Medium Term Financial Strategy 2010 – 13

Foreword by the Council Leader & Cabinet Member (Resources)

The Medium Term Financial Strategy (MTFS) is an important document because it reflects our strategic and operational intentions over a three-year time frame for the Council. The strategy continues to have a significant influence on our financial culture, helping to shift thinking and financial behaviour away from short-term budget setting to a more appropriate, longer-term approach that brings stability to our support for service improvement.

The MTFS reflects on the scale of the impact of the economic downturn that has affected the world economy and its influence on Herefordshire. We have adapted our medium term plans to address the implications of the dramatic change in the economy. Income collection from car parking, planning fees etc has dropped and with interest rates at their lowest ever level, we continue to see less interest received from cash holdings. But, at the same time, the reduced cost of borrowing means that we take the opportunity to reschedule debt if appropriate, so that we reduce the cost of existing borrowing for future generations. It is because we have a flexible MTFS that we can made decisions as and when it is appropriate to do so.

In 2009, the Council has maintained performance of its financial delivery and procedures that underpin our activity. This performance has been acknowledged by the Audit Commission with a Use of Resources score of three for “Managing Finances” that assesses the Council to be "performing well” in this important area.

2010 will be challenging as a result of the economic downturn and, it is important that we continue to strengthen the partnership between the Council, PCT and Hereford Hospital rust. This deep partnership is already paying dividends and, over the next 12 months, there will be stronger evidence of its impact, with the implementation of a shared back office service and associated systems.

Cllr. Roger Phillips
Leader of the Council

Cllr. Harry Bramer
Cabinet Member (Resources)

Foreword by the Chief Executive and Director of Resources

Planning the use of public money and transparent accountability for Herefordshire is a key priority, from which we continue to ensure Herefordshire has financial stability and also deploys resources to support agreed priorities. This cannot be achieved if we limit our planning horizon to a single year. The Medium Term Financial Management Strategy (MTFS) helps the Council plan over a longer time framework and demonstrate how it will use its resources in the future.

The MTFS is now a key part of the way we deliver our services. It is an appropriate way to plan our expenditure and has played a part in helping maintain the Council's Use of Resources score in 2009. However, we have continued to review and, where appropriate, improve the strategy.

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

Chris Bull
Chief Executive

David Powell
Director of Resources (Council)

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1. Introduction

1.1 The Medium-Term Financial Strategy (MTFS) covers the financial years 2010 to 2013 and intends to maintain financial stability, deliver annual efficiencies, and support investment in priority services, whilst demonstrating value for money and maintaining service quality.

1.2 The MTFS is a key part of Herefordshire's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities.

1.3 A major development since the last MTFS has been the continuation of the downturn in the economy and the clarity of how the "credit crunch", has impacted across the world. This has had a direct effect on the income earned from investing Council balances and income collected from the provision of Council services.

2. Economic Background

2.1 Introduction

2.1.1 This section outlines the global and national economic climate. 2009 has seen the continuation of the economic downturn, although there are signs that the worst of the recession has passed.

2.2 Overall Picture

2.2.1 The global recession provoked an immediate liquidation of investments and loss in worldwide wealth, resulting in a tightening of lending conditions, and a widespread increase in uncertainty.

2.2.2 By May 2009, oil prices were down 60% and non-oil commodity prices, including internationally traded food commodities, were down 35%.

2.2.3 Lower food and fuel prices have cushioned the impact and helped to reduce the pressure on the current accounts of oil-importing developing countries. Policy reactions to the crisis have been swift and, although not always well coordinated, have so far succeeded in preventing a broader failure among financial institutions, and thereby avoided a much more severe collapse in production.

2.2.4 These policy measures have come at a cost. Fiscal balances in 2009 are expected to deteriorate by about 3 percent of GDP in high-income countries, and by about 4.4 percent of GDP in developing countries. The drop in economic activity, combined with much weaker capital flows to developing countries, is placing a large number of low and middle-income countries under serious financial strain. Many countries are having difficulty generating sufficient foreign currency from exports or borrowing to cover import demand.

2.2.5 Despite the rapid decline in GDP in high-income countries during the first quarter of 2009, a number of indicators point to the beginnings of an economic recovery. Stabilising and even recovering stock markets, modest improvements in exports in some countries, a recovery in consumer demand and the still-to-come demand-boosting effects of discretionary fiscal stimulus measures are among the factors pointing to the beginning of recovery.

2.2.6 Indicators vary by country at the moment; however, the United States and China are enjoying an economic revival compared with Western Europe and other developing regions. Moreover, several factors point to continued weakness. Unemployment continues to rise throughout the world, housing prices in many countries are still falling and bank balance sheets are fragile. As a result, the timing and strength of the eventual recovery in the global economy remain highly uncertain. Indeed, many countries are facing growing pressure on their currencies and banking sectors. Already several high-and middle-income developing countries have entered into special borrowing agreements with the International Monetary Fund (IMF) to prevent deteriorating external and fiscal positions from getting out of hand.

2.3 UK Outlook

2.3.1 Following one of the deepest recessions the country has experienced there may be evidence the worst has passed.

2.3.2 The Monetary Policy Committee has been injecting money into the economy since March 2009. Quantitative easing has seen £200billion from purchasing gilts and other assets.

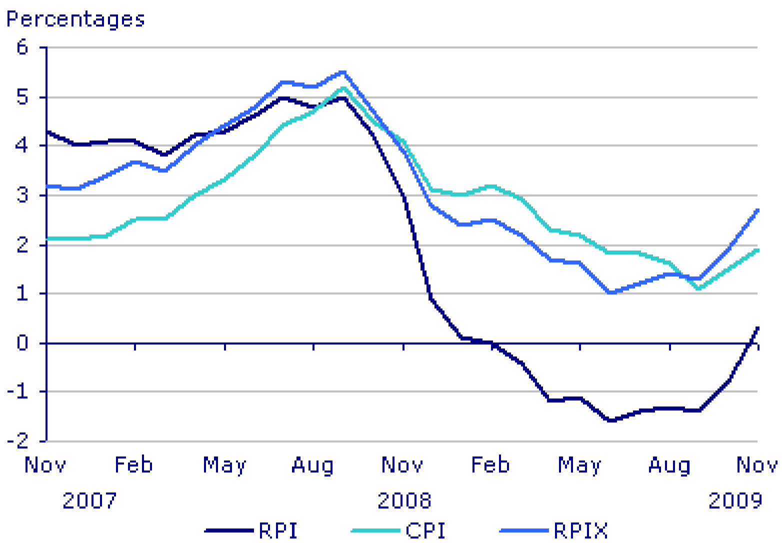
2.3.3 To reduce the UK's deficit the Treasury is proposing cuts to public sector spending, although a return to the 40% ceiling of government debt to GDP is likely to take until 2035. Public spending is expected to fall by 15% and tax rises are possible, VAT returned 17.5% in January and further rises are forecast.

2.3.4 The ratings agencies responded to the increasing government debt, Standard and Poors changed its UK ratings outlook from stable to negative based on concerns about the governments' abilities to deal with the required fiscal consolidation.

2.3.5 Bank base rate is at the lowest level since the Bank of England was funded, and set to continue through into 2011, finally rising as the economy recovers.

2.3.6 The Consumer Price Indices fell from 1.6% to 1.1% in September, its lowest level since 2004, it is likely to level out at an annual rate of 1.8%. The Retail Price Index currently stands at -1.4%, although in early 2010 it will move back into positive figures.

Annual inflation rates - 12 month percentage change



2.3.7 In contrast to the continued low interest rate, share prices reached a 14 month high in November 2009. The FTSE 100 index rose by more than 50% since its low point in March 2009.

2.3.8 Unemployment increased to 2.47million in the three months to August, with the jobless rate rising from 7.6% to 7.9%, the highest since 1995. Average earnings had the lowest increase on record of just 1.9%.

2.3.9 Households are focused on repaying debt and saving rather than spending, this is set to continue. A 0.5% drop in consumer spending is forecast for 2010, and modest increases there after.

2.4 Summary of Current Situation in Herefordshire

2.4.1 The latest report "Impact of the Economic Downturn on Herefordshire" produced by Herefordshire Council Research Team uses facts and figures to give an overview of the effects of the down turn in the economy. In summary the findings suggest:

- The **unemployment** claimant count has been fairly stable since March, although medium and long term claimants and younger claimants seeing large increases.
- The **employment rate** for Herefordshire remains significantly higher than for the West Midland and England.
- Ongoing **redundancy** exercises are likely to lead to further unemployment, although the rate of redundancy seems to be decreasing.
- There has been an increase in numbers claiming **out of work benefits**, but this is largely a result of more jobseekers.
- A decrease in the number of claims received for **housing benefits and/or Council tax benefits**, since June 09, although numbers for the over 60s remain high.
- A slight increase in the percentage of **16-18 year olds not engaged in education, employment of training** in 2008.
- No clear evidence of the impact that the recession is having (or might have) on **migrant labour** or the impact that any changes in migration flows will have on local economies.
- Local businesses reported an increase in **trading (UK markets), business confidence and employment prospects** on previous quarters.
- An improvement for **trading in Hereford City**, with fewer empty shops.
- A decrease in the number of **empty business properties** over recent months, although there are still many more than prior to the credit crunch.
- A decrease in both the number of **business rates accounts** written off due to bankruptcy, but an increase in the amount of money involved.
- Mixed picture for **tourism**, an increase in the number of visitors to attractions in Herefordshire compared to 2008.
- Positive signs in the **housing market** with a slight increase in property sales and house prices.
- Levels of **homelessness** are still high (compared with 2006).
- Increase in numbers experiencing problems with **debts** needing advice/support.
- Mixed picture for impact on **community and voluntary organisations** – evidence of increased demand for services for some organisations but still able to cope with existing resources at present.
- Decline in overall levels of **crime**, but increases in burglary, violent and anti-social crimes.

2.5 Council's Response to the Economic Downturn

2.5.1 The Council is intervening in a number of areas to address the negative effects of the down turn in the economy. and using its resources to stimulate the economy by:

- Reducing the payment time of invoices (target of all payments to be made within 20 days on non-disputed invoices with an aspiration for ten days)
- Revising the procurement strategy to enable local firms to be fit for purpose to win tenders
- Awareness and training seminars on tips on tendering for local firms
- Using the Herefordshire Business Portal which will publicise all Council tenders above £5k to enable local firms to bid
- Support for the Citizens Advice Bureau to enable extra advice on employment and housing
- Enabling volunteering for people to develop new skills and networks when looking for new employment
- Support for sustainability of rural shops

2.5.2 The activity to address the effects of the downturn does not just support businesses, but takes a wider view of the effect of the financial climate on communities and individuals. Therefore intervention also includes additional projects and schemes to support businesses and communities:

a) **Mortgage Rescue Schemes –** national and local scheme operate in the county, with the latter aimed at supporting those with dependent children, pregnant or, the vulnerable and caters those who do not fit the national criteria.

b) **Grant programmes** – newly introduced Business Booster Grant and Training Voucher compliments other grant schemes including Rural Enterprise Grants that provides access to finance for small scale diversification and business development projects for the benefit of rural businesses.

c) **Broadband improvements -** instigating an improved broadband service that will aid competitive advantage for local companies and access to service for local people.

d) **Housing Financial Support Packages** - The Homelessness and Housing Advice Team offer a range of preventative interventions aimed at reducing the risk of homelessness.

e) **Energy Efficiency grants** – These are promoted to support households to improve energy efficiency in their homes and tackle fuel poverty in support of the Affordable Warmth Strategy.

f) **Benefit entitlement** – awareness campaign to ensure people are aware of their benefit entitlement. The Benefit Service is increasing training for front line staff at the Info Shops around the County to give improved benefits advice to customers, and using the Council's benefit database to provide access to free school meals to children who are entitled.

2.5.3 NHS Herefordshire and Herefordshire Council are together creating 80 apprenticeships to give local people valuable experience and training and help them to gain work-based qualifications. Apprenticeships and advanced apprenticeships are aimed at people under 24, but adult apprenticeships are available for people with more workplace experience. The scheme covers a range of occupational areas including health and social care, business administration, customer service, IT, finance and dental nursing, and covers qualifications including NVQs at levels 2 & 3, key skills at levels 1 & 2 plus a related technical certificate. School careers and connexions advisors are publicising the scheme alongside attendance at career events by PCT and Council representatives.

2.5.4 For 2009/10 the Council allocated £346k as a reserve to address the economic downturn. Schemes have been initiated and will continue in 2010/11 with a focus on supporting recovery.

2.5.5 The potential loss of income to the Council as a result of the economic downturn has been addressed in the FRM. 2010 continues to see reduced income from planning and development control fees, car park and land charges. Services are investigating new approaches to negate the shortfall, implementing new charging regimes for pre planning advice, ensuring fees are set at full cost recovery levels where possible and barrier car parking is extended.

3. The National Financial Context

3.1 Introduction

3.1.1 This section of the MTFS sets out the financial context at national level for local government.

3.2 Pre Budget Report 2009

3.2.1 The Chancellor of the Exchequer's 2009 presented the Pre-Budget statement to the House of Commons on 9th December 2009. The Chancellor said the Pre-Budget Report 'takes place at a critical time for our country and the world'. The task he said was 'to ensure recovery and promote growth', he continued, the Government needs 'to maintain support until the recovery is secured'. No announcement was made on government department spending limits after 2010/11, although the report indicated front-line schools, hospitals and policing would receive real-terms increases, whilst overall public spending growth would shrink to 0.8% by 2013/14.

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3.2.2 Headlines from the Pre-budget report are;

The Economy

- The UK economy will shrink by 4.75% this year, a worsening of 1.25% since April's Budget, but it is predicted to grow by 1% to 1.5% in 2010.
- Economic growth is expected to increase by 3.5% in 2011 and 2012.

Public Services

- Total public spending in 2010/11 will rise by £31bn (2.2% in real terms).
- No Departmental Expenditure Limits were set beyond 2010/11. However, current spending growth will fall to an average of 0.8% a year between 2011/12 and 2014/15.
- From 2011 there will be guaranteed minimum real terms increases in spending on 'front-line NHS and schools' for two years.
- Sufficient funding to maintain the number of police and community support officers will also be provided.
- Free school meal provision will be extended to 500,000 school children not previously eligible.

Tax

- Return of VAT rate to 17.5% on 1 January 2010 confirmed. No other changes in VAT announced.
- Corporation Tax rise of 1% for small businesses postponed for a further year.
- Inheritance Tax threshold will not be raised from £325kto £350k as originally planned; however, couples will be allowed to pool their total to £650k.
- 0.5% increase in National Insurance contributions for employers, employees and self-employed from April 2011, there will be an increase in personal allowances for those earning under £20k to offset this rise.
- Monthly duty of 50p on landlines to extend super-fast broadband provision.

Borrowing

- Net debt is expected to rise to a peak of 78% of GDP in 2013/14, before decreasing.

- Public sector net borrowing will be decreased year-on-year and more than halved by 2013/14.
- Forecast borrowing will be £178bn in 2009, £3bn higher than predicted in April.
- Borrowing is estimated to be £176bn in 2010 and £140bn in 2011, falling to £96bn in 2013.
- The potential Government losses from interventions in the financial sector have been revised downwards from £50bn to £10bn.

Public Sector Pay and Pensions

- From 2011 all public sector pay settlement increases will be capped at 1%, except for members of the armed forces.
- By 2012 public sector employer contributions for teachers, local government workers, NHS and the civil service employees will be capped.
- Public sector workers earning over £100k will face higher employee pension contributions.

Business and Employment

- Empty commercial properties with a rateable value below £18k will continue to be exempt from business rates.
- 18-24 year olds claiming Jobseekers Allowance for six months will be guaranteed a job, work placement or work-related skills training.
- Enterprise Finance Guarantee Scheme, under which Government offers 75% loan guarantee to small businesses, will be extended to September 2010.

3.3 Local Government

3.3.1 On 9th December 2009 the Government published the paper *Putting the Frontline First: smarter government* which contained the following measures that could affect local government finance:

- By Budget 2010 the Government will publish specific proposals to reduce ring-fencing of funding for local authorities and publish guidance on aligning and pooling local level budgets.
- The timing and co-ordination of grant payments from departments to local authorities will be aligned from 2011/12.
- Consideration will be given to single area-based capital funding, 'Total Capital', with recommendations by Budget 2010.
- The number of national indicators for local areas will be reduced by April 2010, and further reductions will be made from 2011 and, by Budget 2010, setting out plans to further align sector-specific performance frameworks across key local agencies;
- By 2010/11 the timings of all assessments, inspections and reporting arrangements which focus on similar outcomes will be coordinated; consideration will also be given to a new cross-government data gateway.
- The number of inspectorates and their work will be reviewed by Budget 2010, in order to save at least £100m.

3.4 Comprehensive Spending Review 2007 (CSR07)

3.4.1 CSR07 set Departmental Expenditure Limits (DEL) for all government departments, including local government, taking account of spending plans and priorities to 2010/11. CSR07 was prepared in the context of projected lower economic growth and was tighter than the previous spending review. However it still assumed underlying economic growth and as a result CSR07 provided local government with a real increase in funding of 4% for 2010 –11, the third and final year of the review.

3.4.2 Within CSR 07 the key challenges identified for local government were;

- Adult Social Care – rising demands due to long-term demographic changes
- Education – including capital investment
- Waste – pressure to reduce household landfill
- Communities – increasing place-shaping role for Councils
- Services – rising expectation for modern and personalised services

3.4.3 Local authorities were expected to develop services within this funding regime by a rigorous pursuit of the efficiency agenda. Public services were set a target of achieving at least 3% per annum (and 4% for 2010-11), net cash releasing gains over the CSR07 period. Cashable efficiency savings of £4.9bn were expected from local government, mainly from better procurement and business processes.

3.4.4 As part of the CSR07 framework announcements around the performance framework for local government included;

- A single set of local government priorities in Public Service Agreements
- 198 national performance indicators
- A maximum of 35 national targets negotiated through Local Area Agreement.

3.5 Local Area Agreements (LAA) and Area Based Grants

3.5.1 LAAs are three year agreements between central and local government, designed to meet national targets as well as local priorities. They are intended to devolve more power to local communities combining area based funding streams into an area based grant to give local authorities and their partners more flexibility to make funding decisions in response to local needs and priorities. This funding is used alongside mainstream budgets to support the achievement of specific 'improvement targets' identified in LAAs. Each LAA includes up to 35 of such targets, negotiated through the Government Office and subsequently designated by the Secretary of State

3.6 Local Government Settlement 2010/11

3.6.1 The Provisional 2010/11 Local Government Finance Settlement was presented to the House of Commons on 26th November 2009, and ratified in the Final 2010/11 Local Government Finance Report (England) presented in a written statement to the House of Commons on 20 January 2010. The Final Settlement remains unchanged from those published in the Provisional Settlement.

3.6.2 In summary the headline changes between the two last two year Settlements are:

- No change for **any** authority in Formula Grant allocations, between the 2010/11 settlement announced in January and today;
- No increase in the total amount of Formula Grant allocated;
- No change to the relative block sizes;
- No change to the damping mechanism;
- No further transfers in/out of the 2009/10 baseline; *and*
- No Amending Report issues.

3.6.3 The headline changes between the Final 2010/11 and the 2009/10 Settlement are:

a) Average 2.65% increase in Formula Grant across England;

b) Formula grant will total £28.3bn in 2009/10 and £29bn in 2010/11, increases of 2.8% and 2.6% respectively.

c) Total funding for Councils, including specific grants, would be £73.4bn in 2009/10, and £76.3bn in 2010/11, an increase of 4.%.

d) Specific grants including Area Based Grant and PFI increased by 4.7%, from £49.4bn in 2009/10 to £51.6bn in 2010/11.

3.6.4 There have been a number of changes in specific and general grants subjects to legislation being passed. Local authorities are likely to receive funding to implement free personal care for elderly people with the highest needs from 1 October 2010, although initial analysis suggests this funding will not be sufficient to cover the cost of the potential increase in demand.

3.6.5 The Government noted that the average Band D Council Tax increase was 3.0% in 2009/10 and said the Government 'expects to see it fall further next year while authorities protect and improve front line services. It was stated we expect the average Band D Council Tax increase in England to fall to a 16 year low in 2010/11'.

3.7 Efficiency Agenda

3.7.1 The local government settlement has been accompanied by a strong focus on value for money, improving efficiency and cutting down on waste. Over the 2004 Spending Review period, departments over-delivered on the Government's value for money target by 20 per cent, achieving savings of £26.5 billion.

3.7.2 Over the 2007 Comprehensive Spending Review (CSR) period the Government has committed to a cash-releasing value for money target worth £35 billion by the end of 2010-11. Departments are making good progress towards their 2007 CSR targets and the 2009 Pre-Budget Report announces that £8.5 billion of efficiencies have been delivered so far. This includes savings reported in 2008-09 departmental annual reports and, where available, departmental savings reported in the first half of 2009-10.

3.7.3 Budget 2008 announced the next stage of the Government's programme of value for money reforms, setting up the Operational Efficiency Programme (OEP) and the Public Value Programme (PVP) to capitalise on best practice and leading thinking in the private and public sectors. Budget 2009 accepted the recommendations of the OEP reviewers that the Government could achieve £15 billion of additional efficiency savings a year by 2013-14 compared to 2007-08, in back office and IT, collaborative procurement, asset management, property and local incentives and empowerment. Budget 2009 also set out details of the early savings from the PVP and announced that the programme would be expanded to ensure demanding value for money reviews are conducted across a minimum of 50 per cent of each department's budget.

3.8 Economic Outlook

3.8.1 The indication for local government is that there will be increasing pressure on services. Demand for services including housing, social services and economic development will increase. Regeneration will be a key priority.

3.8.2 The next pension fund valuation takes place in 2010. Most local authority pension schemes will have suffered a reduction in their book value since the collapse of the stock market. A recent rally in the stock market may negate some of the loss, but most will still have significant shortfalls and it is likely that Pension contributions will rise from April 2011.

4. Herefordshire Council's Financial Context

4.1 Introduction

4.1.1 This section of the MTFS describes Herefordshire's financial position. It is important to set the scene locally before considering the best approach to the high-level management of the Council's financial resources to ensure cash follows priorities.

4.2 Formula Grant

4.2.1 The final year of the three year settlement under CSR07 was confirmed in January 2010 with the Formula Grant uplift remaining at 4%. It is likely that future years will see a grant reduction, and the FRM assumes a reduction of 5% per annum from 2011.

	2010-11	2011-12	2012-13
Formula Grant	£57.6m	£54.7m	£52.m
Increase on like-for-like basis	+4%	-5% (assumed)	-5% (assumed)

4.3 Specific Grants

4.3.1 The allocation of specific grants was confirmed in December 2009 including Dedicated Schools Grant. The figures for Herefordshire are shown in Appendix A.

4.4 Dedicated Schools Grant

4.4.1 The Dedicated Schools Grant (DSG) is paid as a ring-fenced specific grant and must be used in support of the Schools Budget. It is the main source of income for the Schools Budget and can be used for no other purpose. The Schools Budget is made up of the Individual Schools Budget and a number of central services for pupils. DSG is based upon a per pupil formula using the actual pupil numbers from the January School Census data each year. Government sets a fixed amount per pupil for Herefordshire which is multiplied by the total pupil numbers to determine the final grant. There is specific grant certification and audit requirements to ensure appropriate use of the grant and any under or overspends must be carried forward to the next financial year. DSG cannot be used to fund general Council expenditure. Funding is delegated to schools through a funding formula that is agreed with Schools Forum.

4.4.2 National funding reflects factors such as deprivation, sparsity and area cost adjustments which affect urban and rural areas in different ways. Herefordshire has one of the lowest funding levels of the nationally distributed DSG at an overall ranking of 147 out of 149 authorities receiving the grant. Herefordshire will receive £4,002 per pupil in 2010/11 compared to the England national average of £4,398 and £4,027 received by our neighbour Worcestershire.

4.4.3 The current grant methodology ("Spend Plus") underlying the allocation of DSG to individual authorities is determined by central government and has been used for the three years. A national review of the distribution formula for DSG is currently being undertaken and is expected to be in place from 2011-12. Authorities will be consulted on the proposed changes in DSG during Spring 2010. No information on the amounts per pupil for 2011-12 onwards has been published by government pending the outcome of the DSG review although all the evidence suggest that there could be a reduced settlement for schools.

4.4.4 The Council has always sought to maintain the relative budgets of schools in Herefordshire. The most recent comparative data from the Department for Children, Schools and Families for 2008-09 shows that within our family group of 11 comparable authorities Herefordshire passport the third highest amount per pupil to schools whilst retaining the third lowest amount per pupil for central DSG services.

4.5 Area Based Grant

Area Based Grant (ABG) is a general grant allocated directly to local authorities as additional revenue funding to areas. It is allocated according to specific policy criteria rather than general formulae. Local authorities are free to use all of this non-ringfenced funding as they see fit to support the delivery of local, regional and national priorities in their areas.

4.5.1 Area Based Grant has increased for 2010-11, a large proportion of the increase is due to the implications of the Personal Care at Home bill. A consultation published in December confirms that subject to legislation being passed before the end of Parliament, LAs will receive funding via ABG to implement free personal care for elderly people with the highest needs from 1 October 2010. Other transfers include the anticipated move of the Supporting People grant into ABG from 2010/11. Details are shown in the table below:

ABG 2010-2011 as per Nov 2009	**£**
DEFRA	
Environmental Damage Regulations	319
Total DEFRA	**319**
Home Office	
Community Call for Action/Overview Scrutiny Committee	2,000
Stronger Safer Communities	182,283
Young People Substance Misuse Partnership	30,568
Total Home Office	**214,851**
Department for Transport	
Detrunking	526,486
Road Safety Grant	325,645
Rural Bus Subsidy	944,776
Total DfT	**1,796,907**
DCSF	
School Development Grant	82,000
Extended Schools Start-Up Grants	334,158
Primary National Strategy - Central	115,250
Secondary National Strategy - Central o-ordination	140,930
Secondary National Strategy - Behaviour and Attendance	68,300
School Improvement Partners	108,240
Education Health Partnerships	54,796
School Travel Advisers	32,000
Choice Advisers	20,140
School Intervention Grant	69,900
14 - 19 Flexible Funding Pot	47,577
Sustainable Travel - General Duty	15,516
Extended Rights to Free Transport	330,411
Connexions	1,394,246
Children's Fund	357,170
Child Trust Fund	2,807
Positive Activities for Young People	111,608
Teenage Pregnancy	99,000

Children's Social Care Workforce	39,901
Care Matters White Paper	130,821
Child Death Review Processes	16,897
Young Peoples Substance Misuse	27,293
Designated Teacher Funding	14,891
Total DCSF	**3,613,852**
<u>Department of Health</u>	
Adult Social Care Workforce	523,344
Carers	895,610
Child & Adolescent Mental Health	225,230
Learning & Disability Development Fund	131,888
Local Involvement Networks	119,134
Mental Capacity Act & Independent Mental Capacity	103,916
Mental Health	464,768
Preserved Rights	1,409,312
Total DH	**3,873,202**
<u>CLG</u>	
Cohesion	75,000
Economic Assessment Duty	65,000
Supporting People Administration	101,811
Supporting People	5,592,972
Total CLG	**5,857,283**
Total ABG	**15,356,414**

4.5.2 ABG represented a significant shift in the Government's approach to funding when it was introduced in 2008/09. It is important to stress this is not 'new' money. It is a change to the way existing grant schemes are presented and can be used. The challenge faced by all local authorities is one of transition from funding existing services using specific grants that become part of ABG. To help the transition Herefordshire's approach is that all grants automatically stay within existing service areas for the year immediately following their inclusion in ABG. Thereafter the funding decisions are part of the governance arrangements of the Herefordshire Partnership.

4.6 Comparative Funding Position

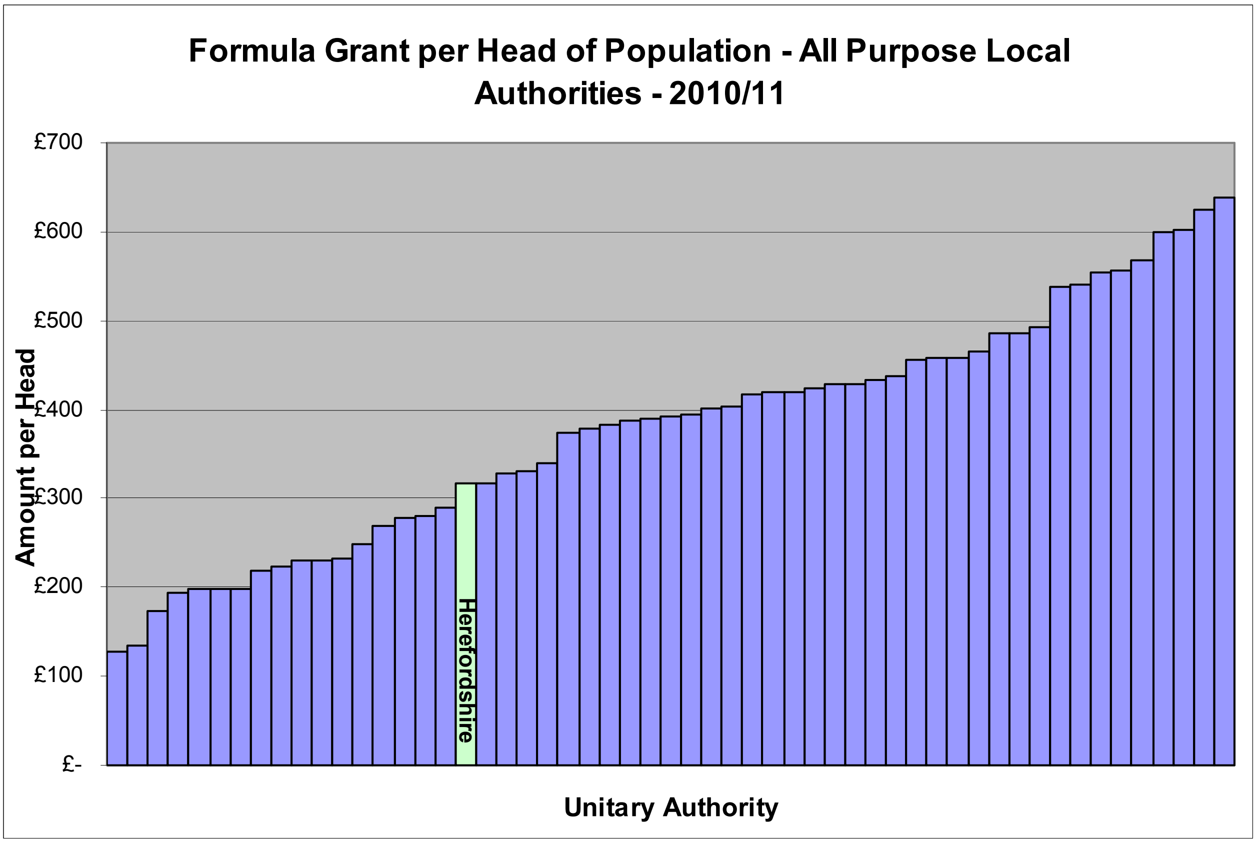
4.6.1 Herefordshire does not get a fair share of central Government funding and this continues to be the case. The 2010/11 settlement figures show that:

a) Formula Grant per head of population is £317 – 17% below the unitary authority average of £378

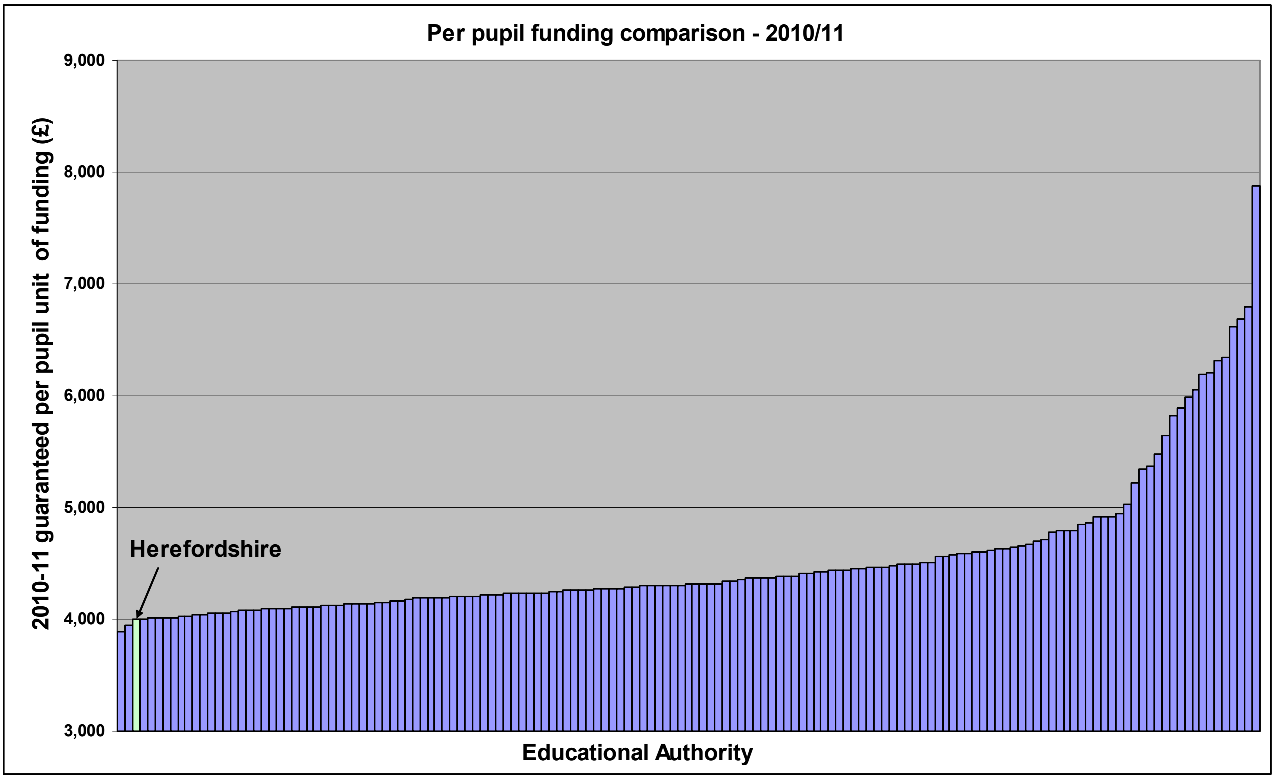
b) Dedicated Schools Grant per head of pupil is £4002 – 9% or £396 below the average of £4,398 for all English

c) Formula Grant plus indicative DSG per head of population is £802 – 16% below the unitary authority average of £972.

4.6.2 The graph below shows Formula Grant per head of population for all unitary Councils for 2010/11. It shows that Herefordshire is 38th out of 55 unitary authorities.



4.6.3 The graph below shows DSG per pupil. Herefordshire is 147th out of 149 authorities, £68 per pupil less than the average of comparable education authorities including our neighbours Shropshire and Gloucestershire.



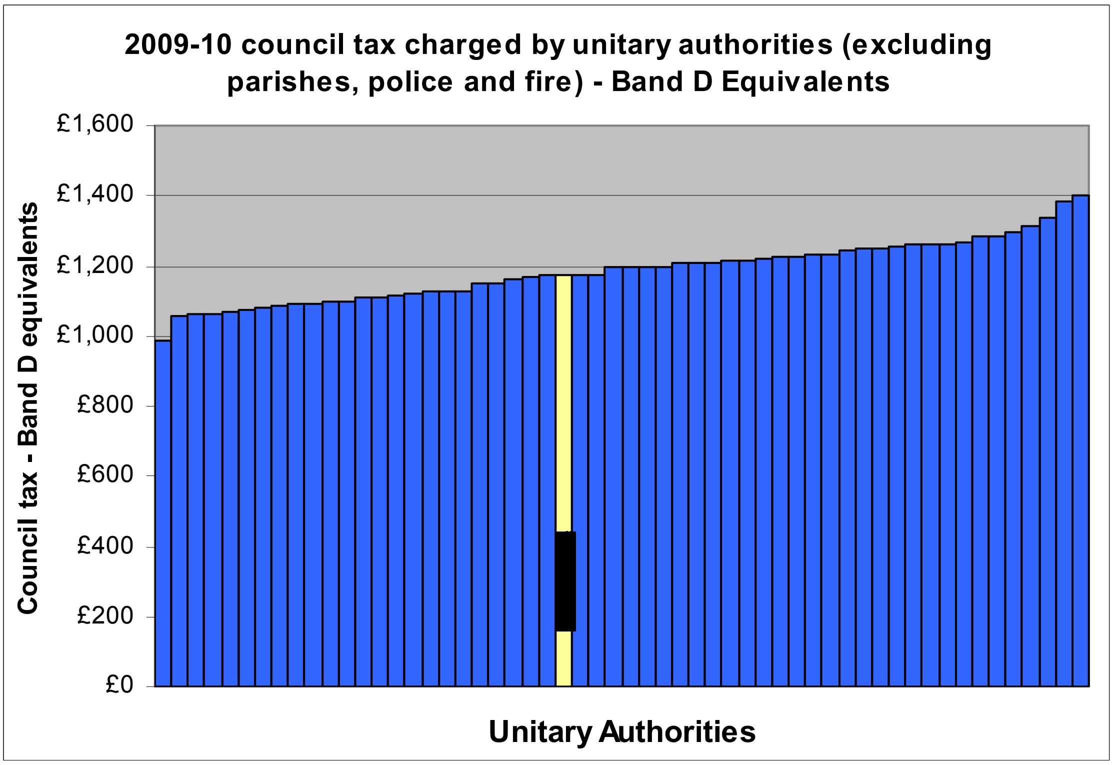
4.7 Council Tax

4.7.1 In December the Government stated that Councils are expected to agree Council tax increases of substantially less than 3% in 2010-11.

4.7.2 The previous section clearly demonstrated that Herefordshire does not get a fair share of central government funding. This lack of funding is not at the expense of above average levels of Council tax. In fact Herefordshire Council's Council tax for 2009-10 is below average as shown below;

	Average Council Tax excl. Parish Payments (Band D)	Difference	% Difference	Including parishes, police & fire
Herefordshire	**£1,175.24**	**-**	**-**	**£1,454.53**
Unitary authorities	**£1,191.01**	**£15.77**	**1.3%**	**£1,428.99**

4.7.3 The following graph shows Herefordshire's Council tax position in relation to other unitary authorities;



4.8 Reserves

4.8.1 Revenue Reserves

4.8.2 Herefordshire has 2 main sources of reserve funding to support the day to day spending that is recorded in the revenue account, the General Fund balance and Specific Reserves. As the titles suggest, the latter are held for a specific purpose whilst the former could be considered a general contingency.

4.8.3 The following table shows the year end balance on the General Fund and the level of Specific Reserves for the last 4 financial years plus an indicative forecast of the position at the end of 2009/10.

Balance as at:	General Fund £000	*Specific Reserves*		***Total*** £000
		Schools	**Other**	
31st March 2006	14,525	8,739	5,203	28,467
31st March 2007	8,023	8,137	11,637	27,797
31st March 2008	6,728	5,657	10,915	23,300
31st March 2009	6,390	5,476	10,588	22,454
31st March 2010 (forecast)	4,824	5,200	7,579	17,603

4.8.4 A significant proportion of the Specific Reserves belong to our schools and cannot be used to help pay for non-schools services.

4.8.5 The Council's policy is to maintain the General Reserve at a minimum of £4.5m (approximately 3.5% of the net revenue budget). This level of General Reserve balance is in line with recommended best practice and is consistent with the approach other similar authorities take. The Director of Resources is content to make his statutory declaration that this level of General Reserves is prudent as it provides adequate cover for demand pressures that are volatile, difficult to predict or unforeseen at the time the budget is set and that are not covered by an earmarked reserve.

4.8.6 Capital Reserves

4.8.7 There is one capital reserve that represents cash available to support spending on the creation or enhancement of assets that is recorded in the capital account. It is known as the Usable Capital Receipts Reserve.

4.8.8 The following table shows the level of usable capital receipts for the last 4 financial years and an estimate for 2009-10;

Balance as at:	£000
31st March 2006	20,070
31st March 2007	22,,426
31st March 2008	17,945
31st March 2009	17,558
31st March 2010	9,058

4.8.9 The Council has an asset management plan which has recently seen the purchase of Plough Lane, to house up to 1,600 Council and NHS employees. A dozen older buildings will be sold, releasing revenue savings and generating any capital receipts to repay the prudential borrowing.

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

5. Herefordshire's Policy Context

5.1 Introduction

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

5.2 Herefordshire Sustainable Community Strategy

5.2.1 *The Herefordshire Sustainable Community Strategy 2006 to 2020* sets out what the Council and its partners aim to achieve to make the county an even better place to live and work. Priorities are closely aligned with central government priorities for public services. *The Local Area Agreement* (LAA) between the Council, its partners and the Government is at the heart of delivering the strategy.

5.3 Corporate Plan and Annual Operating Statement

5.3.1 The current Corporate Plan sets out the Council aims over the years 2008 to 2011, including how it will realise the *Herefordshire Sustainable Community Strategy (HSCS)* and how the aims will be delivered through the LAA.

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

5.3.3 The Council's Corporate Plan themes are:

a) Children and Young People
b) Health and Well Being
c) Older People
d) Economic development and enterprise
e) Safer and stronger communities
f) Sustainable communities
g) Organisational improvement and greater efficiency

5.3.4 The Council's top priorities are:

- The best possible life for every child, safeguarding vulnerable children and improving educational attainment
- Reshaped adult health and social care, so that more older and other vulnerable people maintain control of their lives
- The essential infrastructure for a successful economy, enabling sustainable prosperity for all
- Affordable housing to meet the needs of local people
- Better services, quality of life and value for money, particularly by working in partnership with the Herefordshire Primary Care Trust and other local organisations

5.3.5 The table in Appendix B illustrates the interrelationship between the Council's themes and top priorities.

5.3.6 Annual plans for individual directorates set out how their services will contribute to the corporate plan and achieve relevant targets. These flow into the plans of individual teams, with objectives and targets set annually for individual managers and their staff.

5.4 Public Consultation

5.4.1 In September 2008 the “Place Survey” was posted out to 4,200 households in Herefordshire. The “Place Survey”, known locally as the “Herefordshire quality of life survey”.

5.4.2 The aim of the survey is to find out what people think of the quality of life in Herefordshire, to monitor the performance of local public services, ant to gather data for the new National Indicator (NI) set.

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5.4.3 Of the 4,150 which were successfully delivered, 1,907 were complete and returned, giving a response rate of 46%. This is an improvement from the 40% seen in 2007.

5.4.4 From a list of 20 items, the things most frequently seen as important in **making somewhere a good place to live** were the level of crime, health services and affordable decent housing.

5.4.5 The things most often seen as being **in need of improvement** in the local area were road and pavement repairs, activities for teenagers and the level of traffic congestion.

5.4.6 The items seen as **priorities for local people** (i.e. those seen as both important and in need of improvement) were affordable decent housing, clean streets and public transport.

5.4.7 There has been a significant improvement in satisfaction with the **local area as a place to live** (87% satisfied, up from 69% in 2007), putting Herefordshire in the best quartile nationally (the “best quartile” means the top quarter of all authorities’ scores). There was also an improvement in satisfaction with the local community as a place to live (79% to 86% satisfied), and 92% were satisfied with their home as a place to live. 89% of over 65s were **satisfied with both their home and their neighbourhood**, which puts Herefordshire in the best quartile nationally.

5.4.8 66% of respondents felt they **belonged to their immediate neighbourhood** either fairly or very strongly, which puts Herefordshire in the best national quartile.

5.4.9 76% agreed that people from **different backgrounds got on well together** in the local area, which has seen no change since 2007, though a slight drop in national scores means Herefordshire has moved from the worst to the 3rd quartile.

5.5 LAA and the Herefordshire Partnership

5.5.1 To achieve the LAA vision, the Herefordshire Local Strategic Partnership was established, membership includes local organisations, groups and service providers, specifically:

a) Chamber of Commerce Herefordshire and Worcestershire, and Business Link West Mercia.

b) Herefordshire Association of Local Councils.

c) Herefordshire Council.

d) NHS Herefordshire.

e) Learning & Skills Council, Herefordshire and Worcestershire.

f) Third Sector Organisations.

g) West Mercia Constabulary.

h) Fire Rescue Service

5.5.2 Five important principles have been embraced by the Herefordshire Partnership they are:

- Ensure an equal and inclusive society
- Integrate sustainability into all our actions
- Realise the potential of Herefordshire, its people and communities
- Build on the achievements of partnership working and ensure continual improvement
- Protect and improve Herefordshire's distinctive environment

5.6 The Performance Improvement Cycle (PIC)

5.6.1 The Council links its financial planning and monitoring with corporate and LAA priorities through the annual Performance Improvement Cycle (PIC) process. The purpose of the PIC is to enable the Council to:

a) link directly, at all stages of planning and performance management, the allocation of resources with the delivery of the Council's priorities in terms of measurable outputs and outcomes

b) make informed choices about the trade-offs between investment in different services

c) achieve the best possible value for money, overall and in respect of individual services

d) make cash-releasing and non-cash-releasing savings to meet Government requirements and deliver service improvements in priority areas

e) drive continuous performance improvement for better customer services across the Council

f) take account of what it needs to contribute to the Herefordshire Community Strategy

g) maximise the benefit of the developing public service arrangements with the PCT.

5.6.2 To these ends, the processes for corporate, service and financial planning are fully integrated into the cycle.

6. Financial Management Strategy

6.1 Introduction

6.1.1 This section of the MTFS describes Herefordshire's corporate financial objectives given the national and local context. It also covers Herefordshire's financial management proposals to achieve these objectives. This section also describes the financial management strategies for:

a) Revenue spending.

b) Capital investment.

c) Efficiency review and improving Value for Money.

d) Treasury management.

6.1.2 Active risk management is a key component of the Council's corporate governance arrangements. This section of the MTFS therefore sets out the key corporate and financial risks the Council will be monitoring to ensure it stays on course to deliver its overall objectives.

6.2 Corporate Financial Objectives

6.2.1 Herefordshire's corporate financial management objectives are to:

a) Ensure budget plans are realistic, balanced and support corporate priorities.

b) Maintain an affordable council tax – the Financial Resource Model (FRM) in the MTFS assumes a 2.9% increase.

c) Manage spending within budgets – Directorates have a 'non-negotiable' pact to manage outturn expenditure for each financial year within budget.

d) Ensure sustainable balances, reserves and provisions, within a reasonable limit, consistent with the corporate financial risks and without tying up public resources unnecessarily.

e) Create the financial capacity for strategic priorities for service improvement.

f) Support a prudent level of capital investment to meet the Council's strategic requirements.

g) Maintain a strong balance sheet position.

h) Deliver and capture year on year efficiency and Value for Money improvements.

i) Ensure an integrated approach to corporate, service and financial planning in full consultation with key stakeholders.

j) Ensure a whole-life costing approach is taken to both revenue and capital spending decisions.

6.3 Managing Partnership Resources

6.3.1 Herefordshire welcomes the opportunity to work with strategic partners to improve outcomes. However, to achieve its corporate financial management objectives, we will always seek to ensure:

a) The financial viability of partners before committing to an agreement.

b) Clarity of respective responsibilities and liabilities.

c) Accounting arrangements are established in advance of operation.

d) Implications of terms and conditions on any associated funding are considered in advance of operation

6.3.2 Area Based Grant brings together a number of existing grants and is part of a three year financial strategy designed to take the ringfencing off funding from government departments. Decision making is devolved down to the local area; in the case of Herefordshire to the six Policy and Delivery Groups which make up the Herefordshire Partnership Structure.

6.4 Managing external funding

6.4.1 External funding provides another opportunity to increase financial capacity. The MTFS will be to pursue actively such opportunities, providing that:

a) Match funding requirements are considered in advance.

b) They support, or do not conflict or distract from, corporate priorities.

c) They have no ongoing commitment that cannot be met by base budget savings.

d) They do not put undue pressure on existing resources.

e) The net cost overall is not excessive

6.5 Managing Developer Contributions

6.5.1 This is another source of external funding that can be secured through the planning system. It may be possible to secure funding to support the cost of day-to-day services (e.g. commuted sums for maintenance of public open spaces). Support for capital infrastructure can also be achieved in this way (e.g. developer contributing to cost of new access roads).

6.5.2 The MTFS aims to maximise the potential for increasing financial capacity and managing growth in volumes through s106 agreements, where possible.

6.6 Managing Fees and Charges

6.6.1 The Council is currently developing a charging strategy with the aim of implementing a corporate charging policy.

6.6.2 The policy will recognise the potential for discretionary charges to fund services and ensure full cost recovery where feasible and minimise the subsidy from Council budgets

6.7 Managing the General Fund Balance and Specific Reserves

6.7.1 Herefordshire's General Fund opening balance for 2009/10 was £6.39m. This is in excess of the current policy in place to maintain a minimum balance of £4.5m.

6.7.2 Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks reducing the need for a higher level of General Fund balances. This strategy ensures there is complete transparency about what is resourced, for corporate financial risks that, if realised, would affect the Council's financial standing. It represents an 'open-book' approach to accounting.

6.7.3 All Directorates are expected to manage budget pressures within the overall requirement to deliver an outturn at or below budget. Any in-year budget pressures must be managed by use of a recovery plan, which is approved at Joint Management Team.

6.7.4 The need for the range and level of specific reserves and the policy for minimum General Fund balances is continually reviewed as part of the financial planning, monitoring and outturn processes. The strategy described here provides cover for the key corporate financial risks.

6.8 Managing Financial Performance

6.8.1 Maintaining strong financial control is a prerequisite to achieving the Council's corporate priorities and the integrity of the MTFS. Good systems and procedures are in place for regularly reporting on financial performance to Cabinet, Strategic Monitoring Committee and Scrutiny Committees as part of the integrated performance framework.

6.9 Efficiency Review

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

6.9.2 Herefordshire has had a good track record delivering to the government's efficiency targets. For 2010/11 this rises to 4%. £6.7m.

6.9.3 Efficiencies identified in the FRM for 2010-11 include:

	£'000
Vacancy Management	762
Impact of full cost recovery for charging	225
Rationalisation of Property Services	180
Business process improvements	227
Implementation of new commissioning plan	450
Implementation of care brokerage	84
Reduction in unit costs for in-house services	159
Directorate reductions	2,528
	4,615

6.10 Value for Money (VfM)

6.10.1 Herefordshire is committed to routinely using VfM information and benchmarking data to review and challenge VfM throughout services and corporately, supporting continuous service improvement and the drive for efficiencies. This is an integral component of the Performance Improvement Cycle.

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

a) Ensuring service managers deliver the outputs and outcomes agreed for their service area within budget, managing within budget is a key responsibility for all budget holders embedded in our staff review and development procedures.

b) Support from the Procurement through efficient tender and other procurement processes that ensure robust quality and price.

c) Integrating corporate, service and financial planning processes.

d) Planning over the medium-term as well as the short-term.

e) Developing our routine financial performance monitoring reports for Cabinet to include VfM data over the coming year.

f) Benchmarking our costs and activities, year on year and with other authorities.

g) Through internal and external audit reviews.

h) Through scrutiny reviews.

6.11 Financial Management Strategy for Capital Investment

National Picture

6.11.1 The Council has received indicative funding notifications from central government for 2010/11. Supported Capital Expenditure allocations (borrowing supported by Revenue Support Grant) for 2010/11 totals £13.21m, split £0.89m towards children's services and £12.31m towards environment and culture.

6.11.2 Funding announcements for 2011-12 onwards are still awaited. Indications from central government are that, following the much publicised credit crunch, planned capital funding allocations are set to be halved by 2013-14 with the majority of central government available capital funding already being allocated to the Building Schools for the Future capital programme. Councils are therefore under increasing financial pressure to find financial savings to shore up the funding gap.

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

Herefordshire Capital Funding

6.11.4 The FRM for the revenue account reflects the new borrowing requirement implied by the Treasury Management Strategy to support the capital programme.

6.11.5 The capital receipts reserve totalled £17.56m as at 1st April, 2009, this is likely to fall to just over £9m by the end of the financial year. Capital receipts reserve funding has been committed to fund the 2010/11 capital programme.

6.11.6 In addition the Council can fund additional borrowing to the extent it considers it is affordable and prudent to do so (Prudential borrowing).

6.11.7 The financial management strategy for increasing capital investment capacity centres on:

a) Maximising developers' contributions as outlined in the financial management strategy for the revenue account.

b) Effective project management of capital schemes to ensure they stay within budget.

c) Creating the capacity to implement the property review arrangements set out in the Asset Management Plan to see what further opportunities there are for rationalising property assets and releasing resources (capital and revenue).

d) Maintaining our successful track record for innovative capital investment schemes.

e) Attracting external funding such as the grant allocation under the government's Building Schools for the Future programme.

6.11.8 The financial management strategy for capital investment also focuses on making sure the available resources are allocated in line with corporate priorities. To achieve this we will:

a) Treat property assets as a corporate resource

b) Ensure that corporate assets (including property assets and ICT infrastructure) are not neglected.

c) Develop a corporate approach to maintaining and developing corporate assets.

Capital Programme 2010/11

6.11.9 The 2010/11 capital programme represents funding indications received to date. This is subject to change following allocation of resources including additional capital grant funding announcements.

6.11.10 The following table summaries the existing capital investment programme updated for slippage, utilising in full Supported Borrowing allocated for 2010-11.

Investment by directorate:-	2010/11 £'000	2011/12 £'000
Children's Services	35,344	5,242
Resources	10,265	2,872
Deputy Chief Executive	2,030	39
Adult Social Care	539	-
Regeneration	8,533	1,719
Environment & Culture	18,452	2,003
To be allocated	2,741	0
	77,904	**11,875**
Which is funded by:		
Supported Capital Expenditure (Revenue)	13,229	1,200
Prudential Borrowing	18,601	2,813
Capital Receipts Reserve	5,820	500
Government Grants & Contributions	40,254	7,362
	77,904	**11,875**

6.11.11 The current revenue budget allows for additional prudential borrowing of £2,741k to be allocated to capital schemes in 2010-11, this is not reflected within the above table. If this funding wasn't allocated it would improve the revenue budget position by approximately £250k per annum.

6.11.12 £1m prudential borrowing has been allocated to Highways maintenance. The balance remains unallocated until a fundamental review of capital schemes, both those in progress and planned, is completed. Its findings will be used to identify capital spending priorities for 2010-11 and future years.

6.11.13 The prudential borrowing could be utilised to fund capital budget pressures identified below:

- **Current backlog:** Backlog maintenance – a high level indication of funding requirement across all service areas totals £17,750k, of these £95k represent urgent works and £500k is required for urgent works on Halo properties. This list would need to be reviewed further to ensure the expenditure meets the definition of capital expenditure before any capital funding could be allocated.

- **Legionella works** – last years funding allocation has proved to be insufficient to fund all works required so an additional funding is requested.

- **Landfill sites** – there are increased liabilities at Stretton Sugwas and Leominster closed landfill sites representing replacing defective gas extraction systems, methane stripping and increased costs relating to a leachate drain at Leominster. £83k is required in 2010-11.

- **Rotherwas Futures** – an additional £1,680k borrowing requirement has been identified to meet expected costs, this amount should be repaid from expected future capital receipts which should total £4m however £2.4m of this amount would be repaid to AWM under the original funding investment agreement.

- **Disabled Facilities Grant** – this statutory grant is currently under enormous pressure. A bid was submitted last year for funding of £672k to be required in 2010-11 however this could be reduced to reflect slippage of funds from this financial year due to the late notification of budget and delays due to the approval of applications process. Potential new funding requirements for 2011-12 have been identified, but at this stage no funding is requested:

- **Edgar Street Grid** – there is no capital budget for this scheme, current forecasts suggest that a possible funding (mainly in relation to infrastructure works) may be required over the next 3 years however this is dependant on a number of factors that cannot be confirmed at this time.

- **Model Farm, Ross on Wye** – funding has been allocated to enable feasibility works up to planning permission. Following this the scheme recommended will require capital funding which has not been awarded to date.

- **Hereford Centre** – a new Hereford centre is required to accommodate front office staff for the Council, PCT and police.

- **Butter market** – this site requires refurbishment works, partly due to backlog maintenance issues mentioned earlier, initial indications are that the cost of these will be in excess of £3m and no funding has been identified for this. The Councils VAT partial exemption limit must be reviewed before any capital funding is awarded to this scheme.

6.12 Treasury Management Strategy

6.12.1 The Council is required to approve an annual treasury management strategy each year as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2010/11, is provided at Appendix E and complies with the detailed regulations that have to be followed.

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

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

6.12.4 Since the 'credit crunch' a more cautious approach to investment has been implemented. This has resulted in reduced interest on investments used to support Council budgets.

6.12.5 The Council's treasury adviser assists the Council in formulating views on interest rates. They are predicting that the bank rate will remain at 0.50% until autumn 2010 when it will gradually rise to reach 4% by the end of 2011. These predictions are reflected in the Financial Resource Model (FRM), which includes a continued reduction in the investment income budget for 2010-11, improving by £0.6m in 2011-12.

6.12.6 The Treasury Management Strategy also sets the Prudential Code limits for the year and beyond. These limits define the framework within which the Council self-regulates its borrowing based on long-term affordability. These link back to the overall size of the capital investment programme and the FRM.

6.12.7 The Treasury Management Strategy assumes that, as far as possible, external borrowing for the capital programme will be delayed and will be funded by borrowing from internal reserves until the economic situation improves. In the current climate long term borrowing would be at considerably higher rates than investment income can generate and the number of counter parties has reduced due to poor credit ratings.

6.13 Key Corporate & Financial Risks

6.13.1 Herefordshire sees risk management as an essential element of the corporate governance framework. All formal reports include a risk management assessment. The Cabinet receives regular updates on the corporate risk register as part of our Performance Reporting arrangements.

6.13.2 Service Plans for each directorate provide a section on both short and long term risk, assessing the feasibility of delivering their objectives against barriers for delivery.

6.13.3 The most recent update of the Corporate Risk Register is provided for information at Appendix C.

7. Medium-Term Financial Resource Model (FRM)

7.1 Background

7.1.1 The FRM shown in Appendix D takes into account the corporate financial objectives and MTFS approach set out in this document. The FRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. It sets the financial context for the corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2010 to 2013.

7.2 Assumptions

7.2.1 The FRM includes the following assumptions;

a) **Council Tax**
The Government's expectation for Council tax increases is substantially below 3%. The actual increase for 2009-19 was 3.9%. Currently 2.9% is assumed for 2010-11, and the following two years.

b) **Formula Grant** – the FRM reflects the final year of the three year local government finance settlement, providing 4% for 2010-11, £57.584m. Currently no indication of levels beyond 2010/11 is available. Given the likely reduction in our funding a reduction of 5% per annum is included and -5% then on.

c) **Inflation**
The current FRM includes no inflationary uplift on non pay expenditure. This challenging policy ensures that managers:

- Negotiate appropriate contracts for the provision of services.
- Manage contracts and contractor performance effectively.
- Continually review service delivery arrangements to ensure improvements in efficiency and value for money.

d) **Employers' superannuation costs** – the FRM includes increases in employers' contributions rates in line with latest actuarial advice. The next three year valuation commences in 2010 and based on current stock market valuations a significant increase in employer contributions may be necessary, but at this time are not included in the FRM.

The last valuation was completed in 2007. At that time the Fund was 72% funded (compared to 64% in 2004). The valuation provides for the Council, as an employer, to make pension contributions at a rate sufficient to eliminate the deficit on the fund over 22 years. It is also possible that a future review of the scheme will impact on the contribution level.

e) **National Taxation** – the FRM assumes there will be an increase in national insurance contributions in 2011/12 in line with the Pre-budget report.

f) **Interest Rates** – the FRM reflects interest rate assumptions for investment income and new borrowing costs in line with the Treasury Management Strategy for 2009/10 and forecasts for 2010-11.

7.3 Corporate Priorities

7.3.1 The FRM includes the following key growth items and budget pressures identified as corporate priorities

Cost Pressure	**£'000**
Legislative changes	807
Inflation uplifts to key contracts	1,024
Economic downturn – impact on impact	180
Demographic changes	591
Frontline service pressures	1,572
Service modernisation pump priming	566
Other service changes	489
	5,249

7.3.2 An additional £0.5m has been allocated to replenish the Winter Maintenance reserve that was fully utilised in January 2010, to fund the impact of the bad weather on the county's roads.

7.3.3 The implementation of the Social Care at Home bill is expected in October 2010. There is uncertainty as to the increase in clients that will need to be funded, and whether government funding will be sufficient to cover the outlay. With these uncertainties in mind an additional £0.5m is allocated in readiness for the potential cost increase.

7.3.4 Capital Investment – the FRM reflects the revenue implications of the approved capital programme (see Section 6.11)

7.4 Directorate Budgets

7.4.1 2010/11 presents Directorates with a series of financial challenges and also a requirement that they support the Council's overall budget position to deliver a balanced budget.

7.4.2 The Performance Improvement Cycle (PIC) as described in Section 5.8, has seen extensive involvement of the Joint Management Team (JMT). Directors have been involved in a rigorous challenge process around spending and savings proposals.

7.4.3 The final proposals by Directors is summarised in the table below;

Directorate	**Spending requirement £000**	**Estimated savings £000**

Integrated Commissioning	2,097	827
Children's and Young People	1,555	540
Deputy Chief Executive	444	983
Environment and Culture	503	1,369
Regeneration	200	502
Resources	450	394
	5,249	**4,615**

7.4.4 The overall position is a net contribution of £634k, which is included in the FRM.

7.4.5 The table below sets out the overall 2010-11 budget for the Council. A number of growth and service budgets are being centrally held until a clear strategy for delivery is established. The 2009-10 budgets are also included for comparison purposes.

Directorate	**2009-10 Budget £000**	**2010-11 Budget £000**
Integrated Commissioning	38,580	38,416
Children's and Young People	23,918	23,919
Deputy Chief Executive	13,816	13,940
Environment and Culture	28,750	27,002
Regeneration	10,373	9,937
Resources	7,802	7,408
Central	14,479	22,521
	137,718	**143,143**

7.5 Shared Services/Herefordshire Connects

7.5.1 The Shared Services initiative has subsumed the Connects project into the wider Transformation Project. The overall approach is to view all corporate efficiency activity as part of the Herefordshire Connects Programme, so that maximum efficiencies are realised. In the 2010-11 the budget programme is set to realise £1m of savings, with an additional £1.6m in 2011-12. This indicates the key role the programme will make to the Council's overall financial position.

7.6 Sensitivity Analysis

7.6.1 The projected budgets make assumptions about likely levels of funding. The variable nature of these factors could impact on the budget and the following gives an indication of the extent of the possible changes:

a) An increase or decrease of 0.5% in the Council tax base impacts the budget by £427k in 2010/11.

b) 1% variance in Council tax inflation impacts the budget by £830k for 2010/11.

c) £100k increase in budget increases Council tax by up to 0.12%.

d) A 0.5% variance on investment interest rates equates to £83k in 2010/11.

e) If the pay settlement varies by 1% from the FRM's assumption this has an impact of approximately £553k.

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

The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case the Director of Resources must report on the:

a) Robustness of the estimates made for the purposes of the budget calculations.

b) Adequacy of the proposed financial reserves.

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

The Director of Resources states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

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

David Powell
Director of Resources

Appendix A

Specific Grants

	REVISED 20/01/2010
	£
Specific Grants	
Education and Children's Personal Social Services	
Dedicated Schools Grant	88,079,000
Schools Standards Grant (including Personalisation)	5,175,000
Ethnic Minority Achievement	47,000
Music Services	292,000
Extended Schools	723,000
Extended Schools Subsidy Grant	492,000
School Development Grant	7,244,000
School Meals	230,000
1-2-1 Tuition	729,000
Targeted Support for Primary & Secondary Strategy	1,032,000
Free Entitlement for 3-4 Year Olds	1,183,000
Sure Start, Early Years and Childcare	4,422,000
Youth Opportunity Fund	90,000
Short Breaks (Aiming High for Disabled Children)	537,000
Targeted Mental Health in Schools	150,000
Think Family Grant	349,000
Two Year Old Offer - Early Learning and Childcare	167,000
Adult's Personal Social Services	
Social Care Reform	886,000
Stroke Strategy	89,000
Aids Support Grant	16,000
Others	
Concessionary Fares	*not available*
Homelessness Basic Revenue	60,000
Growth Areas : Capital	*not available*
Growth Areas : Revenue	*not available*
Capital Grants	
DCSF	
Devolved Formula Grant	2,143,833
Extended Schools	166,130
Harnessing Technology Grant	1,091,000
Modernisation Grant	608,576
Intervention Centre	*not available*
Sure Start, Early Years & Childcare Capital Grant	1,010,347
TCF 14-19 diplomas & SEN projects	6,000,000
Youth Capital Fund	75,900
Building Schools for the Future	*not available*
Academy funding	*not available*
Aiming High	166,300
Fairplay - Playbuilders	593,177
LA Basic needs	458,156
Locally co-ordinated VA programme	435,233
Schools access initiative	285,904
DEFRA	
Waste Infrastructure	115,000
Dept of Health	
Mental Health Grant	95,000
Social Care	96,000

Improving Management Information	63,545
Dept for Transport	
Local Transport Plan Highways Maintenance (part -PRN bridges & Exceptional Schemes)	125,000
Local Transport Plan Integrated Transport (Part)	714,333
Road Safety	72,000
Home Office Capital Grants	
Safer Stronger Community Fund	22,000
CLG	
Disabled Facilities Grant	*not available*
Housing Market Renewal	*not available*
TOTAL	**126,329,434**

APPENDIX B

How the Council's themes and priorities relate to the Herefordshire Sustainable Community Strategy and the Local Area Agreement.

HSCS themes	The Corporate Plan themes	The Council's top priorities	LAA priorities
Children and young People	Children & young people	Maximise the health, safety, education, economic well-being, achievements and contribution of every child	• Children and young people are healthy and have healthy life-styles, with less obesity and substance mis-use, and better dental and sexual health • Children and young people are safe, secure and have stability • Children and young people achieve educational, personal, social and physical standards • Children and young people engage in further education, employment or training on leaving school • Children and young people engage in positive behaviour inside and out of school • Improved services for children, young people and their families through the work of Herefordshire's Children's Trust
Healthier communities and older people	Health and well-being Older People	Improve people's health and well-being, and reduce health inequalities, enabling people to be independent and active and to contribute to their local communities	• People have longer, healthier lives, with reduced inequalities between different groups and localities • Older people living fulfilled lives as active members of their communities • Vulnerable people able to live safely and independently in their own homes • Enhanced emotional well-being, with fewer suicides • Personalised health and social care services, which offer people much greater choice and influence over their care • Improved dental health •
Economic development and enterprise	Economic development and enterprise	Improve infrastructure and learning and employment opportunities, enabling business growth and sustainable prosperity for all	• Higher quality, better paid jobs and reduced unemployment • Increased participation in learning and higher levels of skills and achievement • More and higher-spending visitors to the county • Improved quality & availability of business accommodation and employment land • Better roads, reduced traffic congestion, with more people walking, cycling or using public transport • Improved dental health •
Safer and stronger communities	Safer & Stronger communities	Make Herefordshire an even safer place to live, work and visit	• Reduced levels of crime • Reduced levels of anti-social behaviour • Reduced harm from drugs and alcohol • Communities to have enhanced resilience and recovery from emergencies through effective partnership planning and co-ordination • Fewer accidents and injuries • People feel as safe as they would like to be

	Sustainable communities		
Organisational improvement and greater efficiency		Being recognised as top-performing organisations that deliver value for money and ensure excellent services	• The highest standards of leadership, governance and integrity • Demonstrable value for money • Streamlined, efficient operations, including the integrated delivery of services across the boundaries of different organisations • High levels of customer and citizen satisfaction • A highly skilled, highly motivated workforce that works in effective partnership with other organisations • Highly rated under Comprehensive Area Assessment and World Class Commissioning, and recognised as exemplars regionally and nationally •
Stronger Communities		Stronger, vibrant, more inclusive communities in which people enjoy a good quality of life and feel they have influence over their lives and decisions that affect them	• Cohesive communities in which people feel accepted, confident and empowered, regardless of race, disability, gender, sexual orientation, age, religion or belief • Communities and individuals participating in local decisions and influencing them • Affordable housing appropriate to people's needs and less homelessness, with support for vulnerable people to live independently • Fair access to the services residents need, including high quality sporting, cultural and recreational facilities and activities • People are able to participate in, the life of their communities • People feel as safe as they would like to be •
The Environment		The protection and enhancement of Herefordshire's distinctive environment, and tackling climate change	• Reduced waste and increased recycling • Reduced CO^2 emissions and successful adaptation to unavoidable impacts of climate change • Increased biodiversity • Natural resources are conserved and landscape character maintained, with sustainable land management • Investment in high quality streets, public spaces and the built environment •

CORPORATE RISK REGISTER **APPENDIX C**

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	**Risk Score**	Controls In place	Likelihood	Consequences (Severity)	**Residual Risk Score**	Risk Owner	**Cost of Mitigation**
CR49	The best possible life for every child, safeguarding vulnerable children and improving educational attainment	Inadequate procedures in place to ensure safeguarding of children which could lead to closer scrutiny and in extreme cases a 'Baby P' case in Herefordshire. (Related NI 65 % of children becoming subject of a Child Protection Plan for a second or subsequent time)	5	5	**25**	External review within CYPD undertaken in 2008, reported in January 2009. Clear, robust action plan now in place monitored through the Herefordshire Safeguarding Children Board. Revised governance arrangements for the HSCB and quality assurance framework in place, including regular quality audits of cases. Multi agency procedures in place and regularly reviewed through HSCB. Programme of case audits in place and rolling out for children subject to child protection plans.	**2**	**5**	**10**	**SM**	**2**
CR50	The best possible life for every child, safeguarding vulnerable children and improving educational attainment	Reduction in central funding unless we address surplus places, resulting in lack of resources and subsequent decline in quality of lessons delivered	4	5	**20**	Herefordshire Schools Task Group has been created to explore the options taking into consideration cluster working, school leadership, sustainable schools, finance and national strategies. Paper for Cabinet consideration expected in November 2009.	3	5	**15**	**SM**	

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	**Risk Score**	Controls In place	Likelihood	Consequences (Severity)	**Residual Risk Score**	Risk Owner	**Cost of Mitigation**
CR51	Reshaped adult health and social care, so that more older and other vulnerable people maintain control of their lives	Significant budgetary pressures particularly in Learning Disabilities and Older People. Risk of reduced or poorer services thus inability to reach the Council's top priorities for health & well being. (Related NI's are 136, 142 and 125)	4	5	**20**	Additional funding from the MTFS, outcome of the PIC process allocated additional funding, efficiency savings of £300k arising from Hereford Connects are expected, increase in the Social Care Reform Grant. Other measures are in place, for full details see the report to Adult Social Care and Strategic Housing Scrutiny Committee dated 22 June 2009.	3	5	**15**	**IW**	
CR52	Reshaped adult health and social care, so that more older and other vulnerable people maintain control of their lives	Failure to make improvements in the key areas as identified by the CQC and as reported in the Performance Assessment Notebook, thus leading to the Council not meeting its absolute duty in safeguarding adults. (Related NI's are 125, 130, 132, 133, 136 and 142)	3	5	**15**	Implementation of the joint health and social care commissioning plans; ensure self-directed care and personalised services are offered to the majority of service users; increase range and availability of support to carers; integrate health and social care across front line services; develop and implement Older People's Strategy.	2	5	**10**	**IW**	

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	**Risk Score**	Controls In place	Likelihood	Consequences (Severity)	**Residual Risk Score**	Risk Owner	**Cost of Mitigation**
CR53	Organisational improvement and greater efficiency	Local Government settlements will become more severe. 2010-11 is the last year of the current three-year settlement but it cannot be guaranteed that it will not be re-opened. It is clear that the position for 2011-12 will be restricted within a range from standstill (at best) to a series of year-on-year reductions. The challenge will be to improve services whilst managing funding reductions.	5	5	**25**	The shared services project will help release savings and address some of the predicted shortfall. The current Value for Money training project will contribute to greater awareness of VfM issues in the organisation. The Council is working with the PCT on scenario modelling to calculate the scale of financial risk.	3	3	**9**	**DP**	
CR54	Economic Development & Enterprise	ESG Project. This is a complex project with a range of risks associated with it which have been exacerbated by the economic downturn. These risks include reputational, funding and delivery.	4	4	**16**	The ESG board has risk management arrangements in place in order to address each aspect of risk. Advantage West Midlands and Herefordshire Councils senior officer group are also in place to ensure progress.	4	3	**12**	**NS/AA/RG**	
CR55	Organisational improvement and greater efficiency	Inadequate procedures in place to ensure data quality which could lead to prolonged scrutiny from regulators / inspectorates (lower UoR and organisational assessments), poorer quality decisions and reduced public accountability.	4	4	**16**	Data quality action plan, internal audit work plan, Information management training programme, UoR annual (self) assessment and the Performance Improvement Network in place.	3	3	**9**	**AF**	

Appendix D

Medium Term Financial Strategy 2010-13

MTFRM	2010/2011 Budget £'000	2011/2012 Budget £'000	2012/2013 Budget £'000
Base Budget	**137,718**	**143,143**	**143,183**
Total Inflation	1,762	3,293	2,891
	139,480	**146,436**	**146,074**
Deliverable Efficiency Gains			
- Inflation efficiency savings	(2,370)	0	0
Transfers to/from RSG			
- Student Finance	(27)	0	0
MTFMS Changes			
- Waste management - PFI Contract	0	500	500
- Whitecross PFI requirement (net of schools contribution)	0	200	0
- Local Development Framework	(100)	(275)	0
Herefordshire Connects/Shared Services			
- Revenue Costs	(1,292)	(204)	56
- Capital Financing	725	290	(48)
- Herefordshire Connects Savings	(1,000)	(1,600)	(2,200)
- Core team costs (rev)	245	9	(479)
- Core team costs (capital financing)	90	(6)	(6)
- System maintenance	166	64	0
- System staffing	124	144	0
Capital Financing Costs			
- Cost of borrowing	1,847	1,905	1,755
- Cashflow management	0	0	1,000
Emerging Pressures			
- Student Finance	(41)	(70)	(15)
- Income shortfall	0	(200)	(300)
- Carbon emissions	0	180	0
- Change management reserve	500	0	0
- Spend to save reserve	150	0	0
- Winter maintenance reserve	500	(500)	0
- Social care contingency	500	0	0
- Contingency	300	0	0
- Statutory changes creating pressures	1,581	1,064	569
- Base budget funding issues	1,771	856	907
- Other service pressures	1,897	1,490	885
Efficiencies & Savings			
- Disinvestment in services	(60)	(200)	0
- Directorate reductions	(4,555)	(7,200)	(6,727)
General reserves	**2,000**	**0**	**0**
LPSA reserve	**712**	**0**	**0**
Capacity to achieve desired Tax increase		**300**	**1,498**
TOTAL BUDGET	**143,143**	**143,183**	**143,469**