

# **Medium Term Financial Strategy 2019/20 – 2021/22**

# Herefordshire Council's Medium Term Financial Strategy

## **Introduction**

The Medium Term Financial Strategy (MTFS) outlines the measures Herefordshire Council has taken since 2010 to deliver savings, and describes the 2019/20 budget proposal and financial forecasts up to 2021/22.

## **Rising to the financial challenge**

Central government introduced measures in 2010 which has seen a reduction in the revenue support grant from £60.1m in 2011/12 to £5.3m in 2018/19 (reducing further to £0.6m in 2019/20). Over the same time period council services have seen increasing demand, particularly for adult social care and looked after children.

The council has risen to this financial challenge, by:-

- Delivering substantial savings of £90m
- Delivering services differently
- Increasing its financial reserves
- Consistently delivering balanced budgets

This has been achieved by the council:-

- Delivering organisational efficiencies including consolidating staff in fewer buildings, reducing the number of staff including agency staff, and introducing staff mandatory unpaid leave days
- Changing models of service delivery to focus on self-help, and early help and intervention to reduce the demand for higher cost interventions
- Reconfiguring household waste collection and grass cutting services
- Expanding the use of technology to enable people to contact the council through the website at a time that suits them, with a reduction in the need for face to face and phone contact to use resources for people who need them most
- Supporting greater community involvement in services such as community libraries, litter picks, environmental and bio-diversity initiatives
- Maximising commercial opportunities ensuring where possible, fees are set at levels which secure full cost recovery, and exploring further income generation from fees and charges, for example car parking
- Reviewing the council's smallholdings estate

At the same time the council has:-

- Significantly improved adult social care client satisfaction
- Worked with external partners to produce a business case which secured £23m of government funding to establish a new university in Hereford
- Delivered a new livestock market and a privately funded retail and leisure development on the old livestock market site
- Progressed plans for a by-pass for Hereford city and delivered major infrastructure improvements to the city and county road network

- Opened the new Hereford City Link Road which provides development opportunities for business, residential and public sector organisations.
- Successfully delivered the Hereford Enterprise Zone, creating over 600 jobs
- In partnership with Worcestershire County Council opening a new energy from waste plant
- In partnership with Gloucestershire County Council implementing the 'FasterShire' programme delivering broadband to 80% of the county

### **2019/20 budget proposal**

The MTFS proposes a balanced 2019/20 budget achieved by increasing council tax charges by 4.9%, inclusive of a 2% adult social care precept and committing to delivering savings of £3.7m.

<b>2019/20 savings requirement</b>	<b>Total</b>
	<b>£'000</b>
Workforce and service delivery savings	837
Maximise income generation	100
Manage inflation and secure contract efficiencies	200
Efficiency savings	630
Reduced cost of transport	225
Phased removal of subsidies to parish councils	100
Waste & Sustainability	30
Accommodation strategy savings	360
Procurement savings	500
Public realm savings	200
Base budget realignment	500
<b>TOTAL</b>	<b>3,682</b>

### **Going forward**

The council is recognised as being in a relatively secure financial position over the medium term which provides a platform to realise the county's ambitions.

It has increased its revenue reserves in recognition of the challenges yet to come. There are changes anticipated to national funding of local government which we are continuing to assess the impact of. We have growing demographic pressures, particularly relating to adult social care and children with disabilities, and the council needs to address the barriers to growing our economy.

The latest external audit opinion concluded that the council is financially sustainable for the foreseeable future. This MTFS demonstrates how the council will continue to utilise its financial resources to support its corporate plan objectives and realise its ambitions.

## 1. Overview

- 1.1. The council's gross annual revenue expenditure is in the region of £340m, this is funded by a combination of council tax, business rates, specific grants, rents, third party contributions and income from sales, fees and charges. Approximately £80m is ring-fenced to schools. This leaves the council with around £260m to meet its wide range of statutory requirements and to meet the needs of our residents, businesses and communities.
- 1.2. The council's capital expenditure on its physical assets is separate from revenue expenditure on day to day services and totals approximately £50m each year. This expenditure is funded from a combination of specific grants, third party contributions, capital receipts from sale of assets, contributions from the Local Enterprise Partnership and borrowing.

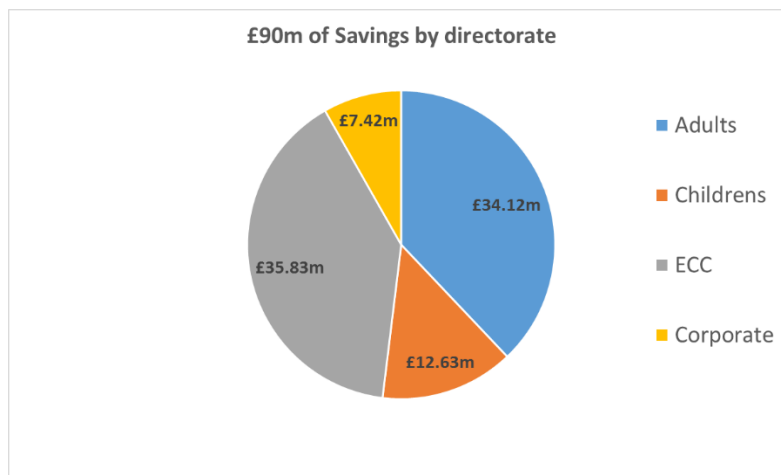
## 2. Medium Term Financial Strategy

- 2.1. This Medium Term Financial Strategy (MTFS) covers the financial years 2019/20 to 2021/22 and demonstrates how the council will maintain financial stability, deliver efficiencies and support investment in priority services, whilst demonstrating value for money and maintaining service quality.
- 2.2. 2020/21 onwards is currently an estimate as we are awaiting the outcome of the next Government comprehensive spending review.
- 2.3. 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.**
- 2.4. This MTFS contains progress on the financial challenges the council faces alongside the increasing demands for services. There are higher costs associated with the county's rurality and demographics. The council aims to balance this challenge by supporting independent, safe and healthy lives.
- 2.5. The Council continues to provide value for money service delivery and aspires to bring sustainable prosperity and well-being for all.
- 2.6. During this MTFS period the funding of council services will change significantly. Central government is leading a fair funding review and local rate retention will become live as we await the next comprehensive spending settlement which is due in the spring of 2019.

- 2.7. The council recognises the need to grow and has plans for new homes throughout the county, new employment opportunities, infrastructure and supporting the establishment of a new university.

### 3. Financial outlook

- 3.1. The MTFS extends the time period under review to include 2021/22. This continues with the longer-term planning approach that is now well embedded in the Council's strategic financial management arrangements. As core government funding disappears in 2020/21, the council will become increasingly self-reliant upon local resources, council tax and business rates. Although the latter is in itself an uncertain funding source at this time.
- 3.2. By the end of 2018/19 the council will have made ongoing savings of circa £90m over the last ten years. This has involved taking some difficult decisions about the delivery of services; however the approach of long term planning supported by strong governance and a delivery focus across the whole council has meant that savings have been delivered on time or slightly ahead of time. This past strong performance in this area cannot be regarded as a guarantee for the delivery of savings in the future, and there is a need to avoid complacency.



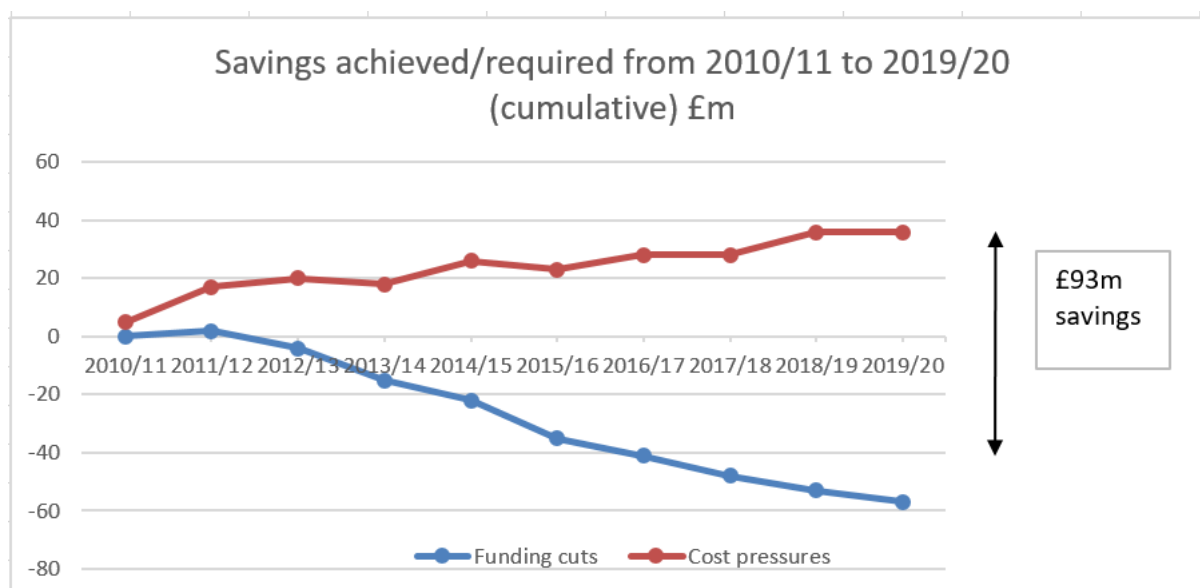
- 3.3. As well as meeting the councils legal responsibility to set a balanced budget, the benefits of long term financial planning are:
- Ensuring resources are allocated to the council's priorities,
  - Improving value for money,
  - Maintaining financial stability
  - Managing significant financial risks.

3.4. The medium term financial strategy is underpinned by the following key principles:

- Prudent assessment of future resources and unfunded cost pressures.
- Appropriate levels of income generated across all areas of the council, and prompt collection of all sums owed to the council.
- Prudent assessment of provisions required to mitigate future liabilities.
- Risk assessed level of reserves and balances held to mitigate potential financial liabilities and commitments.
- Prudent and planned use of reserves to fund expenditure
- Maximisation of capital receipts from disposals.
- Maximisation of external grant funding that meets our priorities.
- Prudent and proportional use of the council's borrowing powers to undertake capital investment that is not funded by capital receipts or contributions from third parties.
- Promotion of invest to save opportunities via detailed assessments of business cases.
- Effective forecasting and management of the council's cash flow requirements.
- Effective management of treasury management risks, including smoothing out the debt maturity profile, borrowing only when necessary and taking advantage of opportunities arising because of disconnects in the market between long term and short term rates.
- Full integration of revenue and capital financial decision processes, to ensure the revenue implications of capital projects are appropriately reflected in the medium term financial strategy.
- Production of detailed implementation plans for all savings proposals.
- Sign-off of all revenue budgets by the relevant senior managers including any savings plans before the commencement of the financial year.
- Regular monitoring of budgets and robust management actions to address any unplanned variances that arise.

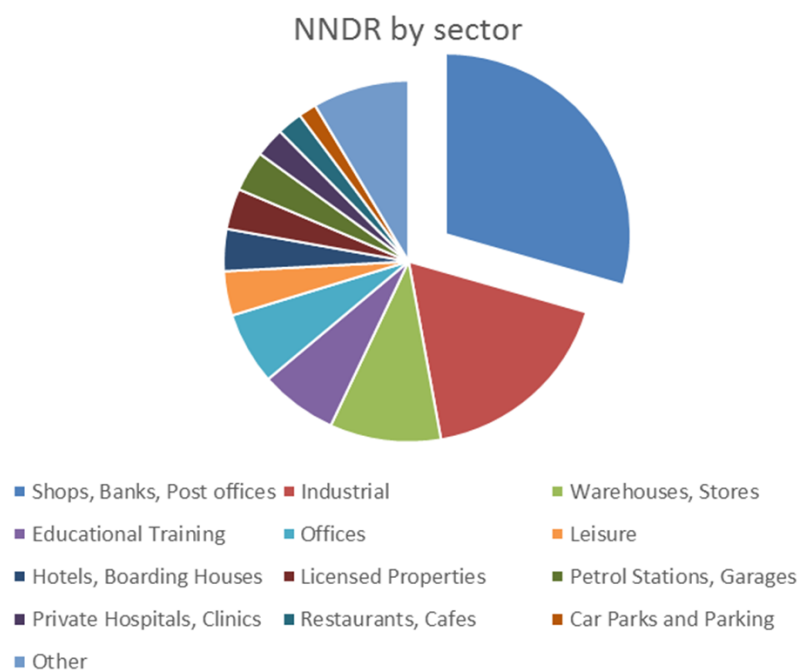
3.5. Whilst the council's finances have contracted, the demand for services has grown. The council faces a constant challenge to manage the increases in demand for adult social care and looked after children that are increasing significantly year on year.

3.6. The council accepted a four-year Funding Settlement from the Government in 2016 and 2019/20 is the fourth and final year of that settlement. The impact of this will see the reduction in Revenue Support Grant to £0.6m in 2019/20 compared to £60.1m of Revenue Support Grant in 2011.



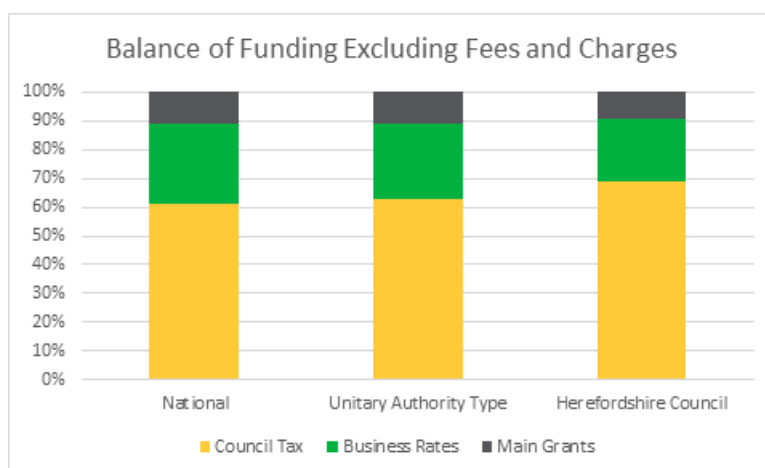
- 3.7. Over the life of the Funding Settlement the Government has introduced a range of temporary funding measures to assist with the increasing demands in adult social care but with little or no certainty beyond 2019/20.
- 3.8. Government policy is likely to be influenced by a range of internal and external factors over the coming years; it is not possible to assess the impact of the United Kingdom's withdrawal from the EU in March 2019 at this point in time. The Government has indicated that there will be a new comprehensive spending review in early 2019.
- 3.9. The Government has also indicated that the Adult Social Care Green Paper will arrive shortly. There is likely to be an extensive national debate about how to find a sustainable solution to the funding of care for an ageing population. This is a complex problem and it is very hard to predict when a solution will be found or when and how the solution will be implemented. This creates significant challenges for the council in making medium term financial plans, as a number of the shorter term funding solutions for care costs from Government are scheduled to end during the life of the MTFS, before a sustainable funding solution is found.
- 3.10. We are awaiting confirmation from Government of the implementation timetable for the move to business rates being retained by local government. The Government has indicated that it expects the move to be "fiscally neutral" and that councils should therefore pick up equivalent responsibilities commensurate with the additional funding. This raises a number of difficult challenges for the council given the makeup of the current business rates tax base within the county, with a large element reliant on retail businesses, as shown below.

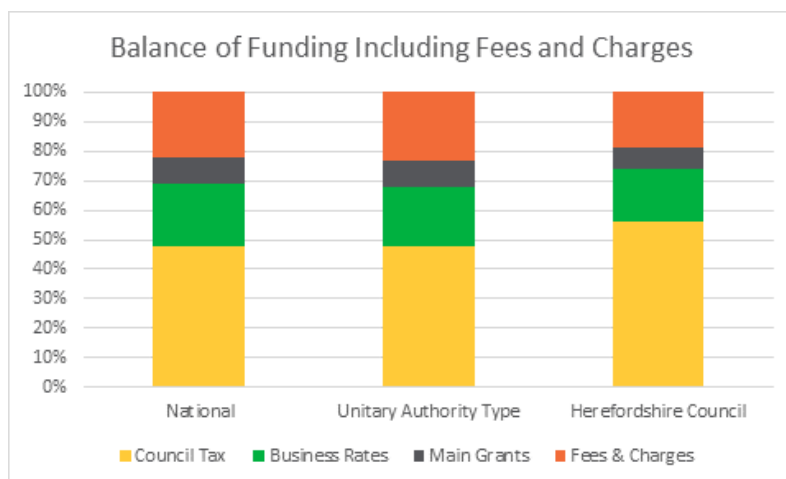




#### 4. Funding assumptions

The council's main income stream is Council Tax and this is set to continue. This is positive in that it is a locally controlled funding stream and is expected to grow. A summary of how the income streams compare to unitary and national councils is shown in the graphs below.





The assumption built into the MTFS is a 4.9% Council Tax increase in 2019/20 and an increase of 4.5% in future years.

	2019/2020 £000	2020/2021 £000	2021/2022 £000
Revenue Support Grant	624		
Business Rates	35,950	45,853	46,554
Council tax	104,251	109,923	115,903
New Homes Bonus	2,176	1,209	767
Rural Sparsity Delivery Grant	5,101		
Collection Fund Surplus (one off)	500		
Adult social care grant (one off)	2,385		
EU exit preparations (one off)	105		
<b>TOTAL</b>	<b>151,092</b>	<b>156,985</b>	<b>163,224</b>

## 5. Savings by directorate

	2019/2020 £000	2020/2021 £000	2021/2022 £000	Total £000
Adults and communities	700	600	500	1,800
Children and families	200	300	650	1,150
Economy and place	2,223	873	273	3,369
Corporate services	359	77	77	513
Centrally held budgets	200	500	500	1,200
<b>TOTAL</b>	<b>3,682</b>	<b>2,350</b>	<b>2,000</b>	<b>8,032</b>

The council has delivered £77m of savings since 2010, with a further £13m expected to be delivered in the current (2018/19) year. Going forward further savings are required to ensure the council does not overspend. The savings requirement for the next three years is £8.0m, as set out below, giving a savings total of £98m between

2010 and 2022.

## 6. Directorate base budget movements

	A&C £000	C&F £000	E&P £000	Corporate £000	Central £000	Total £000
<b>2018/19 revised base budget</b>	<b>52,087</b>	<b>23,958</b>	<b>29,149</b>	<b>14,321</b>	<b>24,609</b>	<b>144,124</b>
Pressures	5,288	3,427	1,371	192		10,278
Savings	(700)	(200)	(2,223)	(359)	(200)	(3,682)
Other movements	175	500	297	932	(1,532)	372
Removal of one off funding	(2,885)	(500)	(1,000)		(106)	(4,491)
<b>2019/20 base budget (excluding one offs)</b>	<b>53,965</b>	<b>27,185</b>	<b>27,594</b>	<b>15,086</b>	<b>22,771</b>	<b>146,601</b>
Pressures	2,717	714	1,364	169	91	5,055
Savings	(600)	(300)	(873)	(77)	(500)	(2,350)
Public health new responsibility	7,500					7,500
Other corporate movements			250		(71)	(71)
<b>2020/21 base budget</b>	<b>63,582</b>	<b>27,599</b>	<b>28,335</b>	<b>15,178</b>	<b>22,291</b>	<b>156,985</b>
Pressures	2,219	732	1,228	347	94	4,620
Savings	(500)	(650)	(273)	(77)	(500)	(2,000)
Other corporate movements					3,619	3,619
<b>2021/22 base budget</b>	<b>65,301</b>	<b>27,681</b>	<b>29,290</b>	<b>15,428</b>	<b>25,504</b>	<b>163,224</b>

Pressures in future years reflect the expected financial impact of inflation and demographic growth.

## 7. University

- 6.1 The New Model in Technology & Engineering (NMiTE), Hereford's nascent engineering only university, has the potential to be one of the key catalysts that enables the transformation of the county's economy. In a world driven by knowledge, economy, technology and urbanisation, the advent of the university from 2020 will, over the next 15-20 years, not only increase the intellectual capital of Herefordshire but also has the potential to support steady population growth. With 1,600 students recruited each year this will balance the annual out-migration of young people. In addition it is likely that at least ten per cent of graduates will remain in or near the county making Herefordshire an attractive inward investment location for employers needing hi-tech work-ready employees.
- 6.2 The direct impact on the economy, over the next 15 years, will come from a £550 million capital investment to build 40,000 square metres of teaching space and 150,000 square metres of student accommodation to house up to 5,000 students who will be resident for 46 weeks of the three years of each student's study period. At this peak capacity, NMiTE will employ nearly 600 staff directly (many requiring homes) and will be supported by a range of local suppliers. Based on data from other university cities, NMiTE is expected to add at least £120 million annually to the county's GDP. Taken together, the various impacts of NMiTE will do much to help the long term sustainability of the county.

- 6.3 New innovative higher education providers such as NMiTE will play an important part in educating the next generation of much-needed engineers, providing the skills and talent that employers need. Hereford is a cold-spot for higher education provision, leading to a 'brain drain' of 18-24 year olds leaving the area to study. The Higher Education reforms are about giving all young people access to university and an increasingly diverse market to choose from. This will ensure a steady stream of highly-skilled graduates into the workplace locally, and regionally. NMiTE builds on plans set out in the Government's modern Industrial Strategy, which aims to improve living standards and economic growth by increasing productivity and driving growth.
- 6.4 A fundamental role of the Marches LEP is to help develop a vibrant regional economy by removing barriers to growth. The creation of NMiTE will play a pivotal role in driving forward our economy through the development of a new and innovative Higher Education provision. This will help address the national shortage of graduate engineers by teaching students the keys skills which employers demand in the workplace. A key focus of the project will be to help retain a large proportion of the 18-24 population who leave the region to attend Universities across the country, implementing the knowledge and skills acquired to help improve the productivity of our valued businesses.

## **8. Better Care Fund**

- 8.1 The Better Care Fund (BCF) is a pooled budget which is nationally mandated to further the integration of health and social care. Herefordshire's BCF has two partners, Herefordshire Council and Herefordshire Clinical Commissioning Group (CCG).
- 8.2 Funding is received by the council from the NHS, via Herefordshire CCG. The Department of Health and Social Care sets national minimum contributions to the pool for both revenue and capital and specifies that certain funding streams must be included within the mandatory minimum fund. Partners are permitted, and encouraged, to pool more than the minimum requirement. The BCF in Herefordshire has four components; mandatory capital and revenue contributions, additional voluntary revenue contributions from each partner, and the Improved Better Care Fund (IBCF).
- 8.3 The MTFS assumes that the transfer of funds from the NHS to the council will occur throughout the MTFS period and that the annual value will continue to grow in line with inflationary uplifts for the NHS.

## **9. Improved Better Care Fund**

- 9.1 The Government's Spending Review in 2015 announced new money for social care and the 2017 Spring Budget subsequently increased this funding. The Government requires that this additional IBCF funding for adult social care in 2017-19 is pooled into the local BCF.
- 9.2 The funding is paid to Local Authorities for adult social care as a direct grant under Section 31 of the Local Government Act 2003. The funding may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

9.3 A recipient local authority must:

- a) pool the grant funding into the local BCF, unless an area has written Ministerial exemption;
- b) work with the relevant CCG and providers to meet the national BCF condition on managing transfers of care set out in the Integration and Better Care Fund Policy Framework and Planning Requirements 2017-19; and
- c) provide quarterly reports as required by the Secretary of State.

9.4 The MTFS assumes that the funding allocated in the 2015 spending review is recurrent and will be received throughout the MTFS period, albeit subject to any changes made by the forthcoming 2019 spending review; while the funding announced in the 2017 Spring Budget is assumed to be non-recurrent and will not be received after 2019/20.

## **10. Demographics**

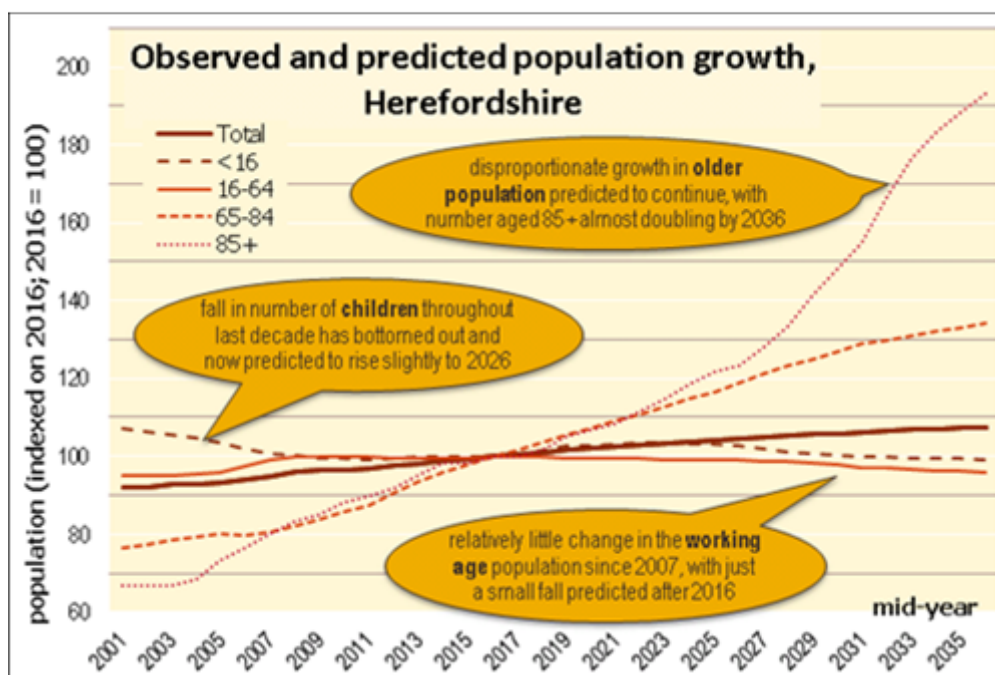
10.1 The latest population projections for Herefordshire are the 2016-based Subnational population projections (SNPPs), published 24 May 2018 by the Office for National Statistics (ONS). Based on the ONS' 2016 mid-year estimates, the future population is projected forward by ageing on the population and applying observed trends in relation to births, deaths and migration, year on year, up to 2041.

10.2 The current projections suggest slower growth than the previous (2014-based) projections. This is because of assumptions about lower future levels of fertility and international migration, and an assumption of a slower rate of increase in life expectancy.

10.3 The total population of Herefordshire is projected to increase from 189,500 people in 2016 to 194,100 by 2021 (an increase of two per cent); and to 203,700 people by 2036 (an increase of seven per cent), equivalent to an average annual growth of 0.35 per cent per year over this 20-year period. This is a lower projected annual rate of growth than England as a whole (0.5 per cent per year).

10.4 These projections serve as a baseline scenario; they do not attempt to predict the impact that future Government or local policies (such as on housing development), changing economic circumstances or other factors might have on demographic behaviour.

Predicted population growth in Herefordshire:



## 11. Minimum Revenue Provision

- 10.1 The Minimum Revenue Provision (MRP) is a technical accounting requirement, specific to local government, which is the method by which councils charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by borrowing.
- 10.2 Local government accounting rules require the council to make revenue provision to support the costs of capital spend funded by borrowing regardless of whether that borrowing has actually been taken up; this is referred to as minimum revenue provision and is intended to provide a public demonstration of the costs of capital expenditure.
- 10.3 During 2017/18 Herefordshire revised its Minimum Revenue Provision (MRP) Policy, this changed the notional debt repayment calculation basis to an annuity loan repayment method. This matches the flow of benefits generated by the assets funded from borrowing to the annual MRP charge in the revenue budget. Linking MRP to the average useful life of an asset reflects the economic benefit the council receives from using the asset to deliver services over its useful life, representing a fairer cost charge to current and future council tax payers. Council tax payers are being charged each year in line with asset usage and this avoids current council tax payers meeting the cost of future usage or future council tax payers being burdened with charges relating to assets that are no longer in use.
- 10.4 The actual MRP charge is based on the following calculation:-
- Historic debt balances, previously being written down on a 4% reducing balance basis, being charged on an annuity loan repayment basis. This change ensures all historic notional debt is repaid by 2025/26 whereas under the previous method a balance of £14m would be remaining to be repaid. The annuity rate used is a consistent 2% calculated in line with the changes in revenue support grant which was deemed to include a funding element in relation to the repayment of supported historic debt.

- Supported borrowing, previously written down on a straight line basis over the asset life, moves to a 3% annuity also charged over the asset life under the revised method. The annuity rate has been applied to capital expenditure incurred since 1st April 2008, and spend prior to this continues to be written down on a straight line basis. The 3% represents an average of PWLB (Public Works Loan Board) loan comparator rates.

10.5 The MRP calculation will be reviewed again in 5 years' time to ensure the revised method above is still appropriate.

## 12. Capital Programme

11.1 The current capital programme is summarised in the table below, along with the overall financing and detailed budgets by scheme in appendix 2. The capital programme approved by Council in July 2018 was approved at £297.3m; this becomes £325.4m with additional grants added to the capital programme. We know that previously a number of schemes would deliver later than planned as budgets are often estimated very optimistically across financial years, but in reality with the time it takes to plan and progress projects they deliver later than first estimated. Work has been done to align these projects more realistically across the financial years and therefore the profile of budgets has moved between years to reflect this.

### Approved Capital Programme

	Prior Years £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total Capital Programme Budgets £000s
<b>Total Adults &amp; Communities</b>	33	2,868	3,176	1,853	1,853	9,783
<b>Total Children's &amp; Families</b>	7,743	3,375	14,887	13,200	1,200	40,405
<b>Total Corporate</b>	17,258	6,057	11,420	2,463	0	37,198
<b>Total Economy &amp; Place</b>	65,457	56,104	88,945	27,157	362	238,025
<b>Total Capital Programme</b>	90,491	68,404	118,428	44,673	3,415	325,411

### Financed by

<b>Capital Receipts</b>	<b>24,755</b>
<b>Grants &amp; Funding Contributions</b>	<b>121,382</b>
<b>Prudential Borrowing</b>	<b>88,783</b>
<b>Funded in prior years</b>	<b>90,491</b>
<b>Total Funding</b>	<b>325,411</b>

12.2 Additional capital funding requests will be submitted to Full Council when they are required. This means there will be increases to the capital programme for 2019/20 onwards once approved by Council at any future meeting. These funding requests will be reviewed in line with Council plans and within the financing available of grants, capital receipts and increased borrowing of £6.7m annually but borrowing funded through revenue savings will be in addition to this limit. The capital receipts reserve balance at the end of 2017/18 was £42.5m and as we can see in the table above £24.8m of this has already been approved to fund current schemes but of course the



reserve balance will increase by any future receipts from April 2018.

- 12.3 There are a number of large schemes of over £5m for replacement schools at Colwall, Marlbrook and Peterchurch, along with annual grants for the Local Transport Plan, Fastershire Broadband and Highways Asset Management. The Hereford Transport Package will also increase significantly once final plans and funding have been approved. However the three largest schemes are for the Hereford City Centre Transport Package for £40.6m, with only £8.3m budget remaining. The South Wye Transport Package for £35m with a £5m spend to date and plans being finalised for the project to be delivered. The Development Partnership Activities budget is for £40.6m with a £300k spend to date, although this is due to the partnership agreements only being signed in July 2018 and therefore these projects within the programme budget will begin to start to develop in the near future.

### **Development Partners**

- 12.4 The Development and Regeneration Programme (DRP) has been established to provide development solutions that are reflective of the policies of Herefordshire Council and will be designed and developed in an inclusive way with the community. Consideration is given in all instances of providing developments that are considerate to the health and wellbeing of the residents, built to the latest environmental standards as set out in the building regulations (The National Standards).
- 12.5 Development partners Keepmoat and Engie are committed to encompassing the use of local suppliers and contractors and to maximise the opportunities to employ local Herefordshire people. The KPIs have been set up to reflect this and all parties will take every action possible to ensure this is achieved.
- 12.6 The development partners are keen to achieve developments that reflect the highest standards and that the real impact is to viability, or the anticipated land receipt. The decision as to what standards are applied to a development lies with the council and will impact on development returns/outcomes on a case by case basis.

### **Keepmoat Homes Ltd**

- 12.7 Supporting the delivery of new homes that will help the council to achieve its strategic housing growth targets. Current projects include Bromyard Depot, Merton Meadow, Hildersley and Holme Lacy.
- 12.8 The first new homes are expected to commence building by late summer 2019.

### **ENGIE Regeneration Ltd**

- 12.9 Supporting the delivery of regeneration construction projects, such as business units, student accommodation, commercial development and retirement housing.
- 12.10 The agreements will bring to life plans contained within the adopted Core Strategy (the document that sets out Herefordshire's planning priorities until 2031). The plan outlines the development opportunities enabled by the Hereford City Centre Transport Package and Hereford Transport Package, as well other sites across the county such as the Ross Enterprise Park and Hillside.



## **Capital receipts reserve**

- 12.11 At the end of the 2017/18 financial year there was a balance of £42.5m in the capital receipts reserve. There are a number of schemes within the capital programme to be funded by capital receipts; the balance will be retained to deliver enhanced investment on the use of these reserves, once business cases have been submitted for approval at Council.

## **13. Revenue Budget / Till receipt**

Shown below is an indicative illustrative typical month's expenditure incurred by a band D property in Herefordshire from 1<sup>st</sup> April 2019, this is a draft that will be updated as the budget progresses into its final form.



Charges per month (average Band D property)  
2019/20 Monthly Council Tax receipt

<b>** Daily life **</b>	<b>#</b>
* Bin collections and environment	13.72
* Roads, bridges and care of public spaces	7.21
* Schools and education	98.12
* Buses and community transport	6.39
* Libraries, records and customer services	1.30
<b>** Looking after adults **</b>	
* Older people in residential / nursing care	13.38
* Older people supported at home	9.24
* Disabled adults	27.76
* Lifestyles services (substance abuse, sexual health)	2.64
* Health improvement (Public Health nursing, health checks, smoking cessation)	5.61
* Housing	0.52
<b>** Looking after children **</b>	
* Child protection	3.75
* Children in care	12.88
* Children with special needs	3.28
<b>** Local government running costs **</b>	
* Election, governance and legal services	3.24
* Directors & staff costs	0.65
* Organisational administration	1.41
* IT, transactions and billing (Hoople)	5.19
* Insurance and property maintenance	5.08
* Capital finance - Debt repayment	7.83
* Capital finance - Interest payments	10.24
<b>** Economic growth **</b>	
* Economic development and regeneration	1.27
* Broadband - rural rollout	0.13
* Planning	0.35
	241.19

*****	
<b>** VOUCHER **</b>	
<b>** Other income to supplement council tax **</b>	
* Investment Property income	-2.91
* Car parking	-5.36
* Capital finance - Interest received	-2.01
* Public Health grant	-7.70
* National Education funding (schools)	-96.98
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**TOTAL TO PAY (per month) £126.23**

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## **14 PFI contracts**

- 14.1 The council has two traditional PFI contracts; one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross High School. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services. Under the Shaw Healthcare contract, the rent and service charges paid to Shaw by residents for the council's extra care flats at Leaddon Bank have been treated as a contribution to the revenue costs of the units.

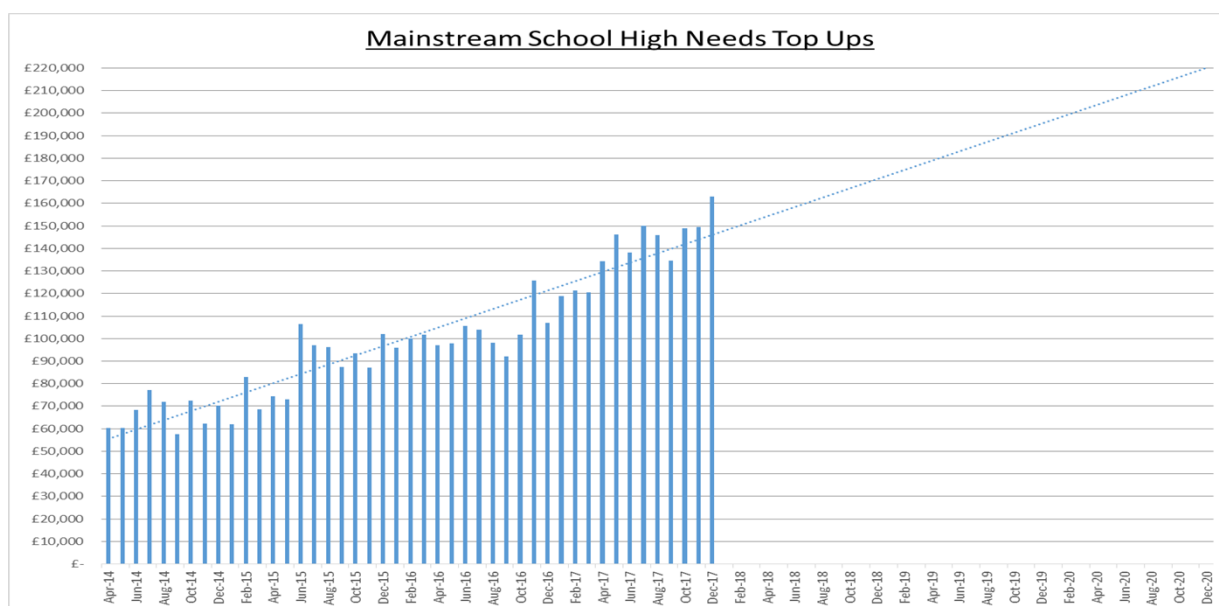
### **Waste disposal**

- 14.2 In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Limited for the provision of an integrated waste management system using the Private Finance Initiative.
- 14.3 Under the contract the councils are required to ensure that all waste for disposal is delivered to the contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost over the life of the contract is approximately £500m of which approximately 25% relates to Herefordshire Council. The original life of the contract was 25 years, until 2023, with the option to extend this by 5 years.
- 14.4 A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Construction was completed in 2017 with a funding requirement of £195m and an uplift to the annual unitary charge for both councils of £2.7m per annum.
- 14.5 Both councils provided circa 82% of the project finance requirement for the plant under a separate financing arrangement generating interest income for the councils. The remaining 18% was provided by the equity shareholders of Mercia Waste Management Limited.

### **Whitecross High School**

- 14.6 The Whitecross School PFI project delivered a fully equipped 900 place secondary school with full facilities management services. The contract with Stepnell Limited has an overall value of £74m and lasts for 25 years, until 2032. During the 2012/13 financial year the school transferred to Academy status but the obligations under the PFI contract remain with the council.

## 15 High Needs



There is a severe cost pressure on high needs spend; spend on pupils with higher support needs, with growth and projected growth shown in the table above. The council is reviewing its SEN funding matrix whilst ensuring a new approach continues to comply with the legal duty to secure the special educational provision identified in an Education, Health and Care (EHC) plan. This statutory duty means that, by meeting individual care plan needs, an overspend may occur. The council recognises its absolute duty to provide all special educational provision in children's EHC plans and is committed to fulfilling that duty for every child with an EHC plan even if this leads to a deficit in the SEN budget.

## 16 Treasury Management Strategy

- 16.1 The council has reviewed and updated its treasury management strategy for the MTFS period. The intention is to continue to utilise short term borrowing if required due to the lower cost of carry, however interest rate forecasts will continue to be monitored and, if considered financially favourable, longer term fixed rate debt will be secured.
- 16.2 As at 30 September 2018 the council held investments of £36m attracting an average of 0.71% interest and outstanding long term debt of £240m at an average interest rate payable of 4.36%.
- 16.3 Savings achieved by a change in the minimum revenue provision calculation (the notional capital investment financed by debt annual revenue repayment cost) have been allocated to a financial resilience reserve that will fund invest to save proposals.

## 17 Reserves

### Definition of Earmarked reserves and provisions

17.1 **Provisions** are required for any liabilities where the timing of payments or the amount of the liability is uncertain. Provisions are required to be recognised when:

- The council has a present obligation (legal or constrictive) as a result of a past event.
- It is probable that a transfer of economic benefit will be required to settle the obligations and;
- A reliable estimate can be made of the obligation
- Amounts set aside outside for purposes falling outside the definition of provisions are consider to be reserves.

17.2 **Earmarked reserves** are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose, usage and the basis of transactions needs to be clearly defined.

### Use of Reserves

17.3 Reserves enable the council to do three things:

- Create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing. This forms part of the general reserves.
- Create a contingency to cushion against the impact of unexpected events or emergencies. This also forms part of general reserves.
- Creates a means of building up funds, often referred to as ear marked reserves, as defined above to meet known or predicted liabilities.

17.4 There are other reserves that can only be used for specific statutory purposes. These include the usable capital receipts and pensions reserve. These are not considered as part of this policy.

### Establishing a new reserve

17.5 When establishing reserves the council needs to ensure that it is complying with the Code of Practice on Local Authority Accounting and in particular the need to distinguish between reserves and provisions.

17.6 New reserves may be created at any time, but must be approved by the Cabinet when a reserve is established. The Cabinet needs to approve the following:

- Purpose - the reason for creating the reserve should be clearly stated.
- Usage - there should be a clear statement of how and when the reserve can be used.
- Basis of transactions - delegated authority for approval of expenditure from the reserve.

## **Reporting reserves**

- 17.7 The Chief Finance Officer has a fiduciary duty to local tax payers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.
- 17.8 The overall level of reserves balances will be reported to Cabinet at least annually or when new reserves are proposed, the last report to Cabinet was in June 2018 (<http://councillors.herefordshire.gov.uk/ieListDocuments.aspx?CId=251&MId=6584&Ver=4> ).
- 17.9 The annual budget report to Council will include:
- A statement of movements in reserves for the year ahead and the following two years;
  - A statement of the adequacy of general reserves and provisions in the forthcoming year and in the Medium Term Financial Strategy; and
  - A statement on the annual review of reserves.
- 17.10 The level of reserves for the next three years will be reviewed at least annually as part of the Annual budget setting cycle. The Chief Finance Officer will review the Councils earmarked reserves for relevance of propose and adequacy.
- 17.11 Any amendments to earmarked reserves will be reported to the Cabinet for approval.
- 17.12 Once a reserve has fulfilled the purpose for which it was established, any remaining balance should be reallocated to another similar purpose earmarked reserve or surrendered to General Reserves.

## **18 Conclusion**

This medium term financial strategy proposes delivering a balanced budget with tough savings required but a clear focus on continuing to improve outcomes. Herefordshire has an excellent track record of transforming services in difficult financial times and continuing to meet the needs of our customers.

## **19 Appendices**

Appendix 1 - Net Revenue budget

Appendix 2 - Approved Capital Investment Programme

Appendix 3 - Reserves Policy

Appendix 4 - Risk Assessment

## Appendix 1

### Net Revenue budget and Directorate Spending Limits 2019/20

	2018/19 revised base	Funded pressures	Savings	Other adjust	2019/20 draft base budget
	£'000	£'000	£'000	£'000	£'000
Adults and communities	52,087	5,288	(700)	175	56,850
Children's and families	23,958	3,427	(200)	500	27,685
Economy and place	29,149	1,371	(2,223)	297	28,594
Corporate services	14,321	192	(359)	932	15,086
<b>Sub Total</b>	<b>119,515</b>	<b>10,278</b>	<b>(3,482)</b>	<b>1,904</b>	<b>128,215</b>
Centrally held budgets	24,609	-	(200)	(1,637)	22,772
EU exit preparations (one off)	-	-	-	105	105
<b>Total</b>	<b>144,124</b>	<b>10,278</b>	<b>(3,682)</b>	<b>372</b>	<b>151,092</b>
<b>Financed by</b>					
Revenue support grant	5,370				624
Business rates	33,256				35,950
Council tax	98,445				104,251
New homes bonus	2,540				2,176
Rural sparsity delivery grant	4,093				5,101
Collection fund surplus (one off)	420				500
Adult social care grant (one off)					2,385
Brexit preparations (one off)					105
<b>Total</b>	<b>144,124</b>				<b>151,092</b>

## Appendix 2

### Approved capital programme

	Prior Years £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s	2021/22 £000s	Total Capital Programme Budgets £000s
<b>Adults and Wellbeing</b>						
Disabled facilities grant	-	1,853	1,853	1,853	1,853	7,412
Hillside	-	250	1,250	-	-	1,500
Single Capital Pot	19	523	73	-	-	615
Private sector housing improvements	14	242	-	-	-	256
<b>Total Adults &amp; Wellbeing</b>	<b>33</b>	<b>2,868</b>	<b>3,176</b>	<b>1,853</b>	<b>1,853</b>	<b>9,783</b>
<b>Children's Wellbeing</b>						
Colwall Primary School	6,430	320	-	-	-	6,750
Schools Capital Maintenance Grant	797	1,217	1,700	1,200	1,200	6,114
Peterchurch Primary School	7	-	493	5,000	-	5,500
Expansion for Marlbrook school	153	450	5,538	-	-	6,141
SEN & DDA school improvements	-	-	710	-	-	710
Brookfield School Improvements	6	-	1,298	-	-	1,304
CYPD's S106	313	392	605	-	-	1,310
Special Provision Capital Fund	-	-	333	167	-	500
Healthy Pupils	-	-	99	-	-	99
Individual Pupil Needs	-	151	120	-	-	271
Short Breaks Capital	-	-	118	-	-	118
Blackmarston SEN	30	55	-	-	-	85
Replacement Leominster Primary	3	39	-	-	-	42
Basic Needs Funding	-	-	2,058	6,833	-	8,891
2 Year Old Capital Funding	4	101	-	-	-	105
Preliminary works to inform key investment	-	200	1,815	-	-	2,015
Temporary school accommodation replacement	-	450	-	-	-	450
<b>Total Children's Wellbeing</b>	<b>7,743</b>	<b>3,375</b>	<b>14,887</b>	<b>13,200</b>	<b>1,200</b>	<b>40,405</b>
<b>Corporate</b>						
Fastershire Broadband	16,855	5,000	11,420	2,463	-	35,738
IT Network Upgrade	209	291	-	-	-	500
PC Replacement	70	290	-	-	-	360
Data Centre Consolidation	124	106	-	-	-	230
Children Centre Changes	-	370	-	-	-	370
<b>Total Corporate</b>	<b>17,258</b>	<b>6,057</b>	<b>11,420</b>	<b>2,463</b>	<b>-</b>	<b>37,198</b>
<b>Economy, Communities and Corporate</b>						



Hereford City Centre Transport Package	32,321	1,342	1,550	5,438	-	40,651
Local Transport Plan (LTP)	-	13,539	12,272	12,272	-	38,083
Hereford Enterprise Zone	8,318	4,758	2,924	-	-	16,000
Leisure Centres	9,639	413	-	-	-	10,052
Solar Photovoltaic Panels	503	120	1,511	-	-	2,134
Corporate Accommodation	2,362	509	-	-	-	2,871
ECC's S106	-	756	-	-	-	756
South Wye Transport Package	4,978	4,508	17,067	8,250	197	35,000
Marches business improvement grants	415	1,297	788	-	-	2,500
SEPUBU Grant	-	381	354	-	-	735
Property Estate Enhancement Works	826	1,414	500	-	-	2,740
LED street lighting	5,478	177	-	-	-	5,655
Herefordshire Enterprise Zone Shell Store	-	1,500	5,816	-	-	7,316
Cyber Security Centre Project	-	3,500	-	-	-	3,500
Development Partnership activities	300	5,300	35,000	-	-	40,600
Highway asset management	-	9,790	3,108	-	-	12,898
Hereford Transport Package	-	2,960	-	-	-	2,960
Ross Enterprise Park (Model Farm)	-	800	6,270	-	-	7,070
Three Elms Trading Estate	(8)	125	358	-	-	475
Stretton Sugwas Closed Landfill	93	2	-	-	-	95
Customer Services and Library	10	123	-	-	-	133
Energy Efficiency	-	35	65	-	-	100
Warm Homes Fund	1	-	397	397	165	960
Strangford closed landfill site	20	11	-	-	-	31
Gypsy & Traveller Pitch development	29	331	-	-	-	360
Leominster cemetery extension	21	172	-	-	-	193
Tarsmill Court, Rotherwas	-	400	-	-	-	400
Car Parking Strategy	58	188	-	-	-	246
Car Park Re-Surfacing	-	116	-	-	-	116
Office and Car Park Lighting Replacement	-	135	165	-	-	300
Affordable Housing Grant	-	800	800	800	-	2,400
Community Housing Fund	-	150	-	-	-	150
Revolving Loans	99	101	-	-	-	200
Hereford Library	(6)	351	-	-	-	345
<b>Total Economy and Place</b>	<b>65,457</b>	<b>56,104</b>	<b>88,945</b>	<b>27,157</b>	<b>362</b>	<b>238,025</b>
<b>Total</b>	<b>90,491</b>	<b>68,404</b>	<b>118,428</b>	<b>44,673</b>	<b>3,415</b>	<b>325,411</b>

## **Appendix 3**

### **Reserves**

#### **1. Review of Reserves**

- 1.1. The overall reserves of the council will be subject to detailed review at the end of each financial year as part of the preparation for the production of the council's statement of accounts, and as part of the council's annual budget setting process to ensure reserves are
  - 1.1.1. Relevant,
  - 1.1.2. Appropriate, and
  - 1.1.3. Prudent.
- 1.2. The Chief Finance Officer will ensure that the council has in place well established robust and regular budget monitoring processes. These take account of the current level of reserves, the latest budget requirements calling on reserves to meet current commitments and to make contributions to reserves to meet future commitments.
- 1.3. The Chief Finance Officer must consider strategic, operational and financial risks in assessing the adequacy of the council's reserves position.

#### **2. Use of Reserves**

- 2.1. Approval to use or make contributions to reserves is provided by the Chief Finance Officer, as part of the regular budgetary process, in discussion with the Chief Executive and Leader of the Cabinet
- 2.2. Movements in reserve will be reported to Council as part of the financial Outturn at the end of the financial year.

#### **3. Conclusion**

- 3.1. The Chief Finance Officer is satisfied that the Council's ongoing approach to its reserves and provisions is robust. The council's strategic reserve is maintained between 3% - 5% of the net budget requirement, at the end of March 2018 the balance was £7.9m (5% of net budget).
- 3.2. This is sufficient to ensure that the council has adequate resources to fund unforeseen financial liabilities, and that the council's approach to general balances is deemed appropriate. The level of reserves and expected movement in reserves are set out in the MTFS as part of the annual budget setting process.

## Appendix 4

### Key Risk Assessment

	Key Financial Risks	Likelihood	Impact	Mitigating Actions
1	<b>Unexpected events or emergencies</b> By its nature, the financial risk is uncertain	Low	High	<ul style="list-style-type: none"> <li>Council maintains a Strategic Reserve at a level of between 3% and 5% of its revenue budget for emergency purposes</li> <li>Level of reserve is currently £7.9m (5% of budget)</li> </ul>
2	<b>Increasing demand for Adult Social Care</b> Demand for services continue to increase as the population gets older	High	Medium	<ul style="list-style-type: none"> <li>Demand led pressures provided for within our spending plans</li> <li>Activity indicators have been developed and will be reported quarterly alongside budget monitoring</li> </ul>
3	<b>Potential Overspend and Council does not deliver required level of savings to balance spending plans</b> Challenging savings have been identified within our spending plans.	Medium	Medium	<ul style="list-style-type: none"> <li>High risk budget areas have been identified and financial support is targeted towards these areas</li> <li>Regular progress reports on delivery of savings to Management Board and Cabinet</li> <li>Budget monitoring arrangements for forecasting year end position in place and forecast balanced</li> <li>Plan to review level of cover available from General reserves in place</li> </ul>
4	<b>Potential overspend on Special Education Needs</b> The duty to secure provision identified in Education, Health and Care plans means an overspend may occur	Medium	Medium	<ul style="list-style-type: none"> <li>This is a national issue with lobbying to increase central government funding</li> <li>A review of the application of the matrix is underway</li> </ul>
5	<b>Increase in Pension Liabilities</b> Our contributions are influenced by market investment returns and increasing life expectancy.	Medium	Low	<ul style="list-style-type: none"> <li>Spending plans reflect the level of pension contribution required as identified by the Pension Fund's Actuary in 2016 for the next three years</li> </ul>
6	<b>Failure to fund sufficient school places and sufficient support</b> There is an increasing requirement to provide sufficient school places There is a rising number of children requiring specific support	Medium	High	<ul style="list-style-type: none"> <li>Provision has been made in the capital programme to increase school places</li> <li>Directorate plans in place to manage and mitigate demand</li> <li>Ongoing reviews of children already under care of council</li> </ul>
7	<b>Volatility in future funding streams in Government funding streams and Business Rates Retention</b>	High	Medium	<ul style="list-style-type: none"> <li>Prudent assumptions made in budget</li> <li>Ongoing review of developing business rate changes</li> <li>Business case to support future investment decisions</li> </ul>
8	<b>Brexit</b> Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	<ul style="list-style-type: none"> <li>Reduced reliance on grant funding in all directorates</li> <li>Increased local economic and social investment to increase core income</li> </ul>