

# Herefordshire Public Services

## Joint Capital and Asset Management Strategy

2010 – 2013

**Capital Strategy Working Group**

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# HEREFORDSHIRE CAPITAL STRATEGY 2010

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*Roman Road, Hereford*

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## 1. EXECUTIVE SUMMARY

- 1.1 An effective Joint Capital and Asset Management Strategy (JCAMS) is vital to ensure that the capital and revenue expenditure on the asset portfolio is directed efficiently and effectively to support service delivery in line with Herefordshire's priorities. This strategy considers the capital investment needs across Herefordshire Public Services (HPS) including acquisition, replacement and rental of land, buildings, and vehicles etc.
- 1.2 HPS has embraced partnership working, essential in delivering its strategic aims, from which the JCAMS is key to delivering the vision, linking the Joint Corporate Plan (JCP) 2010-13 and its seven themes, to capital planning and utilisation of resources. Although the JCP is the key driver of the strategy, the main HPS finance and asset related strategies play a key part in decision making.
- 1.3 The JCAMS will be reviewed annually, identifying and matching resources to deliver service priorities over a three year period. Where possible a longer term view will be incorporated.
- 1.4 The challenges given to retaining assets will be based on value for money and delivery of HPS's 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.
- 1.5 The localities agenda is steering authorities to share buildings, pool resources and jointly plan strategic capital programmes with local agencies, private companies, voluntary sector and community organisations. This new concept of meaningful engagement at a very local level, critically challenges the historical basis for resource allocation and the effectiveness of services to deliver on local need and is designed to provide a more creative use of the current asset base and support improvements to community based planning and service. This is designed to produce more efficient local spending by pooling budgets and ending duplication.
- 1.6 The Joint Corporate Property Strategy and in particular the Accommodation Strategy set out a framework for determining the capital assets needed to enable future service delivery priorities to be realised. Whereas a series of key projects have already been identified, the Accommodation Programme work further inform priorities and options for investment/re-investment in assets over the medium term.
- 1.7 The coalition government has signalled major reductions to both revenue and capital funding streams over the coming years. It is likely that a number of the current funding streams will cease. It will be more important to identify and utilise non government funding sources and ensure these scarce resources are used effectively.
- 1.8 In the absence of scarce capital resources and the national reduction of £17m of NHS capital funding over the next four years there will be a need for the Council and NESH to work together to rationalise assets in order to deliver reconfigured services. The Council and NHS Herefordshire (NESH) hold operational properties for the purpose of service delivery these will continue to be reviewed to ensure they meet service need. In addition, the Council holds tenanted non-residential property for investment and socioeconomic purposes - or both.
- 1.9 The JCAMS does not encourage capital bids but recognises that resources are limited in the current funding climate, thus many low priority schemes are likely to be put on hold, only key priorities that continue to encapsulate the HPS vision could be funded as available resources are identified over the coming years.
- 1.10 The priority will be to ensure that any new capital scheme will be funded through the recycling of capital receipts and other external funding sources, although there will be some circumstances when borrowing will be allowed,

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- 1.11 The process of allocating finite resources runs alongside delivery of the Joint Medium Term Financial Strategy, through which capital funding, borrowing costs and innovative ways of utilising capital will be captured. The selection, scoring and ranking of projects lies with the Capital Strategy Working Group using a range of criteria to evaluate schemes, with referral to Council and NHH Board for approval.
- 1.12 The JCAMS aims to encourage innovation and reminds officers of their ability to draw down funding to pump prime creative projects that demonstrate delivery of “spend to save / mitigate”. The governance arrangements in place must ensure robust monitoring to ensure projects deliver in terms of quality, cost and benefits.

## 2. INTRODUCTION AND BACKGROUND

2.1 This JCAMS sets out Herefordshire's approach to capital investment and disposal over both the short and long term, to deliver HPS's core service priorities. The availability of resources to facilitate these priorities is also considered, reconciling the provision of statutory functions, service aspiration and policy context with limited resource availability.

2.2 The document moves between the vision of HPS, the overarching policy framework and explains the processes inherent in setting budgets and monitoring the programme. In the ever changing public sector climate, this document will be reviewed annually, but in essence is written to capture the longer term vision of service priorities.

2.3 The JCAMS links into the main HPS strategic documents: Asset Management, Housing Strategy, Joint Corporate Property Strategy, Local Transport Plan, Smallholding Policy Framework, ICT Strategy, Local Development Framework and NESH Carbon Management Strategy. It demonstrates how HPS prioritises, sets targets and measures the performance of its limited capital resources to ensure that it maximises the value of investment to support the achievement of its key cross-cutting activities and initiatives.

- **What it intends to do**

- Assist in ensuring spending decisions meet key priorities
- Influence and encourage working with partners
- Encourage improvement and innovation
- Ensure revenue consequences and whole life costs are fully considered including return on investment
- Explains the sensitive nature and likely reduction to future capital funding
- Confirms surplus assets will be recycled or disposed of
- Implementation of three year planning and horizon scanning for longer term priorities.

- **What it sets out**

- Capital priorities and plans
- Links to key strategic documents
- How schemes are identified that meet priorities
- How schemes competing for limited resources are selected
- A summary of the capital programme
- Monitoring processes in place

2.4 The strategic objectives for our corporate assets are to:

- Optimise the contribution property makes to the Council and NESH strategic and service objectives. To this end, assets should only be held that meet the objectives of the JCP, with clear evidence to demonstrate that they contribute to the key objectives.

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- Prioritise investment in our operational assets to meet service delivery needs and to enhance the customer experience. Assets that no longer deliver service priorities will be reviewed and either recycled to facilitate wider community agendas, or disposed of.
- Seek innovative, value for money solutions, through use of procurement and return on investment to deliver capital projects that satisfy service need.
- Ensure maximum return from our investment property and land holdings
- Use our assets to pump prime new developments, re-development and urban regeneration
- Ensure that existing and new property assets are managed in an efficient, sustainable and cost effective way in terms of their use of environmental impact and other resources, their property management and other running costs

## 3. HEREFORDSHIRE VISION

- 3.1 HPS works closely with its local partners, including the police, health, businesses, voluntary organisations as well as local communities and through public consultation to achieve its strategic aim;-

*“Herefordshire will be a place where people, organisations and businesses, working together within an outstanding natural environment, will bring about sustainable prosperity and well-being for all”*

- 3.2 An effective JCAMS will support this vision by directing investment where it will support service delivery. It is vital to ensure that the opportunity cost of financial resources tied up in land and property are minimised, and that capital and revenue expenditure on the asset portfolio is directed efficiently and effectively to support service delivery in line with priorities. These priorities are detailed in the JCP 2010/13, within seven main themes;-

1. Children and young people
2. Health and well-being
3. Older people
4. Economic development and enterprise
5. Safer and stronger communities
6. Sustainable communities
7. Organisational improvement and greater efficiency

- 3.3 The top priorities within the seven themes are:

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

- 3.4 There are resource constraints which restrict the ability for HPS to deliver priorities in both the short and medium term. A longer term strategy is therefore needed to ensure resources are targeted to those areas that best fit the vision; rationalising and re-profiling demand in order to meet the affordability limits.

- 3.5 The JCP is the key driver of the JCAMS, but the main HPS strategies underpinning the long term vision are listed below, and expanded in Appendix A:

- Joint Corporate Property Strategy, with a suite of policies
  - Asset Disposal Policy
  - Community Asset Transfer Policy
  - Asset Management Plan
  - NESH Estates Strategy 2010-2014

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- NHHSH Carbon Management Strategy 2010-2014
- Local Development Framework
- Housing Strategy
- Local Transport Plan
- Children and Young Persons Directorate (CYPD) Capital Strategy
- Smallholdings Policy Framework
- ICT Strategy
- Joint Medium Term Financial Strategy
- Treasury Management Strategy
- Procurement Strategy



## 4. LONGER TERM JOINT CAPITAL AND ASSET MANAGEMENT STRATEGY

- 4.1 The JCAMS alongside its three year plan has a longer term vision of 10 to 15 years feeding into the Joint Medium Term Financial Strategy. Capital funding indications are that the majority of central government capital funding will be significantly reduced, priorities will, therefore, have to be refined.
- 4.2 HPS generates income from selling surplus assets and plans to reduce the costs of running the property portfolio minimising the environmental impact, for example, reducing carbon emissions. Services will be co-located so buildings are deemed multi-use and established to facilitate the localities agenda. The disposal of land will be allowed after consideration of sacrificing a capital receipt for transfer of the land for use as social housing.
- 4.3 The challenges given to retaining assets will be based on value for money and delivery of HPS's strategic priorities and key service delivery.
- 4.4 The localities agenda is steering authorities to recycle buildings and pool resources to jointly plan strategic capital programmes with local agencies, private companies, voluntary sector and community organisations. This new concept of meaningful engagement with service providers at a very local level critically challenges the historical basis for resource allocation and the effectiveness of services to deliver on local need and is designed to provide a more creative use of the current asset base and support improvements to community based planning and service. This is in line with the Total Place initiative, designed to produce more efficient local spending by pooling budgets and ending duplication.
- 4.5 The Council closely monitors the current level of maintenance on its corporate properties to ensure that the limited resources available are optimally applied to ensure vital service centres are maintained. It currently conducts 5 year rolling reviews of all properties, but brings forward elements of this programme if service specific reviews are required. This also assists in ascertaining when buildings have reached the end of their economic life and are too costly to retain and maintain.
- 4.6 NESH will continue to use its capital allocation to maintain its infrastructure including its estates and ICT facilities but will also use a proportion to support the reconfiguration of assets to support new models of care.
- 4.7 At present NESH currently receives a block capital allocation of circa £1m for maintenance of assets. Current assumptions, in the absence of guidance, are that assets remain with the Commissioner. However with the establishment of an Integrated Care Organisation in Herefordshire and the Secretary of State for Health yet to make a decision on the ownership of NHS assets, there may be a question of the £1m block capital allocation that the NESH currently receives being transferred to the Integrated Care Organisation.
- 4.8 NESH has put on the open market Victoria House, Eign Street, Hereford. The expected completion of a sale is now expected to take place in 2011/12.
- 4.9 To ensure maximisation of capital investment capacity, HPS will focus on:
  - a) Effective project management of capital schemes to ensure they stay within budget.
  - b) Implementing the property review arrangements set out in the Asset Management Plan to deliver opportunities for rationalising property assets and releasing resources (capital and revenue). The principle focus will be on a joint back office and council headquarters for HPS.

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- c) Attracting external funding and maximising developers' contributions.
- d) The ability to assess and adapt to changing service needs.

4.10 The financial management strategy for capital investment also focuses on ensuring 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.
- d) Sell or transfer assets where there is little justification for their retention

4.11 The strategy does not encourage capital bids but recognises that resources are limited in the current funding climate, and likely to deteriorate over the coming years, thus many low priority schemes are likely to be put on hold. The schemes listed below are priorities within the JCP, and provided they continue to encapsulate the HPS vision could be funded as available resources are identified over the coming years.

### **Economic Development, Enterprise and Sustainable Communities**

- **Broadband** – Herefordshire is one of four pilot areas identified in the Comprehensive Spending Review as working with Broadband Delivery UK to ensure delivery of superfast broadband to rural areas including the Forest of Dean and parts of Wales.
- **Rotherwas Futures** – ties in with the Rotherwas Access Road to transform the existing Rotherwas Industrial Estate. It aims to provide additional land for development, refurbishment of existing properties and implement a flood alleviation scheme. This in turn should create new jobs and help Herefordshire's economy to compete in the longer term.
- **Hereford Futures** - Hereford has been identified as a regional Growth Point and the development of the Council's Local Development Framework is likely to identify the need for new infrastructure to support the development of the City and ensure its future viability. The strategy for further development of Hereford is likely to lead to a need to support the development and implementation of infrastructure, including:
  - **Relief Road** - as part of the overall package of infrastructure needed to facilitate and enable growth to take place.
  - **Retail Quarter** – using the site of the old livestock market to develop a city centre retail and leisure facility, creating significant jobs and helping to stem the loss of retail expenditure to competing centres outside the City
  - **Housing Development** – using Merton Meadow land to bring forward 800 new homes in a sustainable City location, in partnership with Sanctuary Housing, one of the UK's leading housing associations.
  - **Higher Education Establishment** – to develop the higher education offer in the City in conjunction with existing providers, using a central City site to extend facilities.
- **Buttermarket** – is a Grade 2 listed building which houses over 70 stalls in Hereford. In order for it to survive it needs total refurbishment to enhance the retail environment and compliment the works already undertaken around High Town. To provide a long term sustainable future

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for the building funding from the private sector is being sought.

- **Model Farm** – based in Ross on Wye, it has been allocated for employment use in the Herefordshire Unitary Development Plan. It aims to enhance the existing communities, improve access to jobs and assist in the growth of the local economy. This will be done by using high quality commercial space and offices. As well as the provision of a business hub to promote integration support for companies and reduce the carbon footprint.
- **Highway Maintenance** – The severe winter experienced in 2009/10 caused considerable damage to the highway network and highlighted the ongoing need to respond to historic under funding of highway maintenance activity. Whilst additional funding in 2010/11 will enable a programme of enhanced maintenance to bring main roads back to an acceptable standard, there government announcements on funding cuts will create additional pressure on the ability to address maintenance needs on minor roads.
- **Waste** - The Council's Capital Investment in Waste Infrastructure is in partnership with Worcestershire County Council, in an Integrated Waste Public Finance Initiative (PFI). Mercia Waste Management the Councils' waste contractors are currently pursuing the development of a new Energy from Waste Plant in Worcestershire. This proposal would ensure the Councils remained compliant with the targets to divert biodegradable waste from landfill. It is the intention of the Councils to incorporate this proposal into the main contract through the use of the Variation provisions of the contract. The basis of the variation will be to ensure that the Councils minimise their risks of punitive payments of Landfill Allowance Trading Scheme fines and/or high cost trading and offsetting the accelerated Landfill Tax Payments of the Landfill Tax scheme).

### Safer and Stronger Communities

- **Locality Approach** – This approach will effectively support communities and make best use of multi functional sites, improve service delivery and allow rationalisation of buildings. Stakeholder involvement, in particular, the public, third sector and business communities will be involved in developing the model. This is being initiated undertaking a mapping exercise to determine the extent of community facilities (including nurseries, schools, colleges, village halls, museums, libraries, church halls, churches, petrol filling stations, post offices, pharmacies, opticians, emergency services etc.) within 9 identified 'locations'; Hereford North, Hereford South, Leominster, Ross, Ledbury, Kington, Bromyard, Golden Valley (Ewyas Harold, Peterchurch and Clifford/Dorstone) and Wigmore/Leintwardine.
- **Locality Project** – The work on developing a locality framework forms part of a process of whole area reviews of public sector and third sector provision and helps to determine the overall picture of service investment in a locality. This exercise known as 'Capital Counting' is the key corner stone of the Total Place accounting framework. Once base line data is available, this can be used to drive efficiencies and improvements to services at a local level. Work is now being undertaken in Ledbury, with consultants, to examine the available savings through the co-location of public sector and voluntary sector services in the Master's House as well as a rationalisation of other Public Sector property holdings in Ledbury. Similar project work is being prepared for Leominster and the other Market Towns, once again using consultants funded by the West Midlands RIEP.

### Children and Young People

- Although there are no single schemes identified in the long term for CYPD, they propose to ensure future capital investment to transform the learning experience and outcomes for its children and young people. The key ambitions are ensuring that every child's needs are met,

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putting learners first and using learning to help to make a vibrant rural economy prosper. Capital will be used to develop education provision at a locality and cluster level, contributing to the overall strategic approach to localities, promoting multi use facilities for the whole community and improving local accessibility by linking the development of education provision with early years, extended schools, locality services, special educational needs and 14 – 19 developments.

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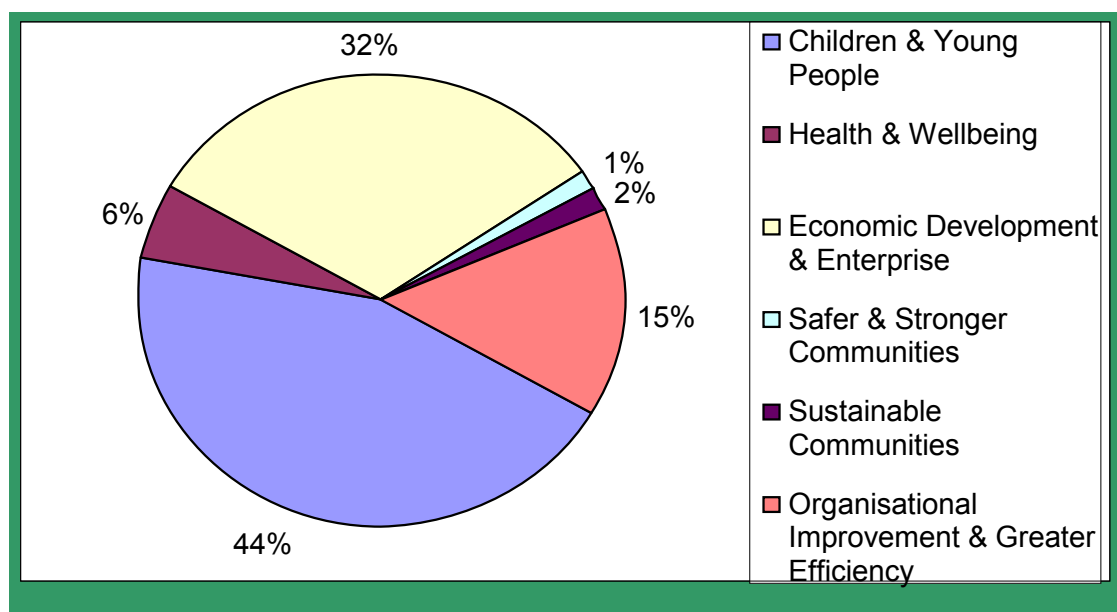
## 5. CURRENT CAPITAL PROGRAMME AND PRIORITIES

5.1 The following table details the joint capital investment by corporate theme over the next three years. This does not include the locally co-ordinated voluntary aided school capital programme because these schools do not form part of the asset base (the investment in voluntary aided schools through this grant is likely to be £435k in 2010/11). Future years budgets are shown as indicative figures, and could be reallocated to other services in autumn 2010, resulting from the identification and ranking of priorities.

### Capital Budget by JCP Themes - 2010/11 to 2012/13

	Budget 2010/11 £'000	Indicative 2011/12 £'000	Indicative 2012/13 £'000
Children and Young People	35,344	11,742	6,500
Health and Well Being	4,399	53	-
Economic Development and Enterprise	25,531	8,687	6,500
Safer and Stronger Communities	1,136	-	-
Sustainable Communities	1,400	783	351
Organisational Improvement and Greater Efficiency	11,660	2,411	208
<b>TOTAL</b>	<b>79,471</b>	<b>23,675</b>	<b>13,559</b>

### 2010/11 Capital Budget by JCP Theme



5.2 In 2010/11 NESH will receive a block capital allocation of c£1.1m from the Department of Health. This allocation will be used to support estates improvements needed to comply with statutory maintenance standards. Going forward NESH will continue to use its capital allocation to maintain its infrastructure including its estates and ICT facilities but will also use a proportion to support the reconfiguration of assets to support new models of care.

5.3 A supplementary capital bid of £500k was made by NESH to support the radical service reconfiguration being undertaken across the Herefordshire Health Economy. This funding will be used to redevelop elements of the NESH primary and community care estate including the procurement of ICT infrastructure necessary to support care closer to home in Herefordshire. This

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will improve the quality of care provided to patients in Herefordshire and also allow revenue savings associated with a number of schemes, including the Transition Board initiative, and the redesign of outpatients, to be achieved. It is anticipated that the implementation of these schemes will allow NHSH to make revenue savings of c£700k in 2010/11 rising to around £2.4m in 2013/14.

5.4 The largest capital schemes to be undertaken in 2010/11 include:-

- **Children's Services - Hereford Academy** which accommodates the JCP Children and Young people theme alongside HPS's main priority for improving educational attainment. It is an 11 -19 Learning Community, south of the City specialising in Science, Health and Sport. The building also houses the Hereford Academy Community Learning Centre for adult learning which is open to members of the public.
- **Resources - Corporate Accommodation** to provide a hub and spoke office provision, with the capacity and flexibility to accommodate the HPS partnership and 3<sup>rd</sup> sector organisations. It will deliver significant efficiency savings, both from revenue and capital receipts and facilitate joint working across the council and health, whilst contributing to JCP organisational improvement.
- **Deputy Chief Executive - ICT Programme** will be instrumental in delivering JCP organisational improvement and efficiency by providing a new financial ledger and integrated HR system for both the council and NHSH. This will facilitate the delivery of shared services, and transform back office services which is anticipated to deliver substantial annual revenue savings.
- **Sustainable Communities - New Cattle Market** The new Cattle Market will cover 48 acres and enable a large area of land in Hereford's City Centre to be made available for economic development and enterprise as set out in the JCP. It will safe guard Herefordshire's important farming heritage and economy for the future, as agriculture makes up 7% of the local economy. The scheme also includes improvements to the road network system around the site, including cycle ways and footpaths.

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## 6. CAPITAL FUNDING STREAMS

- 6.1 This section explains the source of resources available to fund the capital programme. Currently the majority of funding is allocated from central government, in part to fund specific schemes that deliver their national priorities. The future availability of these resources is now defined by the outcome of the Comprehensive Spending Review (CSR), and proposes a significant reduction year on year. In the NHS capital funding is allocated to NHS organisations by the Department of Health and it is a statutory duty to ensure that resource limits are appropriately spent.
- 6.2 The Council has more freedom to borrow to fund capital expenditure, both through prudential borrowing and the governments proposed tax incremental financing. HPS under these freedoms will extend to allow the flexibility to deliver joined up capital programme working with the NHS and other bodies, based on the needs on the HPS community.
- 6.3 The following funding sources are available;

### **Borrowing**

- Supported borrowing funded each year by central government, both the debt repayment and interest via the revenue support grant.
- Unsupported or prudential borrowing (PB), has been allowed since 2004 when government relaxed the rules to allow councils to finance their own capital, providing they could demonstrate affordability to repay the debt and interest. PB has limited scope to generate its own capital resources however the office accommodation review will see the building of new offices, for HPS, funded in part by the capital receipts from the sale of surplus buildings. In a time of reduced resources PB must also be used to pump prime initiatives to deliver future revenue savings that can then fund the annual debt and interest cost. A recent example is a new pay on exit car parking system that is expected to deliver additional income that will service the PB costs.
- One surprising aspect of the CSR is that Public Work Loan Board rates (the rates at which local authorities can borrow) will be 1% above the gilt rate (compared to the 0.13% previously). This makes PB more expensive, and this is likely to reduce the amount of schemes that are given the go ahead, both locally and nationally
- Tax Incremental Financing (TIF) Tax works on the basis that when a development or public project is carried out, there is often an increase in the value of surrounding land and property, and perhaps new investment (new or rehabilitated buildings, for example). TIF will allow Local Authorities to borrow against predicted growth in their locally raised business rates. They can use borrowing to fund key infrastructure and other capital projects, which will support locally driven economic development and growth. TIF will operate within a carefully designed framework of rules, which the Government will work closely with Local Authorities to design. Under existing legislation, Local Authorities can borrow against their overall revenue stream. This does not include business rates. TIF will enable them to borrow against future additional uplift within their business rates base. Local authorities will need to manage the costs and risk of this borrowing alongside wider borrowing under the prudential code.

### **Grants**

- Government currently provide many direct grants to fund initiatives that they feel HPS should be implementing. Under the coalition government the ring-fencing arrangements have been relaxed to allow greater flexibility in their use. The major capital grants are:

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- **Transport Grants** – used to support the Hereford Integrated Transport Strategy capital programme, covering rural transport schemes, road safety initiatives and highways maintenance. The CSR has reduced a number of the grants by 11% and the Department for Transport has revamped the process by which they pay revenue grants to local authorities, they will now pay no direct grants, but will instead allow local authorities to bid for revenue and capital funds to fund sustainable transport schemes.
- **Waste Performance and Efficiency Grant** – this is for front ended waste infrastructure, e.g. recycling and composting facilities to help English councils meet land fill targets.
- **Building Schools for the Future** - the previous government's aim was to rebuild or re-new nearly every secondary school in England, although the new coalition government has recently announced significant cutbacks to this grant HPS is using Building Schools for the Future funding to replace the High School in Leominster. Indications are that funding reductions by the coalition government could reach 60%.
- **Devolved Formula Capital** – is an amount allocated each year to primary and secondary schools to be spent on priorities in respect of buildings, ICT and other capital needs. It may be combined with capital funding from other sources or saved to fund a larger project.
- **Disabled Facilities Grant** - contributes towards the cost of providing adaptations and facilities to enable disabled people to continue living in their own homes. The central government grant funding towards this has been protected from cuts by the coalition government in the CSR.
- **Broadband** – the CSR announced grant funding to fund the gap (expected to be 50% of the cost) of implementing superfast broadband to rural areas. This was announced following submission of a bid for funding. The details depend on the tender exercise expected to be completed early next year. The investment could total £5m.
- External funding bodies distribute funding for projects that satisfy their key criteria and objectives and HPS secure these via a bidding process. In recent years funding has been received from:
  - **The Local Investment Programme (LIP)** sets out the priorities in delivering a balanced housing market as identified by the local authority and where resources will need to be targeted to achieve this. This focuses on three main areas of interest:
    - Increasing the supply of housing through investment, land assembly and release of public sector owned land for housing purposes.
    - Place Making and Regeneration, including the Localities Agenda and “Total Place”.
    - Improvements to existing housing stock, retrofitting improvements, “Living Over the Shop” and other measures to make best use of existing buildings.
  - **Advantage West Midlands** – this regional development agency has provided significant resources but its abolition means funding is not likely to be available in the long term.
  - **Lottery Funding** – Heritage Lottery funding contributed to the Skate Board Park in Holmer Road, whilst general funding was given to the Friar Street learning Centre.

### Regional Growth Fund (RGF)

- Introduced in the CSR, it is designed to help areas most dependent on public sector employment to make the transition to private sector growth. Both private bodies and public-



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private partnerships will be able to bid for the funding by demonstrating that their proposal will bring in private investment and support sustainable increases in private sector jobs and growth in their area. Bids are likely to exceed £1m, have significant private sector leverage, contribute towards green growth and integrate with planning policy.

- Local Enterprise partnerships (LEPs) will coordinate bids for RGF, they have been introduced by the coalition government to replace regional development agencies. Their aim is to provide strategic leadership and long term vision for private sector led economic renewal working in partnership to deliver public service delivery.

### **Developer Contributions**

- Developer contributions will become an increasingly important source of finance for infrastructure needs arising from new developments. At present (2010) these are sought through the application of the Council's Supplementary Planning Document, "Planning Obligations" which was adopted in 2008. In April 2010 the new Community Infrastructure Levy (CIL) regulations came into force and made provision for a four year transition period after which pooled contributions must be collected via the CIL for infrastructure excluding Affordable Housing. The new system relies on a CIL Charging Schedule to be adopted (after a formal process of consultation and public examination) which will set out a charge per square metre of (qualifying) new building works. In preparation, an economic viability assessment has been commissioned to assist in setting a charging rate that will not render development in the County unviable. As part of the Local Development Framework an Infrastructure Delivery Plan is also required to establish the uses of any funds raised through the CIL.

### **Capital Receipts**

- The Council maintains a register of surplus property assets. These are reviewed on an annual basis to identify a rolling 3-year programme of potential disposals, taking account of the prevailing market conditions.
- The public sector landscape of service delivery is now subject to major change. Annual reviews of the Council and NESH operational property portfolio will identify potential opportunities for remodelling and co-location, through alternative methods of service delivery. Some assets will be deemed surplus to requirement, not delivering HPS priorities or key objectives, and thus progress through the Disposal Policy adopted in the Joint Corporate Property Strategy.
- The Council and NESH must prioritise disposal for capital receipts against competing demands for affordable housing land to build social housing and Community Asset Transfers.
- The disposal of surplus assets is critical to deliver HPS Capital Strategy. Specifically the delivery of the office accommodation review requires receipts to fund PB costs. Capital receipts are deemed a central receipt and so held corporately to use to deliver wider strategic priorities. Any receipt generated by the NESH may be required to be returned to the Strategic Health Authority.

### **Revenue**

- Both revenue budget and reserves can be used to fund the capital programme, either via a one off contribution to fund a project in its entirety or an annual sum to repay PB debt costs. Ongoing use of revenue should be assessed in relation to the impact on council tax via the use of assessing its prudential indicators. Central "spend to save" revenue funding is

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available throughout the year to pump prime both revenue and capital innovative projects that will deliver future year on year savings.

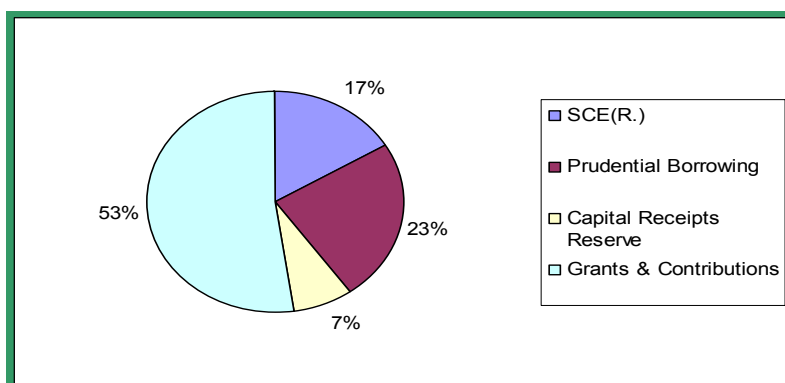
- 6.4 In December the NHS White Paper will be published. It may define the level and control of NHS Herefordshire capital funding. Until then best estimates of future funding have been made.
- 6.5 The following table details the expected resources available to fund the capital programme over the next three years.

### Capital Programme Resources – 2009/10 to 2012/13

	Outturn 2009/10 £'000	Budget 2010/11 £'000	Indicative 2011/12 £'000	Indicative 2012/13 £'000
Supported Capital Borrowing (SCE)	13,567	13,230	13,000	13,000
Unsupported Prudential Borrowing	10,369	18,600	2,813	559
Grants and Contributions	40,565	41,821	7,362	-
Capital Receipts	4,914	5,820	500	-
Revenue Contributions	292	65	-	-
<b>TOTAL</b>	<b>69,707</b>	<b>79,471</b>	<b>23,675</b>	<b>13,559</b>

### 2010/11 Capital Budget Resources

- 6.6 The chart below shows the split of the capital resources expected to be used to fund 2010-11 projects.

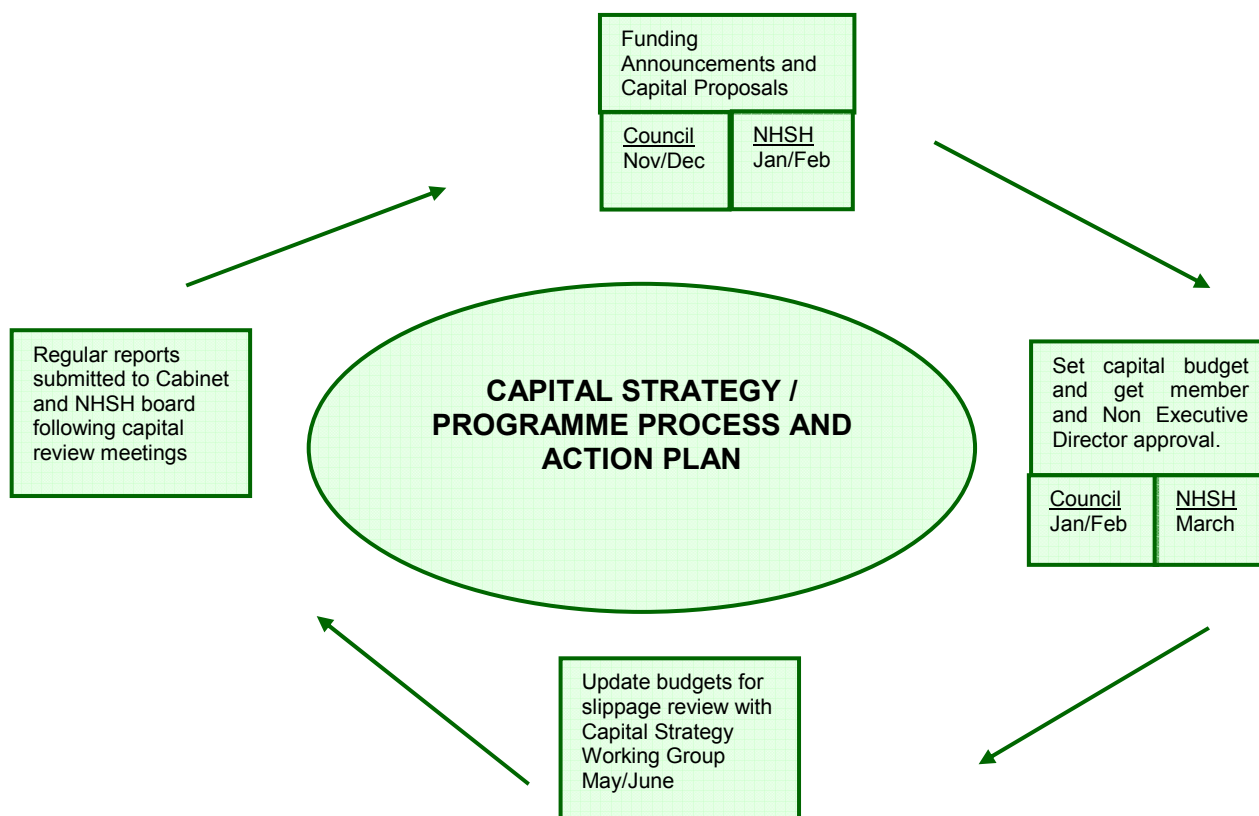


- 6.7 The programme is heavily reliant on grants and contributions to fund capital expenditure and these are usually issued with tight timeframes and restrictions attached. The grants may also demand regular monitoring returns to demonstrate the funding has been used in accordance with the plan.

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## 7. CAPITAL PROCESS

7.1 The capital programme is a series of projects delivering investment in capital assets, either held by the Council, NHSH or third parties. The process for setting, monitoring and reviewing the capital programme for HPS is summarised in the diagram below, and the interrelationship between the HPS wider planning activity is summarised in Appendix C.



7.2 The NHSH has an annual programme that allows projects to be fully developed and implemented in the knowledge that funding has been ring-fenced. The council has a three year rolling programme, capital investment priorities are highlighted by cross referencing to the corporate planning process. The use of spend to save monies allows the delivery of creative initiatives at any time during the year, in this current year it is being used to facilitate property disposal allowing the capital receipt to support future capital investment and reduce revenue running costs.

7.3 The process links to both the timescale and financial projections within the Joint Medium Term Financial Strategy (JMTFS). The JMTFS will reflect the full revenue cost of funding the approved capital programme. This includes the cost of funding borrowing requirements and the use of capital to reduce ongoing revenue costs, either by way of asset disposal or enhancement. Borrowing levels and costs thereof are included in the annual Treasury Management Strategy.

## 8. CAPITAL SCHEME SELECTION

8.1 Capital investment will be linked to HPS priorities, identified through the corporate planning process, by allocating capital resources to projects in accordance with a transparent and objective prioritisation policy in line with the following key criteria:-

1. **Affordability** – with regard to any council tax and other longer term implications and the project's whole life costing and generation of cash and budget savings by minimising capital costs and future revenue liabilities.
2. **Prudence and Sustainability** – with regard to the impact on borrowing regarding the setting, revising and monitoring of agreed prudential indicator values, limits and ratios. Meeting of good environment management objectives will also be considered.
3. **Value for Money** – demonstration of a robust option appraisal, effective use of resources, efficient service delivery and achievement of a balance between quality and cost leading to achieving Best Value in use of resources and delivery of services.
4. **Stewardship of Assets** – integration with asset management planning, regarding sustainability development considerations, demonstrating core assets are enhanced, including maintaining the existing asset base.
5. **Service Objectives** – this links the proposed investment to long term strategic planning including JCP, service plans, key strategic plans and involving community planning partners and other organisations/stakeholders as appropriate. Project and expected future demographic pressures will also be considered.
6. **Practicality** – confirmation that the project will be delivered within budget and timescale, must be realistic and innovative. The appropriate method of procurement must be used and confirmation that it will result in improved service delivery.

8.2 All capital schemes go through a four-stage process, summarised below;

- Identification from JCP and service strategies
- Inclusion in the capital programme following scheme appraisal and prioritisation
- Implementation and monitoring through capital programme procedures
- Post-completion review

(NHS is subject to the requirements of the NHS capital allocation limits)

8.3 Schemes are continually reviewed against evolving priorities and may be subject to change, redesign or cancellation, to ensure they continue to deliver the requirements of the HPS community and value for money.

8.4 Capital funding will be initially allocated to HPS key priorities, and approved annually by Council or the NHS Board. The strategy confirms that Invest to Save bids can be awarded funding at any time. This is necessary so that services do not feel constrained by a rigid timetable. The annual prioritisation process uses a bidding form which is completed, signed off by the Director and Cabinet member then ranked and scored by the Capital Strategy Working Group (CSWG), using the criteria set out in 8.1, before presentation to Joint Management Team (JMT). The annual timetable for projects to be funded by corporately identified resources is summarised in Appendix B.

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### Rationale for Investment

- 8.5 Capital investment is integral to revenue budget forecasting. Capital investment must be directed to obtain maximum benefit from available resources looking at efficiencies, effectiveness, and economically. Revenue implications must be considered for all capital schemes, this could represent the cost of borrowing future running costs and projected benefits.
- 8.6 PB or the use of the Spend to Save Reserve is available to fund capital investment that gives a clear pay back through revenue budget savings.
- 8.7 Efficiency and Value for Money is monitored within Directorates. It is secured and demonstrated through utilisation of the Procurement Policies and Framework for managing capital projects.
- 8.8 Loans will also be considered where there is little/no risk to the council and where a capital receipt can be indentified. This is particularly useful to NHH who have limited access to capital but can afford to repay PB debt costs each year over the life of the asset, especially if the project delivers a JCP theme or contributes towards the partnership agenda.
- 8.9 The corporate accommodation capital programme will see the regular review of assets to ensure they are still required to deliver HPS priorities, alternatively assets may be recycled or deemed surplus to requirement. Sale of assets will deliver revenue savings and generate corporate capital receipts for investment in future capital schemes. Future building requirements will need to assess the concept of sale and leaseback and multi use, shared approach for occupation.

## 9. CAPITAL MONITORING

- 9.1 Capital investment requirements are significant, however, capital finances are limited and central government current funding levels will reduce. HPS must have a prudent approach to capital allocation and monitoring to ensure scarce resources are used to maximum effect.
- 9.2 Due to the significant changes that occur during capital programme implementation and forecasting it is considered prudent to maintain:
- a reserve list of capital schemes that can be accelerated or delayed as required
  - a contingency sum, prudently considered to be 1% of the Council's current capital programme, due to the high level of risk of funding a small percentage increase in capital costs.
- 9.3 As part of a project's business case, a thorough option appraisal is carried out and a whole-life costing review is undertaken before a capital scheme is included in the capital programme.
- 9.4 The new Joint Commercial Strategy will promote excellent procurement, use framework agreements to secure best deals and apply e-auction and other tendering approaches to demonstrate value for money.
- 9.5 Once a capital scheme is included in the capital programme it is monitored following appropriate project management methodology, using experienced officers in each service area or AMPS on behalf of that service. AMPS use a detailed specification that explains their approach to project management.
- 9.6 In addition to significant individual projects, the capital programme also includes the Council's annual Highways and Transportation capital programme of investment. This is guided by the Local Transport Plan to invest in the improvement and maintenance of the local transport infrastructure. Targets relating to highway maintenance standards, road safety and sustainable transport ensure that expenditure is in line with corporate plan objectives and outcomes expected by central government. This programme is managed through the Sustainable Communities capital monitoring group and through the commissioning arrangements with Amey Herefordshire.
- 9.7 Directorate capital programme monitoring working groups meet bi-monthly to review capital budgets and schemes, feeding issues into the CSWG and reports to Cabinet and Scrutiny Committees.
- 9.8 The CSWG includes senior representatives from each service area within HPS. Each quarter they discuss the current capital programme focusing on capital schemes with an amber or red RAG rating. This Group also ranks and recommends capital projects for approval, coordinates external sources of capital finance, capital monitoring processes, monitors the risk register, disseminates best practice and reviews the impact on the Councils VAT partial exemption recovery position.
- 9.9 Feedback from both the programme working groups and CSWG are fed into the quarterly finance update report that is presented to JMT, Cabinet and scrutiny committees.

### Strategies that Support the Joint Corporate Asset Management Strategy

#### Joint Corporate Property Strategy 2009

The Joint Corporate Property Strategy 2009-12 contains the Accommodation Strategy for the Joint Administrative Estate. This strategy represents the largest capital programme of schemes to be undertaken over the lifetime of the capital strategy. The Strategy aims:

*....."to support the integrated delivery of Public Services across the County through highly accessible and adaptable, community based, multi-functional buildings, shared by public agencies."*

It mainly focuses on proposals to:

- Rationalise the current corporate administrative estate
- Improve outcomes for local people by the introduction of a hub and spoke approach to the countywide provision of services
- To introduce better ways of working to drive efficiency, for example home working
- To support the organisation to meet its carbon reduction targets.

The overarching strategy contains a suite of strategies and policies covering:

- Asset Disposal Policy sets out the legal and policy framework about the approach to the disposal of assets. Buildings, where flexible, will be developed into multi use facilities and the overall stock level reduced. The challenges given to retaining assets will be based on value for money and delivery of HPS's 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.
- Community Asset Transfer Policy complements the Asset Disposal Strategy in that it provides a policy framework to evaluate the benefits of the disposal of assets to the Third Sector at below market value. It underpins some of the stronger and safer communities' work of the Sustainable Community Strategy and provides a vehicle for unlocking the value contained in under utilised surplus public assets. It forms one of the cornerstones of the Total Place Agenda.
- Asset Management Plan 2009-2012 - sets out the long-term vision and performance management framework for the management of the Council's Corporate Estate. The underlying principle is that properties held within HPS are multiuse facilities that support local communities and will be further developed on a locality basis. Property retention must demonstrate value for money and essential for service delivery. Successful examples include a number of high schools increasingly open in the evening to support community and sports activities. Dialogue with other public sector organisations are evidencing potential long-term partnership plans for property use.
- NHSH Estates Strategy 2010-2014 outlines how NHSH will manage its estates portfolio according to the vision and values of NHSH and respond to the challenges that lie ahead. It sets out a range of objectives that will need to be achieved to support improvements in the

## HEREFORDSHIRE CAPITAL STRATEGY 2010

delivery of high quality care and patient experience through the provision of an effective, efficient and sustainable estates portfolio.

- NHS Carbon Management Strategy 2010-2014 – has been developed to show how NHS will contribute to the overall aim of the NHS to reduce carbon emissions by 10% by 2015. It is informed by and contributes to the NHS Estates Strategy above.

It also provides the framework for promoting the Council and NHS Herefordshire's approach to total Asset planning in the context of "Total Place".

- **Local Development Framework**

The Local Development Framework (LDF) sets out the spatial aspects of the Sustainable Community Strategy and other relevant HPS strategies. It will be accompanied by an Infrastructure Delivery Plan to show how planning policies will be implemented and coordinated with sources of finance including the capital programme, the capital programmes of other service providers (such as the water companies' Asset Management Plans) and developer contributions. These latter contributions will come forward through Section 106 agreements attached to planning permissions and/or the Community Infrastructure Levy, depending on any revisions to the relevant legislation which may come about following the change of national government in May 2010. (Further legislation and government guidance on this is expected during 2010/11). The LDF will, once fully adopted, replace the Unitary Development Plan as part of the Council's formal policy framework.

- **Housing Strategy**

The Housing Strategy sets out the future priorities for housing policy which will influence planning policy approaches (through the LDF) and set out how it will help people who are in need of housing, promote the independence of local people and, identify the services we will provide to improve the quality and range of housing across the County.

Housing priorities for Herefordshire focus on:-

- **Achieving a balanced housing market** – Herefordshire should have a balanced, flexible, healthy housing market which can respond to changes in demand, changes in economy and support regeneration within Herefordshire. The delivery of increased affordable housing is a crucial element to this priority, as part of planned growth for the City and in meeting the housing needs of Market Town and rural communities. The delivery of new affordable housing will include a range of housing types and tenures and our strategic approach will also seek to bring empty properties back into use as accommodation and increase the role of the private rented sector. The Local Investment Plan (LIP) for Herefordshire, informed by LDF estimates on the phasing of delivery over the plan period, seeks to scope the financial implications of delivering affordable housing numbers but does so within a challenging Capital funding environment for investment in affordable housing development. Indicative affordable housing delivery targets emerging from the LDF Core Strategy are as follows:-

2006-2011	170 p.a.
2011-2013	264 p.a.
2013-2017	287 p.a.

Whilst there is a significant reliance on planning gain policies to deliver affordable housing targets over the plan period there is a risk that a continuing economic downturn will impact on housing delivery through this route. With Housing Capital Reserves from the LSVT in 2002 now exhausted and national Capital funding for affordable housing declining the



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Council and its partners face a challenge in exploring new ways of financing housing delivery to meet local needs.

### ○ **Decent Homes**

Poor housing quality can have an impact on the health and welfare of many of Herefordshire's most vulnerable residents. The Herefordshire House Condition Survey identified that 41% of private sector properties were not 'decent' using national ratings standards. In 2005, nearly 11% of households in the County were in Fuel Poverty, a position expected to worsen in a period of economic challenge and rising fuel prices. A combination of poor housing conditions, low average earnings, energy inefficient homes continue to represent important housing issues in Herefordshire and the Council will need to continue to develop and utilise wide-ranging initiatives to tackle these problems. The Council has successfully moved towards using loan-based approaches to financing housing improvement through regionally-funded initiatives such as 'Kick-Start' and has focused limited national funding pots towards smaller repairs to help vulnerable households to remain living independent and tackle fuel poverty. Currently this latter investment equates to approximately £800k per annum funded from regional funding streams. Our strategy to supplement limited national funding with private sector funding and loans has proved successful. However, moving forward, there is an increasing risk for the Capital Strategy to consider in terms of whether and how to replace current funding approaches to tackling fuel poverty, decent homes and health and independence.

### ○ **Meeting the Needs of Vulnerable Households**

It is known that most people wish to remain living independently within their own homes for as long as possible and our aim is to support older people and vulnerable adults to do so, through adapting existing housing, providing suitable new housing and providing appropriate support to meet their needs.

In providing new affordable housing a key aim will be to support the needs of commissioning partners, including in health and social care, through the development of new specialised and general needs housing to meet the needs of vulnerable households. Informed by relevant commissioning plans and housing plans, including for Mental Health, Learning Disabilities and Older Persons, the focus will be on delivering appropriate affordable housing, maximising, wherever possible, planning gain opportunities, private sector funding and external grant subsidy. Individual schemes may require consideration being given to corporate capital programmes on a case by case basis.

Whilst the provision of smaller grants and direct assistance from the Handyperson scheme remains a key route for undertaking adaptation and repair works which can help promote independence, a significant ongoing Capital commitment relates to the obligations on the Council to provide mandatory Disabled Facilities Grants

### ○ **Preventing Homelessness**

The imbalance in the housing market inevitably creates housing stress and the waiting list for housing is in excess of 5,000 households. When considered against the economic downturn it is inevitable that the Council continues to experience high levels of demand for Homelessness and Housing Advice Services. As a result, Preventing Homelessness is a key strategic priority for the Council.

Through the use of Homelessness Prevention Strategies and supportive services the Council has successfully reduced its use of temporary accommodation including Bed and Breakfast accommodation. Ultimately, increasing the supply of affordable housing and

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housing pathways provides the most robust long-term response to alleviating homelessness pressures and Capital investment to support the delivery of general and specialised housing links the issue to this Capital Strategy.

- **Local Transport Plan**

This plan covers the policies and delivery plans relating to transport and explains how these contribute to the wider local agenda. It considers the transport needs both of people and of freight and includes the strategic countywide programme of transport infrastructure improvements and maintenance. The aim is to ensure the maintenance, operation, management and best use of the county's transport assets.

Annual funding available for Local Transport has over recent years been in the region of £10 million to support capital maintenance of the highway asset and support road safety and transport network improvements. In future the level of funding for transport capital investment will be constrained, but remain a significant component of the overall capital programme, reflecting the importance of maintaining this important asset and its crucial contribution to the economic vitality of the County.

- **Children and Young Persons Directorate Capital Strategy**

This strategy has been developed in consultation with Schools, Children and Young People Service. Its principles support the vision, objectives and targets of the Herefordshire Partnership. In so doing, it supports and contributes to the HPS Capital Strategy. It specifically seeks to ensure that assets that do not support the objectives of the Herefordshire Partnership are disposed of through sale to realise a capital receipt or through community asset transfer that investment is clearly linked to specific objectives and targets; and that assets such as schools, children's centres, youth centres and children's multi-agency offices are corporate resources, available to accommodate delivery of wider services to the community from across the Herefordshire Partnership. The strategy seeks to join up future capital funding streams wherever possible to ensure that best value is achieved from the funding available and to maximise the benefits realised from the investment.

- **Smallholdings Policy Framework**

The Smallholdings Policy Framework sets out a clear long term strategic approach for the management of the Council's Smallholdings Estate to ensure that key corporate priorities of the Council are addressed. Through recognition of the value that the estate makes to the local economy, the strategy provides a mechanism to allow people to enter the farming profession, progress from small units to larger farms and hence independent holdings, and meet both financial and sustainable environmental objectives. It also provides a number of policy considerations to allow and stimulate investment in the estate through the rationalisation and restructure of the holdings (an element of this being the introduction of an Enterprise Development Fund).

- **ICT Strategy**

The ICT Strategy (currently under review) aims to ensure that Herefordshire Public Services has a stable, fit-for-purpose and sustainable information, communications and technology (ICT) platform and service organisation capable of supporting the drive to deliver efficient and effective services to the citizens, directorates, businesses, organisations, members and public sector partners within Herefordshire. It will assist HPS to make more flexible use of technology to achieve efficiencies, access services and share workspace and resources with partner agencies.

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- **Joint Medium Term Financial Strategy**

This document is approved annually, based on the budget setting requirements of HPS and reflects on the strategic and operational intentions over a three-year time frame. It covers the capital programme and funding streams including the affordability of prudential borrowing and use of capital to facilitate revenue budget savings in future years.

- **Treasury Management Strategy**

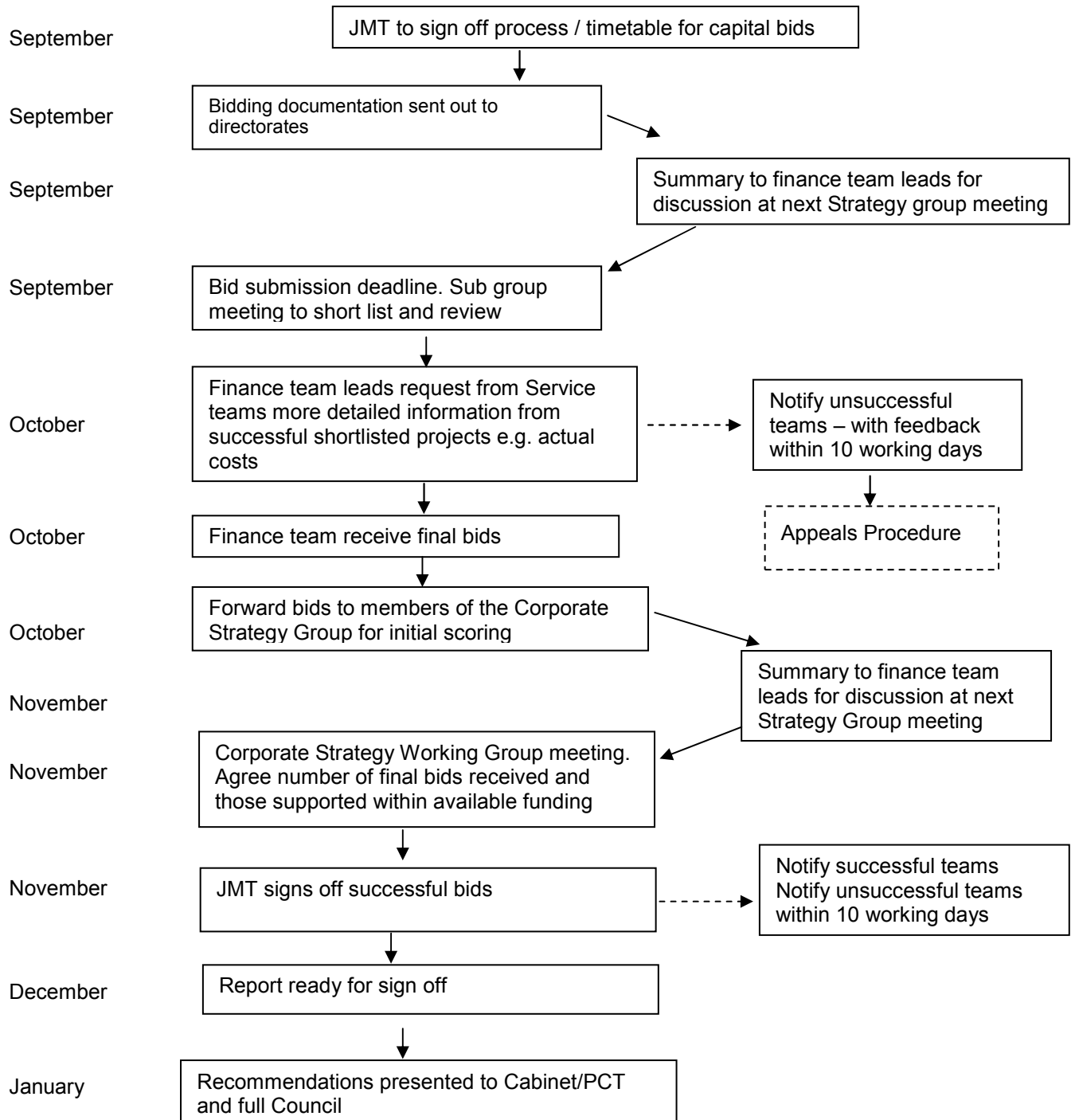
This strategy sets out the council's overall approach to treasury management operations including the capital programme and links to the borrowing limits, minimum revenue provision in relation to debt repayment and prudential indicators.

- **Procurement Strategy**

The joint Commercial Strategy incorporates the full procurement and commissioning activities undertaken by Hereford Council and NHSH, plus, the potential inclusion of Herefordshire Hospitals Trust. A key feature within the strategy is the establishment of a Commercial Centre of Excellence which will provide strategic leadership on all commercial activity across the three organisations. The centre will provide strategic support in fulfilling the objectives of the Capital Strategy where it involves significant expenditure for the HPS.

# Process for capital assessment

## Deadlines



## CAPITAL STRATEGY – LINKS TO PLANNING & CHALLENGE PROCESSES

<b>Challenge &amp; improvement cycle</b>			
<b>Month</b>	<b>Challenge &amp; review process</b>	<b>Strategies, plans &amp; budgets</b>	<b>Capital Strategy</b>
September	1) Review existing capital programme for links with priorities and JCP 2) Develop and issue a 'corporate statement of intent' to guide future JCP i.e. top down guidance on what it should contain in a time of constrained resources	Directorate & service plan requirements to JMT and issued  Draft principles and framework - JMTFS reflecting CSR10	Capital funding bids from Directorates
October	More selective star chambers to include existing capital programme	CSR10 impact on JMTFS	First challenge and iteration of bids
November	Further JMT review of targets and budgets Informal Cabinet PCT discussions on priorities / targets	Consequence of government funding for capital known	Agree ranking and scoring of capital bids for submission to JMT
December - early		1) First draft directorate & service plans. 2) NHS Operating framework – allocations and planning assumptions 3) LG settlement announced – local implications of CSR10	JMT to approve final capital 3 year programme
December - late	JMT considers draft JCP		
January	Overview & Scrutiny consider JCP & budget proposals	Finalised JMTFS	Report on capital bids submitted to Cabinet for referral to Council & PCT Board as part of the JMTFS
February	JCP & budget approved by Council & PCT Board	Council budget and council tax set	
March		JCP finalise Directorate and service plans finalised	

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## Abbreviation Glossary

AMPS	Asset management and Property Services
CIL	Community Infrastructure Levy
CSR	Comprehensive Spending Review
CSWG	Capital Strategy Working Group
HPS	Herefordshire Public Services
ICT	Information and Communication Technology
JCAMS	Joint Capital and Asset Management Strategy
JCP	Joint Corporate Plan
JMT	Joint Management Team
JMTFS	Joint Medium Term Financial Strategy
LEP	Local Enterprise Partnerships
LDF	Local Development Framework
NHSH	Herefordshire Primary Care Trust
PB	Prudential Borrowing
RGF	Regional Growth Fund
TIF	Tax Incremental Financing