Working together for the people of Herefordshire

Joint Medium Term Financial Strategy 2011/14

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Foreword by the Council Leader & NHSH Chair

The Joint Medium Term Financial Strategy (JMTFS) is an important document as it underpins our strategic, transformational and operational intentions for the Herefordshire Public Services. The strategy will support, shape and influence the challenging financial environment that public services are facing. The total resource envelope for Herefordshire Public Services is circa £650m. Our joint strategy is one that will need to enable a culture to develop and is one where there is a movement away from short-term budget setting and savings to an approach that reviews all expenditure and focuses on what matters to the people of Herefordshire. 20011/12 provides a great opportunity to develop service flexibility across Public services in Herefordshire and this JMTFS identifies the transfer of funding between the PCT and Council We aim for a culture where there is less bureaucracy and where resources can be targeted towards frontline services A culture where we stop doing things we do not need to do, ensuring a longer-term approach that brings service and financial stability to our service delivery.

CSR 10 will have a significant impact on funding from central government. It is currently estimated that the level of savings required to be delivered across the partnership for 2011/12 is circa £32m (£11m PCT, £11m HHT, and £10m HC). Throughout the coming year we will assess discretionary services, and consider alternative ways of working, in particular investigating broader partnership arrangements, to mitigate the effects.

The JMTFS identifies the scale of the impact of the economic downturn that has affected the world economy and reflects this impact on Herefordshire. However, during the past eighteen months Herefordshire Council and the PCT have been actively planning for the impact of the reduced settlement as part of CSR 10. There a number of joint assumptions about cross cutting service areas that are delivered across both organisations and by working in partnership and in line with government policy will enable improved service delivery in Herefordshire. In line with the equality act of 2010 which comes into effect from April 2011 Herefordshire Council and the PCT will ensure that any efficiency savings and service reviews will demonstrate that all financial decisions are made in a fair, transparent and accountable way, considering the needs and rights of different members of our communities. We have revised our joint medium term plans to address the implications of the significant change in the economy and the CSR 10 financial settlement. In line with government policy we will be implementing Shared Services to deliver back office savings which will be released for front line service delivery.

2011 will be both challenging and exciting as a result of not only the economic downturn but the creation of the Integrated Health and Social Care Organisation and the Pathfinder status for the emerging GP Consortia who will in 2011 operate as a subcommittee of the PCT Board with a defined scheme of delegation.

In 2011/12 it will be more important than ever that we continue to strengthen the partnership between the Council, NHSH and Hereford Hospital Trust. The level of service transformation, improvement in quality and ensuring services deliver value for money can only be delivered through the strength of maximising the interfaces between primary and secondary care, between health and social care and between empowered service users. This deep partnership has already demonstrated both qualitative and quantative benefits for Herefordshire in the past 12 months. However as we move forward, there will be even stronger evidence of the impact of the deep partnership, with the implementation of shared services. The Commissioning of integrated care pathways will deliver the service transformation that our population expects and will maintain financial stability across public services within Herefordshire.

Cllr. Roger Phillips
Leader of the Council

Joanna Newton
Chair of NHSH

Cllr Harry Bramer
Cabinet Member – Resources

Joint Medium Term Financial Strategy 2011/14

Foreword by the Chief Executive and Director of Resources (Council and NHSH)

Herefordshire not only faces an economic challenge but the demands of an ageing population will require us to transform our services to ensure that people can maintain levels of independence. HPS will need to ensure that packages of care and support do not only contribute to independence but also prevention. It is accepted that service delivery will need to be undertaken in a less institutional setting in order that the additional challenge on the service delivery agenda can be met Planning the use of public money and transparent accountability for Herefordshire is a key priority, from which we continue to ensure Herefordshire has financial stability and also deploy resources to support agreed priorities. This cannot be achieved if we limit our planning horizon to a single year. The Joint Medium Term Financial Strategy (JMTFS) helps planning over a longer time framework and demonstrates how we will use our resources in the future.

The JMTFS forms part of the service planning process and sets a framework for the interpretation of both the councils and NHSH's priorities and principles. It is an appropriate way to plan our expenditure and has played a part in helping maintain the Use of Resources standards. However, we continue to review and, where appropriate, improve the strategy each year.

The JMTFS has helped change Herefordshire's financial management culture; it includes a requirement that responsibility for managing individual budgets rests with our budget managers who operate within our financial policies and procedures. The JMTFS 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.

The JMTFS will support and drive delivery of the next stage of the Herefordshire transformational agenda,

Chris Bull
Chief Executive

David Powell
Director of Resources (Council)

Marcia Pert
Director of Resources and Delivery (NHSH)

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1. Introduction

1.1 The Joint Medium Term Financial Strategy (JMTFS) covers the financial years 2011/2014 and demonstrates how HPS will maintain financial stability, deliver annual efficiencies, and support investment in priority services, whilst demonstrating value for money and maintaining service quality.

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

1.3 A major development 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 balances and income collected from the provision of services.

1.4 The coalition government has published a two year financial settlement for the public sector alongside a number of white papers that will transform local service delivery and resultant financial requirements:

- Equity and Excellence – liberating the NHS
- Operating framework NHS 2011/12
- Schools – the importance of teaching
- Healthy Lives, healthy people: our strategy for public health in England

1.5 The settlement reduces public sector funding thus providing a challenge to deliver front line services against severe financial constraints.

2. Economic and Demand Background

2.1.1 The national outlook suggests the economy will grow less than expected, although growth in 2012 will be better than predicted. The Office for Budget Responsibility recently downgraded its 2011 growth forecast from 2.3% to 2.1% but it indicated the economy was sufficiently robust to avoid slipping back into recession and was more upbeat moving forward because of private sector growth. The UK economy grew by 0.8% between July and September 2010, but most economists expect this rate to slow once the government's austerity measures kick in.

2.1.2 There are concerns that government spending cuts and tax rises, including the VAT increase, will undermine the recovery, with increased unemployment through public sector job losses as a result of the spending cuts.

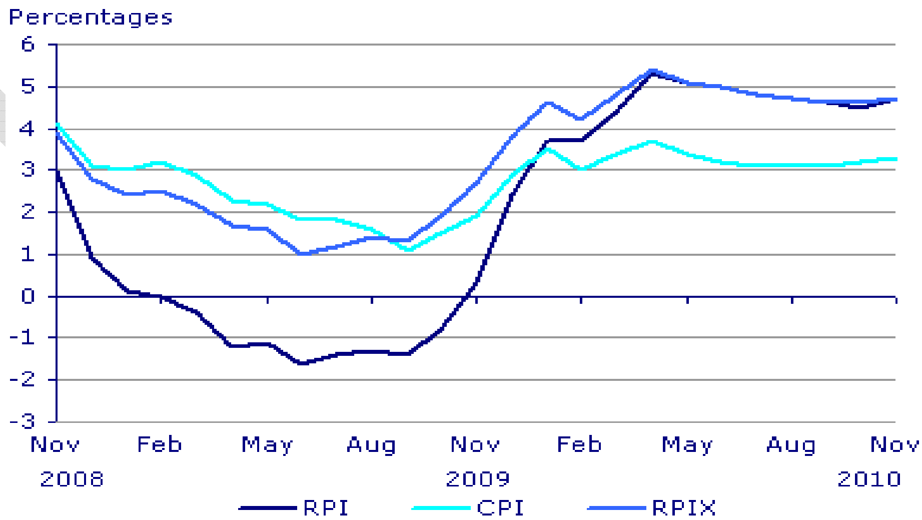
2.1.3 The Monetary Policy Committee decided to a move away from further Quantitative Easing. Despite Money supply being weak and growth prospects remaining subdued the MPC have gravitated towards increasing rates as global inflation continues to rise along with household inflation.

2.2 Inflation

2.2.1 HPS needs to understand the future inflation rates and the potential impact on the cost of supplies and services. NHSH has identified that inflationary pressures for 2011/12 are related to new technology and NICE guidance in addition to those identified by the Consumer Price indices. It is currently estimated that NHS inflation is running at circa 7%. The rates will also affect the potential cost of borrowing and at what point in the year they change assists in decisions on the timing of events.

2.2.2 The Consumer Price Indices rose to 3.3% year-on-year to November 2010. This was above the forecast by economists. This is in relation to October 2010 figure of 3.2%. It is likely to move above 4% when further price increases are implemented.

Annual Inflation Rates – 12 month percentage change



2.2.3 The most significant change in the 12 month rate between October and November came from food and non-alcoholic beverages, where prices increased by 1.6% on the month, in comparison to 0.6% in November 2009. Clothing and footwear prices rose by 2%, the largest rise for the month on record. There was also a 3.7% rise in furniture and furnishings prices.

2.2.4 It is possible that some of these rises reflect ‘temporary’ reasons. For example, food price inflation was pushed higher by the rising bread and cereal prices, reflecting higher wheat prices. Clothing prices are known to always rise in November in advance of sales in December and January.

2.2.5 The cold weather could also be a reason for the increase in clothing prices. However, not all of those effects will reverse in subsequent months and headlines suggest that inflation continues to remain a problem and eventually this will impact on underlying inflationary expectations.

2.3 Economic Summary of Herefordshire

2.3.1 The Office for National Statistics supplies data on numbers and rates of unemployment (% of the working age population claiming Jobseekers Allowance). The claimant count for Herefordshire saw a decrease between September and October 2010.

2.3.2 In October 2010 the count was 2,368, a 1% decrease on September and a 16% decrease on this time last year (2,831) however a large increase as compared to July 2008 (1,505).

2.3.3 Herefordshire’s unemployment rate in October was 2.2%, low compared to West Midlands region 4.4% and England as a whole 3.5%.

2.3.4 The unemployment rate for the 18-24 age group saw an increase in October 2010, increasing to 5.7% from 5.5% in September. The rate for the over 50s remained at 1.3%, whilst the 25-49 age group decreased to 2.3%.

2.3.5 The State of Herefordshire report for 2010 contains information that describes the county. Some of the key findings are:

- The population of Herefordshire is increasing - Herefordshire’s resident population grew by 2% between 2001 and 2009 – which is a similar growth rate as that of the West Midlands region overall (+3%), but slightly lower than England & Wales (+5%).

- Herefordshire's economic output is low compared to regionally and nationally - as measured by Gross Value Added (GVA) per resident and has increased at a lower rate over the last ten years. This has resulted in a widening of the gap between Herefordshire and the rest of the West Midlands and England.

- Herefordshire's weekly work based earnings are low compared to regionally and nationally. In addition, the gap between Herefordshire's earnings and those of the West Midlands region and England as a whole is getting wider.

- The rate of self-employment in Herefordshire is higher than in the West Midlands and England as a whole.

- Increases in number of out-of-work benefit claimants have been seen during the recession. However, rates are still low in Herefordshire compared to regionally and nationally.

- Pockets of deprivation are concentrated in urban areas of Herefordshire, but smaller pockets also occur in more rural areas. Some of these areas have got worse since 2004.

- Rural areas in Herefordshire are less likely to receive a decent level of broadband service compared to urban areas.

- Affordability of housing is a key challenge in Herefordshire.

- Herefordshire has a longer life expectancy that is healthy, disability free and life in general than regionally and nationally.

- Mortality rates from circulatory disease are low compared with regionally and nationally, however it is the main cause of mortality in Herefordshire. In 2010/11 additional investment was made in Stroke services as this was seen as a service that required investment to deliver improved outcomes, reducing the incidence of stroke and therefore the risk of death or disability from stroke. The stroke pathway is currently being implemented which includes the following:

    - Increase public and health and care staff awareness of stroke symptoms, implement NHS Health Checks to ensure those at risk of stroke are assessed and given appropriate information and advice.
    - Improve access to urgent Transient Ischemic Attack (TIA) and stroke care, including where appropriate, a 24/7 thrombolytic service, direct admission to an Acute Stroke unit within 2011/12
    - Develop in county specialist stroke rehabilitation (Inpatient and home based),
    - Ensure that longer term care, support and advise is available for stoke survivors and their carers.

- Cancer is another high mortality area. Our commissioning intentions in 2011/12 will centre around further measures to improve detection and prevention as well as improving one year and five year survival rates. Cancer admissions are the main cause of hospital admissions in Herefordshire.

- The number of 18 - 64 year olds with disabilities in Herefordshire is likely to increase by 2026.

- The PCT and Herefordshire Council will work together in addressing reliance on, and support for carers and in line with the Operating Framework will consider the *Recognised, valued and supported: next steps for the Carers Strategy* which focuses on four priority areas:

    - Identifying carers earlier
    - Supporting carers to achieve their full education and employment potential;
    - Personalised support for carers so that they can live a full life; and
    - Supporting carers to remain mentally and physically well
    - Jointly agreed plans, policies and budgets will be developed and agreed between the partners.

- A substantial increase in numbers of older people expected by 2020 will require increased reablement services to enable greater independence and enable people to remain at home rather than receive institutional care in traditional health and social care settings. It is envisaged that the commissioning of new care pathways for older people will address these issues.

- There is also expected to be a disproportionate increase in the number of older people with dementia which is in line with the demographic growth for elderly people. NHSH will progress the National Dementia Strategy and the Commissioning strategy will reflect the four priority areas as set out within the implementation plan published this autumn:

  - Good quality early diagnosis and intervention for all;
  - Improved quality of care in general hospitals;
  - Living well with dementia in care homes; and
  - Reduced use of anti psychotic medication

2.4 Potential Growth and Changes that will affect Service Need

2.4.1 Over a fifth (22%) of Herefordshire's population is aged 65 and over (38,800 people), compared to 17% regionally and 16% nationally. Numbers of older people have grown more rapidly locally than nationally: there are 15% more people aged 65+ living in Herefordshire in 2009 than in 2001, compared to 8% more in England and Wales. This growth is expected to continue, but even more rapidly - with 57% more people aged 65+ forecast to be living in Herefordshire by 2026, an increase from 38,800 in 2009 to 61,000 in 2026. In particular, the number of people aged 85+ is expected to almost double, from 5,400 in 2009 to 10,200 in 2026.

2.4.2 Numbers of children in Herefordshire are decreasing, although there have been more births than expected in the last two years. The current proportion of Herefordshire's population aged under 16 (17%) is similar to England & Wales (19%), but numbers have fallen from 34,000 in 2001 to 31,000 in 2009. This decline is expected to continue and then stabilise from 2016; around 6% below 2009 levels (29,000 children).

2.4.3 Primary school numbers (including nursery classes) will continue to fall in 2011/12 with a predicted reduction of 191 pupils or 1.6% from January 2010. Since the establishment of Herefordshire Council in 1998, primary school numbers have fallen by 2,224 from a high of 14,230 in 2006 equivalent to 15.6%. Since January 2010 secondary school numbers have increased by 30 or 0.3%. From a high point in January 2005, secondary numbers have fallen from 10,511 to 9,791, a reduction of 720 (equivalent to 7%) and are expected to continue to fall until 2019.

2.4.4 Recent years have seen a slight decline in overall municipal waste in Herefordshire from over 100,000 tonnes per annum in 2002/03 to 90,000 tonnes in 2009/10. This trend has helped offset significant increases in Waste Disposal Costs for both Herefordshire Council and for our partner in the Waste Disposal Contract, Worcestershire County Council. This is at a time when the two councils, together with the district councils in Worcestershire, have invested significantly in expanding kerbside collection services, refurbishing existing Household Recycling Centres and developing the new EnviroSort materials recovery facility. Herefordshire is currently on track to meet the national recycling target of 40% which increases to 50% in 2020.

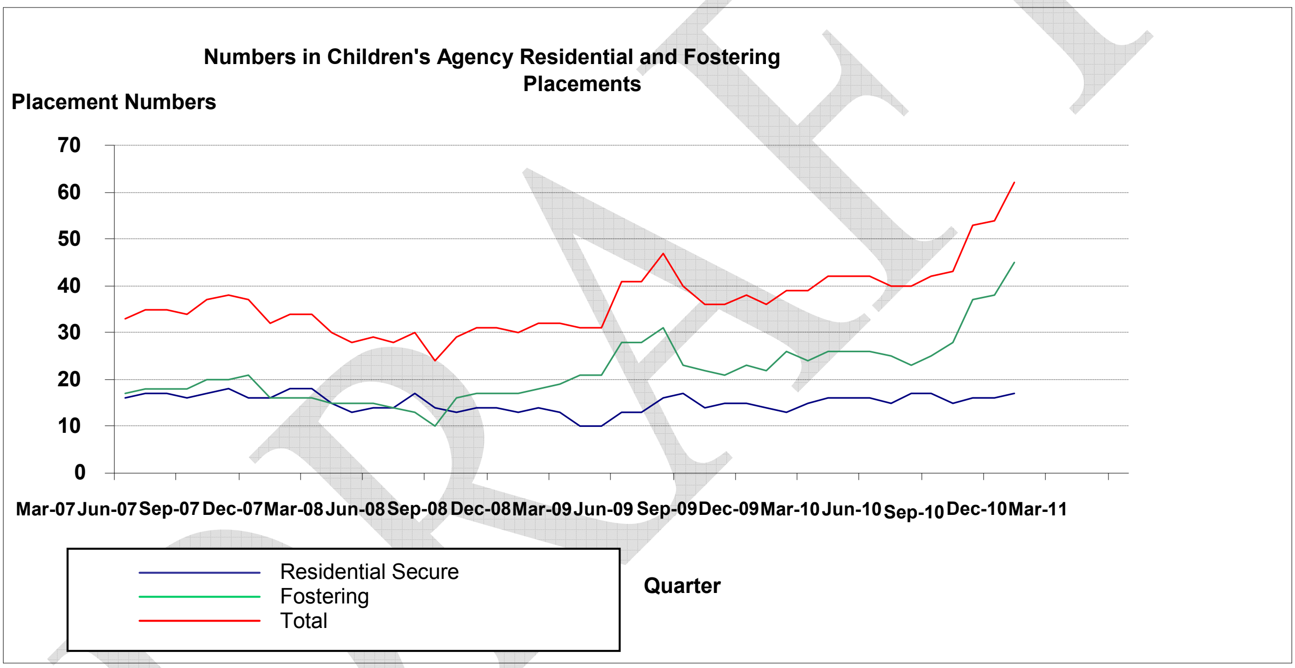
2.4.5 Significant challenges lay ahead in meeting landfill diversion requirements which will require significant investment in waste treatment infrastructure.

2.4.6 Although the council will continue to invest in the promotion of Waste Prevention with the aim of minimising waste it is very likely that in the future waste will once again start to rise in line with population growth and this is illustrated in the graph below. The Joint Municipal Waste Management Strategy for Herefordshire and Worcestershire predicts that this growth will be in line with expected increases in housing stock as detailed in the Regional Spatial Strategy.

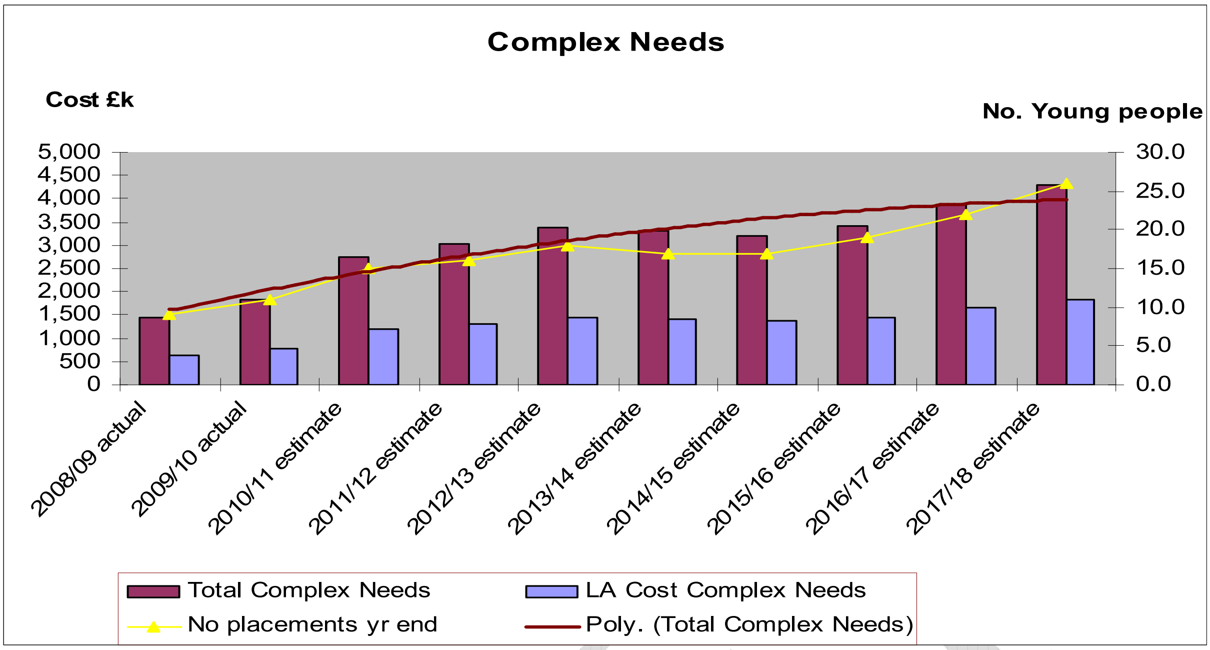
2.4.7 Central Government are expected to publish the Waste Strategy for England later in 2011 and this will give a clearer picture of the financial position in relation to waste in the future.

2.5 Impact of Demand for Services

2.5.1 In August 2010 it was reported that the number of looked after children showed a significant increase over the summer period with numbers of children being placed with agency foster carers up from 28 at the end of July 2010 to 37 at the end of August 2010. Since then numbers have continued to rise with numbers as at 12th October being 14 in residential placements and 45 in agency foster placements. The trends are demonstrated in the chart below.



2.5.2 The number of children requiring intervention and subsequent support from Children's Services is increasing. There have been a number of reports on the national trends which show a 33% increase in referrals from 2008 to 2009/10 (post the "Baby Peter" case of 2008). The following graph shows the upward trend and expected cost. The projections and trend line give an indication of the potential pressures.



2.5.3 Adult Social Care face significant future pressures due to increased life expectancy and future demand due to an aging population. The main service pressures are:

- An increase of 21% in the number of older people requiring care from 2011 to 2020 which will result in an additional 155 new care packages per annum.

- Ten new learning disability service users coming into adulthood per annum in addition to existing clients now meeting FACS criteria and now eligible for support. There are also additional pressures on the older carers of learning disability clients (currently 19 over 85 years old) which will no longer be able to provide support.

- There are also increased cost pressures for high complex packages.

- The number of adults experiencing common mental health problems in the county is expected to increase by an average of 10 cases per year.

- The number of clients client's with a serious physical disability is due to rise by 5% between 2005 and 2021, 10 per annum.

3. National Financial Context

3.1 Introduction

3.1.1 This section of the JMTFS sets out the financial context at national level across both NHSH and Herefordshire Council.

3.2 Pre Budget Cuts – Summer 2010

3.2.1 On 24th May 2010 the Chancellor of the Exchequer announced spending cuts totalling £6.2bn to be implemented in the 2010/11 financial year. From these savings there was a net spending cut of £5.7bn; the remaining £500m to be reinvested in further education, apprenticeships and social housing. This announcement also detailed that grants to local authorities would be cut by £1.166bn.

3.2.2 On 10th June 2010 the Communities and Local Government Minister, Eric Pickles, laid a written ministerial statement before the House of Commons. The statement outlined details of the £1.166bn local government contribution to the £6.2bn spending cuts, broken down by central government department as shown in the table below.

Department	*Revenue Cut*	*Capital Cut*	*Total Grant Cuts*
Department for Education	£311m	-	£311m
Department for Transport	£35.6m	£273.4m	£309m
CLG DEL	£278.5m	£80.0m	£358.5m
Local Government DEL	£175m	-	£175m
Defra	-	£7.5m	£7.5m
Home Office	£6m	-	£6m
Adjustment grant	-£1.1m	-	-£1.1m
	£805m	£360.9m	£1.166bn

3.3 June 2010 Budget

3.3.1 The Coalition Budget of 22nd June gave the overall level of public spending for the four years from 2011/12 to 2014/15 (spending envelope). The Spending Review 2010 is the process through which this spending envelope is allocated to pay for all areas of Government activity including public services, social security, and administration costs.

3.3.2 The Budget suggested action to eliminate the bulk of the structural deficit through plans for additional consolidation of £40 billion per year by 2014/15. This is expected to be achieved through £32bn of spending cuts and £8bn of net tax increases. The plans are for the structural current deficit to be eliminated by 2014/15, with a projected surplus of 0.8% of GDP in 2015/16.

- **Borrowing -** The current structural deficit "should be in balance" by 2015/16. The balance of spending cuts to tax rises would be 77% to 23%. The measures are forecast to result in public sector net borrowing of £149bn this year, £116bn in 2011, £89bn in 2012/13 and £60bn in 2013/14. The Chancellor said by 2014/15 borrowing should reach £37bn, falling to £20bn in 2015/16.

- **Spending -** Current expenditure would rise from £637bn in 2010/11 to £711bn in 2015/16, the Chancellor blaming a "rapidly rising bill for debt interest". He said his Budget implied a further £17bn cuts in departmental spending by 2014/15, unprotected departments face an average real terms cut of around 25% over four years.

- **Tax -** VAT will rise from 17.5% to 20% from 4th January 2011. Personal income tax allowance for basic rate taxpayers to go up by £1,000 in April to £7,475. Councils which propose no council tax increases will be offered extra funds to allow them to freeze the tax for one year from April 2011. Capital Gains Tax remains at 18% for low and middle-income savers but, higher rate taxpayers will pay 28%. The capital gains tax "entrepreneurs' relief" rate of 10% on the first £2m of gains will be extended to the first £5m.

- **Benefits -** From 2011 - except for the state pension and pension credit - benefits, tax credits and public service pensions will rise in line with CPI, rather than RPI, saving over £6 billion a year. A new maximum limit of £400 a week will be applied to Housing Benefit, to save £1.8bn a year by the end of the Parliament. The government will introduce a medical assessment for Disability Living Allowance from 2013 for new and existing claimants. The above measures are expected to save £11bn by 2014/15.

- **Public Sector Pay and Pensions -** Public sector workers face a two-year pay freeze. John Hutton (ex Labour cabinet minister) to head an independent commission to undertake a fundamental and structural review of public sector pensions which would unveil "early steps" by September, with full proposals in time for the 2011 Budget.

- **Business -** From April next year, the threshold at which employers start to pay National Insurance will increase by £21 per week. Corporation Tax will be cut in 2011 to 27%, and by 1% annually over the next three years, until it reaches 24%. The small companies' tax rate will fall to 20%. Tax relief for the video games industry will be scrapped.

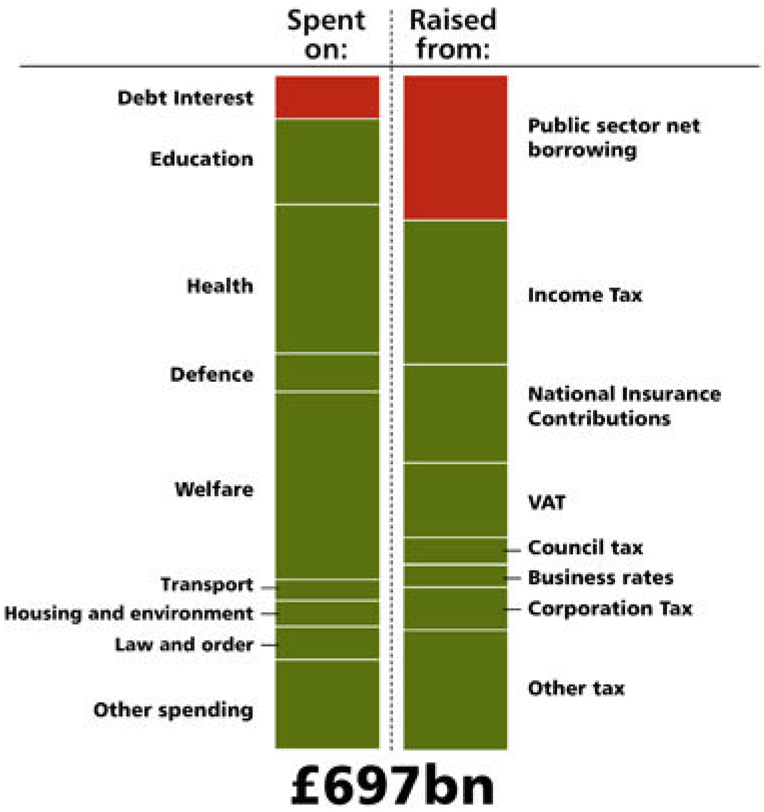
- **Pensions -** The basic state pension will be linked to earnings from April next year, with the pension guaranteed to rise in line with earnings, prices or 2.5%, whichever is the greater. The government will accelerate the increase in state pension age to 66.

- **Banks -** Introduction of a bank levy, which will apply to the balance sheets of UK banks and building societies and the UK operations of foreign banks from January next year - but smaller banks will not have to pay. It is expected to rise over £2bn a year.

3.4. Four Year Spending Review

3.4.1 The Comprehensive Spending Review was announced on the 20th October 2010, Last year, the Government borrowed one pound in every four that it spent and the UK currently spends £43 billion on debt interest, which is more than it spends on schools in England.

3.4.2 The diagram below show government spending on debt interest and amount of borrowing as part of the total budget:



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

3.4.4 The Spending Review sets out spending plans for the four years until 2014-15. In its approach to these choices, the Government has prioritised:

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

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

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

- increase NHS spending in real terms in each year of this Parliament;
- spend 0.7 per cent of Gross National Income on overseas aid by 2013 and

- restore the earnings link for the basic state pension from 2011, as part of the triple guarantee of using earnings, prices or 2.5 per cent, whichever is highest, from April 2011

3.4.7 The main changes for local government are:

Formula Grant

- Formula Grant will decrease 10.7% from £28.0bn in 2010/11 to £26.0bn in 2011/12
- From April 2011 grants currently paid outside Formula Grant worth more than £4bn, will be rolled into Formula Grant.
- An additional £1bn for personal social services will be included in Formula Grant by 2014/15.

Un ring fencing Grants

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

Council Tax Freeze

- Authorities, which choose to freeze Council Tax in 2011/12, will 'have the resultant loss to their tax base funded at a rate of 2.5% in each year of the Spending Review period'. The report tables show this will cost CLG £700m in each of the four years.

Social Care

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

Transport

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

Education

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

Housing

- The 'New Homes Bonus' will be introduced to incentivise councils to grant planning permission for the construction of new homes, by matching Council Tax receipts for each new home built for a number of years.

- The council housing finance system will be reformed so councils can invest in housing stock.

Economic Growth

- The Regional Growth Fund will be worth over £1.4bn over three years. A panel will asses funding bids from Local Enterprise Partnerships as well as the private sector.

Council Tax Benefit

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

Local Authority Borrowing

- Interest rates on loans from the PWLB have been increased to 1% above the rate for British Government gilts, previously the rate tracked gilts. The Treasury estimate this will lead to a reduction of 17% in self-financed expenditure by councils over the Spending Review period.

Internal Restructuring

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

Public Sector Pensions

- The state retirement age will reach 66 in 2020, four years earlier than planned
- Employee contributions to public sector-pensions scheme will be increased. However, they will remain as 'defined-benefit' schemes. A consultation will be launched on a Fair Deal system, recommended by Lord Hutton.

3.5 Local Government Settlement

3.5.1 The Provisional Local Government Finance Settlement was presented to the House of Commons on 13th December 2010, and will be ratified in the Final Local Government Finance Report (England) presented in a written statement to the House of Commons on 20th January 2011. The Final Settlement potentially remains unchanged from those published in the Provisional Settlement.

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

3.5.3 The settlement is for a two year period, a second two year settlement is expected to follow, for which Government intend to adopt a new distributional system.

3.5.4 A significant factor that added to the pressure faced in 2011/12 is the front loading of funding reductions. The profile of reduction is therefore uneven and for Herefordshire is 13.3%, 8.6% and 1.9% for the next three years.

3.5.5 The headline changes are:

- Two year settlement, then a further two year settlement which will have a new distribution system from 2013
- Nationally Formula Grant falls by 12.1% for 2011/12
- Significant formula distribution changes – concessionary fares, social care and transport
- Specific grants have rolled into either formula grant, dedicated schools grant (DSG) or early intervention grant
- Damping arrangements are in place based on four banded floors and dependency on formula grant; Herefordshire in Band 3
- Those worst hit by the changes (limited to 8.9% of spending power reduction) will be provided with a transitional grant of £85m
- There will be the ability to capitalise redundancy costs
- Council tax grant will cover a one year (2011-12) freeze
- £1bn additional funding for social care within the formula grant by 2014/15.
- NHS Funding of £648m in 2011-12 and £622m in 2012-13 has been identified to support integrated working between health and social care
- Bus operators subsidy reduction of 20% but statutory concessionary entitlement remains
- New homes bonus to incentivise the support of new housing development
- Dedicated Schools Grant has an overall increase of 1%, but this translates into a flat cash per pupil increase, due to pupil number rises. There will be a minimum funding guarantee at school level of -1.5%
- Pupil premium of £625m will be distributed, which has been set at £430 per free school meals pupil for the first year
- Pupil premium will rise to £1,750 per free meals pupil as the premium increases over the next four years

3.5.6 Although formula grant is being cut nationally by 12.1 per cent, cost pressures in areas such as adult social care, children's protection, waste management, and flood defence will continue to mount. As a result, local government faces a total funding shortfall in the order of £6.5bn in the next two years.

3.5.7 The government has introduced a measure known as "local authority spending power". This is based on funding from central government and council tax receipts. For 2011-12 this is made up of:

- Council tax
- Formula grant
- Specific grants
- NHS funding to support social care
- NNS Operating Framework 2011/12

3.6 NHSH Health Settlement 2011/12 and Financial Context

3.6.1 2011/12 is the first year of the new NHS Spending Review period and whilst the settlement represents growth for the NHS it is considerably below previous levels of funding and does not equate to the pressures that are faced for rising demand, changing demography and new technologies. Therefore it is important that a focus remains on the delivery of the National £20billion of efficiency savings for re-investment and improving quality across the spending review period. NHSH's figure is estimated currently at £73m for the period 2011/12 to 2014/15. This equates to £48m on inflationary cost pressures and £25m demographics and demand.

3.6.2 PCTs will continue to be required to set aside non recurrently 2% of their budgets to create financial flexibility and headroom to support change. Within the West Midlands the approach being taken for 2011/12 is a top slice of the 2%. This equates to £5.6m for NHSH. NHSH will be required to submit business cases to the SHA in order to release our funding. It is envisaged that the top slice will be used to support restructuring costs.

3.6.3 NHSH received an uplift of 3.1% equating to £8.6m. Contained within the revised 2011/12 baseline is the non recurrent funding to support joint working between Health and Social Care therefore £2.368m will be transferred to Herefordshire Council to invest in Social Care services that will benefit Health and improve overall Health gain. A joint plan will be required that outlines appropriate areas for Social Care investment and the outcomes that will be expected from this investment. NHS Commissioners will need to demonstrate plans that alleviate pressure put upon the social care system through reduced length of stay in hospital beds.

3.6.4 The Department of Health expects these plans to take into account the local joint Strategic Needs Assessment. Transfers will need to be made via an agreement under section 256 of the 2006 Act. Additionally PCTs will be responsible for securing post discharge support within Acute Care settings with Hospitals responsible in 2011/12 for readmissions within 30 days of discharge.

3.6.5 2011/12 PCT baseline allocations now include funding for reablement services. This is in addition to the £2.368m and is intended to be invested in jointly developed plans that will need to be agreed for appropriate social care investments and agreed outcomes for this investment. This can include telecare, community directed prevention (including falls prevention) community equipment and adaptations, and crisis response services.

3.6.6 Local Authorities are facing a significant funding reduction which needs to be considered when considering care outside hospital. Within the 2011/12 resource allocation is an assumption that NHSH will transfer monies of circa £500k to Herefordshire Council that will support and facilitate discharges, 30 day reablement and preventative measures that will impact on health service utilisation. The Distance from target funding for NHSH is now 2.8% which is circa £7.9m a move from 3.1%.

3.6.7 The greatest challenge being faced by the Health and Social Care economy is the demographic impact of older people. NHSH spend circa £52m (commissioning and non NHS commissioning budgets) and Herefordshire Council spend £1.5m on services for older people. Whilst investment levels are high resources are centred around institutional based care that creates dependence on services. It is imperative that future scarce resources are used to not only support or maintain independence and are used to ensure that a greater focus is placed around prevention, personalisation and wider partnership working to support this.

3.7 Health and Well-being Boards

3.7.1 The creation of new Health and well being boards will legitimise the local democracy of NHS Commissioning decisions. Health and well being boards will bring together key NHS, public health and social care leaders to work in partnership.

3.7.2 In addition to assessing needs and developing an overarching commissioning strategy, health and well being boards will also be able to make use of the existing flexibilities between the NHS and local authorities (pooling of budgets) .These flexibilities , and the ability to invest differently at the interfaces of the NHS ,public health ,social care and children's services, will be increasingly important in meeting the challenge of delivering the best possible outcomes for our communities within a more constrained financial environment. Herefordshire Council is an early implementer and has been granted pathfinder status.

4. Herefordshire Primary Care Trust Financial Context

4.1 Quality , Innovation, productivity and prevention (QIPP)

4.1.1 Whilst the NHS has been relatively protected from budget cuts there are a number of factors that make the financial settlement very challenging:

- Rising demand from an ageing population, from increased “lifestyle” disease and from increasing technological capability estimated at as much as 2% per annum.
- The actual cost of NHS inflation (driven by technological advance) running ahead of general inflation
- VAT and National Insurance increases
- Pay bill increase resulting from increments

4.1.2 Nationally, it has been recognised that the above combination of factors leads to a potential gap between resources required and available of between £ 15-£20 billion cumulatively by 2014/15, if the NHS does not review the way that care is delivered and provided.

4.1.3 Currently NHSH’s share of the QIPP agenda is circa £73m.Improving quality can reduce costs. A greater focus on prevention rather than responding to ill health is more cost effective and results in greater quality of life and less interventional procedures in later life. Maximising the use of technology can support care at home or in the community and avoid unnecessary admissions to hospital or residential care. There are opportunities for maximising productivity and examples include duplication of treatments, processes and follow up outpatient appointments. Clearly ensuring that opportunities for the maximisation of opportunities for health and social care to work together to streamline care is a strength of the deep partnership between NHSH and Herefordshire Council.

4.1.4 Management costs reductions of £1.2m in 2011/12 will be released to support frontline services. Additionally procedures that deliver low levels of clinical benefit will continue to be reviewed to ensure that these resources can support procedures that offer greater clinical benefits.

4.1.5 NHSH is required to set aside 2% of its allocation £5.6m to reinforce financial control in 2011/12. The 2% will be top sliced and held by SHAs. PCTs will be required to submit business cases to access funding that will demonstrate the non recurrent nature of the expenditure proposed.

4.1.6 All business cases will need to be supported by the SHA Directors of Finance Group. Restructuring costs are likely to be approved. The £5.6m was set aside recurrently from the 2009/10 allocation and does not therefore appear in the Sources and Applications table overleaf.

4.1.7 The NHSH QIPP challenge is £11m for 2011/12. This consists of the following:

Source	**Amount £m**
3.1% uplift	8.6
Application	
NHS Contracts (reflecting 10/11 outturn and demand)	-9.1
Health and Social care	-2.3
Investment re continuing care, special placements , free nursing care	-4.8
Reablement Funding	-0.5
Inflation uplift (Non NHS/prescribing budgets)	-1.3
GP Consortia Development Funding	-0.5
Other (e.g. PBC savings liability)	-1.1
Total Application	-19.6
COST PRESSURE	-11.0

4.1.8 The QIPP initiatives to cover the cost pressure currently identified are:

QIPP Initiatives	**Amount £m**
NHS activity	
Care pathway redesign	2.6
Data Quality	0.5
Low priority Treatment	0.1
Demand Management	1.0
Outpatient –new/follow up ratio	0.9
Non NHS activity	
Continuing care	1.5
Special placements	0.5
Free Nursing care	0.5
Mental Health Repatriation	0.5
Other	
Medicines Management/Management Cost savings/Shared services	2.9
Total QIPP savings initiatives	11.0

4.1.8 As part of the initial plans for 2011/12 to 14/15 NHSH has identified the following main initiatives that will need to be delivered for QIPP savings:

	£m
Care Pathways	15
Review emergency admissions	2
Continuing Health care	4

4.2 Health and Social Care Pathway redesign

4.2.1 The essential characteristics of our future care delivery system are based upon:

- Integrated Health and social care model based on a reablement focus through personalisation agenda
- Commissioning by care pathways
- Move away from a bed based model of care provision
- Using tools to support effective, efficient commissioning processes E.g. prioritisation and impact assessment tools.
- Ensuring cost effectiveness and clinical effectiveness
- Move to a more prevention focused agenda
- Increased patient choice of provider
- Increased use of assistive technology

4.2.2 In 2009/10 work undertaken by KPMG confirmed that the existing provider landscape within Herefordshire was not financially sustainable and therefore clinically led reviews of five initial pathways was undertaken. The KPMG report concluded that the delivery of new models of care at existing levels of demand provided an opportunity for significant cost savings. The largest savings are assumed as being for frail older people. As can be seen from the QIPP initiative table above the commissioning assumption for 2011/12 care pathways is £2.6m.

4.3 Changes to the National PBR Tariff 2011/12

4.3.1 The design and structure of the national tariff for 2011/12 signals the start of a series of changes to be made over the coming years, and has been informed by a number of key priorities:-

- Quality and outcomes
- Efficiency and value for money
- Integration and patient responsiveness
- Expanding the scope of the tariff

4.3.2 The coverage of best practice tariffs, first introduced in 2010/11, will be expanded to cover a number of new service areas, and it is anticipated that this expansion will accelerate in 2012/13 and beyond. Best practice tariffs are designed not only to promote better patient outcomes and experience, but also to deliver gains in productivity and efficiency. To drive further tariff efficiency a change is being introduced re the funding of long stays in hospital by a five day trim point floor. This will mean that relatively short stays in hospital do not attract a long stay payment.

4.3.3 In addition all tariffs have been set at 1% below the average as an initial step in pricing policy to set all tariffs below the national average level. The change to the calculation of trim points, setting tariffs below the average, and the expansion of best practice tariffs, mean that a 2 per cent efficiency requirement has been "embedded" into the tariff.

4.3.4 The national efficiency requirement in 2011/12 is 4% and the uplift for pay and price inflation is assessed at 2.5%. Consequently, the prices for services outside the scope of the national tariffs should reflect a reduction of 1.5% compared with those of 2010/11 before negotiated and agreed developments. Tariff prices for 2011/12 also reflect the 4% efficiency requirement: 2% is embedded in tariff design with the remaining 2% offsetting the pay and prices uplift resulting in a final tariff adjustment of 0.5%. Taking both the 2% efficiency requirement embedded in the tariff design and the 2% general efficiency deflator, offsetting pay and prices uplifts, results in an overall reduction between 2010/11 and 2011/12 of 1.5%. This 1.5% reduction will also apply to non tariff services and is consistent with the current NHS Operating Framework statement that over the next three years tariff adjustments will not be better than 0%.

4.3.5 In 2011/12 hospitals will not be reimbursed for emergency readmissions within 30 days of discharge following an elective admission, and all other readmissions within 30 days of discharge will be subject to locally agreed thresholds, set to deliver a 25% reduction where possible.

4.3.6 NHSH will be working with HHT, GP's and Herefordshire Council to manage the savings arising from non- payment of emergency readmissions to fund both reablement and post discharge support.

4.3.7 Opportunities exist to develop local currencies and tariffs (subject to SHA approval).These local currencies and tariffs flexibilities can support changes in service provision and integration of services .Work is underway to develop local tariffs re the stroke and older peoples care pathway.

4.3.8 A new flexibility to be introduced in 2011/12 is the opportunity for providers to offer services to commissioners at less than the published mandatory tariff where both providers and commissioners agree. Any such agreement will need to demonstrate that there will be no detrimental impact on quality, choice or competition.

4.4 Risks

4.4.1 Whilst there is a 2% top slice held by the SHA which will be subject to business cases. It is important to note that NHSH commences 2011/12 with no risk reserve and with a level of risk of circa £5m.

4.4.2 This risk is explained below:

Detail of risk	**Amount £m**
Non delivery of care pathways	1.6
System failure to manage demand	1.0
Continuing Healthcare risk	1.0
Other pressures	1.4
Total Risk	**5.0**

4.5 Capital

4.5.1 In 2011/12 there will be no automatic capital allocation for PCTs, with necessary capital funding for PCTs being granted on a case by case basis. This represents a fundamental change in funding which previously consisted of both a block capital allocation and a bidding process. This also reduces some in year revenue flexibilities due to asset classification.

4.6 NHSH Next steps

4.6.1 Currently NHSH is undertaking the 2011/12 system planning and agreement of contract process in accordance with the system planning timetable outlined by the Department of Health/SHA. From an NHSH perspective this is an initial iteration of the JMTFS re NHSH which will constantly be refreshed over the next two months in line with the planning timetable outlined below:

Month	**Week Commencing**	**Requirements**	**Operating Framework new requirements**
January	3rd Jan	Author plan workshop	
	10th Jan	Cluster CEO and SHA report	
	17th Jan	LTSM resubmission and cluster system plan resubmission	Review Finance strategy with Clusters FIMS and Performance measures
	24th Jan		First weekly call to discuss contract issues
February	31st Jan		Second weekly call to discuss contract issues
	7TH Feb		Third weekly call to discuss contract issues
	14th Feb	18th FEB cluster system plan resubmission	Fourth weekly call to discuss contract issues
	21st Feb		Fifth weekly call Contract agreement
March	28th Feb		Conciliation/arbitration
	7TH March		Conciliation/arbitration
	14th March	18th Final System plan Contract agreement	Conciliation/Arbitration (16TH) FIMS and Performance measures (18TH) Final signed contract(18th)
	21st March		25th March Final Regional System plan to Department Of Health

4.6.2 Each cluster is required to resubmit updated system plans (including LTSMs by the close of play on 21st January 2011, 18th February 2011 and 18th March 2011.

5. Herefordshire Council's Financial Context

5.1 Introduction

5.1.1 This section of the JMTFS 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.

5.1.2 The overall reduction to council funding is £11m from formula grant changes with further cuts to Children's grant of £2.5m.

5.1.3 Additional funding of £4.3m is being made available for Social Care.

5.2 Formula Grant

5.2.1 The council received £57.583m in 2010/11, but specific grants and funding streams within Area Based Grant (ABG) have transferred into formula grant for 2011/12 giving a starting point of £71.13m.

5.2.2 The government calculates an adjusted figure for 2010/11 to enable a like-for-like comparison with 2011/12 which has been calculated as £69.349m. It is estimated that this calculation has cost the council £1.8m due to the way that schools budgets have been transferred to academies and concessionary travel, specific grant and transport grants have been transferred into formula grant.

5.2.3 Herefordshire Council's allocation of formula grant is £60.125m for 2011/12 and £54.404m for 2012/13.

5.2.4 Herefordshire's reduction against the adjusted 2010/11 Formula Grant is £9.244m or 13.3%, which is the 'floor' for the damping group the council is allocated to, (this is in addition to the £1.8m mentioned above). Within the overall reduction, the following can be identified specifically;

- £3.1m reduction to the formula that distributes Concessionary Fares
- Approximately £2.7m reduction in the grants rolled into formula grant, including supporting people and transport.
- £650k has be taken out for academy transfers

5.2.5 Additional funding is provided for in the settlement:

- £2.0m social care funding within formula grant
- £2.1m council tax grant
- £2.3m NHS funding to support social care, money which is held by PCT's, but will be distributed on submission of robust business cases

5.3 Specific Grants

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

List of Specific Grants	2011-12	2012-13
	£000	£000
Early Intervention Grant	6,473	6,873
HCTB Admin	1,228	0
Lead Local Flood Authorities	130	200
Learning Disability	3,647	3,733
Preventing Homelessness	225	225

4.3.2 £13.5m of specific grant and ABG have been moved into formula grant, but reduced to an estimated £10.8m, leaving a funding shortfall of £2.7m.

4.3.3 £16.3m of former Standards Funds grants have been transferred into Dedicated Schools Grant on a per pupil basis.

4.3.4 The Early Intervention Grant replaces non-ring-fenced funding from the Department for Education. Grants totalling £7.07m have been transferred into the Early Invention Grant and reduced to £6.47m in 2011-12, leaving a funding shortfall of £0.6m.

4.3.5 A number of education grants have not been mentioned and we assume at this stage that they will no longer be received, the major areas are, ABG £1.1m and Standards Fund £0.8m.

5.4 Dedicated Schools Grant

5.4.1 The Dedicated Schools Grant (DSG) is paid as a ring-fenced specific grant and used in support of the Schools Budget. It is the main source of income for Schools. DSG is based upon a per pupil formula using the actual pupil numbers from the January school Census data each year. Government sets a fixed amount per pupil 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. Funding is delegated to schools through a funding formula that is agreed with Schools Forum.

5.4.2 National funding reflects factors such as deprivation, sparsity and area cost adjustments which affect urban and rural areas in different ways. The current grant methodology (“Spend Plus”) underlying the allocation of DSG to individual authorities is determined by central government. A national review of the distribution formula for DSG is about to commence.

5.4.3 For 2011/12 the expected fall in pupil numbers and increased spend on out of county suggests a DSG shortfall of £1m, equating to £40 per pupil. A pupil premium of £430 per free school meals pupil will be new money distributed to schools.

5.4.4 DfE informed us that DSG funding will be at £4,723.65 per pupil. The planning total is based on 22,293 pupils (as at Sept 10) plus an extra 174 pupils for the increase in private nursery hours to 15 per week (from 12.5 hrs per week), giving a DSG planning total of £106.126m.

5.4.5 Academies are publicly funded independent local schools that provide a first class free education. Academies are independent of the Council and responsible directly to government and are funded directly by government. They are freed from national restrictions such as the teachers pay and conditions documents, the national curriculum and Ofsted inspection requirements.

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

5.4.7 Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.

5.4.8 In May 2010 the Secretary of State for Education, Michael Gove, announced legislation which allows the Secretary of State to approve schools to become academies through a simplified streamlined process.

5.4.9 Reduction for schools moving to academy status from formula grant is £650k in 2011/12, this is irrespective of the number of academies commencing. Services will need to consider charging to mitigate this reduction, for example within school improvement, strategic management and property.

5.5 Revenue Spending Power

The Revenue Spending Power amounts for Herefordshire are set out below;

	2010-11 £m	**2011-12 £m**
Council tax requirement (including parishes)	87.749	87.749
Formula grant (adjusted base)	69.349	60.125
Learning disability grant	3.574	3.647
Early interventions grant	7.070	6.473
Cohesion	0.057	
HB admin subsidy	1.324	1.228
Preventing Homelessness	0.191	0.225
Council tax freeze		2.152
NHS funding to support social care		2.368
REVENUE SPENDING POWER	**169.314**	**163.967**
Change - £000		-5.347
Change - %		-3.16

5.6 Council Tax

5.6.1 Authorities, which choose to freeze Council Tax in 2011/12, will ‘have the resultant loss to their tax base funded at a rate of 2.5%, equating to £2.1m in 2011/12, in each year of the Spending Review period’.

5.6.2 The scheme will be voluntary; and will apply separately to each billing and major precepting authority in England (including police and fire and rescue authorities) rather than to each council tax bill issued. Local precepting authorities, such as town and parish councils, will not be included in the scheme.

5.6.3 The Spending Review has concluded that funding can only be provided to support a council tax freeze for 2011/12. However, the Government intends to provide supplementary funding to local authorities in subsequent years of the Spending Review via specific section 31 grants to compensate them for the council tax income foregone during the period of the freeze.

5.7 Reserves

5.7.1 Revenue Reserves

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

5.7.3 The following table shows the year end balance on the General Fund and the level of Specific Reserves for the last three financial years.

Balance as at:	General Fund £000	*Specific Reserves* Schools	Other	Total £000
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	5,390	5,497	8,739	19,626

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

5.7.5 The Council's policy is to maintain the General Reserve at a minimum of £4.5m (approximately 3% 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. Although the Director of Resources is content to make his statutory declaration that this level of General Reserves is prudent, there is an increased level of risk attached to this volatile financial climate, and use of these reserves are not advisable without a clear strategy for payback in a short time frame.

5.8 Capital Reserves

5.8.1 There is one capital reserve that represents cash available to support spending on the creation or enhancement of assets that is recorded in the capital account. It is known as the Usable Capital Receipts Reserve. The following table shows the level of usable capital receipts for the last 4 financial years and an estimate for 2010-11;

Balance as at:	£000
31st March 2008	17,945
31st March 2009	17,558
31st March 2010	13,296
31st March 2011	6,337

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

6. Herefordshire's Policy Context

6.1 Introduction

6.1.1 This section of the JMTFS describes the local policy context for Herefordshire.

6.2 Herefordshire Sustainable Community Strategy

6.2.1 *The Herefordshire Sustainable Community Strategy 2006 to 2020* sets out what the Council and its partners aim to achieve to make the county an even better place to live and work. The strategy is being reviewed for 2013 to focus even more on the people and places of Herefordshire.

6.3 Corporate Plan

6.3.1 The Council, working with NHSH, have a joint corporate plan that sets out the vision for Herefordshire Public Services 2011-14 including how the aims and objectives of the *Herefordshire Sustainable Community Strategy (HSCS)* will be realised. The vision is 'Working together to deliver excellent services and improve outcomes for the people of Herefordshire'.

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

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

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

6.3.4 The priorities of the joint Corporate Plan are:

- The creation of a strong economy
- The improvement of Health Care & Social Care
- Raising standards for Children and Young people
- The promotion of self reliant local communities
- A resilient Herefordshire
- Commissioning the right services

7. Financial Management Strategy

7.1 Introduction

7.1.2 This section of the JMTFS 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 approach for:

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

7.1.3 Active risk management is a key component of the Council's corporate governance arrangements. This section of the JMTFS 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.

7.2 Corporate Financial Objectives

7.2.1 Herefordshire's financial management objectives are to:

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

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

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

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

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

f) Maintain a strong balance sheet position.

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

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

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

7.3 Managing Partnership Resources

7.3.1 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

7.3.2 From April 2011 an Integrated Care Organisation (ICO) for Herefordshire will be established, comprising the provider arm of the council and NHSH, alongside Hereford Hospital Trust. The aim of the ICO is delivering health and social care which is focused on providing care as close as possible to people's homes, rather than in an institutional setting; a model which is also aimed at identifying our most vulnerable citizens and shifting the emphasis from diagnosis and treatment to prediction and prevention.

7.3.3 The creation of the ICO will deliver financial savings across the health sector which will contribute towards financial viability. A proposal to change Care Pathways, shifting care from a bed to community base with pilot areas for frail elderly, stroke, COPD and diabetes are progressing. It is likely spend will increase within Social Care, but will be funded partly by health savings.

7.4 Managing External Funding

7.4.1 Grants - provides another opportunity to increase financial capacity. The JMTFS will be to pursue such opportunities, providing that:

a) Match funding requirements are considered in advance.

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

c) They have no 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

7.4.2 Managing Developer Contributions - This is another source of external funding that can be secured through the planning system. It may be possible to secure funding to support the cost of day-to-day services (e.g. commuted sums for maintenance of public open spaces). Support for capital infrastructure can also be achieved in this way (e.g. developer contributing to cost of new access roads). HPS aims to maximise the potential for increasing financial capacity and managing growth in volumes through s106 agreements, where possible.

7.4.3 Managing Fees and Charges - The Council is currently developing a charging protocol with the aim of implementing a corporate charging policy. The policy will recognise the potential for discretionary charges to fund services and ensure full cost recovery where feasible and minimise the subsidy from Council budgets.

7.5 Managing the General Fund Balance and Specific Reserves

7.5.1 Herefordshire's General Fund opening balance for 2010-11 was £5.39m, with an additional contribution of £1m allocated on 1st April. This is in excess of the current policy in place to maintain a minimum balance of £4.5m (3%).

7.5.2 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.

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

7.5.4 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.

7.5.5 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.

7.5.6 It is proposed that a specific financial reserve is established following a review of current specific reserves. The reserve will need to be £1m and any future use repaid as part of the budget process. In order to incentivise sound financial management the first call on "repayment" should be the directorate that has overspent in the previous year.

7.6 Governance

7.6.1 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, Overview & Scrutiny Committee and Scrutiny Committees as part of the integrated performance framework.

7.6.2 NHSH and Herefordshire Council currently operate two separate continuing care panels and assessment processes which do not facilitate the joint commissioning of care packages, best use of resources nor ensures the best outcomes for Herefordshire citizens. Additionally, the use of personal health or social care budgets is not maximised. It is proposed that a section 75 agreement be developed in 2011/12 that will support a single assessment process, single panel and a joint commissioning approach via a pooled budget approach.

7.7 Efficiency Review

7.7.1 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.

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

7.8 Value for Money (VfM)

7.81 In October 2010 Herefordshire Council and PCT agreed a joint Value For Money Strategy. This has built upon the development of the routine use of VFM information and benchmarking data to review and challenge VfM throughout services and corporately, supporting continuous service improvement and the drive for efficiencies. This is an integral component of the Performance Improvement Cycle.

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

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

- Developing our routine financial performance monitoring reports for Cabinet to include VfM data over the coming year.
- Benchmarking our costs and activities, year on year and with other authorities.
- Through internal and external audit reviews.
- Through scrutiny reviews.

7.9 Financial Strategy for Capital Investment

7.9.1 The coalition government will no longer support borrowing costs. There future capital funding is by way of grant:

Local Transport Plan

- This is now funded by an un-ring-fenced capital grant of £10.3m. 2010-11 funding allocation was initially £13.0m reduced to £12.5m so this represents a further £2.3m (17%) cut.
- Other funding pots have been announced, available through a bidding process, the main one being the Local Sustainable Transport Fund (for sustainable transport initiatives) which is available for both capital and revenue need. The first bidding round closes in April 2011.

Schools Capital

- There has been a major shift in allocation of funding from devolving funding to schools to allocating to the local authority.
- The total allocation has reduced by 1%. The main reduction is in relation to devolved funds decreasing from funding in 2010-11 initially of £2.9m - reduced by a £1.4m advance into 2009-10 - to £0.7m in 2011-12.
- The maintenance allocation for Hereford has therefore increased from funding in 2010-11 of initially £1.9m - reduced by a £1.3m (advance into 2009/10) - to £2.7m in 2011/12.

Disabled Facilities Grant

- It is likely the Disabled Facilities Grant allocation will be circa £0.6m.

Adult Social Care

- A grant allocation of £0.4m has been published.

7.9.2 The FRM reflects the borrowing requirement implied by the Treasury Management Strategy to support the capital programme currently in place.

7.9.3 The Council can fund additional borrowing to the extent it considers it is affordable and prudent to do so (prudential borrowing) but are unlikely to fund any scheme unless a spend to save/mitigation assessment demonstrates a clear benefit. One surprising aspect of the Spending Review 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

7.9.4 The coalition government has recently announced new borrowing powers aimed at encouraging local investment and economic growth. 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.

Local Authorities will be able 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.

7.9.5 The capital receipts reserve totalled £13.296m as at 1st April, 2010, this is likely to fall to just over £6m by the end of the financial year. Capital receipts reserve funding has been committed to fund the capital programme in coming years.

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

- Maximising developers' contributions.
- Effective project management of capital schemes to ensure they stay within budget.
- Implementing the property review arrangements set out in the Asset Management Plan to rationalisation of property assets to release resources (capital and revenue).
- Maintaining our successful track record for innovative capital investment schemes.
- Attracting external funding

7.9.7 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.

7.9.8 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.

7.9.7 The localities agenda is steering authorities to share buildings, pool resources and jointly plan strategic capital programmes with local agencies, private companies, and voluntary sector and community organisations. This new concept of meaningful engagement at a very local level, critically challenges the historical basis for resource allocation and the effectiveness of services to deliver on local need and is designed to provide a more creative use of the current asset base and support improvements to community based planning and service. This is designed to produce more efficient local spending by pooling budgets and ending duplication.

Other Capital Grants

7.9.10 Herefordshire has been selected as one of four pilot schemes to deliver superfast broadband to rural areas and this is expected to receive grant funding of £6m over the next two financial years. An unringfenced allocation of disabled facilities grant is expected but this hasn't been confirmed to date. The department of health has announced funding of £452k towards personalisation, reform and efficiency in adult social care.

7.10 Capital Programme 2011-12

7.10.1 The 2011-12 capital programme represents funding indications received to date from grants and the existing schemes that commenced in prior years.

7.10.2 The following table summarises the existing capital investment programme updated for slippage.

	2011-12	2012-13	2013-14
	£'000	**£'000**	**£'000**
Directorate			
Children's Services	23,402	4,849	4,849
Resources	6,229	7,028	
Deputy Chief Executive	482	208	-
Adult Social Care	1,123		
Sustainable Communities	23,413	15,336	9,792
Public Health	289		
Contingency (1%)	*539*	*224*	*147*
TOTAL	55,477	27,645	14,788
Funded by			
Prudential Borrowing	10,920	7,811	147
Capital receipts reserve	4,260	-	-
Grants and contributions	40,297	19,834	14,641
TOTAL	55,477	27,645	14,788

7.11 Treasury Management Strategy

7.11.1 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 2011/12, is provided at Appendix A and complies with the detailed regulations that have to be followed.

7.11.2 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.

7.11.3 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.

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

7.11.5 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 2011 when it will gradually rise to reach 2.50% by the end of 2012.

7.11.6 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.

7.11.7 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.

7.12 Key Corporate & Financial Risks

7.12.1 HPS 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.

7.12.2 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.

7.12.3 An extract from the Corporate Risk Register is shown at Appendix B where these items could have a significant financial impact.

8. Medium-Term Financial Resource Model (FRM)

8.1 Background

8.1.1 The FRM shown in Appendix C 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 corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2011 to 2014.

8.2 Assumptions

8.2.1 The FRM includes the following assumptions;

a) **Council Tax** - a nil increase for 2011-12 and 2.5% there after

b) **Formula Grant** – the FRM reflects the two year settlement, including the grants transferred in

c) **New Homes Bonus –** using the 2010-11 tax base compared to the 2009-10 demonstrates additional home growth of 468 which provides £660k. A similar level of growth has been anticipated for future years.

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

e) **Pay** – assume zero pay awards for 2011 and 2012

f) **Employers' superannuation costs** – the FRM includes increases in employers' contributions rates of 0.7% in line with latest valuation which concluded in November.

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

h) **Interest Rates** – the FRM reflects interest rate assumptions for investment income and new borrowing costs in line with the Treasury Management Strategy 2011-12.

8.3.1 Budget Process

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

8.3.2 Given the provisional settlement only covers two years Joint Management Team conducted more detailed financial planning for the two year period based on the Joint Corporate Plan. As the settlement was worse in terms of total reduction and phasing a further phase that saw Directors work to a further set of principles to help refine the budget proposals took place. These principles are as follows:

- Directors to assume that grant reductions and grants that have ceased will not be funded.
- The outcome of the Star Chamber process saw a level of budget growth request that cannot be funded within existing budgets directorates must fund these requirements.

- The additional sums provided for Adult Social Care as part of the settlement and also via Health will be added to the overall control total for Adult Services. No further funding will be provided and service redesign will need to deliver a balanced position.
- There will not be any additional capital borrowing in 2011 apart from agreed prior year decisions that still have a sound business case or where borrowing commitments cover projects already being delivered. Spend to save funding will be made available where a sound business case demonstrates a positive revenue contribution.
- Inflation will be applied to budgets. There is also an assumption that fees and charges will be raised by inflation and that any subsidy of services through under recovery of fees will end. An increase by the level of inflation will be built into budgets. A review of fees as part of the emerging income policy will need to be undertaken and future level of fees and charges will be adjusted to ensure we eliminate any subsidies.

8.3.3 A star chamber process has been used to identify and challenge savings proposals and service pressures, with four key aims:

- To sign off savings brought forward previously as part of the 2009/10 budget setting as well as those from the current challenge and review cycle 2010/11
- To identify further cross cutting savings from the "Rising to the Challenge" transformation programme and to challenge those savings identified to date from lead Directors and work stream leads – these are primarily;
  - Streamlining the Business (Shared Services, Organisational Redesign, Office accommodation and Commercial strategy)
  - People and Performance (Reducing the pay-bill, agency spend)
  - Communities first (property review)
  - Customer Focus (replacement CRM)
  - Better Services
- To challenge and review all submitted service pressures
- To review proposals from each Directorate for further savings and service change based on the application of the Core Principles and Priorities shown below:

Core principles for the future… the financial challenges ahead require us to set out clearly what the Council stands for, what residents can expect of us and what we expect of them		
PRINCIPLE	**IMPACT**	**EXAMPLES**
Valued Services	• Focusing on what matters to people, core business, stopping things we don't need to do	• Reducing leisure funding • More outsourcing
Cutting Red Tape	• Less regulation and bureaucracy, smaller local government	• Cutting back enforcement • Abolishing old by-laws
Supporting the Vulnerable	• Targeting more resources on individuals, families, communities at risk or disadvantaged; early intervention/prevention	• 10 family intervention projects by 2014 • Reviewing eligibility criteria
Cutting Costs	• Reducing the pay bill; third party spend savings; smarter delivery	• 20% less managers by 2012 • £4M less supplier spend by 2015

Local Delivery	• Devolution, role of parishes and the VCS; working through the nine localities	• 25 local schemes parishes by 2014
Personal Responsibility	• Self reliance, people and communities helping themselves, behavioral change	• Parish warden schemes • Reduction in A&E visits

Our Priorities… Alongside our principles, we need to state the "must do's" – the priorities to be delivered in the next 2/3 years	
PRIORITY	**IMPACT**
A resilient Herefordshire	• Preserving our environment and access to the countryside • Promoting access to services in rural areas • Strong voice in the region
Creating a strong economy	• Regeneration of Hereford; delivery of Hereford Futures • Delivery of key infrastructure for growth • Small business growth: jobs and wages; broadband
Raising Standards for Children & Young people	• An affordable education system • Meeting safeguarding standards • Increasing primary school and pupil performance
Improving Health Care and Social Care	• Reforming care for Older People • Creation of the ICO: April 2011 • Planning for GP Consortium and Health Promotion changes
Promoting self reliant local communities	• A balanced housing market • Reducing fear of crime • Encourage community and parish planning
Commissioning the right services	• Streamlining working practices • High levels of customers and citizen satisfaction • A High quality workforce

Directorate Budgets

8.3.4 Explaining the settlement and financial consequences for Herefordshire have taken place with town councils, business ratepayers and the public via presentations at Infoshops.

8.3.5 The Rising to the Challenge initiative is the HPS transformation programme. Its purpose is to drive service improvement and deliver cost reduction proposals. The FRM highlights the savings being proposed by the main initiatives are:

- Shared Services £2.5m - £1.8m of this target relates to the delivery of procurement efficiencies, with other savings expected to arise from staff reductions.
- Organisational Design £3.1m - this will be delivered by a reduction in staff management, and wider departmental restructures.

8.3.6 A breakdown of the directorate pressures in the FRM are shown below;

£'000	2011-12	2012-13
CYPD	309	186
Adults	576	1430
Sustainable Communities	960	640
Resources	4	(20)
Deputy Chief Executive	(40)	
Total	**1,809**	**2,236**

8.3.7 These pressures relate to growth in demographics activity alongside specific contract inflation obligations.

8.3.8 As has been explained earlier, 2011/12 presents Directorates with a series of financial challenges and a requirement that they support the Council to deliver a balanced budget.

Savings

8.3.9 The savings by directorate are split over the following initiatives.

£'000	Other Savings	Rising to the Challenge	Total
Resources	0	544	544
Sustainable Communities	831	1,369	2,200
Deputy Chief Executive	282	751	1,033
Adult Social Care	2,451	198	2,649
CYPD	877	870	1,747
Public Health	153	144	297
Procurement and Central		1,832	1,832
Total	**4,594**	**5,708**	**10,302**

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

9.1 The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case the 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.

9.2 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.

9.3 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

Herefordshire Council

Treasury Management Strategy 2011/12

Contents

Appendices

Background

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in the Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under Investment Guidance provided by Communities and Local Government (CLG).

1.2 CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements to treasury management activities and include credit and counterparty risk, liquidity risk, market or interest rate risk, refinancing risk and legal and regulatory risk.

1.4 The strategy takes into account the impact of the council's revenue budget and capital programme on the Balance Sheet position, the current and projected treasury position (Appendix 1), the Prudential Indicators and the outlook for interest rates (Appendix 2).

1.5 The purpose of this TMSS is to approve:

- Treasury Management Strategy for 2011-12 (Borrowing and Debt Rescheduling - Section 3 and Investments - Section 4)
- Prudential Indicators (NB: the Authorised Limit is a statutory limit)
- MRP Statement – Section 7
- Use of Specified and Non-Specified Investments – Appendices 3 & 4

1.6 The council approved the adoption of the CIPFA Treasury Management Code at its Full Council meeting on 4 March 2011. The council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.[1]

1.7 All treasury activity will comply with relevant statutes, guidance and accounting standards.

Balance Sheet and Treasury Position

The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR)[2], together with Balances and Reserves, are the core drivers of Treasury Management Activity. The estimates, based on the current Revenue Budget and Capital Programmes, are:

	31/03/2011 Estimate £'000	31/03/2012 Estimate £'000	31/03/2013 Estimate £'000	31/03/2014 Estimate £'000
Total CFR	209,407	209,550	206,602	196,275
Less: Existing Profile of Borrowing Other Long Term Liabilities	 135,102 28,888	 129,766 27,982	 126,932 27,018	 124,085 25,952
Cumulative Maximum External Borrowing Requirement	45,417	51,802	52,652	46,238
Balances & Reserves	26,114	20,854	19,984	18,626
Cumulative Net Borrowing Requirement	**19,303**	**30,948**	**32,668**	**27,612**

The council's level of physical debt and investments is linked to these components of the Balance Sheet. The current portfolio position is set out at Appendix 1. Market conditions, interest rate expectations and credit risk considerations will influence the council's strategy in determining the borrowing and investment activity against the underlying Balance Sheet position. The council will ensure that net physical external borrowing[3] (i.e. net of investments) will not exceed the CFR other than for short term cash flow requirements.

Estimates of Capital Expenditure:

It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital Expenditure	2010/11 Approved £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Total	**77,904**	**74,656**	**55,477**	**27,645**	**14,788**

[1] This Prudential Indicator demonstrates the Council has adopted the principles of best practice in terms of Treasury Management

[2] The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

[3] This is a key indicator of prudence and should not exceed the Capital Financing Requirement. As the CFR represents the level of borrowing for capital purposes, and revenue expenditure cannot be financed from borrowing, net physical external borrowing. Should not exceed the CFR other than for short term cash flow requirements.

Capital expenditure is expected to be financed as follows [4]:

Capital Financing	2010/11 Approved £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Capital receipts	5,820	9,120	4,260	0	0
Government Grants	40,255	39,605	40,297	19,834	14,641
Revenue contributions	0	208	0	0	0
Total Financing	46,075	48,933	44,557	19,834	14,641
Supported borrowing	13,229	13,230	0	0	0
Unsupported borrowing	18,600	12,493	10,920	7,811	147
Total Funding	31,829	25,723	10,920	7,811	147
Total Financing and Funding	**77,904**	**74,656**	**55,477**	**27,645**	**14,788**

Notes:

- The unsupported or prudential borrowing is to support ongoing capital schemes that were approved in prior years. No new prudential schemes are included in the above figures.
- As part of the Spending Review, the government made the decision not to make any new supported borrowing allocations as part of the Formula Grant. Although the level of existing supported borrowing will continue to be financed through Formula Grant, for 2011/12 onwards support for new capital expenditure will be provided in the form of a capital grant.

Affordability of Capital Investment Decisions:

As an indicator of affordability, one of the Prudential indicators looks at the impact of capital investment decisions on council tax levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme. However, whilst there has been slippage of the existing approved capital programme, no new funding has been proposed.

The ratio of financing costs to the council's net revenue stream[5] is another indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2010/11 Approved £m	2010/11 Revised £m	2011/12 Estimate £m	2012/13 Estimate £m	2013/14 Estimate £m
Net Revenue Stream	142,844	146,130	**152,761**	152,460	154,751
Financing Costs	14,147	15,890	**17,520**	17,375	16,735
Percentage	**9.90%**	**11.12%**	**11.47%**	**11.40%**	**10.81%**

The above percentages have increased from last years Strategy Statement due to new accounting arrangements for PFI schemes. The above figures now include interest payable on finance leases.

[4] The element to be financed from borrowing impacts on the movement in the Capital Financing Requirement. An increase in the CFR in turn produces an increased requirement to charge MRP in the Revenue Account.

[5] The Capital Financing Requirement measures the Council's underlying need to borrow for capital purposes.

Borrowing and Rescheduling Strategy

The council's forecast of actual gross borrowing plus other long-term liabilities is shown in Appendix 1.

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2010/11 Approved £million	2010/11 Revised £million	2011/12 Estimate £million	2012/13 Estimate £million	2013/14 Estimate £million
Borrowing	200	200	190	190	180
Other Long-term liabilities	30	30	40	40	40
Total	**230**	**230**	**230**	**230**	**220**

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

Operational Boundary for External Debt	2010/11 Approved £million	2010/11 Revised £million	2011/12 Estimate £million	2012/13 Estimate £million	2013/14 Estimate £million
Borrowing	190	180	175	175	165
Other Long-term Liabilities	30	30	35	35	35
Total	**220**	**210**	**210**	**210**	**200**

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

In conjunction with advice from its treasury advisor, Arlingclose Ltd, the council will keep under review the following borrowing options[6]:

- PWLB loans
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Local authority stock issues
- Local authority bills
- Structured finance (such as leasing etc)

3.6 From 20th October 2010, as part of the government's Comprehensive Spending Review, the margin that the council has to pay on new fixed rate loans from the PWLB, compared to the governments own cost of borrowing, was increased from 0.25% to 1.00%. Despite this increase to the cost of PWLB borrowing, the PWLB remains an attractive source of

[6] These sources of borrowing should also then be included in the Treasury Management Practices.

borrowing given the transparency and control that its facilities continue to provide. The types of PWLB borrowing that are considered appropriate for a low interest rate environment are:

- Variable rate borrowing
- Medium-term Equal Instalments of Principal (EIP) or Annuity Loans
- Long-term Maturity loans, where affordable

Capital expenditure levels, market conditions and interest rate levels will be monitored during the year in order to minimise borrowing costs over the medium to longer term and maintain stability. The differential between debt costs and investment earnings, despite long term borrowing rates being at low levels, remains acute and this is expected to remain a feature during 2011/12. The "cost of carry" associated with medium- and long-term borrowing compared to temporary investment returns means that new fixed rate borrowing could entail additional short-term costs. Where affordable, the use of internal resources in lieu of borrowing may again, in 2011/12, be the most cost effective means of financing capital expenditure.

3.7 PWLB variable rates are expected to remain low as the Bank Rate is maintained at historically low levels for an extended period. Whilst variable rate loans may be an attractive option in 2011/12, exposure to variable interest rates will be kept under regular review. In a climate of increasing medium to long-term rates, short-term savings from variable rate loans need to be weighed up against additional costs in the future from not fixing borrowing rates sooner rather than later.

3.8 As an alternative to PWLB variable borrowing, the council may consider using a succession of short-term market loans arranged through the brokers. However, whilst this is a cheaper source of finance it may only postpone PWLB borrowing if funds became difficult to obtain.

3.9 The council has two bank loans of £6 million each which are LOBO loans (Lender's Option Borrower's Option). Each year, on the anniversary of taking out the loan, the lender may exercise their option to change the rate or terms of the loan. If this happens the council will consider the terms being offered and also repayment of the loan without penalty. The council may utilise cash resources for repayment or may consider replacing the loan.

3.10 Following the increase in PWLB rates, the interest rates payable on existing loans now appear more attractive compared to the equivalent rates under the new regime. Therefore opportunities for debt rescheduling are now more limited.

3.11 The rationale for debt rescheduling continues to be one or more of the following:

- Savings in interest costs with minimal risk
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

As opportunities arise, they will be identified by Arlingclose and discussed with the council's officers.

3.12 Borrowing and rescheduling activity will be reported to both Cabinet and the Overview and Scrutiny Committee in bi-monthly reports.

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

Borrowing Limits	2010/11 Approved %	2010/11 Revised %	2011/12 Estimate %	2012/13 Estimate %	2013/14 Estimate %
Upper Limit for Fixed Interest Rate Exposure	100%	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	25%	25%	25%	25%	25%

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

3.14 The council will also limit and monitor large concentrations of fixed rate debt needing to be replaced.[7] Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt.

Maturity structure of fixed rate borrowing	Existing levels %	Lower Limit for 2011/12 %	Upper Limit for 2011/12 %
under 12 months	12.83	0.00	25.00
12 months and within 24 months	2.10	0.00	20.00
24 months and within 5 years	9.47	0.00	30.00
5 years and within 10 years	12.81	0.00	40.00
10 years and within 20 years	19.86	0.00	40.00
20 years and within 30 years	14.80	25.00	100.00
30 years and within 40 years	9.62		
40 years and within 50 years	18.51		

3.15 In the maturity profile above the council's two LOBO loans (referred to in section 3.9) are included as being repayable within 12 months as this is the earliest time when the loans could be repaid. However, if the lenders do not increase the interest rate being charged these loans could remain outstanding until 2054.

4. Investment Policy and Strategy

4.1. Guidance from CLG on Local Government Investments in England requires that an Annual Investment Strategy (AIS) be set.

4.2. The council's investment priorities are:

[7] This Prudential Indicator is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment. The TM Code of Practice (Guidance Notes page 12) recommends that the Maturity Structure of fixed rate borrowing is to be broken down into several ranges if significant debt is held in periods in excess of 10 years

[8] The TM Code Guidance Notes encourage authorities to define their benchmark interest rate exposure and maturity profile position and then set limits to logically relate to that benchmark.

- security of the invested capital;
- liquidity of the invested capital;
- an optimum yield which is commensurate with security and liquidity.

4.3. Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. A specified investment:
  - Is sterling denominated
  - Has a maximum maturity of 1 year
  - Meets the "high" credit criteria as determined by the council or is made with the UK government or is made with a local authority in England, Wales and Scotland.
  - Is not defined as capital expenditure under section 25(1) (d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

4.4. Potential instruments for the council's use within its investment strategy are contained in Appendices 3 and 4. The Director of Resources, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators.

4.4 Changes to investment strategy for 2011/12 include:
  - AAA-rate Variable Net Asset Value (VNAV) Money Market Funds
  - Treasury Bills
  - Term deposits in Sweden
  - Maximum duration for new deposits of 2 years

4.5 The council's current and projected level of investments is shown at Appendix 1.

4.5. The council's in-house investments are made with reference to the outlook for the UK Bank Rate and money market rates.

4.6. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the council's capital is secure.)

4.7. The council and its treasury advisors, Arlingclose, selects countries and the institutions within them for the counterparty list after analysis and careful monitoring of:
  - Credit Ratings (minimum long-term A+ for counterparties; AA+ for countries)
  - Credit Default Swaps (where quoted)
  - GDP; Net Debt as a Percentage of GDP
  - Sovereign Support Mechanisms/potential support from a well-resourced parent institution
  - Share Prices
  - Macro-economic indicators
  - Corporate developments, news and articles, market sentiment.

4.8. The council and its Treasury Advisors, Arlingclose, will continue to analyse and monitor these indicators and credit developments on a regular basis and respond as necessary to ensure security of the capital sums invested.

4.9. The UK Bank Rate has been maintained at 0.5% since March 2009, and is anticipated to remain at low levels throughout 2011/12. Short-term money market rates are likely to remain at very low levels for an extended period which will have a significant impact on investment income.

4.10. To avoid a cost of carry when comparing the rate earned on investments to the cost of borrowing, the council may consider running its investments down and keeping its balances relatively liquid.

4.11. Alternatively faced with increasing borrowing rates the council may take out fixed rate loans and reduce the cost of carry by making longer-term investments. Two-year deposits and longer-term secure investments will be considered within the limits the council has set for Non-Specified Investments (see Appendix 4). The longer-term investments may include:

- Term Deposits with counterparties rated at least A+ (or equivalent)
- Supranational Bonds (bonds issued by multilateral development banks): Even at the lower yields likely to be in force, the return on these bonds will provide certainty of income against an outlook of low official interest rates.

4.12. The Prudential Code requires the setting of an upper limit for principal sums invested for over 364 days. This limit is to contain exposure to the possibility of loss that may arise as a result of the council having to seek early repayment of the sums invested.

	2010/11 Approved £'000	2010/11 Revised £'000	2011/12 Estimate £'000	2012/13 Estimate £'000	2013/14 Estimate £'000
Upper Limit for total principal sums invested over 364 days [8]	10,000	10,000	10,000	10,000	10,000

4.13. Collective Investment Schemes (Pooled Funds)
The council may evaluate the use of Pooled Funds (which are similar in nature to unit trusts) to determine the appropriateness of their use within the investment portfolio. Pooled funds may enable the council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns.

4.14. Investments in pooled funds will only be undertaken with advice from Arlingclose and their performance and continued suitability in meeting the council's investment objectives would be regularly monitored.

5. Outlook for Interest Rates

5.1 The economic interest rate outlook provided by the council's treasury advisor, Arlingclose Ltd, is attached at Appendix 2. The treasury management strategy will be kept under regular review and, if needs be, will be realigned with evolving market conditions and expectations for future interest rates.

6. Balanced Budget Requirement

[8] Please make allowance within this Indicator for amounts invested for **1 year**, i.e. 365/366 days.

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

7. 2011/12 MRP Statement[9]

Background:

7.1 For many years local authorities were required by Statute and associated Statutory Instruments to charge to the Revenue Account an annual provision for the repayment of debt associated with expenditure incurred on capital assets. This charge to the Revenue Account was referred to as the Minimum Revenue Provision (MRP). In practice MRP represents the financing of capital expenditure from the revenue account that was initially funded by borrowing.

7.2 In February 2008 the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Statutory Instrument 2008/414] were approved by Parliament and became effective on 31 March 2008. These regulations replaced the formula based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new regulations require a local authority to determine each financial year an amount of MRP which it considers to be prudent. Linked to this new regulation, CLG produced Statutory Guidance which local authorities are required to follow, setting out what constitutes a prudent provision.

7.3 The CLG Guidance recommends that before the start of the financial year, a statement of MRP policy for the forthcoming financial year is approved by the Full council.

7.4 The broad aim of the policy is to ensure that MRP is charged over a period that is reasonably commensurate with the period over which the capital expenditure (which gave rise to the debt) provides benefits. In the case of borrowing supported by Revenue Support Grant, the aim is that MRP is charged over a period reasonably commensurate with the period implicit in the determination of that grant.

7.5 The move to International Financial Reporting Standards (IFRS) means that Private Finance Initiative (PFI) schemes and operating leases may be brought on Balance Sheet. Where this is the case, such items are classed in accounting terms as a form of borrowing. CLG has therefore proposed amending the Capital Finance Regulations to ensure that the impact on the revenue account is neutral, with MRP for these items matching the principal repayment embedded within the PFI or lease agreement.

Options for making 'Prudent Provision'

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

Option 1 - Regulatory

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

Option 2 - CFR method

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

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[9] The Annual MRP Statement is subject to Council approval and may therefore be reported separately to Council instead of being incorporated into the TMSS.

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

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

MRP Policy 2010-11

7.7 In line with the guidance produced by the Secretary of State, the proposed policy for the 2010-11 calculation of MRP is as follows:

- Borrowing supported through the RSG grant system will be repaid in accordance with the 2003 Regulations.
- Prudential borrowing will be repaid over the life of the asset on an equal instalment basis commencing in the year following the year in which the asset first becomes operational.
- For expenditure under Regulation 25(1) (b), loans and grants towards capital expenditure by third parties, prudential borrowing will be repaid over the life of the asset in relation to which the third party expenditure is incurred.
- MRP in respect of PFI and leases brought on Balance Sheet, under the Code of Practice on Local Authority Accounting in the United Kingdom 2009 and IFRS, will match the annual principal repayment for the associated deferred liability.

APPENDIX 1

EXISTING PORTFOLIO PROJECTED FORWARD

	Current Portfolio at 31.12.10 £m	%	31 Mar 11 Estimate £m	31 Mar 12 Estimate £m	31 Mar 13 Estimate £m	31 Mar 14 Estimate £m
DEBT:						
Total External Borrowing	**135**		**145**	**147**	**146**	**143**
Other long-term liabilities	**29**		**29**	**28**	**27**	**26**
Total Gross External Debt	**164**		**174**	**175**	**173**	**169**
INVESTMENTS:						
Fixed rate deposits for 364 days	**5**		**9**	**12**	**12**	**12**
Other shorter-term fixed rate deposits	**9**		**0**	**0**	**0**	**0**
Variable rate instant access and notice accounts	**27**		**16**	**11**	**11**	**11**
Total Investments	**41**		**25**	**23**	**23**	**23**
NET BORROWING POSITION	**123**		**149**	**152**	**150**	**146**

ARLINGCLOSE'S ECONOMIC AND INTEREST RATE FORECAST

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Bank rate (%)	0.50	0.50	0.50	0.75	1.00	1.25	1.50	2.00	2.50	2.75	2.75
PWLB rates (%):											
5 years	3.00	3.25	3.75	4.25	4.50	4.75	5.00	5.00	5.00	5.00	5.00
10 years	4.50	4.75	4.75	5.00	5.25	5.50	5.75	5.75	5.75	5.75	5.75
20 years	5.25	5.50	5.75	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
50 years	5.25	5.25	5.50	5.75	5.75	5.75	5.75	5.50	5.50	5.50	5.50

- The recovery in economic growth is likely to be slow and uneven.
- The initial market reaction to the government's Comprehensive Spending Review (CSR) is positive, but implementation risks remain.
- The path of base rates reflects the fragility of the recovery and the significantly greater fiscal tightening of the emergency budget. With growth and underlying inflation likely to remain subdued, the Bank will stick to its lower for longer stance on policy rates.
- Uncertainty surrounding Eurozone sovereign debt and the risk of contagion remains a cause for concern in the global credit market.

Underlying assumptions:

- The framework and targets announced in the CSR to reduce the budget deficit and government debt are as announced in June and focuses on how the cuts are to be distributed. The next fiscal milestone will be the Office Of Budget Responsibility's assessment of the CSR's implications for growth, employment and inflation.
- The minutes of the Monetary Policy Committee's December meeting suggested a movement away from further Quantitative Easing. Despite Money Supply being weak and growth prospects remaining subdued, the MPC have gravitated towards increasing rates in the New Year as global inflation continues to rise along with household inflation.
- Consumer Price Inflation remains above 3% and is likely to spike above 4% in January as VAT, utilities and rail fares increase.

- Unemployment remains near a 16 year high, at just over 2.5 million, and is set to increase as the Public Sector shrinks. Meanwhile employment is growing but this is mainly due to part time work, leaving many with reduced income.

- Recently announced Basel III capital/liquidity rules and extended timescales are positive for banks. Restructuring of UK banks' balance sheets is ongoing and expected to take a long time to complete. This will be a pre-condition for normalisation of credit conditions and bank lending.

- Mortgage repayment, a reduction in net consumer credit and weak consumer confidence are consistent with lower consumption and therefore may limit future trend rates of growth, despite Q3's fairly strong performance.

- The US Federal Reserve downgraded its outlook for US growth; the Fed is concerned enough to signal further QE through asset purchases. Industrial production and growth in the Chinese economy are showing signs of slowing. Both have implications for the global economy.

APPENDIX 3

Specified and Non Specified Investments

Specified Investments identified for use by the council

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

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

"Specified" Investments identified for the council's use are:

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

. ** Investments in these instruments will be on advice from the council's treasury advisor.*

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

Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (S&P)
Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (S&P)

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

New specified investments will be made within the following limits:

Instrument	Country/ Domicile	Counterparty	Maximum Counter-party Limits £m
Term Deposits	UK	DMADF, DMO	No limit
Term Deposits/Call Accounts	UK	Other UK Local Authorities	No limit
Term Deposits/Call Accounts	UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent)	£5 million
Term Deposits/Call Accounts	Non-UK*	Counterparties rated at least A+ Long Term and F1 Short Term (or equivalent) in select countries with a Sovereign Rating of at least AA+	£5 million
Gilts	UK	DMO	No limit
Treasury Bills	UK	DMO	No limit
Local Authority Bills	UK	Other UK local authorities	No limit
Bonds issued by multilateral development banks		(For example, European Investment Bank/council of Europe, Inter American Development Bank)	£5 million
AAA-rated Money Market Funds	UK/Ireland/ Luxembourg domiciled	CNAV MMFs VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)	£5 million per Fund
Other MMFs and CIS	UK/Ireland/ Luxembourg domiciled	Pooled funds which meet the definition of a Collective Investment Scheme per SI 2004 No 534 and subsequent amendments (For example, Payden & Rygel, Investec Short Bond Fund)	£5 million per Fund

NB Any existing deposits outside of the current criteria will be reinvested with the above criteria on maturity.

<u>NB</u>
Non-UK Banks - These will be restricted to a maximum exposure of 25-30% per country to limit the risk of over-exposure to any one country.

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

Group Limits - For institutions within a banking group, a limit of 1.5 times the individual limit of a single bank within that group is used. For example, a single bank may have a limit of £5 million but if it is part of a group an overall group limit of £7.5 million would be applied.

Non-Specified Investments determined for use by the council

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

	In-house use	Maximum maturity	Max % of portfolio	Capital expenditure?
▪ Deposits with banks and building societies over 1 year ▪ CDs with banks and building societies	✓ ✓	5 years	25% in aggregate	No
▪ Gilts ▪ Bonds issued by multilateral development banks ▪ Bonds issued by financial institutions guaranteed by the UK government ▪ Sterling denominated bonds by non-UK sovereign governments	✓ (on advice from treasury advisor)	10 years	20% in aggregate	No
Money Market Funds and Collective Investment Schemes, which are not credit rated	✓ (on advice from treasury advisor)	These funds do not have a defined maturity date	20%	No
Government guaranteed bonds and debt instruments issued by corporate bodies	✓	10 years	20%	Yes
Collective Investment Schemes (Pooled funds) which do not meet the definition of collective investment schemes in SI 2004 No 534 or SI 2007 No 573	✓ (on advice from treasury advisor)	N/a – No defined maturity date	£2million	Yes

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

APPENDIX 5

Treasury Management Policy Statement

1. Statement of Purpose

1.1 Herefordshire council adopts the recommendations made in CIPFA's *Treasury Management in the Public Services: Code of Practice,* which was revised in 2009. In particular, the council adopts the following key principles and clauses.

2. Key Principles

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

- The council will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.

- The council will ensure that its policies and practices make clear that the effective management and control of risk are prime objectives of its treasury management activities and that responsibility for these lies clearly with the council. In addition, the council's appetite for risk will form part of its annual strategy and will ensure that priority is given to security and liquidity when investing funds.

- The council acknowledges that the pursuits of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ in support of business and service objectives, whilst recognising that in balancing risk against return, the council is more concerned to avoid risks than to maximise returns.

3. Adopted Clauses

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

- The council will create and maintain, as the cornerstones for effective treasury management:

  - A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities;

  - Suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

  The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of the council. Such amendments will not result in the organisation materially deviating from the Code's key principles.

- The responsibility for the implementation and regular monitoring of treasury management policies and practices is delegated to Cabinet and for the execution and administration of treasury management decisions to the Director of Resources, who will act in accordance with the organisation's policy statement and TMPs and, if he or she is a CIPFA member, CIPFA's *Standard of Professional Practice on Treasury Management.*

- Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

4. Definition of Treasury Management

4.1 Herefordshire council defines its treasury management activities as: -

'The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

5. Policy Objectives

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

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

APPENDIX B

Medium Term Financial Strategy 2010-13

MTFRM	2011/2012 Budget £'000	2012/2013 Budget £'000	2013/2014 Budget £'000
Base Budget	**142,844**	**146,130**	**142,539**
Inflation - Pensions & NI	730	281	861
Inflation - Other costs	2,632	2,678	2,441
Inflation - Income	(400)	(408)	(416)
Total Inflation	**2,962**	**2,551**	**2,886**
	145,806	**148,681**	**145,425**
Transfers to/from RSG			
- Grants Rolled into Formula Grant (reduced figure)	10,832	(932)	(187)
- Personal Social Services	1,961	1,480	259
MTFMS Changes			
- Waste management - PFI Contract	0	500	500
- Whitecross PFI requirement	0	0	250
- Local Development Framework	(275)	0	0
Shared Services			
- Revenue Costs	(204)	56	
- Capital Financing	292	8	0
- Core team costs (rev)	9	(479)	
- Core team costs (capital financing)	(6)	(6)	42
- Shared Services	250	0	0
Capital Financing Costs			
- Cost of borrowing	570	739	696
- Cashflow management	0	500	500
- Investment Income	0	(210)	(240)
Emerging Pressures			
- Student Finance	(70)	(15)	0
- Income shortfall	0	(300)	0
- Management change reserve	500	0	(500)
- Spend to save reserve	0	0	(150)
- Winter maintenance	(500)	0	0
- Social care	0	0	0
- Contingency	0	0	0
- Statutory changes creating pressures	1,029	544	
- Base budget funding issues	130	907	
- Other service pressures	650	785	
- Academy schools	(300)	(150)	(100)
- West Midlands Councils	209	(209)	0
- Retail Quarter Timescales	230	0	0
Efficiencies & Savings			

- Directorate reductions	(4,594)	(6,121)	0
Rising to the Challenge			
- Delayering Savings	(3,148)	0	0
- Reducing the Pay Bill	0	0	0
- Shared Services	(2,560)	(638)	(626)
New Homes Bonus	(660)	(660)	(660)
Council Tax Freeze Grant	(2,150)	0	0
General reserves	**(1,000)**	**0**	**0**
Movement from Reserves	**(1,000)**	**500**	**0**
Capacity to achieve desired Tax increase	**129**	**(2,441)**	**(1,496)**
TOTAL BUDGET	**146,130**	**142,539**	**143,713**