that the voice of the County is being heard in relation to the government's business rate proposals and the views of local MPs reported;
 - (c) the clarity of the budget report should be reviewed and officers requested that the report should be amended to include detail of gross income and expenditure, consistency of terminology, virements over the year to identify actual expenditure, analysis of the use of the Rural Services Delivery Grant, clarity over income; and
 - (d) the executive be asked to take full account of the consultation on the budget and reflect the views expressed in their budget proposals, indicating in the next report back to the overview and scrutiny committees the extent to which the consultation findings had influenced budget proposals, and, if the findings had been discounted, the rationale for taking that course.

46. PROPOSED 2017/18 CAPITAL BUDGET

The Committee was invited to provide cabinet with comments on the proposed capital budget for 2017/18 onwards for recommendation to Council on 16 December 2016.

The interim director of resources presented the report.

A number of members had detailed questions that they wished to ask and indicated that they were content for these to be dealt with by written answer and appended to the Minutes.

RESOLVED: That written answers be provided to questions raised at the meeting and appended to the Minutes.

47. EDGAR STREET STADIUM, HEREFORD - LEASE PROPOSALS

The Committee considered the options available to the council prior to entering into longer term arrangements on the stadium premises.

The development manager presented the report.

Mr K Kinnersley, Chief Executive Officer of Hereford FC had been invited to address the meeting. He gave a short statement reminding the Committee of the background to the Club's position. When considering forming a new football club the view had been that the Edgar Street stadium would be key to maintaining support. He outlined a range of measures the club was undertaking to continue to secure support including plans to maintain and encourage community involvement.

He reported that the Club's aim was to a return to National followed by Football League status. In relation to the ground this meant returning the stadium to four sides to comply with league Regulations. A long lease of some 35-50 years would be required at some

point in the future to achieve that ambition as it would require the construction of a new stand. In the meantime a ten year lease would be welcomed as an interim measure prior to seeking grant funding for future development.

In discussion support was expressed for the football club's efforts and the principal consideration was whether a longer lease should be considered. Mr Kinnersley confirmed that a 10 year lease was satisfactory at this stage.

RESOLVED:

- That**
- (a) the executive be advised that the Committee supports the proposed grant of a new lease to the current tenant for a term of 10 years, commencing at some point prior to the expiry the current lease; and**
 - (b) a further report is presented to the Committee setting out the long term proposals for the Edgar Street stadium following an appraisal by the football club, council and potential development partners of the options.**

48. PASSENGER TRANSPORT REVIEW CONSULTATION

The Committee's views were sought on the options under consideration as part of the passenger transport review and comments sought on the outputs of the bus service consultation.

The head of transport and access services presented the report.

In discussion the following principal points were made:

- It was difficult to make bus routes viable. Many were sustainable only if there was one contractor.
- The impact of the Health service strategic transformation plan needed to be considered. Many bus journeys were for health appointments.
- Many bus journeys were by older people and if bus services were cut and there was no community transport as an alternative they faced difficulties.
- Consideration needed to be given to the bigger picture, growing the service to reduce car traffic, using new technology and offering incentives to travel by bus.
- The local transport plan was focused on bus routes to and from Hereford. More consideration needed to be given to routes from the market towns to neighbouring counties.
- Significant reductions in bus services had already been made. It was questioned whether the further savings being proposed were deliverable. These implied a reduction in service to a core network with no rural provision.
- Consideration should be given to the needs of residents and how these might best be met. One option might be to look at community transport areas and the social, economic and environmental advantages of continuing to provide a bus service. Because services ran across parish council areas it was not an issue that could easily be addressed in discussion with them.
- Regard needed to be had to the wider consequences of reducing bus services which could include increased costs to the council to address other issues the service reduction inadvertently created. There were indications, for example, that a removal

of evening services in one area had led to an increase in the crime rate in the evenings, as a consequence of reduced social opportunities for young people.

- The use of the word “subsidy” had a negative connotation. Funding of the bus service should rather be regarded as an investment or spend to save initiative. The proposed savings represented 0.6% of the revenue budget but would have a disproportionate effect on people’s quality of life.
- Account should be taken of wider research and rural transport initiatives including for example the Local Government Association publication: Missing the Bus, and initiatives developed using the national Total Transport pilot fund.
- The scope for Parish and Town Councils to use the powers available to them under S137 of the Local Government Act 1972 should be assessed.

RESOLVED:

- That
- (a) rather than considering the findings of the passenger transport review in isolation, the executive is recommended to explore the scope for developing proposals to address the needs of local communities as a whole;
 - (b) consideration be given to initiatives developed using the national Total Transport pilot fund and other rural transport initiatives; and
 - (c) the scope for Parish and Town Councils to use the powers available to them under S137 of the Local Government Act 1972 be assessed.

49. WORK PROGRAMME

The Committee considered its work programme.

The Chairman reported changes to the membership of the Task and Finish Group on Devolution. The Group now comprised himself, and councillors James, Phillips and Powell.

RESOLVED: That the draft work programme be noted.

50. DATE OF NEXT MEETING

It was noted that whilst the next scheduled meeting was Tuesday 17 January 2017 at 10.00 am, an additional meeting would be held before then to give further consideration to the revenue budget.

Appendix - Responses to questions asked during consideration of proposed 2017/18 capital budget

The meeting ended at 2.10 pm

CHAIRMAN

Appendix

General overview and scrutiny committee question	Response
How is the Marches business improvements grant scheme funded?	This is funded through an European Regional Development Fund grant.
Have additional suggested projects failed to be proposed as additions in appendix 2?	A number of suggestions are undergoing feasibility studies, these will be considered at a later date following conclusion of the feasibility work.
Is the proposed corporate property estate work on properties in which Herefordshire Council has a long term interest?	Yes the proposed £1.2m investment will be in properties owned and retained by Herefordshire Council.
Is the proposed £2.0m for the purchase and repair of existing open market properties to house vulnerable young adults, care leavers and those that require assistance to live independently a duplicate of the Cabinet decision on 3 November to waive the clawback of capital receipts?	No the proposed investment is not a duplication. The proposal covers all client groups (children, mental health etc.) and general needs housing, whereas the waiver will predominantly cover learning disability accommodation need.
What revenue savings across adults and children is expected from the proposed match funding in RSL owned properties?	The match funding is expected to generate annual savings of between £25k and £42k per client depending on the individual's circumstances.
Can more details be shared on the proposed allocation of £3.8m to support an application for external capital grant funding towards continued improvements to the county's roads?	The £3.8m represents proposed council contributed funding towards an expected capital bid to the DfT in the new year for investment in the county's principal road and bridge network.
Although not covered in the report did the 12/13 through to 16/17 MTFS include a capital receipts target of £60m?	The Treasury Management Strategy (TMS) for 14/15 included a £40m capital receipts target and this is updated as part of the annual TMS refresh.
What is the current thinking of the use of capital receipts over the period of the MTFS?	The current treasury management strategy shows an element of capital receipts being used to reduce the need to borrow.
Where does the £13.3m of capital receipts allocated against the approved capital programme come from?	The £13.3m represents anticipated enterprise zone receipts and receipts from rationalising the property estate.
What is the development partnership?	On the 17 June Cabinet approved the decision to commission a developer to progress the development of suitable sites in its ownership.
Will the development partnership be part funded by capital receipts or borrowing?	The appointment of a development partner is expected to be awarded in the summer, the potential funding and the detail of how this would be deployed will follow appropriate decisions by Cabinet.

<p>What will be the net effect of the proposed £9.7m additional borrowing requirement?</p>	<p>The indicative costs are shown in the financial implications section of the report, all projects are assessed to ensure they deliver added value to the council's residents. Following Council approval the overall estimated borrowing position will be updated and reflected in the treasury management strategy refresh.</p>
<p>Do the proposed additions include all bids for Growth Fund grants through the LEP that require match funding?</p>	<p>Yes, all Herefordshire Council growth fund match funding bids are included in Appendix 2.</p>



MEETING:	General overview and scrutiny committee
MEETING DATE:	13 December 2016
TITLE OF REPORT:	Draft 2017/18 budget and medium term financial strategy (MTFS) update
REPORT BY:	Interim director of resources

Classification

Open

Key decision

This is not an executive decision.

Wards affected

County-wide

Purpose

To seek the committee's views on the budget proposals for 2017/18 and updated medium term financial strategy (MTFS).

Recommendation

THAT: the committee determines if it wishes to make any additional recommendations or recommend consideration of any alternative options in relation to the draft 2017/18 budget proposals (at appendix 2) or the updated draft MTFS (at appendix 3), to inform the cabinet's recommendations to full Council.

Alternative options

- 1 It is open to the committee to recommend alternative spending proposals or strategies; however given the legal requirement to set a balanced budget should additional expenditure be proposed compensatory savings proposals must also be identified.

Further information on the subject of this report is available from Josie Rushgrove, head of corporate finance on tel (01432) 261867

Reasons for recommendations

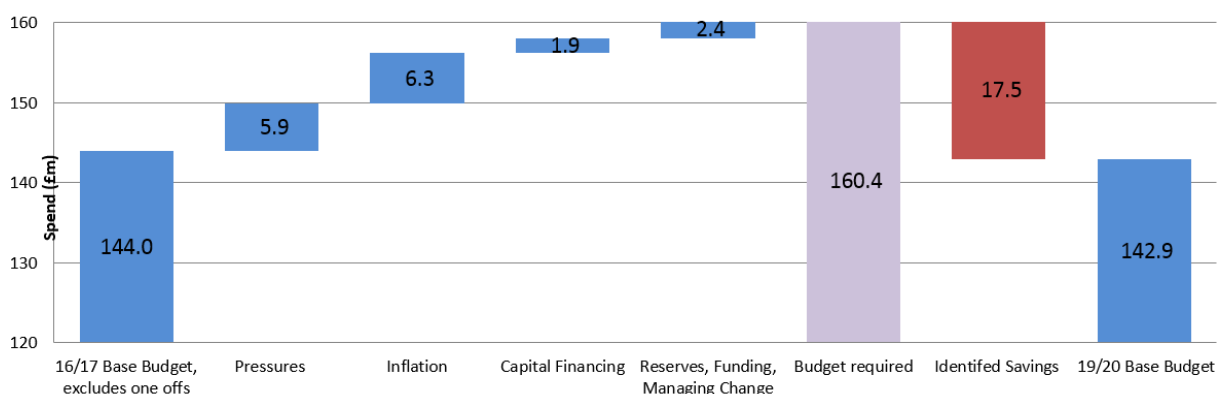
- 2 The council’s budget and policy framework rules require that cabinet have regard to the views of overview and scrutiny in developing their recommendations to Council on budget and policy framework items.

Key considerations

- 3 The MTFS has been updated to reflect current spending, a review of proposed savings plans, treasury management costs, contingencies and demographic pressures. It assumes a 1.9% general increase in council tax plus an increase of 2% in relation to the adult care precept, a total increase of 3.9%. Central government funding is included as accepted in the four year funding settlement. This report provides an update to the report shared considered by the committee on 14 November.
- 4 The autumn statement did not provide any fundamental changes to our previous budget and MTFS assumptions. Confirmation of capital budget implications are expected to be shared over the coming weeks.
- 5 Cabinet will consider the draft 2017/18 budget, MTFS and the treasury management strategy on 19 January for recommendation to full Council on 3 February 2017.

Current savings plan 2017/18 to 2019/20

- 6 The current savings plans require £17.5m of savings in the period from 1 April 2017 to 31 March 2020, this represents the funding gap arising from increased costs and reduced funding, as shown below.



- 7 The council delivered £59m of savings in the financial years 2010/11 to 2015/16, with an additional £10.9m required in the current financial year, 2016/17. Looking forward an additional £17.5m of savings in the financial period 2017/18 to 2019/20 is needed. This gives total savings for the financial period 2010/11 to 2019/20 of £87m.

- 8 Savings have been reviewed as part of the budget setting process, these are attached as appendix 1 and are summarised in the table below.

	2017/18 £m	2018/19 £m	2019/20 £m	Total 2017- 2020 £m
Adults and wellbeing	2,400	1,950	1,500	5,850
Children's wellbeing	1,159	1,572	1,050	3,781

Further information on the subject of this report is available from Josie Rushgrove, head of corporate finance on tel (01432) 261867

Economy, communities and corporate	3,291	2,300	2,260	7,851
Total	6,850	5,822	4,810	17,482

- 9 The implementation of individual savings proposals may require further approvals that will include specific consultation as necessary prior to their implementation.

Draft budget 2017/18

- 10 The draft budget for 2017/18 is set out below and detailed in appendix 2. This reflects increases in inflation, pressures, savings and other adjustments.

Directorate	Current base budget 2016/17 £000	Net changes £000	Proposed base budget 2017/18 £000
Adults and wellbeing	51,243	(85)	51,158
Children's wellbeing	20,875	278	21,153
Economies, communities and corporate	46,540	(1,800)	44,740
Total directorates net budget	118,658	(1,607)	117,051
Centralised pension deficit and housing benefits costs			6,458
Capital financing - debt repayments			11,074
Capital financing - interest			6,785
Other central budgets			1,050
One off funding			2,600
Total net spend (budget requirement)			145,018
Financed by			
Council tax			92,861
Locally retained business rates			22,415
Business rates top up & S31 grant			10,197
Revenue support grant			10,090
New homes bonus			4,651
Rural services delivery grant			4,093
Transitional grant			576
Reserves			135
			145,018

Financing

- 11 The 2017/18 net budget requirement is financed by retained funding from council tax (£93m) and business rates (£22m). Assumptions include a 3.9% increase in council tax and business rate reliefs being funded via a central government grant. Central government funding is included as accepted in the four year funding settlement.
- 12 Future year funding assumptions are also based on a 3.9% council tax increase, 1.5% inflationary increase in business rates and the central government four year funding

Further information on the subject of this report is available from
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settlement. The net budget requirement excludes specific directorate income and grant allocations.

Gross budget

- 13 In addition to the net budget the council receives and distributes grant income in accordance with the funding conditions alongside receipts from fees and charges. Inclusion of these income streams provides the councils gross budget, this is currently expected to be as shown below. Confirmation of the grant amounts is expected in the financial settlement.

	Current gross budget £000	Income £000	Current base budget £000
Adults and wellbeing	79,529	(28,371)	51,158
Children's wellbeing (includes DSG)	141,576	(120,423)	21,153
Economies, communities and corporate	51,135	(6,395)	44,740
Total directorates budget	272,240	(155,189)	117,051
Corporate	75,598	(50,231)	25,367
One off funding	2,600	-	2,600
Total budget	350,438	(205,420)	145,018

Reserves and balances

- 14 Part of the council's General Reserve is held as a Strategic Reserve to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve is maintained at a minimum level of between 3% and 5% of the Council's net revenue budget.
- 15 The remainder of the Council's General Reserve is to support one-off and limited on-going revenue spending and, in line with the four year settlement, for smoothing the impact of the late delivery of savings plans.
- 16 The council's also holds earmarked reserves to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed annually. If they are no longer required they will be transferred to the general reserve. Total reserves going forward are estimated to be as follows:

Balance as at	Strategic Reserve	General Reserve	School Balances	Earmarked Reserves	Total Reserves
	£m	£m	£m	£m	£m
31 March 2016	7.2	0.1	9.4	19.1	35.8
31 March 2017	7.3	3.6	7.2	18.0	36.1
31 March 2018	7.1	4.0	7.2	16.0	34.3
31 March 2019	6.8	-	7.2	14.0	28.0
31 March 2020	6.8	-	7.2	14.0	28.0

Further information on the subject of this report is available from Josie Rushgrove, head of corporate finance on tel (01432) 261867

Budget setting timetable

- 17 The draft budget will be updated and reported as follows:

Date	Action
16 December	Council to approve 2017/18 capital programme
19 January	Cabinet to review updated budget, MTFS and treasury management strategy (TMS)
3 February	Council to approve 2017/18 budget, updated MTFS and TMS
3 March	Council to approve council tax amounts for 2017/18

Community impact

- 18 The MTFS and budget demonstrate how the council is using its financial resources to deliver the priorities within the agreed corporate plan.

Equality duty

- 19 The Public Sector Equality Duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying “due regard” in our decision making in the design of policies and in the delivery of services.
- 20 We are currently carrying out a number of service specific equality impact assessments for the service specific budget proposals to assess the impact on the protected characteristic as set out in the Equality Act 2010.
- 21 The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified.

Financial implications

- 22 As set out in the report.

Legal implications

- 23 When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
- 24 The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure. The act also covers the legal issues around council tax setting.
- 25 Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit

budget. An intention to set a deficit budget is not permitted under local government legislation.

- 26 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.
- 27 Local government legislation requires an authority's S151 officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report. If they do not they must provide clear reasons for not following the professional advice put forward by the S151 officer.
- 28 Legal challenges to local authority budget setting processes have tended to turn on whether the authority has complied with its obligations under the Equalities Act 2010 - the public sector equality duty (PSED). This duty imposes a positive obligation on local authorities to promote equality and to reduce discrimination in relation to any of the nine 'protected characteristics' (age; disability; gender reassignment; pregnancy and maternity; marriage and civil partnership; race; religion or belief; sex; and sexual orientation). In particular, the council must have 'due regard' to the PSED when taking any decisions on service changes. However, the courts also recognise that local authorities have a legal duty to set a balanced budget and that council resources are being reduced by central government.
- 29 Where a decision is likely to result in detrimental impact on any group sharing a protected characteristic it must be justified objectively. This means that attempts to mitigate the harm need to be explored. If the harm cannot be avoided, the decision maker must balance this detrimental impact against the strength of legitimate public need to pursue the service remodelling to deliver savings. The more serious the residual detrimental impact, the greater the financial savings must be to justify the decision. The harm can only be justified if it is proportionate to the financial benefit and if there have been reasonable efforts to mitigate the harm.

Risk management

- 30 Section 25 of the Local Government Act 2003 requires the S151 officer to report to Council when it is setting the budget and precept (council tax). 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.
- 31 The budget has been updated using the best available information, current spending, anticipated pressures and the four year grant settlement.

- 32 The most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.
- 33 There are additional risks to delivery of future budgets including government policy changes and unplanned pressures. We are maintaining a general fund reserve balance above the minimum requirement and an annual contingency budget to manage these risks.
- 34 Demand management in social care continues to be a key issue, against a backdrop of a demographic of older people that is rising faster than the national average, and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on demand management through disease prevention and behaviour change is critical for medium term change. In addition re-setting our relationship with communities focussing services on areas of greatest professional need will support the MTFS.
- 35 There are on-going difficulties in achieving reductions in children's safeguarding costs, Herefordshire is high spending compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced.

Consultees

- 36 Consultation on the budget proposals commenced on 29 July and completed on 7 October, with the public responses being shared at the meeting held on 14 November.

Appendices

Appendix 1 - breakdown of savings plans by directorate

Appendix 2 - detail of draft budget

Appendix 3 – draft medium term financial strategy

Background papers

- None identified.

Savings Proposals 2017/18 to 2019/20

	2017-18 £m	2018-19 £m	2019-20 £m	Total 17-20 £m
Adults and wellbeing	2,400	1,950	1,500	5,850
Children's wellbeing	1,159	1,572	1,050	3,781
Economy, communities and corporate	3,291	2,300	2,260	7,851
Total	6,850	5,822	4,810	17,482

Savings Proposals

Adults and Wellbeing Directorate

Savings Proposal	Impact	Savings			
		2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Review, recommissioning and decommissioning of block contracts - including full year impact of 2016/17 savings	Reduction in some council funded services and supported housing by utilising alternative funding streams to increase community capacity, raising expectations and performance of existing information and advice services and enabling access to universal services. Individual EIA's will be undertaken as each contract is reviewed and recommissioned / decommissioned.	550	400		950
Reducing the need for formal care services by utilising strengths based reviews and incorporating informal community based support in care plans	Reduction in demand for formal care services and holding demographic pressures to 80% of expected. Access to support for those with eligible needs will be unaffected. Focus on developing community social support.	350	350	300	1,000
Managing contract inflation and securing contract efficiencies	No impact to service users and analysis of market sustainability undertaken to minimise impact on providers. The equalities impact of this proposal will be low/negligible as integral to their contract with the council, each contractor has an expectation to meet the Equalities Act 2010 criteria and this forms part of the contract monitoring arrangements to ensure that any impact is understood and addressed.	200	200	200	600
Review of high cost packages to ensure value for money placements through better use of supported living accommodation, community based options and workforce culture change programme resulting in more effective working practices with better outcomes for service users	Reducing costs of learning disability cohort leading to more equitable service provision that meets eligible needs at a reduced average cost in line with comparator authorities. The equalities impact of this proposal on service users will be low/negligible as they will be assessed correctly and against the criteria of new services available, and which are required to meet eligible needs.	700	700	300	1,700
Maximise income generation through increased telecare sales and client contributions for domiciliary care	The impact of the changes will be affordable as all services will only be charged for following individual financial assessments in accordance with Care Act (2014)	150	100	100	350
Reduction in staffing through partnership working and mobile working	No direct impact on service users due to increased productivity	200	200	600	1,000
Early delivery of public health savings		200			200
Sale of beds to self-funders		50			50
Total		2,400	1,950	1,500	5,850

Savings Proposals

Children's Wellbeing Directorate

		Savings			
Savings Proposal	Impact	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Manage contract inflation and secure contract efficiencies	The equalities impact of this proposal will be low/negligible. Integral to their contract with the Authority, each contractor has a scheduled expectation to meet the Equalities Act 2010 criteria and is part of the contract monitoring arrangements to ensure that any impact is understood and addressed.	250	250	250	750
Reduction in the number of looked after children	Will provide better long term outcomes for children who are in care and promote families staying together. The equality impact of this proposal will be low and fits in with the government proposal to ensure as many children as possible are cared for safely at home.	566	822	450	1,838
Accessing government grant to focus early help on the most vulnerable families to reduce the need for higher cost services	Improved school attendance, educational achievement, reduced anti-social behaviour, youth offending and increased employment. This targeted programme provides supportive interventions to specific families whatever their background. Under the Equality Act 2010 this work, undertaken by the council and its partners, pays 'due regard' to the need to: <ul style="list-style-type: none"> - Eliminate unlawful discrimination, victimisation and harassment - Promote equality with regard to the protective characteristics; although due to the targeted approach not specifically using the Protective characteristics. - Promote good relations. 	100	150	150	400
Organisational restructure to reflect the service requirements	Ensuring families benefit from a consistent and established service through a stable and capable social worker workforce.	243	350	200	793
Total		1,159	1,572	1,050	3,781

Savings Proposals

Economy, Communities & Corporate

		Savings			
Savings Proposal	Impact	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Efficiency savings Initiatives include: Management savings, staff restructures, saving on printing cost, reduction in storage costs at the Modern Records Unit.	No impact - efficiency savings	270	100	180	550
Back Office Services and Corporate Accommodation efficiencies	No impact - efficiency saving	500	450	250	1,200
Car Parking charges increase 26	<p>Increase in fees to support the Council's sustainable transport policies and manage available spaces to support local economy. Potential adverse impact on trade if charges deter visitors. Structure of charges will aim to address local circumstances and encourage visitors and shoppers to visit Hereford and the market towns. Income will be targeted to support transport services in accordance with the Council's Local Transport Plan.</p> <p>Concessions for 'blue badge' holders are not affected by the recommendations, this includes staff parking in council car parks. Any increase in charges will have an impact on all users of the car parks. The impact will naturally vary according to the necessity and frequency of use and what alternative transport arrangements are practicable. Whilst this impact is non-discriminatory in the sense that it applies to all, it is inevitably an impact that is less easily 'absorbed' by those with lower levels of household income. The balance between the impact on individual users and the wider public interest of the council has been considered, and in this context the proposal is considered to be justified.</p>	225	235		460
On-Street Car parking Project	<p>Introduction of on street charges in central Hereford and potential extension of residents parking in surrounding areas which will provide ongoing revenue to support transport services. Proposals will improve traffic circulation, increase turnover and availability of short term parking for shoppers, ensure provision for loading and unloading and improve parking for residents living close to the city centre.</p> <p>The only protected group relevant to this proposal would be disabled people who have a 'blue badge' concession for parking. The introduction of a charge for on street parking cannot be applied to 'blue badge holders' and hence they would not be negatively affected by the proposal. The proposal will be subject to further consultation and any details around location of identified disabled parking bays will be considered in the light of consultation responses.</p>	172			172

Savings Proposals
Economy, Communities & Corporate

Savings Proposal	Impact	Savings			
		2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Reduced cost of Public and School / College Transport and moving public transport information to online only	Reduction in public transport services, increased income from parental contributions and post 16 SEN transport users. Further savings from contract efficiencies. A transport funding review is underway which will explore a range of opportunities to reduce costs across all local passenger transport services and alternative sources of funding to support such service. Savings are likely to be achievable through the integration of passenger transport contracts, service efficiencies, moving more users onto commercial and supported bus services and review of eligibility for services. If this approach does not achieve the full savings target, it may be necessary to further reduce public transport subsidy. Public consultation carried out in autumn 2016 will inform decisions for 2017/18. Decisions have already been taken to withdraw transport services and these were subject to a full consultation and EIA . As future proposals are developed consultation and EIA will be undertaken and will form elements of future reporting and consideration by members.	275	180	150	605
Phased removal of subsidy for Community Transport organisations 27	The phased reduction in the support to Community Transport (CT) providers commenced in 2015/16 and the exploration of alternative funding sources to support such services. To continue this to full reduction by 2019/20 will have provided a five year transition period for providers to seek opportunities to increase their independent financial viability. Support has been made available for providers to take on more contracted work and also to assist them to increase their capacity. Grants have been available for new fleet and could be made available in future subject to funding being available. CT reductions were considered within the consultation for the transport and travel review 2014 but at that stage there was no proposal to completely withdraw direct council support. If the council wishes to progress full withdrawal of support from 2018/19 then a further consultation and EIA would be required before confirming this decision. Whilst CT provides services for people who are 'disadvantaged' it is noted that this is not in itself a specifically defined protected characteristic within the EIA duty we are aware that the majority of CT users are elderly and/or have a disability which reduces transport options. Consultation in relation to public transport savings will be used to inform this proposal.		60	75	135
Change the Highway Maintenance Plan to allow higher quality planned repairs to be undertaken for significant safety related pothole defects rather than the current temporary fixes required to meet reactive timescales. This will reduce the overall cost and reduce the need for repeat treatments.	Remaining full-year impact of measures implemented during 2016/17. There are approximately 50 potholes a month that were previously filled temporarily in this way and this change has allowed them to form part of a programme of works on the basis of a risk assessment based on location, road type and traffic flow, as occurs with other defects. The new method will be more cost effective.	150			150

Savings Proposals
Economy, Communities & Corporate

		Savings			
Savings Proposal	Impact	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Phased removal of subsidies to parish councils for the Lengthsman and Parish Paths .	Decision taken to phase funding out over the MTF5 period. The condition of minor roads in Parish areas will be dependent upon whether Parish Councils choose to replace the subsidy with their own resources.	100	100	100	300
Community asset transfer of parks and open spaces	Sports pitch and parks maintenance cost saving through a programme to transfer responsibility for assets to community groups, town and parish councils and others. Impact of this proposal could see communities taking greater care and ownership of their local environment. Positive outcome on communities taking on responsibility for open spaces. If community or interest groups cannot be found and we are unable to continue the current level of maintenance, some users of open spaces may be affected in the reduction of amenity use.	100	90		190
Increased income and efficiency within Public Realm Services	Increase income from increased enforcement in relation to works carried out by utility companies on the highway (NRSWA) - reduction in highway defects. Investment in fleet and plant to reduce ongoing revenue cost and maintenance. No adverse impact upon service. Environmental service redesign Review of service to streamline and reduce cost of cleansing and monitoring of waste/litter related issues. Improved environment through better coordination.	230	25	25	280
Waste & Sustainability Increased income from commercial waste collections.	No further impact. Service changes relating to commercial waste collections and waste treatment savings do not impact on residents but on organisations.	30	30	30	90
Income from Solar Panels and Street Lighting Energy Efficiency Savings Capital investment in solar panels to reduce energy costs and attract Government renewable energy subsidies Expiry of repayments for energy efficiency loan supporting Street Lighting investment	No impact - energy efficiency saving The solar PV procurement process included a mandatory section on Equality and Human Rights, which was developed in conjunction with the Council's Corporate Diversity team.	145			145
Facilities Management Service	Shire Hall and Town Hall to become appointment based centres e.g. custodians not permanently onsite. Increased income from charging for council civic buildings.	30			30

Savings Proposals

Economy, Communities & Corporate

		Savings			
Savings Proposal	Impact	2017-18 £000	2018-19 £000	2019-20 £000	Total £000
Withdrawal of Museum and Heritage Services subsidy	Income generation through charging at the Old House from April 2017, remodel of the learning offer to schools, volunteers to support the opening of the Museum at Broad Street in Hereford. Limited impact on protected characteristics. Though charging may have an impact across all ages, special free open days will take place to support local people able to visit the Old House without cost. Education events to take place at the Old House as part of a schools programme.	100	150	250	500
Savings in Customer and Library Services	Retained library service across the county, and remodelled customer services following an appointment based approach, a comprehensive digital offer, phone service, and face to face service in Hereford. A full needs and impact assessment completed for October 2016 cabinet. A retained county library services was the key finding of the consultation to mitigate negative impact, along with a delivered service for people who are housebound. For customer services any change to the offer to be delayed until 2018 to understand the impact on people requiring face to face support for benefits.	380	380		760
Organisational redesign savings	Efficiency savings	93			93
Sub Total		2,800	1,800	1,060	5,660
Revisions to the Council Tax Reduction Scheme - as approved by Council on 18 December 2015 the level of subsidy to non protected claimants has been reduced from 84% to 80%, this represents the continued savings expected	The lowest earners in Herefordshire previously paid 16% of their total Council tax bill, for non protected claimants this increased to 20% from April 2016. There is a risk that some claimants may not be able to pay the increased charge this risk has been mitigated via a revised hardship scheme. Pensioners will continue to receive additional discounts and the vulnerable will continue to have access to welfare support to mitigate these changes.	150			150
Removal of the Council Tax Reduction subsidy to parishes - as approved by Cabinet on 3 December 2015 this is the removal of the remaining grant funding to parishes	This saving has no impact on parish percept requirements, the removal of the grant has been phased to limit the potential effect on tax payers	42			42
Asset Review Capital receipts from sale of assets will be used to support delivery of the medium term financial strategy and meet the priorities of the corporate plan in the most cost efficient way	This may effect some tenants of council owned property The programme of asset disposals are largely based upon realising the value of surplus property or land assets which take account of the property rationalisation proposals set out in the Council's Accommodation Strategy. The Asset Review disposals to date are not considered to be carrying any adverse impacts on any of the groups or classifications considered within the Equalities framework.	250	400	1,000	1,650
Organisational redesign savings	Efficiency savings	49	100	200	349
Sub Total		491	500	1,200	2,191
Total		3,291	2,300	2,260	7,851

APPENDIX 2

Draft revenue budget summary 2017-18

Directorate	Current base budget 2016/17 £000	Net changes £000	Proposed base budget 2017/18 £000
Adults and wellbeing	51,243	(85)	51,158
Children's wellbeing	20,875	278	21,153
Economies, communities and corporate	46,540	(1,800)	44,740
Total directorates net budget	118,658	(1,607)	117,051
Centralised pension deficit and housing benefits costs			6,458
Capital financing - debt repayments			11,074
Capital financing - interest			6,785
Other central budgets			1,050
One off funding			2,600
Total net spend (budget requirement)			145,018
Financed by			
Council tax			92,861
Locally retained business rates			22,415
Business rates top up & S31 grant			10,197
Revenue support grant			10,090
New homes bonus			4,651
Rural services delivery grant			4,093
Transitional grant			576
Reserves			135
			145,018

PROPOSED REVENUE BUDGET 2017/18

Service	Current 2016/17 base budget	Pensions, pay and Inflation	Pressures	Savings	Other Adjusts	Proposed 2017/18 base budget	Change
	£000	£000	£000	£000	£000	£000	
Adults and Wellbeing							
Commissioned Care	45,317	196	1,275	(1,375)	(22)	45,391	0.2%
Adults Operations	11,313	75	34	(487)	0	10,935	(3.3%)
Director and Management	(5,387)	9	582	(538)	166	(5,168)	(4.1%)
Total Adults and Wellbeing	51,243	280	1,891	(2,400)	144	51,158	(0.2%)
Children's Wellbeing							
Children's Safeguarding & Early Help	15,939	68	0	(756)	550	15,801	(0.9%)
Statutory Education Services	4,596	69	0	(100)	619	5,184	12.8%
Directorate Management and Grant Income	340	247	0	(303)	(116)	168	(50.4%)
Total Children's Wellbeing	20,875	384	0	(1,159)	1,053	21,153	1.3%
Economy, Communities & Corporate							
Highways, Planning, Waste, and Parking	25,502	678	0	(1,524)	(82)	24,574	(3.6%)
Customer, Cultural and Legal Services	6,375	34	0	(491)	6	5,924	(7.1%)
Economic Development and Housing Growth	2,170	10	0	(61)	0	2,119	(2.4%)
Directorate Management	853	3	0	(87)	0	769	(9.8%)
Corporate Resources (Finance, ICT, Property and HR)	11,640	473	(24)	(638)	(97)	11,354	(2.5%)
Total Economy, Community & Corporate	46,540	1,198	(24)	(2,801)	(173)	44,740	(3.9%)
Central Corporate Costs (excludes one-offs)	25,179	111	0	(490)	567	25,367	0.7%
Total Herefordshire Council	143,837	1,973	1,867	(6,850)	1,591	142,418	(1.0%)

Revenue Budget 2017/18
Adults and Wellbeing

Service	Current 2016/17 base budget	Pensions and Inflation	Pressures	Savings	Other Adjusts	Proposed 2017/18 base budget
	£000	£000	£000	£000	£000	£000
Commissioned Care						
Learning Disabilities	17,542	76	393	(712)		17,299
Mental Health	4,436	19	114	(59)		4,510
Physical Disabilities	20,029	87	696	(479)	(22)	20,311
Memory & Cognition	2,944	12	27	(120)		2,863
Sensory Support	366	2	45	(5)		408
Total Commissioned Care	45,317	196	1,275	(1,375)	(22)	45,391
Adults Operations						
Adult Social Care Staffing	5,227	61	20	(11)		5,297
Contracts	4,753	11	6	(487)		4,283
Housing Services	1,333	3	8	11		1,355
Total Adults Operations	11,313	75	34	(487)	0	10,935
Director and Management						
Director and Management	(1,726)		580	(443)		(1,589)
Protection of Social Care Grant	(4,541)					(4,541)
Transformation	769	8	1	(95)	166	849
Total Public Health	111	1	1			113
Total Director and Management	(5,387)	9	582	(538)	166	(5,168)
Total Adults and Wellbeing	51,243	280	1,891	(2,400)	144	51,158

Revenue Budget 2017/18
Childrens Wellbeing

Service	Current 2016/17 base budget	Pensions and Inflation	Pressures	Savings	Other Adjusts	Proposed 2017/18 base budget
	£000	£000	£000	£000	£000	£000
Safeguarding and Early Help						
Safeguarding Board and Independent Review	630	4	0	0	(3)	631
Early Help and Family Support	875	14	0	0	0	889
Front Line Social Workers	2,442	16	0	0	0	2,458
Looked After Children - Fostering and Adoption	6,567	21	0	0	524	7,112
Looked After Children External Placements	3,492	0	0	(566)	344	3,270
Social Care Training and Development	739	5	0	0	(305)	439
Safeguarding and Early Help Management	1,194	8	0	(190)	(10)	1,002
Total Safeguarding and Early Help	15,939	68	0	(756)	550	15,801
Statutory Education Services						
Special Educational Needs	2,844	25	0	0	(40)	2,829
Contracts and Commissioning	(239)	7	0	(100)	608	276
Educational Development	1,777	33	0	0	215	2,025
Statutory Education Improvement Services	214	4	0	0	(164)	54
Total Statutory Education Services	4,596	69	0	(100)	619	5,184
Directorate Management and Grant Income						
Directorate Grant Income	0	4	0	0	0	4
Directors Office	(102)	240	0	(293)	76	(79)
Performance and transformation	236	2	0	(10)	(192)	36
Youth Offending Service	206	1	0	0	0	207
Total Directorate Management and Grant Income	340	247	0	(303)	(116)	168
Total Children's Wellbeing	20,875	384	0	(1,159)	1,053	21,153

Revenue Budget 2017/18
ECC

Service	Current 2016/17 base budget	Pensions and Inflation	Pressures	Savings	Other Adjusts	Proposed 2017/18 base budget
	£000	£000	£000	£000	£000	£000
Highways, Planning, Waste and Parking						
Directorate Services	477	307				784
Environment and Waste	14,813	141		(297)	64	14,721
Highways and Community Services	1,127	2			32	1,161
Parks and Countryside	170	2				172
Public Realm Annual Plan	6,404	150		(555)	(179)	5,820
Regulatory and Development Management Services	791	(119)				672
Technical and Parking Services	(5,837)	205		(397)	1	(6,028)
Transport and Access Services	7,557	(10)		(275)		7,272
Total Highways, Planning, Waste and Parking	25,502	678	0	(1,524)	(82)	24,574
Customer, Cultural and Legal Services						
Collections, Archives and Leisure	331	2		(88)		245
Communications and Web	302	2				304
Customer and Library Services	1,786	11		(314)	6	1,489
Economic Projects	245	2				247
Equality, Information and Records	702	3		(12)		693
Legal Services and Governance	3,009	14		(77)		2,946
Total Customer, Cultural and Legal Services	6,375	34	0	(491)	6	5,924
Economic Development and Housing Growth						
Community Regeneration	322	2		(50)		274
Economic Development	932	3				935
Neighbourhood Planning	147	1				148
Regeneration	251	2		(11)		242
Strategic Planning	518	2				520
Total Economic Development and Housing Growth	2,170	10	0	(61)	0	2,119
Directorate Management						
Directors	400	3				403
Management	453			(87)		366
Total Directorate Management	853	3	0	(87)	0	769
Corporate Resources (Finance, ICT, Property and HR)						
Asset Management and Property Services	3,043	357	(24)	(279)	(55)	3,042
Finance	5,897	5			(35)	5,867
Insurance	1,149			(49)		1,100
Local Tax, Revenues and Benefits	(1,333)					(1,333)
Internal Audit Services	225				(30)	195
HR, Payroll, Recruitment and Organisational Development	353	1				354
Corporate Management	706	110				816
ICT	1,600			(310)	23	1,313
Total Corporate Resources (Finance, ICT, Property and HR)	11,640	473	(24)	(638)	(97)	11,354
Total Economy, Communities & Corporate	46,540	1,198	(24)	(2,801)	(173)	44,740

Medium Term Financial Strategy

2017/18 – 2019/20



Working with our local and national partners to improve the quality of life for the county's residents

Introduction to Herefordshire's Medium Term Financial Strategy

Herefordshire is a rural county with an older demographic, facing an increasing demand for services which makes savings difficult. Despite this the council has set a medium term financial strategy which demonstrates how savings will be achieved by increasing efficiencies from changing the way services are delivered.

2016/17 saw further significant budget reductions and the requirement for £10m savings in addition to those achieved in previous years but I am pleased to report that the council is on target to deliver these savings and balance its budget in the current financial year. Further savings will be required in the coming years, £17.5m between now and 2019/20 to offset the impact of reducing central government contributions to council funding.

The MTFS demonstrates the robust financial planning that Herefordshire has and assurance in its ability to deliver the medium term financial strategy; to be approved by Council in February 2017.

The MTFS summarises the financial position of the council and includes the expected impact on revenue spending, capital investment, borrowings and reserves in the coming years. The management of our financial resources is necessary to ensure the council is able to continue to deliver services to our residents today and also to deliver benefits across the region in future years.

As funding from central government has reduced, the council has become almost totally reliant on council tax and business rates to fund its services. That is why I am recommending an increase of almost 4% in the rate of council tax for 2017/18.

I have considered the opportunity to ask the residents of Herefordshire to contribute above the level set by government. At this time I recognise that households have many other pressures on their budgets and the anticipated increase of 3.9% is already at a level which will be felt by those most vulnerable households as too high. It is though the minimum I believe that it is prudent so that the council can continue to deliver the quality and range of services to the most disadvantaged in the county.

The MTFS contains a great deal of information but I hope it will allow you to:

- Understand the overarching financial position of the Council in the coming years;
- Have confidence that the public money with which the Council has been entrusted will be used to support the needs of all our residents;
- Be assured that the financial position of the Council is sound and secure.

The council has an excellent track record in delivering its plans and the report sets out some of the many achievements of the last few years including the following:

- 368 miles of road resurfaced in the last 3 years and over 200,000 pot-holes
- rollout of "FasterShire" broadband to over 80% of residents and businesses
- Enterprise zone established and developed
- Key Stage 5 results 6% above national average in our schools
- Re-establishing the council as a commissioner of adult social care from NHS

This MTFS underlines the council's aspiration to support its new Economic Development Strategy, to develop further the business rates income and job opportunities which will ensure that this council can fund its statutory duties in the years to come. I am confident that the plans we are asking Council to approve in February will ensure Herefordshire continues to be great place to live and work.



Councillor Tony Johnson
Leader of the Council

1. Background to the Medium Term Financial Strategy

- 1.1. Herefordshire is the most sparsely populated county in England, with residents dispersed across its 842 square miles. Areas of poverty and deprivation exist in Herefordshire and there are crucial economic, geographic and demographic factors, relating to distance, population sparsity, ageing, social inclusion and market structure. However, as a rural area, it receives on average, 50% less central government assistance than an urban rural area placing Herefordshire at a disadvantage compared to our urban counterparts.
- 1.2. In addition, social isolation is a growing concern, not least because of the disproportionately increasing number of older people living in Herefordshire, but also due to poverty and deprivation. The cost of living in rural areas, for example transport and domestic fuel costs, can be higher than in urban areas. There is also recognition that it is often the most vulnerable members of the community, such as frail elderly people and deprived families who suffer most from the loss of local services and the high cost of living.
- 1.3. 54% of Herefordshire's population live in rural areas of which 42% in the most rural locations. Providing services to a dispersed population across a large geographic area is a challenge and additional resources are required to ensure council services are maintained for all residents in the county.
- 1.4. The four year funding settlement has partially recognised these additional pressures by increasing support for the most sparsely populated rural areas by increasing the rural services delivery grant (RSDG), £4.1m in 2017/18 for Herefordshire. Despite this rural councils are worse off than urban ones. (green line rural councils/ black line urban councils)



- 1.5. Herefordshire's economic base is focused on agriculture and as such its business rates base is low compared to other areas. As such a 1% growth in the business base generates an extra £63.50 per person in Westminster but just £2.20 for Herefordshire. While Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in sparsely populated areas it is not enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the county. To redress this imbalance, the council works with the Rural Services Network (known as SPARSE) and its MP's to improve this position.
- 1.6. Despite these constraints the council has made necessary, difficult decisions to enable it to continue to deliver important services to our residents whilst assessing the challenge of delivering savings of £87m between 2010 and 2020.
- 1.7. Without delivering the challenging changes required, Herefordshire Council would have been unable to meet its financial obligations. The council is committed to work within budget and 2016/17 is expected be the 4th successive year that we have done so.
- 1.8. Whilst ensuring that the overall budget is balanced, the council has been carefully building reserves to a prudent level to manage financial risk and to support future needs. Over the past

three years the Council has delivered improvement, achievement, positive change and outcomes along the way to deliver our key priorities, including:

Supporting the growth of our economy

- Delivered major public realm improvements to Hereford's centre.
- Opening of the Hereford Greenway and new cycle bridge over the River Wye completing another key link in the city cycle network.
- 368 miles of road resurfaced in the last 3 years - 19% of the entire highway network.
- Filled over 200,000 pot-holes.
- Continued rolled out of "Fastershire" broadband to over 80% of residents and businesses in the county.
- Enterprise zone established and developed.

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

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

Enabling residents to live safe, healthy and independent lives

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

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

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

2. Medium Term Financial Strategy

- 2.1. This Medium Term Financial Strategy (**MTFS**) covers the financial years 2017/18 – 2019/20 and demonstrates how the council will maintain financial stability, deliver efficiencies, support investment in priority services, whilst demonstrating value for money and maintaining service quality.
- 2.2. The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This process is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with the corporate priorities set out in the Corporate Plan. Herefordshire's key priority areas are:

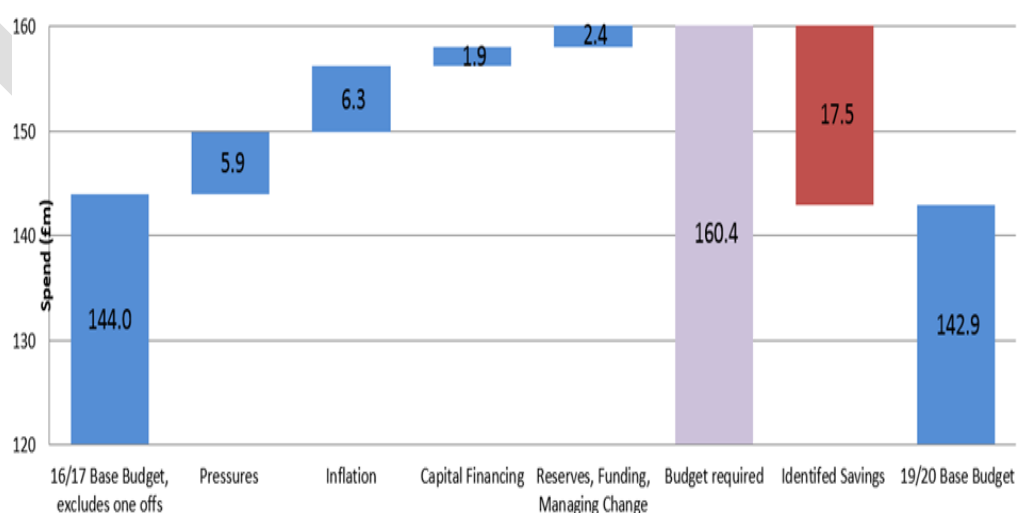
- enable residents to live safe, healthy and independent lives
- keep children and young people safe and give them a great start in life
- support the growth of our economy
- secure better service, quality of life and value for money.

2.3. All local authorities are reducing services as the government continues to significantly reduce the funding it provides to local government across England. We are seeing a significant change in the way councils are funded, back in 2010 80% of council spend was funded by grant but by 2020 almost all council expenditure will be funded locally through council tax and business rates. We remain in an austerity period in which the council has identified savings totaling £87m between 2010 and 2020. The council is on schedule to meet this challenge, delivering £69.5m of these savings by the end of 2016/17.

2.4. The demand for services continues to grow with the council providing care for more people, particularly in essential areas such as children’s safeguarding and adult social care. Cost pressures have been reflected in this MTFs and residual risks will be constantly monitored. Demand management will be key to ensure future financial resilience alongside increased integrated working with the health sector.

2.5. Balancing the MTFs

2.5.1. The MTFs has been set with regard to known funding reductions, additional cost pressures and identified savings of £17.5m for the period 2017/18 to 2019/20. The following graph demonstrates how the council’s budget base is expected to move over the period of the MTFs. It starts with the current budget, reflects the specific spending pressures to show what the budget might be and then the savings required to ensure our expenditure matches our income.



2.6. Value for money

2.6.1. In managing the financial pressures, the council’s strategic and corporate plans set out its vision for the county to support a strong, diverse and enterprising business base, operating in an exceptional and connected environment where the transfer

of technology and skills foster innovation, investment and economic growth.

2.6.2. These ambitious plans will accelerate growth and provide opportunities for all who live and work in Herefordshire through strong stewardship and strong partnerships with the private sector. Over the last five years the council's performance has improved across a wide range of services building the foundations for a successful economy and this remains a key priority.

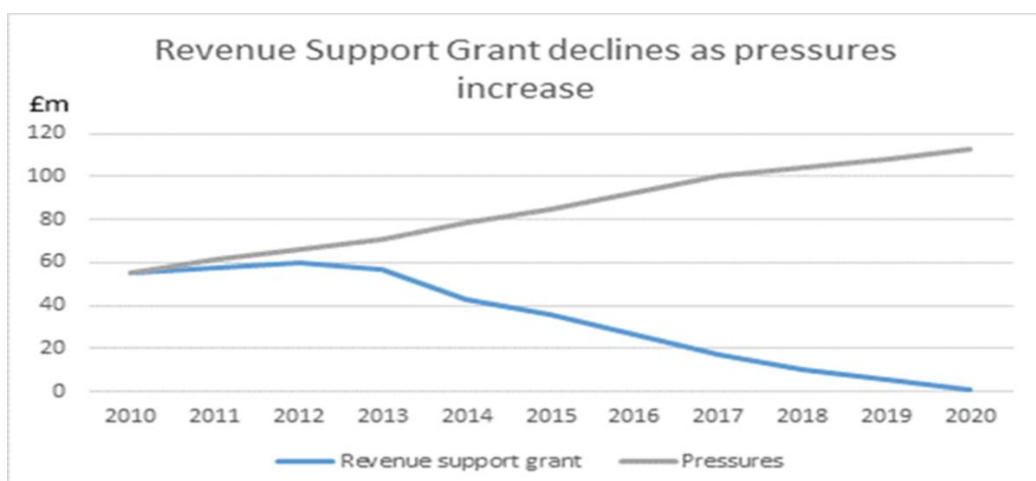
2.6.3. The council has enabled major improvements including the delivery of flood relief schemes, a new livestock market, a privately funded retail and leisure development on the site of the old livestock market, access to superfast broadband, an Enterprise Zone in Rotherwas, improved leisure facilities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

2.6.4. Using cost benchmarking data, the council is able to focus on areas where spend varies from other authorities with similar characteristics and challenges, such as providing adult social care services to a sparsely dispersed aging population. National benchmarking data is currently available to 2015/16 and showed that overall Herefordshire Council is ranked second against its thirteen statistical comparator neighbours on the basis of their cost of service (per revenue outturn).

2.6.5. These improvements have been recognized by our external auditors, Grant Thornton who annually review the value for money and statement of accounts of the council. They do this by looking at key indicators of financial performance, its approach to strategic financial planning, its approach to financial governance and its approach to financial control. In respect of the last financial year (2015/16) they were satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

2.7. National context

2.7.1. The local government finance system has undergone a significant change from a highly-centralised system of funding, with central government grants allocated on the basis of councils' relative spending need, to a system where councils as a group are self-funding and individual councils bear far more spending and revenue risk. The impact of these changes has meant that Councils are less reliant on central government grant and more responsible for their financial management, resulting in an increasing funding gap to be met by savings:-



- 2.7.2. Pressures on social care costs have been recognised through the introduction of an additional 2% levy on council tax referendum thresholds to be used entirely for adult social care; this will generate £1.8m each year for Herefordshire.
- 2.7.3. The government will introduce the first ever national funding formula for schools, high needs and early years, a detailed consultation was launched in 2016 and the new formulae will be implemented from April 2018.
- 2.7.4. In addition, discussions continue on the national system of business rates with the proposal for councils to retain 100% of business rates (rather than 50% at present) but potentially without the protections for councils with lower numbers of businesses. This additional funding is likely to be accompanied with additional responsibilities, and therefore may require additional savings with an expectation for “national fiscal neutrality”. The council is continuing with its current, sound practices to manage these pressures.
- 2.7.5. The 2016 Autumn Statement reflected the latest forecasts from the Office of Budget Responsibility which indicated increasing inflationary pressures and falling government revenues well into 2020 and beyond. This is likely to result in increasing the government’s borrowing requirement and introducing greater uncertainty in the growth and resilience of the UK economy.
- 2.7.6. These national factors create further risk to the council’s core income streams and the increased need to hold reserves at a level sufficient to protect the council from unplanned events.
- 2.7.7. This MTFS period will be extremely challenging for councils and many face difficult decisions about which services are scaled back or stopped altogether. It is against this background that Herefordshire council’s MTFS has been prepared.

3. The Revenue Budget

- 3.1. The MTFS summarises the council’s financial plans for the next three years and is updated annually and covers the period from 2017/18 to 2019/20, reflect the current year’s performance and the next year’s budget.
- 3.2. It is prepared using the Financial Resource Model (**FRM**) which takes into account the corporate financial objectives and plans. The FRM provides an assessment of the overall resource available over the medium term linking the revenue account with the capital investment plan, treasury management strategy and reserves policy to provide a complete overview of the council’s financial position over time. It sets the financial context for corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2017/18 to 2019/20, however it will be refreshed annually.

3.3. Funding Assumptions

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

- Council Tax - a 1.9% increase for 2017/18 and in future years in council tax plus a further 2% in respect of the Adult Social Care precept, making an overall increase of 3.9% per annum.
- Revenue Support Grant is expected to fall in line with the four year settlement agreed between the government and council
- Increases in business rate reliefs as set in the Autumn Statement

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

Funding Assumptions	2017/18	2018/19	2019/20
	£000's	£000's	£000's
Council Tax (assuming 3.9% increase p.a.)	92,861	97,271	101,692
Locally retained business rates	32,612	33,116	33,654
(Business rates includes top up and Section 31 grants)			
Revenue Support Grant (RSG)	10,090	5,370	620
New Homes Bonus (NHB)	4,651	2,922	2,804
Rural Services Delivery Grant (RSDG)	4,093	3,149	4,093
Transitional grant (RSDG)	576	-	-
Reserves - one offs	135	-	-
Base Budget	145,018	141,828	142,863

3.4. Budget Pressure Assumptions

3.4.1. Current planning includes the following assumptions:

- inflation - 2%- 2.4% uplift per annum on income and costs, contract inflation indices on non-pay expenditure.
- pay – increased at 1% per annum
- introduction of the apprenticeship levy in 2017/18 and Living Wage impact
- interest rates – investment income and borrowing costs in line with the Treasury Management Strategy

3.4.2. The total of directorate pressures included in the FRM are set out in the following table and also reflect the service demand pressures identified within each directorate. These do not reflect the potential inflationary increases indicated in the Office of Budget Responsibility's report published on 23 November 2106 but are reviewed annually as part of the budget process.

Budget Pressures	2017/18	2018/19	2019/20	Total
	£000's	£000's	£000's	£000's
Legislative changes (living wage)	618	492	540	1,650
Adult's demographic pressures	850	926	945	2,721
Adults preventative measures	(600)	-	-	(600)
Contract and pay inflation and other pressures	1,891	2,154	2,277	6,322
Apprenticeship levy	200	-	-	200
Unaccompanied asylum seeking children	100	-	-	100
Children's services pressures	425	-	-	425
Adults contractual inflation	356	508	529	1,393
Base Budget	3,840	4,080	4,291	12,211

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

3.5. Savings Assumptions

3.5.1. The council delivered almost £70m of savings in the financial years 2010/11 to 2016/17 and will be required to generate an additional £17.5m of savings in the financial period 2017/18 to 2019/20 in order to balance its planned expenditure against its income.

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

Directorate Savings	2017/18	2018/19	2019/20	Total
	£000's	£000's	£000's	£000's
Adults and Wellbeing	2,400	1,950	1,500	5,850
Children's Wellbeing	1,159	1,572	1,050	3,781
Economy, Communities and Corporate	2,800	1,800	1,060	5,660
Corporate Savings	491	500	1,200	2,191
Total Savings	6,850	5,822	4,810	17,482

3.5.3. Adults and Wellbeing:

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

Adults and Wellbeing Savings Proposals	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000
Decommissioning block contracts/re-design	550	400	-	950
Reducing package costs and diverting demand	350	350	300	1,000
Price banding in 3yr settlement	200	200	200	600
Reducing costs of high cost packages in LD	700	700	300	1,700
Workforce re-design	200	200	600	1000
Early delivery of Public health savings	200	-	-	200
Income Generation Proposals				
Sale of beds to self-funders	50	-	-	50
Income generation- zero cost of telecare	150	100	100	350
Total Savings	2,400	1,950	1,500	5,850

3.5.4. Children's Wellbeing

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

Children's Wellbeing Savings Proposals	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Manage contract inflation and secure contract efficiencies.	250	250	250	750
Reduction in the number of looked after children	566	822	450	1,838
Organisational structure to reflect the service requirements	243	350	200	793
Income Generation Proposals				
Accessing government grant to focus early help offer on the most vulnerable families, to reduce the need for higher cost services.	100	150	150	400
Total Savings	1,159	1,572	1,050	3,781

3.5.5. Economy, Community and Corporate Savings Proposal

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

Economy, Community and Corporate Savings Proposal	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Restructure/Organisational re-design to generate staff savings	363	100	180	643
Reduced costs of ICT and accommodation costs through building rationalisation	530	450	250	1230
Restructure service delivery in Libraries, Customer Service centres, Museums and Archives	480	470		950
Removal subsidies to Parish councils	100	100	100	300
Reductions in public and community Transport	275	240	225	740
Public realm and energy savings	525	25	25	575
Museums and Heritage savings	100	150	250	500
Income Generation Proposals				
Increased income form commercial waste	30	30	30	90
Increased car parking income	397	235		632
Total Savings	2,800	1,800	1,060	5,660

3.5.6. Corporate Savings Proposals

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

Corporate Savings Proposal	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Savings arising from asset disposals and changes to CTRS (agreed in 2016)	442	400	1,000	1,842
Organisational re-design to generate staff savings	49	100	200	349
Total Savings	491	500	1,200	2,191

3.6. Summary

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

Revenue Budget	2017/18	2018/19	2019/20
	£000's	£000's	£000's
Base Budget	144,003	145,018	141,828
Pressures	3,840	4,080	4,291
Savings	(6,850)	(5,822)	(4,810)
	140,893	143,376	141,309
Corporate adjustments*	4,025	(1,448)	1,554
Revised Base Budget	145,018	141,828	142,863
Funding Available	145,018	141,828	142,863

*Corporate adjustments include agreed virements, capital costs, funding adjustments and reserves

3.7. Directorate Net Spending Limits

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

Directorate Budgets	Adults	Children	ECC	Corporate	Total
	£000's	£000's	£000's	£000's	£000's
2016/17 base budget	51,243	20,875	46,540	25,345	144,003
Pressures	2,171	384	1,174	111	3,840
Savings	(2,400)	(1,159)	(2,800)	(491)	(6,850)
Corporate adjustments*	144	1,053	(174)	3,002	4,025
2017/18 budget proposal	51,158	21,153	44,740	27,967	145,018
Pressures	2,383	511	1,083	103	4,080
Savings	(1,950)	(1,572)	(1,800)	(500)	(5,822)
Corporate adjustments				(1,448)	(1,448)
2018/19 draft budget	51,591	20,092	44,023	26,122	141,828
Pressures	2,539	533	1,111	108	4,291
Savings	(1,500)	(1,050)	(1,060)	(1,200)	(4,810)
Corporate adjustments				1,554	1,554
2019/20 draft budget	52,630	19,575	44,074	26,583	142,863

*Corporate adjustments include agreed virements, capital costs, funding adjustments and reserves

4. The Capital Budget

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

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

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

Capital Investment Programme and Financing	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000
Total Expenditure	55,776	31,554	12,268	99,598
Prudential Borrowing	20,892	4,534	500	25,926
Grants and contributions	26,799	27,020	11,768	65,587
Allocated Capital Receipts	8,085			8,085

Total Funding	55,776	31,554	12,268	99,598
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- 4.3. As the table demonstrates, capital expenditure can be funded from capital receipts, borrowing, grants and revenue contributions. The council has a policy that ensures capital cash resources are used effectively in support of corporate priorities. As a result, all capital receipts are a corporate resource and not 'owned' or earmarked for directorates unless allocated for a specific purpose. The capital receipts reserve is available to support spending on the creation or enhancement of assets.
- 4.4. Government support for capital investment is through the allocation of grants, known grant funding allocations for 2017/18 are listed in the appendix but a number, including disabled facilities grant and schools maintenance, are yet to be announced.
- 4.5. The challenges given to retaining assets will be based on value for money 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. Treasury Management Strategy

- 5.1. The council is required to adopt an annual Treasury Management Strategy (**TMS**) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the minimum revenue provision (MRP).
- 5.2. The TMS for 2017/18 sets out the council's strategy for making borrowing and investment decisions during the year to meet the capital and revenue spending plans approved by council and considers the impact of future interest rate movements. The full TMS is set out in detail in Appendix 3.

5.3. Borrowing

5.3.1. Summary table and projection

5.3.2. Graph of borrowing profile

5.3.3. Total gross outstanding debt was £196.5m as at 31 March 2016 of which £46.5m were short term loans and £150m fixed rate, long term loans, which are being repaid via the minimum revenue provision as explained above. Included in total borrowings is £23.4m which is supported by a long term, commercial loan arrangement with our Waste Disposal provider.

5.3.4. The need for new borrowing is based on the Capital Programme, which indicates an additional borrowing requirement of £25.9m over the MTFs period. The report of the Office of Budget Responsibility issued on 23 November 2016 does indicate that interest rates may have to rise in response to inflationary pressures arising from falls in sterling. However the MTFs and budget for 2017/18 have been set on the assumption that interest rates will climb steadily. This position will be kept under review so that the council is able to respond quickly should interest rates

begin to rise. This impact will apply equally to both investments and borrowings.

5.4. Investments

5.4.1. During 2016/17 interest rates have remained low and in the year to date, the average daily rate achieved on the council's investments has averaged at 0.3%. A further decrease in the bank base rate, reducing it from 0.5% to 0.25%, was introduced from August 2016 and is not expected to rise in the short term but will be closely monitored in 2017.

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

6. Reserves

6.1. The Council's useable reserves are split between General Reserves and Earmarked reserves and are held for certain purposes is described below:

6.2. General Reserve

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

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

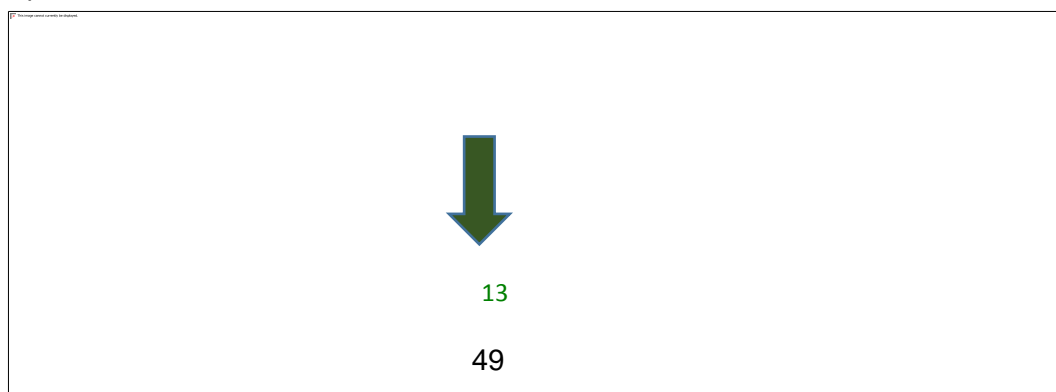
6.3. Earmarked Reserves

The council's earmarked reserves are held to meet identified spending commitments. These reserves will only be used for the purpose for which they were created and will be reviewed annually. If they are no longer required they will be transferred to the general reserve. The use of earmarked reserves requires the approval of the Chief Finance Officer.

Balance as at	Strategic Reserve	General Reserve	School Balances	Earmarked Reserves	Total Reserves
	£m	£m	£m	£m	£m
31 March 2016	7.2	0.1	9.4	19.1	35.8
31 March 2017	7.3	3.6	7.2	18.0	36.1
31 March 2018	7.1	4.0	7.2	16.0	34.3
31 March 2019	6.8	-	7.2	14.0	28.0
31 March 2020	6.8	-	7.2	14.0	28.0

Certain Earmarked reserves fall outside the control of the council, specifically School balances.

6.4. The level of reserves is reasonable when compared to other unitary councils and will be kept under review.



6.5. The Council's reserves policy is set out in Appendix 4 and reflects best practice in respect of the appropriate level of strategic reserves.

7. Budget Risks

- 7.1. The most substantial risks have been assessed in the budget process and, where possible, reasonable mitigation has been made. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process. The proposed budget includes contingency and reserves that, if required, can be used to manage risks.
- 7.2. Demand management in social care continues to be a key issue, against a backdrop of a demographic of older people that is rising faster than the national average, and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on demand management through disease prevention and behavior change is critical for medium term change. In addition re-setting our relationship with communities focusing services on areas of greatest professional need will support the MTFs.
- 7.3. There are on-going risks in achieving reductions in children's safeguarding costs, Herefordshire is high spending compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced.
- 7.4. Key areas of focus include, sustaining the current focus on a new relationship with citizens and communities, changing the models of care to more family based provision, managing the price paid where the council is the commissioner and/or where this is taking place with partners with a specific reference to health, improvements in commercial interface including contract management, using technology to enable new ways of working including significant channel shift around self-service and automated business process improvement and a subsequent headcount reduction. A full risk and mitigation summary is provided in Appendix 5

8. Conclusion

- 8.1. The council's Medium Term Financial Strategy sets out a challenging but robust financial framework through which planned services and investment can be delivered. It is a fully balanced framework so that:
- revenue expenditure is fully covered by income,
 - capital expenditure is fully funded and the associated capital financing cost reflected in revenue budgets,
 - effective treasury management ensures financial resources are available as required within a prudent framework
 - reserves are sufficient to meet specific need and protect against unforeseen events.

9. Recommendation

That Council adopts the three year Medium Term Financial Strategy as set out in the report.

Appendix 1 Net Revenue budget and Directorate Spending Limits

Draft revenue budget summary 2017/18			
Directorate	Current net budget £000s	Net changes £000s	Draft net budget £000s
	2016/17		2017/18
Adults and wellbeing	51,243	(85)	51,158
Children's wellbeing	20,875	278	21,153
Economies, communities and corporate (ECC)	46,540	(1,800)	44,740
Total directorate net budget	118,658	(1,607)	117,051
Centralised corporate costs			6,458
Capital financing - debt repayments			11,074
Capital financing—interest			6,785
Other central budgets			1,050
One off funding			2,600
Total net spend (budget requirement)			145,018
Financed by			
Council tax			92,861
Locally retained business rates			22,415
Revenue support grant			10,090
Business rates top grant & S31 grant			10,197
New homes bonus			4,651
Rural services delivery grant			4,093
Transitional grant			576
Reserves			135
Total Funding			145,018

Appendix 2

Capital Programme Summary (pending approved additions)

Scheme Name	Prior Years £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	Total £000s
Economy, Communities and Corporate						
Energy from Waste Plant	23,412	16,588	-	-	-	40,000
Hereford City Centre Transport Package (includes Hereford city link road)	17,575	12,124	7,448	3,504	-	40,651
Local Transport Plan (LTP)		11,633	11,313	10,341	10,341	43,628
Fastershire Broadband (excludes Gloucester spend in prior years of £9.7m)	9,003	6,605	9,747	2,845	-	28,200
Hereford Enterprise Zone	5,071	3,150	7,779	-	-	16,000
Leisure Centres	7,268	2,784	-	-	-	10,052
Solar Photovoltaic Panels	463	1,671	-	-	-	2,134
Data Centre Consolidation	-	1,170	-	-	-	1,170
Corporate Accommodation	18	1,082	600	-	-	1,700
South Wye Transport Package (total budget of £35m includes £8m funded by LTP, scheme extends into 20/21)	1,983	1,000	9,000	13,000	1,427	26,410
Hereford Library Accommodation Works	91	909	-	-	-	1,000
Marches business improvement grants	-	833	833	834	-	2,500
Highway Depot Improvements	-	800	-	-	-	800
IT Network Upgrade	-	500	-	-	-	500
Software to Enable Remote Access to Desktops and Automate Upgrades	-	500	-	-	-	500
Property Estate Enhancement Works	-	500	500	500	500	2,000
LED street lighting	4,750	905	-	-	-	5,655
Childrens wellbeing						
Colwall Primary School	33	4,800	1,667	-	-	6,500
Schools Capital Maintenance Grant	annual plan	1,205	-	-	-	1,205
Peterchurch Primary School	6	1,000	4,494	-	-	5,500
SEN & DDA school improvements	-	-	710	-	-	710
Schools Basic Need		666	-	-	-	666
Adults and wellbeing						
Disabled facilities grant	annual plan	1,734	tbc	-	-	1,734
<i>Other schemes less than £500k</i>		4,877	1,685	530	-	7,092
Total		77,036	55,776	31,554	12,268	
Financed by						
Prudential Borrowing		44,382	20,892	4,534	500	
Grant and funding contributions		27,388	26,799	27,020	11,768	
Capital receipt funding allocated to approved capital schemes		5,266	8,085	-	-	
Total		77,036	55,776	31,554	12,268	

Appendix 3
Treasury Management Strategy

Draft

Appendix 4
Reserves Policy

Draft

Appendix 5

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
1	Unexpected events or emergencies By its nature, the financial risk is uncertain	Low	High	<ul style="list-style-type: none"> • Council maintains a Strategic Reserve at level of between 3% and 5% of its revenue budget for emergency purposes • Level of reserve is currently £7.3m
2	Increasing demand for Adult Social Care Demand for services continue to increase as the population gets older	High	Medium	<ul style="list-style-type: none"> □ Demand led pressures provided for within our spending plans □ Activity indicators have been developed and will be reported quarterly alongside budget monitoring
3	Potential Overspend and Council does not deliver required level of savings to balance spending plans Challenging savings have been identified within our spending plans.	Medium	Medium	<ul style="list-style-type: none"> □ High risk budget areas have been identified and financial support is targeted towards these areas □ Regular progress reports on delivery of savings to Management Board and Cabinet □ Budget monitoring arrangements for forecasting year end position in place and forecast balanced □ Plan to review level of cover
4	Potential delay in delivery of Capital Receipts	Medium	Low	<ul style="list-style-type: none"> • Potential new capital receipts may be available from further corporate property sales. • Capital receipts received will be monitored quarterly
5	Increase in Pension Liabilities Our contributions are influenced by market investment returns and increasing life expectancy.	Medium	Low	<ul style="list-style-type: none"> • Spending plans reflect the level of pension contribution required as identified by the Pension Fund's Actuary in 2016 for the next three years
7	Failure to provide safeguarding and placements for children There is an increasing requirement to provide sufficient school places There is a rising number of children requiring specific support	Medium	High	<ul style="list-style-type: none"> • Provision has been made in the capital programme to increase school places • Directorate plans in place to manage and mitigate demand • Ongoing reviews of children already under care of council
8	Volatility in future funding streams in Government funding streams and Business Rates Retention	High	Medium	<ul style="list-style-type: none"> • Prudent assumptions made in budget • Ongoing review of developing business rate changes • Business case to support future
9	Brexit Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	<ul style="list-style-type: none"> • Reduced reliance on grant funding in all directorates • Increased local economic and social investment to increase core income

