

# **Medium Term Financial Strategy**

**2021/22 – 2023/24**

# Herefordshire Council's Medium Term Financial Strategy

## 1. Introduction

The Medium Term Financial Strategy (MTFS) balances the County Plan 2020-2024 ambitions with targeted available resources.

The County Plan was adopted in February 2020 and shared a clear vision for the future of the county, specifically:

*Respecting our past, shaping our future - we will improve the sustainability, connectivity and wellbeing of our county by strengthening our communities, creating a thriving local economy and protecting and enhancing our environment.*

The County Plan has three key themes - connectivity, wellbeing and sustainability, which sit at the core of policy making, planning and design for the future. These themes will form the basis of plans including the Delivery Plan and this MTFS.

Connectivity	Wellbeing	Sustainability
Connecting people digitally and physically across communities, in local neighbourhoods and to the wider world	Helping people feel safe, supported and valuing Herefordshire and their community	Pride in Hereford's unique and beautiful environment and rural heritage and tackling the climate challenge through new approaches to sustainability
<p>Our aims:</p> <ul style="list-style-type: none"><li>• Digital connectivity – supporting flexible working, connecting rural communities and businesses</li><li>• Connecting and supporting communities – especially deprived communities</li><li>• Connecting with partners – parish councils, businesses, public and community sector</li><li>• Connecting locally – supporting and promoting local, independent shops and businesses</li></ul>	<p>Our aims:</p> <ul style="list-style-type: none"><li>• Supporting vulnerable people and communities and developing the strong community networks that have grown and flourished</li><li>• Improving quality of life – appreciating what's special about the county as a place to live, work and visit</li><li>• Helping people most impacted by pandemic (jobs/business/young people)</li><li>• Being creative and encouraging innovation</li><li>• Recognising the value of art and culture as a contributor to wellbeing</li><li>• Welcoming visitors, promoting pride in the place and all it has to offer</li></ul>	<p>Our aims:</p> <ul style="list-style-type: none"><li>• Building to strong environmental standards</li><li>• Travel to work/school – encouraging more walking and cycling</li><li>• Public transport – safe, accessible and connecting communities</li><li>• Rural environment – supporting farming and rural communities</li><li>• Shopping/buying/doing business locally</li></ul>

## 2. Background

The council has an annual revenue budget of around £380m, used to deliver services to over 187,000 residents. These services include maintenance of over 2,000 miles of roads, collection of over 85,000 residential bins, safeguarding around 1,000 children (including 354 who are in our care) and providing care and support to 2,500 vulnerable adults.

We employ 1,279 staff and support many more local jobs through our contracts with local businesses.

Using our resources wisely is one of our core principles so we are always seeking new ways to provide efficiencies in service delivery and to maximise our purchasing power to ensure we deliver value for money that benefits Herefordshire businesses and residents.

### **3. Covid-19 pandemic**

The Covid-19 pandemic changed the world and has caused exceptional hardship for individuals, families and businesses across the UK. The health emergency has been accompanied by unprecedented economic uncertainty and the deepest recession on record (ONS GDP First Quarterly Estimates April to June 2020). The Office for Budget Responsibility's forecast expects GDP to shrink by 11.3 per cent in 2020 before returning to growth in 2021, the economy is not expected to reach pre-crisis level until the end of 2022.

The restrictions needed to limit the spread of the virus meant people could not live their lives as normal and many businesses saw significant falls in turnover or were forced to close temporarily. The government introduced exceptional UK-wide support measures to protect jobs and incomes, directly and through councils, to protect livelihoods and limit damage to the economy.

In Herefordshire the impacts of the pandemic will be felt by us all for generations. Our local government role in community leadership has never been more important. The challenges to our economy, to the vulnerable members of our communities and to our continued wellbeing are huge, this MTFS targets resources so that everyone feels safe, supported and is proud to live here.

The council proposes supporting individuals facing financial hardship in 2021/22 by increasing its council tax reduction scheme to provide 100% discount.

### **4. 2020/21 and its legacy**

The financial strategy for 2020/21 was turned on its head due the worldwide pandemic and it's far ranging consequences throughout the county. The council prioritised keeping its residents safe and supporting local businesses. The local financial consequences continue to be immense. The last round of budget forecasting reported to Cabinet showed a £15m predicted overspend, with £11m in central government support measures negating the financial impact on local resources in the current financial year. Since this was reported to Cabinet a number of new grants have been confirmed that have reduced the delta.

In addition to this is the substantial deficit the council is seeing on its council tax and business rates income. Central government recognise this is a national funding pressure and, due to in year deficits affecting future year budgets, have permitted the spreading of the repayment of these deficits over three years.

Central government have provided a range of grants to support the council, the residents and businesses of the county. This includes grants to businesses in excess of £80m, a range of reliefs for businesses that are liable for Non Domestic Business Rates, support for households struggling to pay council tax, support for some lost income from fees and charges, and support for the council's outbreak control role in respect of Covid 19. By the middle of January 2021 the council has received approximately £150m and this number is expected to increase before the end of March 2021. This funding is one off and is not expected to continue in 2021/22.

Future year budgets are subject to substantial financial pressures and the financial value of these in dependent on many factors, one of which will be linked to roll out of vaccines and rapid testing to the local population. The financial impact is twofold, both in terms of resources available and

the local demand for our services. The council is incurring public health and outbreak management costs and losses in sales, fees and charges income, for example due to lower income from car parks.

## **5. 2021/22 budget proposal**

The MTFS proposes a balanced 2020/21 budget achieved by proposing challenging savings targets alongside an increase in council tax charges of 4.99%, inclusive of a 3% adult social care precept.

At the time of presenting this MTFS it is known that the council will receive a one year financial settlement however budget pressures will continue past 2021/22. The council has prepared this strategy after considering various scenarios due to volatility expected in periods to come.

The strategy includes:-

- A 4.99% increase in council tax next year, inclusive of a 3% adult social care precept
- A reduced council tax base growth due to impacts from increasing council tax discounts, including a new discount to the county's foster carers
- A reduced business rate income, retail discount is expected to continue but not in its current form
- A new social care grant for both children and adult services
- A pay freeze, excluding posts earning less than £24,000 per annum
- Central government continuing to keep Covid-19 related funding under review

Prior to the pandemic the council was recognised as being in a relatively secure financial position over the medium term. It had increased its revenue reserves in recognition of the challenges yet to come, however the Covid-19 challenge exceeded all expectations. We continue to have growing demographic pressures, particularly relating to adult social care and children with disabilities. There are also higher costs associated with the county's rurality.

## **6. Post 2021/22**

The Medium Term Financial Strategy (MTFS) outlines the financial strategy for the period up to 2023/24. There are a significant number of funding unknown's post 2021/22; the outcome of a local government fairer funding review and a move to a higher local retention of business rate income is yet to be confirmed. It is also not currently possible to assess the longer term impact of the United Kingdom's withdrawal from the European Union.

It does appear that income from council tax will continue to be the main source of income for the net revenue budget requirement therefore growing our tax base will support the future financial sustainability of the council and its services.

The 2021/22 settlement announced in December 2020 is welcomed however, as it is a one year settlement, this makes it difficult for the council to plan for changes in government funding for future years. The MTFS does not currently include any additional demand and growth pressures relating to children and adults social care. The council assumes the current strengths based approach to adult social care and the ongoing transformation of children's care will enable the costs of these services to be delivered within the projected overall financial funding envelope

detailed below. The Council will keep this situation under review and as further details are provided about government funding it will revisit its plans.

As detailed below the current assumption is that Council tax will rise by 2% from 2022/23 onwards and in the absence of further guidance about any future adults social care precept, no assumption has been made about any such precept from 2022/23 onwards. Projections for future years expenditure assume that the no further significant savings will be needed for 2022/23 or 2023/24 however this be kept under constant review as future government policy and funding decisions can have significant impact of the councils recurring revenue budgets.

## **7. Funding of services**

The MTFS proposes a balanced 2021/22 budget achieved by increasing council tax charges by 4.99%, inclusive of a 3% adult social care precept and committing to delivering significant savings of £11.1m. The final financial settlement will be confirmed in late January. Projections for future years assume an annual increase in council tax of 2%.

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>Net budget funding source</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Council Tax	112,944	115,837	119,375
Retained Business Rates	36,753	36,995	37,628
Collection fund deficit	(200)	-	-
Revenue Support Grant	638	-	-
Rural Sparsity Delivery Grant	5,353	5,101	5,101
Social Care Support Grant	5,508	5,072	5,173
<b>Totals</b>	<b>160,996</b>	<b>163,005</b>	<b>167,277</b>

The net budget funding assumptions above exclude grant funding received in addition to that which funds the gross budget. This grant funding includes the improved better care fund (£6.6m), public health (£9.3m) and dedicated schools grant funding (£113.0m). In the absence of announcements on the fair funding review and business rates retention coupled with 2021/22 being a one year settlement future year forecasts are difficult to predict.

## **8. Savings**

The Council continues to provide value for money service delivery and aspires to bring sustainable prosperity and well-being for all by supporting independent, safe and healthy lives. The budget is proposed following a comprehensive review of commitments and demand expectations. The need to deliver significant savings to avoid spending more than the resources available will lead to difficult service delivery decisions. The proposed savings for 2021/22 are named in the table below. Performance against these targets will be regularly reported to Cabinet.

<b>Directorate</b>	<b>Ref</b>	<b>Name of proposal</b>	<b>£000</b>
Adults & Communities	S1	Learning disability and complex needs services redesign	1,500
Adults & Communities	S2	Targeted review of complex cases	1,250

Adults & Communities	S3	Maximisation of social care income	520
Children & Families	S4	16+ Accommodation – Widemarsh Street	320
Children & Families	S5	Step down from residential care	1,000
Children & Families	S6	Prevention of children becoming looked after and reunification of looked after children with families	400
Children & Families	S7	Recruit 30 new foster carers per annum for 5 years	200
Children & Families	S8	Full cost recovery of traded services	20
Children & Families	S9	Manage inflation and secure contract efficiencies	450
Economy & Place	S10	Public Realm efficiency savings	300
Economy & Place	S11	Streetworks & enforcement function efficiency improvements	50
Economy & Place	S12	Hereford Markets	15
Economy & Place	S13	Encourage waste minimisation	200
Economy & Place	S14	Directorate transformation and redesign	650
Economy & Place	S15	Parking Review	900
Economy & Place	S16	Technology and Lighting	90
Economy & Place	S17	Review of Property Estate	1,000
Economy & Place	S18	Review efficiency and utilisation of transport fleet	150
Economy & Place	S19	Review weekend vehicle rental of council fleet vehicles	10
Economy & Place	S20	Review of Bereavement & Registrars Income	270
Economy & Place	S21	Review Building Control services	115
Economy & Place	S22	Review of Regulatory, Environment and Waste division income	115
Economy & Place	S23	Pre-planning application advice full cost recovery	100
Economy & Place	S24	Efficiency Savings (already identified in Medium Term Financial Strategy)	273
Economy & Place	S25	Use s106 Funding to cover full costs of delivering identified highway improvements	30
Economy & Place	S26	Introduction of natural burials and pet burials & cremations	80
Corporate	S27	Back office initiatives and efficiency savings	497
Central	S28	Removal of contingency	700
		<b>Total</b>	<b>11,205</b>

## 9. Till receipt

A 4.99% council tax increase for 2021/22 means that the Herefordshire Council band D council tax charge will be £1,652.30 per month. Below is a summary of council services that this charge provides.

<b>** Daily life **</b>	<b>#</b>
* Waste, Cleansing	11,99
* Environmental Health	1,39
* Roads and bridges	5,35
* Care of public spaces	1,10
* Schools and education	100,13
* Public, School and community transport	5,53
* Libraries, records and customer services	0,47
<b>** Looking after Adults **</b>	
* Older People in residential / nursing care	14,71
* Older people supported at home	10,11
* Disabled adults	29,57
* Lifestyles services (substance abuse, sexual health)	2,87
* Health improvement (Public Health nursing, health checks, smoking cessation)	5,73
* Housing	0,54
<b>** Looking after children **</b>	
* Child protection	4,33
* Children in care	20,17
* Children with special needs	3,34
<b>** Local government running costs **</b>	
* Election, governance and legal services	3,46
* Directors & Staff costs	0,18
* Organisational administration	1,25
* IT, Council Tax and Benefits admin, invoices and payments	5,39
* Insurance and property maintenance	4,48
* Capital finance - Debt repayment	7,04
* Capital finance - Interest payments	11,81
<b>** Economic growth **</b>	
* Economic development and regeneration	1,56
* Broadband - rural rollout	0,15
* Planning	0,20
	252,85
<b>** Income that supplements council tax **</b>	
* Investment Property income	(2,97)
* Car parking	(6,39)
* Capital finance - Interest received	(2,01)
* Public Health grant	(7,70)
* National Education funding	(96,09)
<b>TOTAL TO PAY (per month)</b>	<b>£137,69</b>

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## 10. Value for Money

Herefordshire Council, seeks to ensure that money is spent as carefully, wisely and efficiently as possible. This means constantly reviewing and adjusting the way that the council works in order to continue to deliver value for money for the residents and businesses of Herefordshire.

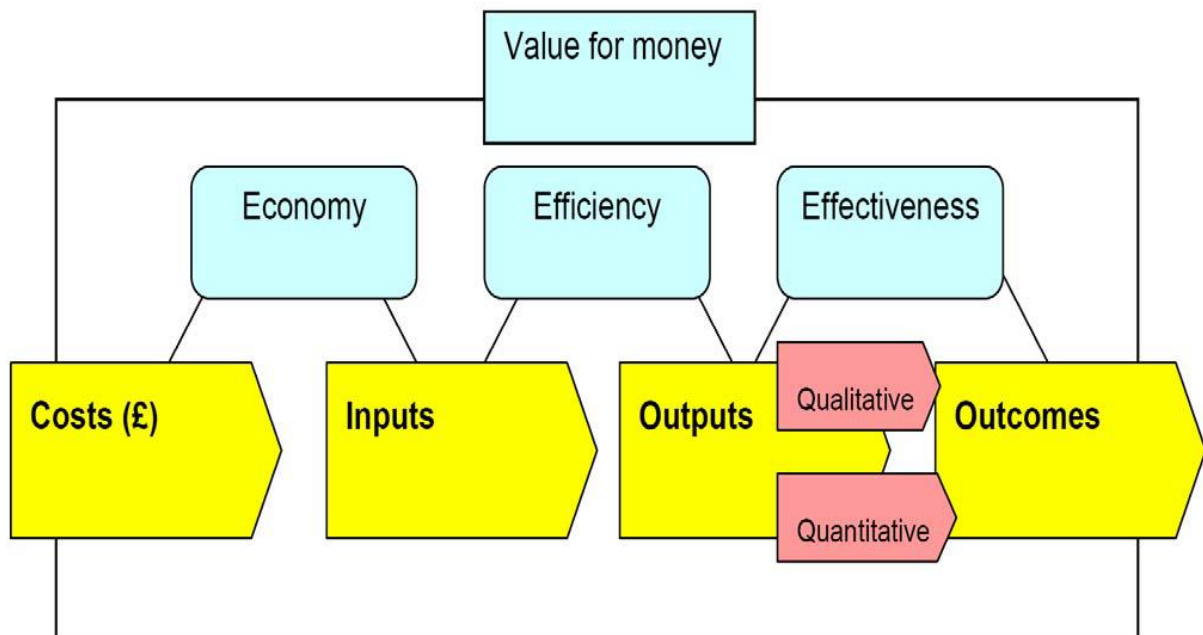
The Council spends public money and it is vital that it ensures value for money is delivered; this is within the context that the demands for services is increasing in conjunction with decreases in income.

### Definition of Value for Money

Value for money is about maximising the desired outcomes over time with the resources available. It is often defined as achieving the right balance between 'economy', 'efficiency' and 'effectiveness', in essence, spending less, spending well and spending wisely so that the Council ensures the best service at the lowest possible costs. It is an exercise in cost effectiveness to ensure the optimal use of resources to achieve the intended outcomes.

Value for money can be summed up in the phrase, achieving more for less.

Value for money as a concept can be illustrated by the following diagram:



#### **Economy – ‘Spending less’**

Economy is the price paid for what goes into providing a service.

This is about delivering services at optimum cost, through minimising the cost of resources.

#### **Efficiency – ‘Spending well’**

Efficiency is a measure of productivity and performance i.e., how much is achieved in relation to what is put in.

#### **Effectiveness – ‘Spending wisely’**

Effectiveness is a measure of the impact that has been achieved, which can be either quantitative or qualitative.



Value for money is one of the Council's core values and is embedded in all plans and strategies, and in the commissioning and delivery of all services. The statement is set in the context of a challenging financial position for local authorities, and is closely linked to the Council's:

- County Plan
- Delivery Plan

Value for Money is embedded in all stages of the commissioning cycle and in particular in the planning stages.

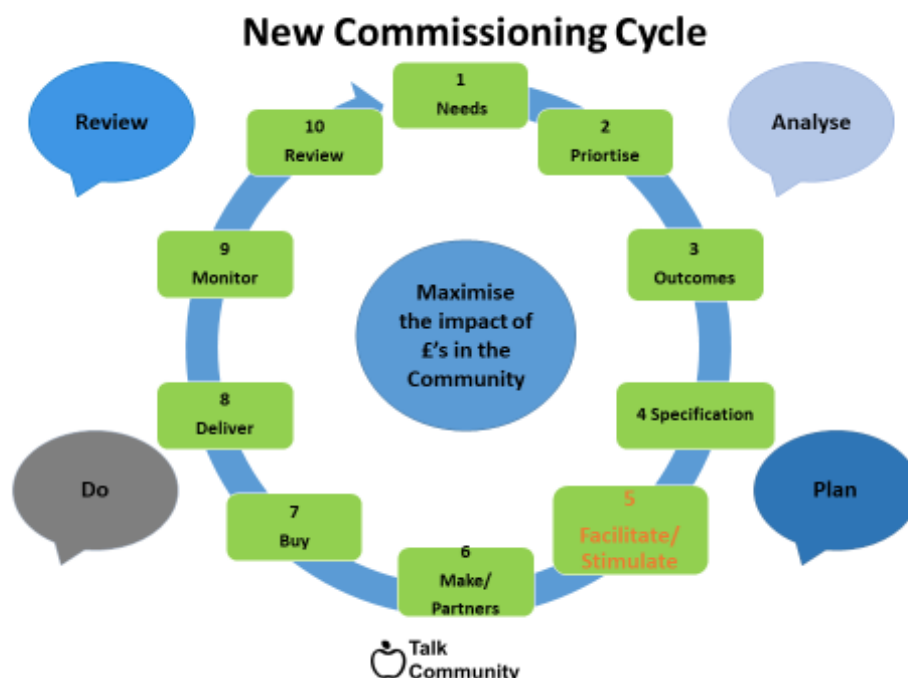
The Council ensures information on its spending and performance is available publicly, and in accessible formats, to assist the public's involvement in decisions about spending on services.

The Council understands the correlation between its performance and its costs, and ensures that costs and relative performance compare well with identified benchmarks, reflect priorities and policy decisions and are commensurate with service delivery and desired outcomes.

When Commissioning services the Council ensure that VFM is consistently achieved using a number of methodologies.

Once a need or requirement has been established via detailed strategy and/or needs analysis work streams the Council undertakes extensive research on how this need may be met.

Before considering commissioning in the traditional sense to meet needs, the Council will first seek to "facilitate", often via Talk Community, to ensure that where possible the community and citizens may meet a particular need themselves through strengths based approaches and sustainable community delivery with the support of the Council.



If full facilitation is not achievable the Council will undertake options appraisals and risk assessments with benchmarking of industry norms, peer comparisons with other local authorities, forensic accounting analysis of what makes up the cost of a particular service i.e. fixed and variable costs mix, market influencers, labour rates and estimated overhead costs.

Once a detailed understanding of the costs and complexity of a service has been documented the Council will often undertake a “make or buy” assessment and make recommendations which are further critiqued via Commissioning Board, Directorate management teams, Cabinet and Scrutiny.

Finally if a service is to be commissioned externally the procurement will be undertaken in compliance with the Council Corporate Procurement Rules and generally be subject to open market tender taking into account whole life costings and social value.

The Council will ensure that although it can be difficult to measure value for money in qualitative areas, value for money activity will not be focused simply on the quantitative aspects of service delivery, and that where a wider social value can be achieved, these opportunities are explored in full.

The Council recognises that social value should take into account what is important to the local community, local environment and local economy, through considering different ways of delivering services to positively impact the community, considering how current local challenges can be resolved by working with our communities and considering how local businesses can be supported.

The Council recognises its responsibilities as a custodian of public funds, and strives to achieve value for money in the delivery of services and acquisition of assets. It seeks to achieve, and where possible improve, value for money by ensuring that:

- Contract procedure policies are regularly reviewed in line with national policy and incorporate social value and local needs.
- Procurements translate the desired outcomes into the right contracts and select the supplier or suppliers that will deliver these in the way that offers best value for money thus enabling the optimal whole-life blend of economy, efficiency and effectiveness that achieves the intended outcome of the business case.

## **11. Capital investment**

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.

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. Part of the plan is to develop the full build out of the Hereford Enterprise Zone to maximise the potential of that area to create new jobs, the LEP awarded a £5.432m grant in 2020 to enable the full build out of the area.

The council aims to receive a maximum return from investment in property and land holdings; the council sold its smallholding estate generating a capital receipt of over £46m and reducing overhead costs significantly. 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.

In November 2020 Cabinet decided to move forward with housing development and chose to commission further work to look at a housing revenue account model and develop a list of potential development sites. This was followed by a further decision in December to go forward with the first site development at Station Approach in Hereford City Centre. The current Development Partnership budget in the capital programme has been split and £20m is now shown as a dedicated budget for Strategic Housing Development to cover the initial phases. Cabinet are keen to provide 2,500 homes over the next 10 years across the County using a range of builders and consider a range of models to identify the optimum mix of tenures to be developed. The proposal for the council to advance affordable housing and have at least an element of control over design helps deliver the council's environmental policy commitments and aligns to the following success measures in the County Plan.

Herefordshire residents continue to face difficult housing challenges with a large proportion of the population unable to afford to own or rent a suitable property to call home. The lack of housing choice, especially in respect of affordable housing, is not currently being addressed through the developer-led market where the focus continues to be on developing the most profitable housing products on the most profitable sites, not necessarily in the places of highest housing need. Many local authorities are now actively intervening in the housing market by becoming developers of new homes themselves, creating Local Housing Companies with the aim of acquiring sites and developing and managing both affordable housing and open market homes. Detailed analysis of the options available will be undertaken, including the establishment of a Housing Revenue Account, to enable the delivery and management of new homes to better meet the needs of residents. This could lead to investing up to £100m in housing from 2022/23, it is anticipated that the income streams generated would cover the revenue costs of providing the housing including any borrowing costs.

During the last year a new project management office team have been set up to manage development and delivery of council projects. Various policies and procedures are currently being put in place by the team to ensure effective project management is embedded in the council.

From 2021/22 a £1m Development Fund budget has been proposed to be included in the capital programme. It will initially be funded from the finance resilience reserve but topped up each year when the developed project is added to the capital programme in line with the funding identified. This is to ensure projects are added to the capital programme when they have a robust business case including accurate costings and are deliverable within the timeframe.

There are a number of projects that will be developed in the next financial year for waste management changes, development of the Maylords site and development of the Hereford Town Investment Plans projects such as a new Museum, which is part of a £25m funding bid.

The Marches Local Enterprise Partnership (LEP) has awarded £1.6m of government's Get Building Funding for NMITE's Skylon Park Campus Development. The Get Building Fund has been established by government to support economic recovery from Covid 19. This is in addition to the £5.6m growth deal funding that was awarded previously. The funding will enable NMITE to accelerate the development of their Centre for Automated Manufacturing (CAM). The accelerated development will enable NMITE to complete the building sooner, creating new jobs and learning opportunities more quickly, supporting the recovery of the local economy through initially creating construction based employment and the operation of the CAM thereafter. The Council in support of the NMITE project is acting as the accountable body for the project and will manage the distribution of the grants to NMITE and reporting to the LEP.

## **Development Partners**

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. In all instances consideration is given to providing developments that are considerate to the health and wellbeing of the residents and built to the latest environmental standards as set out in the building regulations (The National Standards).

Development partners Keepmoat and Engie are committed to encompassing the use of using local suppliers and contractors and to maximise the opportunities to employ local Herefordshire people. The KPIs for each partner have been set up to reflect this and all parties will take every action possible to ensure this is achieved.

The development partners are keen to achieve developments that reflect the highest standards and that have real impact on 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 will be judged on a case by case basis.

## **New Model Institute in Technology & Engineering**

The New Model Institute in Technology & Engineering (NMITE), Hereford's new specialist Engineering Higher Education Institution launched in December 2020 and will recruit its first cohort of students in 2021. The new institution, has the potential to be one of the key catalysts that enables the transformation of the county's economy and a range of other outcomes.

The new institution 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, community engagement and help provide a source of talent for companies and start-up businesses. The institute will recruit 300 students per year in its early years, ensuring that it builds the capacity for student population growth gradually. Ultimately, incoming students 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, skilled, work-ready employees.

The direct impact on the economy, over the next 30 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 and growth of the county. The development of NMITE will play an important role in the recovery of the region from the effects of the Covid pandemic. The institution will generate a high number of knowledge based jobs and its distinct pedagogical approaches will focus on the development of skills and employability, including for local people.

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. Herefordshire 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 people access to higher education and an increasingly diverse market to choose from. This will ensure a steady stream of skilled graduates into the workplace locally, and regionally. NMITE builds on plans set out in the Government's Industrial Strategy, which aims to improve living standards and economic growth by increasing productivity and driving growth.

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 key 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.

## **12. Risks**

There are a number of external risks that could affect the delivery of the MTFS, appendix M4 sets out more detail on the key risk areas which are:

- The government settlement for 2021/22 is a one year settlement meaning that the MTFS is based on assumptions for future years that cannot be confirmed.
- The Better Care Fund and Improved Better Care Fund are not confirmed after 2021/22 and are currently being reviewed by the Department of Health and Ministry of Housing, Communities and Local Government.
- Public Health grant ring fencing and other grant funding commitments from government are not clear for future years.
- The looked after children population is higher than our statistical neighbours and continues to require significant resources to support. The requirement for complex needs funding and supported accommodation up to the age of 25 are growing pressures.
- The high needs budgets are funded by the dedicated schools grant, but any overspend becomes a council liability, this is currently being maintained within budget however the national trend is for a growing pressure.
- Moving to local retention of Business Rates could cause a significant funding problem due to the amount of small businesses throughout the county that receive discounts and reliefs.

## **13. Treasury Management Strategy (TMS)**

The TMS sets out how daily cash-flow activities will be managed to balance cash requirements whilst achieving the council's strategic outcomes. The TMS includes investment and borrowing strategies with consideration to security, liquidity and interest rate risks with the aim to maximise return on investments and minimise interest rate costs. The council's policy remains to borrow when funds are required. This policy minimises the cost of borrowing, and is supported by the Council's external treasury management advisors, who estimate that this approach saves the council in excess of £1m of borrowing costs per annum.

Currently interest rates are low, this means it is sensible to borrow over the longer term to mitigate the potential higher interest costs in future years however due to holding large cash balances there is no urgent need to borrow. The low interest rate market means that interest cannot be earned on cash balances invested therefore to borrow now would include additional interest costs due to lower interest rate earned on cash balances held. It would also increase the exposure to investment counterparty risk although this risk is mitigated as described in the TMS.

## **14. Reserves**

**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 basis of transactions needs to be clearly defined. Cabinet reviews earmarked reserves on an annual basis.

## Use of earmarked reserves

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 earmarked reserves, to meet known or predicted liabilities.
- Enables the smooth transition when moving to doing things differently

The overall level of reserves balances will be reported to Cabinet at least annually, the last report to Cabinet was in October 2020.

A forecast of the earmarked reserve position is shown below:-

Balance as at	Strategic Reserve	Financial Resilience Reserve	School Balances	Earmarked Reserves	Totals
	£m	£m	£m	£m	£m
31.03.20	9.1	12.7	8.9	50.7	81.4
31.03.21	9.1	4.2	8.8	43.4	65.5
31.03.22	9.1	4.2	8.8	42.3	64.4
31.03.23	9.1	4.2	8.8	41.2	63.3

Once a reserve has fulfilled the purpose for which it was established, any remaining balance should be reallocated to another earmarked reserve with a similar purpose or surrendered to General Reserves.

## 15. Conclusion

This medium term financial strategy proposes delivering a balanced budget with a clear focus on aligning resources to deliver the revised county plan ambitions.

## Appendices

Appendix M1 - Net Revenue budget

Appendix M2 - Proposed Capital Investment Budget

Appendix M3 - Reserves Policy

Appendix M4 - Risk Assessment

## Net Revenue budget and Directorate Spending Limits 2021/22

Directorate	20/21 revised base £k	Pressures £k	New 21/22 base £k	Savings £k	Base Budget £k
Adults and Communities	57,751	4,458	<b>62,209</b>	(3,270)	<b>58,939</b>
Children and families	32,678	6,623	<b>39,301</b>	(2,390)	<b>36,911</b>
Economy and Place	29,743	933	<b>30,676</b>	(4,348)	<b>26,328</b>
Corporate Services	16,659	1,988	<b>18,647</b>	(497)	<b>18,150</b>
<b>Total Directorate</b>	<b>136,831</b>	<b>14,002</b>	<b>150,833</b>	<b>(10,505)</b>	<b>140,328</b>
Central	20,286	1,082	<b>21,368</b>	(700)	<b>20,668</b>
<b>Total Net Budget</b>	<b>157,117</b>	<b>15,084</b>	<b>172,201</b>	<b>(11,205)</b>	<b>160,996</b>

## Funded by

Council tax	112,944
Retained business rates	36,753
Collection fund deficit	(200)
Revenue support grant	638
Rural sparsity delivery grant	5,353
Social care support grant	5,508
<b>Totals</b>	<b>160,996</b>

## Proposed capital investment budget

	Prior Years £000s	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 onwards £000s	Total Capital Prog. Budgets £000s
<b>Adults and Communities</b>							
Disabled facilities grant	0	2,268	1,853	0	0	0	4,121
Hillside	0	2,550	0	0	0	0	2,550
Carehome & Extra Care Development	0	250	669	13,081	0	0	14,000
Technology Enabled Communities	0	1,000	500	0	0	0	1,500
Super Hubs	0	200	1,800	0	0	0	2,000
Homelessness Hub & Property Investment	0	524	0	0	0	0	524
Private sector housing improvements	0	199	0	0	0	0	199
<b>Total Adults &amp; Communities</b>	<b>0</b>	<b>6,991</b>	<b>4,822</b>	<b>13,081</b>	<b>0</b>	<b>0</b>	<b>24,894</b>
<b>Children's &amp; Families</b>							
Colwall Primary School	0	85	0	0	0	0	85
Schools Capital Maintenance Grant	0	2,314	1,195	1,195	0	0	4,704
Peterchurch Primary School	7	300	7,353	3,193	0	0	10,853
Expansion for Marlbrook school	1,193	3,348	1,600	0	0	0	6,141
Brookfield School Improvements	6	744	3,195	0	0	0	3,945
C & F's S106	0	649	300	0	0	0	949
Healthy Pupils	75	24	0	0	0	0	99
Individual Pupil Needs	233	38	0	0	0	0	271
Short Breaks Capital	0	118	0	0	0	0	118
Blackmarston SEN	32	52	0	0	0	0	84
Basic Needs Funding	0	1,191	5,700	2,000	0	0	8,891
2 Year Old Capital Funding	79	27	0	0	0	0	106
Preliminary works to inform key investment need throughout the county	29	986	0	0	0	0	1,015
School Accessibility Works	0	0	240	0	0	0	240
Temporary school accommodation replacement	0	300	150	0	0	0	450



<b>Total Children's and Families</b>	<b>1,654</b>	<b>10,177</b>	<b>19,733</b>	<b>6,388</b>	<b>0</b>	<b>0</b>	<b>37,951</b>
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### Corporate

Fastershire Broadband	18,754	3,571	6,707	6,707	0	0	35,738
PC Replacement	489	630	397	0	0	0	1,516
Widemarsh Gardens	0	80	0	0	0	0	80
EDRMS Storage	0	380	0	0	0	0	380
Capital Development Fund	0	0	1,000	0	0	0	1,000
Better Ways of Working	0	850	0	0	0	0	850
Children centre changes	314	116	0	0	0	0	430
<b>Total Corporate</b>	<b>19,557</b>	<b>5,627</b>	<b>8,104</b>	<b>6,707</b>	<b>0</b>	<b>0</b>	<b>39,994</b>

### Economy and Place

Hereford City Centre Transport Package	33,665	1,632	3,353	2,000	0	0	40,651
Hereford City Centre Improvements (HCCI)	0	1,500	3,000	1,500	0	0	6,000
Hereford ATMs and Super Cycle Highway	0	1,000	0	0	0	0	1,000
Passenger Transport Fleet (Electric)	0	0	7,800	15,600	15,600	0	39,000
Local Transport Plan (LTP)	0	12,272	12,272	0	0	0	24,544
Emergency Active travel Fund	0	137	0	0	0	0	137
Pothole & Challenge Fund 20/21	0	7,674	0	0	0	0	7,674
Priority Flood Repair Works	0	4,027	0	0	0	0	4,027
E & P's S106	0	511	750	0	0	0	1,261
Lea Flood Alleviation Scheme	0	299	0	0	0	0	299
Investment in C & U Roads	0	2,000	0	0	0	0	2,000
Investment in Infrastructure Assets	0	2,000	0	0	0	0	2,000
Extra Ordinary Highways Maintenance & Biodiversity Net Gain	0	0	2,299	0	0	0	2,299
Highway asset management	0	1,536	1,000	0	0	0	2,536
Hereford Enterprise Zone	12,035	947	1,965	0	0	0	14,947
Hereford Enterprise Zone - Further funded dev	0	5,432	0	0	0	0	5,432
Herefordshire Enterprise Zone Shell Store	4,309	3,008	0	0	0	0	7,316
Marches Renewable Energy Grant	12	288	120	0	0	0	420

Marches Business Investment Programme	41	717	892	1,349	0	0	3,000
Empty Property Investment & Development	0	1,000	752	300	0	0	2,052
Employment Land & Incubation Space in Market Towns	284	1,000	10,838	3,066	5,513	0	20,701
Leominster Heritage Action Zone	0	295	841	2,664	0	0	3,800
Towns Fund Accelerated Funding	0	750	0	0	0	0	750
Strategic Housing Development	0	0	10,000	10,000	0	0	20,000
Development Partnership activities	6,250	7,815	3,268	3,268	0	0	20,600
Property Estate Enhancement Works	1,871	869	0	0	0	0	2,740
Corporate Accommodation	2,759	142	0	0	0	0	2,901
Leisure Centres	0	368	0	0	0	0	368
Leisure Pool	0	505	0	0	0	0	505
Solar Photovoltaic Panels	603	245	1,286	0	0	0	2,134
Integrated Wetlands	0	1,200	800	0	0	0	2,000
Sustainable Landscape Sustainable Places	0	195	0	0	0	0	195
SEPUBU Grant	64	329	0	0	0	0	393
Green Homes Grant - Local Authority Delivery	0	480	0	0	0	0	480
LED street lighting	5,536	119	0	0	0	0	5,655
Estates Capital Programme 2019/22	517	2,928	2,722	685	40	10	6,902
Three Elms Trading Estate	235	240	0	0	0	0	475
Energy Efficiency	5	95	0	0	0	0	100
Warm Homes Fund	133	827	0	0	0	0	960
Gypsy & Traveller Pitch development	51	1,087	739	0	0	0	1,877
Car Parking Strategy	136	110	0	0	0	0	246
Car Park Re-Surfacing	1	115	0	0	0	0	116
Office and Car Park Lighting Replacement	108	192	0	0	0	0	300
Upgrade of Herefordshire CCTV	52	132	0	0	0	0	184
Schools Transport Route Planning	59	16	15	0	0	0	90

Courtyard Development	0	611	0	0	0	0	611
Grange Court Loan	0	0	359	0	0	0	359
Corporate Fleet Procurement	413	325	0	0	0	0	738
Vehicle Replacement	0	19	0	0	0	0	19
Strangford Landfill Site Toilet Facilities	0	25	0	0	0	0	25
Air Quality Monitoring Station Resource Improvements	0	0	140	26	26	0	192
Hereford Library	134	211	0	0	0	0	345
<b>Total Economy and Place</b>	<b>69,275</b>	<b>67,222</b>	<b>65,211</b>	<b>40,458</b>	<b>21,179</b>	<b>10</b>	<b>263,355</b>
<b>Total</b>	<b>90,485</b>	<b>90,016</b>	<b>97,870</b>	<b>66,634</b>	<b>21,179</b>	<b>10</b>	<b>366,194</b>

### 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
  - Relevant,
  - Appropriate, and
  - 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 and 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 reserves 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.
- 3.2. At the end of March 2020 the balance was £9.1m (5.7% of net budget). 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.

## Key Risk Assessment

Key Financial Risks	Likelihood	Impact	Mitigating Actions
<b>Unexpected events or emergencies</b> By its nature, the financial risk is uncertain	Low	High	<input type="checkbox"/> Council maintains a Strategic Reserve at a level of between 3% and 5% of its revenue budget for emergency purposes <input type="checkbox"/> Level of reserve is currently £9.1m (5.7% of budget)
<b>Increasing demand for Social Care for adults and children</b> Demand for children's services continue and demand for adult services increase as the population gets older	High	Medium	<input type="checkbox"/> Demand led pressures provided for within our spending plans <input type="checkbox"/> Activity indicators have been developed and will be reported quarterly alongside budget monitoring
<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	<input type="checkbox"/> High risk budget areas have been identified and financial support is targeted towards these areas <input type="checkbox"/> Regular progress reports on delivery of savings to Management Board and Cabinet <input type="checkbox"/> Budget monitoring arrangements for forecasting year end position in place and forecast balanced <input type="checkbox"/> Plan to review level of cover available from General reserves in place
<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	<input type="checkbox"/> This is a national issue with lobbying to increase central government funding <input type="checkbox"/> A review of the application of the matrix is underway
<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	<input type="checkbox"/> Provision has been made in the capital investment budget to increase school places <input type="checkbox"/> Directorate plans in place to manage and mitigate demand <input type="checkbox"/> Ongoing reviews of children already under care of council
<b>Volatility in Government funding streams and Business Rates Retention</b> The government settlement for 2021/22 is a one year settlement meaning that the MTFS is based on assumptions for future years that cannot be confirmed.	High	Medium	<input type="checkbox"/> Prudent assumptions made in budget Ongoing review of developing business rate changes <input type="checkbox"/> Business case to support future investment decisions
<b>EU exit</b> Impact of EU exit may lead to increased volatility in economic stability and reduced access to funds	Medium	Medium	<input type="checkbox"/> Reduced reliance on grant funding in all directorates <input type="checkbox"/> Increased local economic and social investment to increase core income