Medium Term Financial Strategy

2017/18 – 2019/20

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

Introduction to Herefordshire’s Medium Term Financial Strategy

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

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

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

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

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

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

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

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

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

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

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

Councillor Tony Johnson

Leader of the Council

1. Background to the Medium Term Financial Strategy

1.1. Herefordshire is the most sparsely populated county in England, with residents dispersed across its 842 square miles. Areas of poverty and deprivation exist in Herefordshire and there are crucial economic, geographic and demographic factors, relating to distance, population sparsity, ageing, social inclusion and market structure. However, as a rural area, it receives on average, 50% less central government assistance than an urban rural area placing Herefordshire at a disadvantage compared to our urban counterparts.

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

1.3. 54% of Herefordshire's population live in rural areas of which 42% in the most rural locations. Providing services to a dispersed population across a large geographic area is a challenge and additional resources are required to ensure council services are maintained for all residents in the county.

1.4. The four year funding settlement has partially recognised these additional pressures by increasing support for the most sparsely populated rural areas by increasing the rural services delivery grant (RSDG), £4.1m in 2017/18 for Herefordshire. Despite this rural councils are worse off than urban ones. (green line rural councils/ black line urban councils)

1.5. Herefordshire's economic base is focused on agriculture and as such its business rates base is low compared to other areas. As such a1% growth in the business base generates an extra £63.50 per person in Westminster but just £2.20 for Herefordshire. While Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in sparsely populated areas it is not enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the county. To redress this imbalance, the council works with the Rural Services Network (known as SPARSE) and its MP's to improve this position.

1.6. Despite these constraints the council has made necessary, difficult decisions to enable it to continue to deliver important services to our residents whilst assessing the challenge of delivering savings of £87m between 2010 and 2020.

1.7. Without delivering the challenging changes required, Herefordshire Council would have been unable to meet its financial obligations. The council is committed to work within budget and 2016/17 is expected be the 4th successive year that we have done so.

1.8. Whilst ensuring that the overall budget is balanced, the council has been carefully building reserves to a prudent level to manage financial risk and to support future needs. Over the past three years the Council has delivered improvement, achievement, positive change and outcomes along the way to deliver our key prioirites, including:

Supporting the growth of our economy

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

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

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

Enabling residents to live safe, healthy and independent lives

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

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

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

2. Medium Term Financial Strategy

2.1. This Medium Term Financial Strategy (**MTFS**) covers the financial years 2017/18 – 2019/20 and demonstrates how the council will maintain financial stability, deliver efficiencies, support investment in priority services, whilst demonstrating value for money and maintaining service quality.

2.2. The MTFS is a key part of the council's integrated corporate, service and financial planning cycle. This process is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with the corporate priorities set out in the Corporate Plan. Herefordshire's key priority areas are:

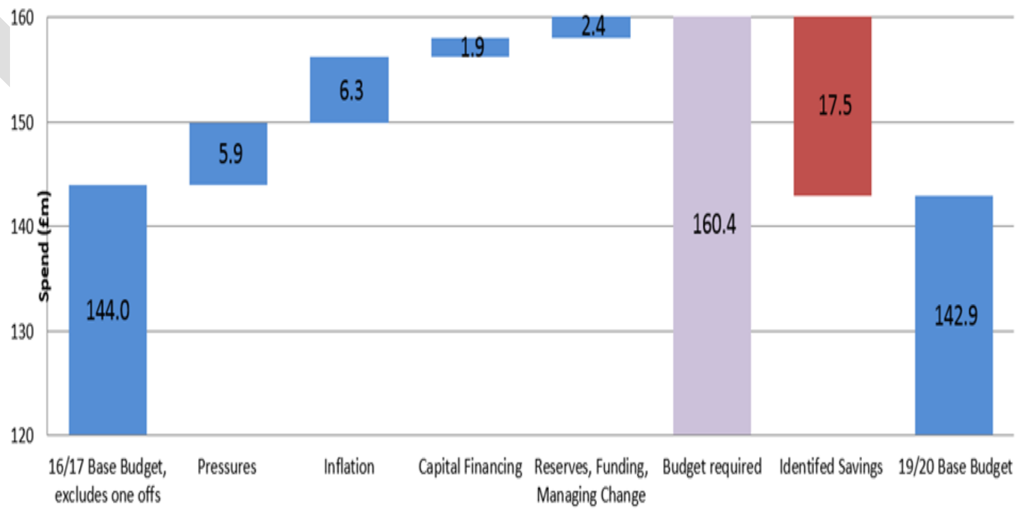
- **enable residents to live safe, healthy and independent lives**
- **keep children and young people safe and give them a great start in life**
- **support the growth of our economy**
- **secure better service, quality of life and value for money**.

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

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

2.5. Balancing the MTFS

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



2.6. Value for money

2.6.1. In managing the financial pressures, the council's strategic and corporate plans set out its vision for the county to support a strong, diverse and enterprising business base, operating in an exceptional and connected environment where the transfer of technology and skills foster innovation, investment and economic growth.

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

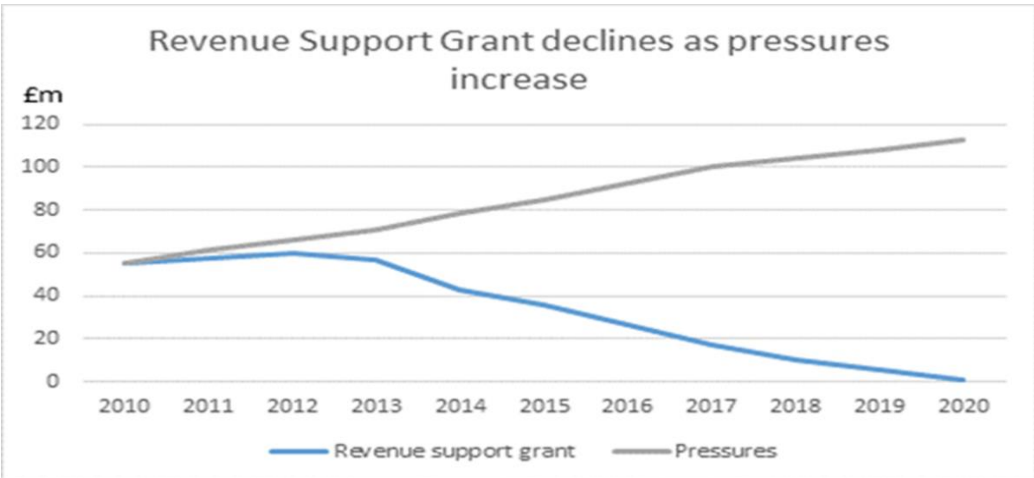
2.6.3. The council has enabled major improvements including the delivery of flood relief schemes, a new livestock market, a privately funded retail and leisure development on the site of the old livestock market, access to superfast broadband, an Enterprise Zone in Rotherwas, improved leisure facilities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

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

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

2.7. National context

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



2.7.2. Pressures on social care costs have been recognised through the introduction of an additional 2% levy on council tax referendum thresholds to be used entirely for adult social care; this will generate £1.8m each year for Herefordshire.

2.7.3. The government will introduce the first ever national funding formula for schools, high needs and early years, a detailed consultation was launched in 2016 and the new formulae will be implemented from April 2018.

2.7.4. In addition, discussions continue on the national system of business rates with the proposal for councils to retain 100% of business rates (rather than 50% at present) but potentially without the protections for councils with lower numbers of businesses. This additional funding is likely be accompanied with additional responsibilities, and therefore may require additional savings with an expectation for “national fiscal neutrality”. The council is continuing with its current, sound practices to manage these pressures.

2.7.5. The 2016 Autumn Statement reflected the latest forecasts from the Office of Budget Responsibility which indicated increasing inflationary pressures and falling government revenues well into 2020 and beyond. This is likely to result in increasing the government’s borrowing requirement and introducing greater uncertainty in the growth and resilience of the UK economy.

2.7.6. These national factors create further risk to the council’s core income streams and the increased need to hold reserves at a level sufficient to protect the council from unplanned events.

2.7.7. This MTFS period will be extremely challenging for councils and many face difficult decisions about which services are scaled back or stopped altogether. It is against this background that Herefordshire council’s MTFS has been prepared.

3. The Revenue Budget

3.1. The MTFS summarises the council’s financial plans for the next three years and is updated annually and covers the period from 2017/18 to 2019/20, reflect the current year’s performance and the next year’s budget.

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

3.3. Funding Assumptions

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

- Council Tax - a 1.9% increase for 2017/18 and in future years in council tax plus a further 2% in respect of the Adult Social Care precept, making an overall increase of 3.9% per annum.

- Revenue Support Grant is expected to fall in line with the four year settlement agreed between the government and council

- Increases in business rate reliefs as set in the Autumn Statement

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

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

3.4. Budget Pressure Assumptions

3.4.1. Current planning includes the following assumptions:

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

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

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

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

3.5. Savings Assumptions

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

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

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

3.5.3. **Adults and Wellbeing:**

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

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

3.5.4. **Children's Wellbeing**

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

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

3.5.5. **Economy, Community and Corporate Savings Proposal**

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

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

3.5.6. **Corporate Savings Proposals**

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

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

3.6. Summary

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

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

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

3.7. Directorate Net Spending Limits

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

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

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

4. The Capital Budget

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

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

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

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

Total Funding	**55,776**	**31,554**	**12,268**	**99,598**

4.3. As the table demonstrates, capital expenditure can be funded from capital receipts, borrowing, grants and revenue contributions. The council has a policy that ensures capital cash resources are used effectively in support of corporate priorities. As a result, all capital receipts are a corporate resource and not 'owned' or earmarked for directorates unless allocated for a specific purpose. The capital receipts reserve is available to support spending on the creation or enhancement of assets.

4.4. Government support for capital investment is through the allocation of grants, known grant funding allocations for 2017/18 are listed in the appendix but a number, including disabled facilities grant and schools maintenance, are yet to be announced.

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

5. Treasury Management Strategy

5.1. The council is required to adopt an annual Treasury Management Strategy (**TMS**) each year as part of the budget setting process in order to fully recognise the financial implications arising from its revenue and capital budgets through the capital financing requirement to ensure the impact of capital investment is fully reflected in the revenue budget; this is provided through the minimum revenue provision (MRP).

5.2. The TMS for 2017/18 sets out the council's strategy for making borrowing and investment decisions during the year to meet the capital and revenue spending plans approved by council and considers the impact of future interest rate movements. The full TMS is set out in detail in Appendix 3.

5.3. Borrowing

5.3.1. Summary table and projection

5.3.2. Graph of borrowing profile

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

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

5.4. Investments

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

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

6. Reserves

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

6.2. General Reserve

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

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

6.3. Earmarked Reserves

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

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

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

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

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

7. Budget Risks

7.1. The most substantial risks have been assessed in the budget process and, where possible, reasonable mitigation has been made. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process. The proposed budget includes contingency and reserves that, if required, can be used to manage risks.

7.2. Demand management in social care continues to be a key issue, against a backdrop of a demographic of older people that is rising faster than the national average, and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on demand management through disease prevention and behavior change is critical for medium term change. In addition re-setting our relationship with communities focusing services on areas of greatest professional need will support the MTFS.

7.3. There are on-going risks in achieving reductions in children's safeguarding costs, Herefordshire is high spending compared to statistical neighbours and methods of reducing this cost are progressing however some delays have been experienced.

7.4. Key areas of focus include, sustaining the current focus on a new relationship with citizens and communities, changing the models of care to more family based provision, managing the price paid where the council is the commissioner and/or where this is taking place with partners with a specific reference to health, improvements in commercial interface including contract management, using technology to enable new ways of working including significant channel shift around self-service and automated business process improvement and a subsequent headcount reduction. A full risk and mitigation summary is provided in Appendix 5

8. Conclusion

8.1. The council's Medium Term Financial Strategy sets out a challenging but robust financial framework through which planned services and investment can be delivered. It is a fully balanced framework so that:

- revenue expenditure is fully covered by income,
- capital expenditure is fully funded and the associated capital financing cost reflected in revenue budgets,
- effective treasury management ensures financial resources are available as required within a prudent framework
- reserves are sufficient to meet specific need and protect against unforeseen events.

9. Recommendation

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

Appendix 1
Net Revenue budget and Directorate Spending Limits

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

Appendix 2
Capital Programme Summary (pending approved additions)

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

Appendix 3

Treasury Management Strategy

Appendix 4

Reserves Policy

Appendix 5

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
1	**Unexpected events or emergencies** By its nature, the financial risk is uncertain	Low	High	• Council maintains a Strategic Reserve at a level of between 3% and 5% of its revenue budget for emergency purposes • Level of reserve is currently £7.3m
2	**Increasing demand for Adult Social Care** Demand for services continue to increase as the population gets older	High	Medium	• Demand led pressures provided for within our spending plans • Activity indicators have been developed and will be reported quarterly alongside budget monitoring
3	**Potential Overspend and Council does not deliver required level of savings to balance spending plans** Challenging savings have been identified within our spending plans.	Medium	Medium	• High risk budget areas have been identified and financial support is targeted towards these areas • Regular progress reports on delivery of savings to Management Board and Cabinet • Budget monitoring arrangements for forecasting year end position in place and forecast balanced • Plan to review level of cover
4	**Potential delay in delivery of Capital Receipts**	Medium	Low	• Potential new capital receipts may be available from further corporate property sales. • Capital receipts received will be monitored quarterly
5	**Increase in Pension Liabilities** Our contributions are influenced by market investment returns and increasing life expectancy.	Medium	Low	• Spending plans reflect the level of pension contribution required as identified by the Pension Fund's Actuary in 2016 for the next three years
7	**Failure to provide safeguarding and placements for children** There is an increasing requirement to provide sufficient school places There is a rising number of children requiring specific support	Medium	High	• Provision has been made in the capital programme to increase school places • Directorate plans in place to manage and mitigate demand • Ongoing reviews of children already under care of council
8	**Volatility in future funding streams in Government funding streams and Business Rates Retention**	High	Medium	• Prudent assumptions made in budget • Ongoing review of developing business rate changes • Business case to support future
9	**Brexit** Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	• Reduced reliance on grant funding in all directorates • Increased local economic and social investment to increase core income