DRAFT Medium Term Financial Strategy

2013/16

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Medium Term Financial Strategy 2013/16

Foreword by the Council Leader and Cabinet Member –

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

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

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

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

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

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

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

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

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

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

Cllr. John Jarvis
Leader of the Council

Cllr Tony Johnson
Cabinet Member – Financial Management

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1. Introduction

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

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

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

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

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

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

2. Herefordshire’s Characteristics

2.1 Rural Pressures

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

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

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

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

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

2.2 Adult Social Care

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

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

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

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

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

2.3 Children

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

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

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

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

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

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

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

3. Herefordshire's Policy Context

3.1 Introduction

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

3.2 Herefordshire Quality of Life Survey 2012

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

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

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

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

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

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

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

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

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

3.3 Corporate Plan

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

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

3.4 Corporate Financial Objectives

3.4.1 Herefordshire's financial management objectives are to:

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

3.5 Working in Partnership

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

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

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

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

3.6 Managing External Funding

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

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

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

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

4. National Financial Context

4.1 Introduction

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

4.2 Four Year Spending Review

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

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

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

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

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

4.3 Subsequent changes to Government Spending Controls

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

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

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

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

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

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

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

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

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

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

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

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

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

4.4 Local Authority Central Spend Equivalent Grant

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

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

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

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

4.5 Impact on Control Totals

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

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

Transfers in

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

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

4.6 Local Government Finance Act 2012

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

4.6.2 Key elements;

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

4.7 Business Rates Retention

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

4.7.2 The main features of the proposed scheme are;

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

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

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

4.8 Localisation of Council Tax Support

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

4.9 Schools funding

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

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

4.10 Council Tax

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

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

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

4.12 Council Tax Referendums

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

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

4.13 Autumn Statement – December 2012

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

4.14.2 **Public Spending**

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

4.14.3 **Local Government**

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

4.14.4 **Schools**

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

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

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

4.14 Provisional Settlement 2013/14 and 2014/15

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

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

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

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

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

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

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

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

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

5. Herefordshire Council's Financial Context

5.1 Introduction

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

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

5.2 Comparative Funding Position

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

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

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

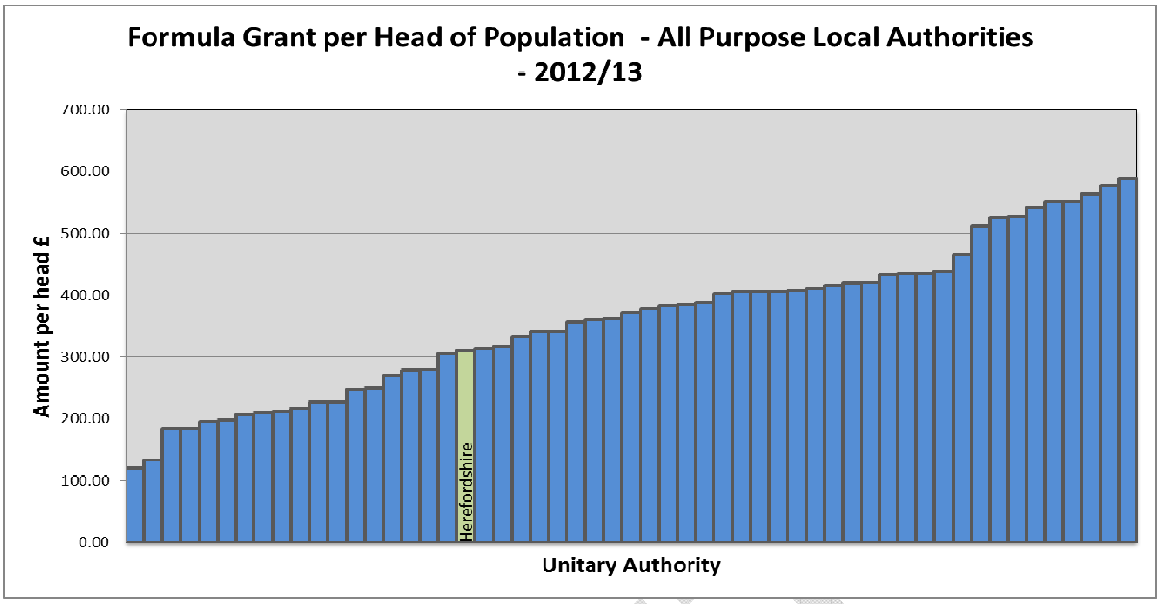
5.2.4 Unfortunately much of the benefit will be lost through the damping element of the formula, which is designed to smooth year on year swings. The council has requested that the Government allow the adjustment for rural services to be reflected in cash terms and excluded from the damping calculation.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

5.2.5 The 2012/13 budget figures show that:

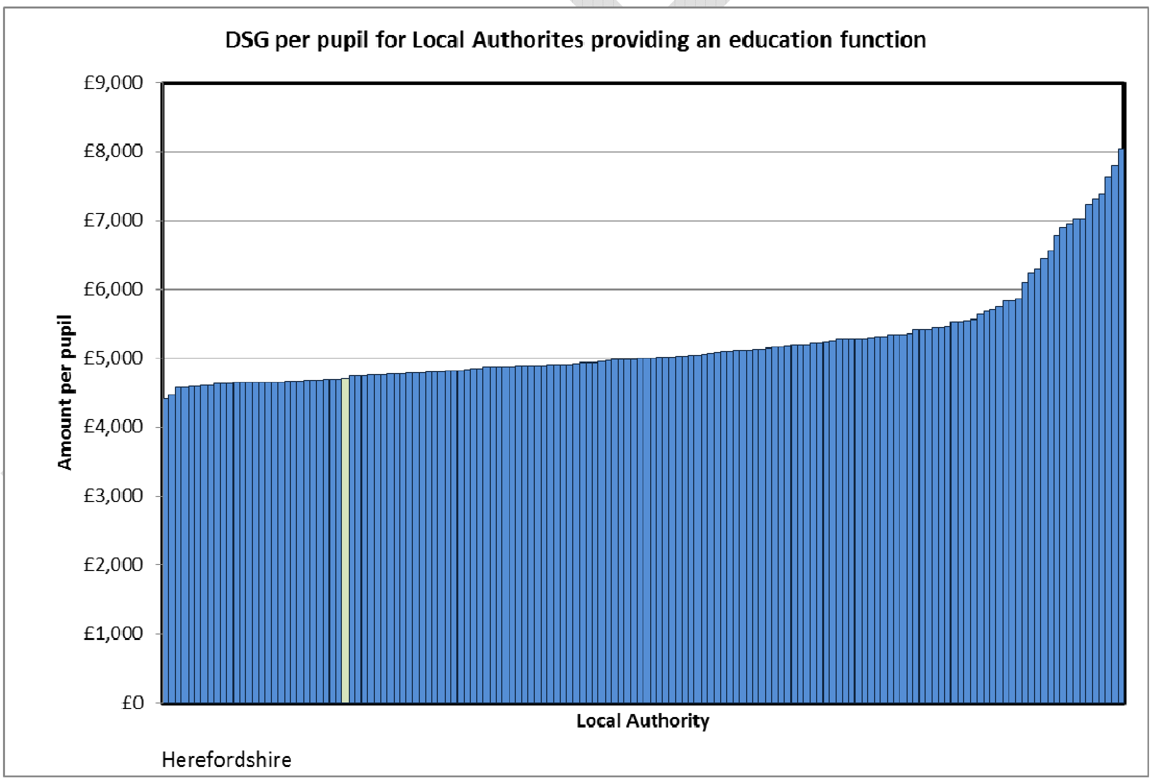
a) Formula Grant per head of population is £311.26, 13% below that national average of £358.36; and

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

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



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



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

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

5.4 Start-up Funding Allocation 2013/14

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

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

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

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

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

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

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

5.5 Comparison to 2012/13

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

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

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

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

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

5.6 New Homes Bonus

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

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

5.7 Specific Grants

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

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

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

**Set up funding only in 2012/13*

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

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

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

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

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

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

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

5.8 Local Authority Central Spend Equivalent Grant (LACSEG)

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

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

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

5.9 Dedicated Schools Grant

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

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

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

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

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

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

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

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

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

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

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

5.10. Council Tax

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

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

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

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

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

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

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

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

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

5.11. Reserves

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

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

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

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

5.12. Managing the General Fund Balance and Specific Reserves

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

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

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

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

5.13. Capital Reserves

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

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

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

5.14. Funding Arrangements for Capital Investment

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

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

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

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

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

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

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

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

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

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

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

5.14.6. The challenges given to retaining assets will be based on value for money and the delivery of strategic priorities and key service delivery. Surplus properties will either be recycled or disposed of and proceeds will be reinvested. The disposal of land will be allowed after consideration of sacrificing a capital receipt for transfer of the land for use as social housing or as a community asset transfer.

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

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

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

5.15. Capital Programme 2013/14 to 2015/16

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

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

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

5.16 Treasury Management Strategy

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

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

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

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

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

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

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

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

5.17 Key Corporate & Financial Risks

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

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

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

6. Medium-Term Financial Resource Model (FRM)

6.1. Background

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

6.2. Financial Choices

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

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

6.3. Budget Principles

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

6.4. Assumptions

6.4.1. The FRM includes the following assumptions;

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

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

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

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

e) Pay – 1% awards are assumed for 2013

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

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

6.5. Funding assumptions included in the FRM

6.4.1 The following funding assumptions are included in the FRM.

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

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

6.4.3 The general funding above includes the following former grants;

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

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

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

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

Home to school transport	540	tbc	tbc

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

6.6. Directorate pressures

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

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

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

6.6. Savings Targets and Root and Branch Review Programme

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

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

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

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

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

6.7. Budget Engagement

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

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

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

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

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

- Adequacy of the proposed financial reserves.

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

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

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

David Powell
Chief Officer (Finance and Commercial)

Appendix A

Herefordshire Council

Treasury Management Strategy 2013/14

Contents

Appendices

1. Background

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

1.2 CIPFA has defined Treasury Management as:
"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.3 The council has borrowed and invested substantial sums of money and therefore has potentially large exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the council's treasury management strategy.

1.4 The purpose of this TMSS is to approve:

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

2. Capital Financing Requirement

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

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

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

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

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

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

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

Table 1: Balance Sheet Summary Analysis

	2012/13 Estimate £'000	**2013/14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Capital Financing Requirement	211,496	223,852	229,709	230,187
Less: Existing Profile of Borrowing				
PWLB and bank loans	140,532	136,535	132,523	124,285
Short-term loans from other LA's	*12,000	*12,000	*12,000	*12,000
Less: Other Long Term Liabilities				
PFI schemes	27,906	26,841	25,698	24,484
Finance leases	322	320	320	319
Cumulative Maximum External Borrowing Requirement	**30,736**	**48,156**	**59,168**	**69,099**
Usable Reserves	**28,250**	**20,640**	**20,230**	**20,050**
Cumulative Net Borrowing Requirement	**2,486**	**27,516**	**38,848**	**49,049**

*Current short-term borrowing from other local authorities to be rolled over or replaced by loans from the Public Works Loan Board (PWLB).

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

3. Borrowing

Interest Rate Forecast

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

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

Borrowing Strategy

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

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

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

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

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

Sources of Borrowing and Portfolio Implications

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

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

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

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

3.10 The council has two LOBO loans (Lender's Option Borrower's Option) of £6 million each on which the council pays interest at 4.5%. Every year the lenders have the option to increase the interest rate being charged at which point the council can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the council since the decision to amend the terms is entirely at the lender's discretion.

3.11 If a lender seeks to amend the terms of a LOBO loan the available options will be discussed with the council's treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted.

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

Debt Rescheduling

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

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

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

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

4. Investments

Annual Investment Strategy

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

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

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

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

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

Table 2: Specified and Non-Specified Investments

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

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

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

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

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

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

The Council's Bank

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

Investment Strategy

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

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

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

4.14 Collective Investment Schemes (Pooled Funds)

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

4.15 Policy on Use of Financial Derivatives

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

5. 2013/14 Minimum Revenue Provision Statement

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

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

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

Options for making 'Prudent Provision'

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

Option 1 - Regulatory

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

Option 2 - CFR method

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

Option 3 - Asset Life method

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

Option 4 - Depreciation method

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

MRP Policy 2013-14

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

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

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

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

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

EXISTING BORROWING & INVESTMENTS AS AT 31 DECEMBER 2012

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

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

APPENDIX 2

PRUDENTIAL INDICATORS

1. Background

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

2. Gross Debt and the Capital Financing Requirement

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

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

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

3. Estimates of Capital Expenditure

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

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

3.2 Capital expenditure will be financed or funded as follows:

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

4. Ratio of Financing Costs to Net Revenue Stream

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

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

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

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

5. Capital Financing Requirement

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

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

6. Authorised Limit and Operational Boundary for External Debt

6.1 The council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the council and not just those arising from capital spending reflected in the CFR.

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

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

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

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

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

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

7. Adoption of the CIPFA Treasury Management Code

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

7.2 The council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices. The council's Treasury Management Policy Statement is attached at **Appendix 6**.

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

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

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

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

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

9. Maturity Structure of Fixed Rate Borrowing

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

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

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

10. Credit Risk

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

10.2 Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the council's assessment of counterparty credit risk.

10.3 The council also considers alternative assessments of credit strength and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP);
- Corporate developments, news, articles, markets sentiment and momentum;
- Subjective overlay.

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

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

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

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

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

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

<u>Underlying Assumptions:</u>

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

APPENDIX 4

SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

New specified investments may be made within the following limits:

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

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

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

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

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

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

APPENDIX 5

NON-SPECIFIED INVESTMENTS FOR USE BY THE COUNCIL

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

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

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

APPENDIX 6

TREASURY MANAGEMENT POLICY STATEMENT

1. Statement of Purpose

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

2. Key Principles

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

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

3. Adopted Clauses

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

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

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

4. Definition of Treasury Management

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

5. Policy Objectives

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

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

Appendix B

FINANCIAL RESOURCE MODEL 2013/14 to 2015/16

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

Appendix C

CHARGING PRINCIPLES AS AGREED WITH GENERAL OVERVIEW & SCRUTINY

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