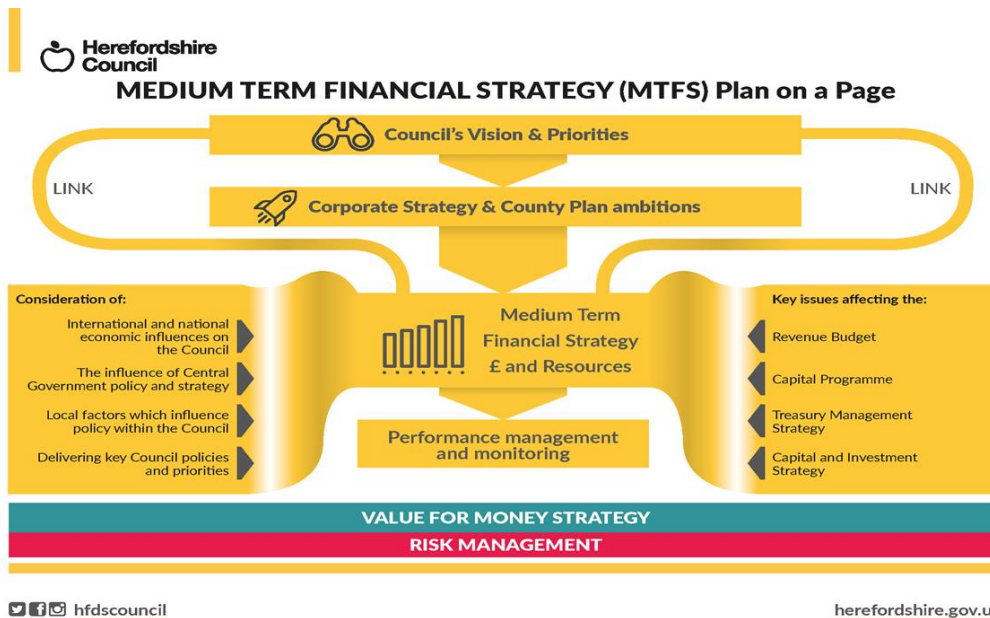


# Medium Term Financial Strategy

## 2023/24 - 2026/27



# Herefordshire Council Medium Term Financial Strategy 2023/24 to 2026/27

## Introduction

The Medium Term Financial Strategy (MTFS) covers the 4-year period from 2023/24 to 2026/27 and sets out how the council will deploy its resources to navigate financial pressures to prioritise activity to support the delivery of corporate objectives.

The MTFS provides the strategic framework for managing the council's finances and ensures that:

- Resources are aligned to achieve corporate objectives detailed in the County Plan over the medium/longer term, and
- The Revenue Budget, Capital Investment Budget, Treasury Management Strategy and required Prudential Indicators are appropriately aligned.

This plan includes the estimated impact of the actions identified to address inflationary and demand pressures to ensure we maintain a balanced budget and a sustainable and resilient financial position. These measures are expected to yield benefit in the short term as well as over future years. Whilst it is acknowledged that there is risk in the delivery of these mitigating actions, the council is aware of this risk and is actively managing it.

The County Plan 2020-2024 was adopted in February 2020 to share a clear vision for the future of the county. The County Plan shapes the future of Herefordshire with the overall aim to improve the sustainability, connectivity and wellbeing of the county by strengthening communities, creating a thriving local economy and protecting and enhancing our environment. These themes form the basis of plans including the annual delivery plans 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 Herefordshire's unique and beautiful environment and rural heritage and tackling the climate challenge through new approaches to sustainability
<p><b>Our aims:</b></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><b>Our aims:</b></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><b>Our aims:</b></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>

## Background

The council has gross expenditure budget of around £400m, used to deliver services to over 193,000 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 approximately 1,300 staff (excluding staff in schools) and support many more local jobs

through our contracts with local businesses.

Using our resources wisely is one of our core principles and we continue to identify efficiencies in service delivery and maximise our purchasing power to ensure we deliver value for money that benefits the residents and businesses of Herefordshire.

## National Context

The financial position of local government remains a cause for concern nationally. The council, alongside all local authorities, faces significant financial challenges in the continued delivery of services and improvement.

The ongoing war in Ukraine has resulted in inflationary increases with global effect on the price of food, fuel and utilities. The impact of rising inflationary costs and growth in demand for adult and children's social care services places increasing pressure on the future financial sustainability of the council.

The MTFS reflects our understanding of the impact of these increases on the council budgets at the time of preparation. They remain estimates which are subject to change and, as such, will remain under review for the immediate future.

## Transformation

The council continues to invest in transformation activity to support improvement of its services; of which the improvement of children's services remains a key corporate priority. Our aim, working alongside strategic partners, is to develop and maintain a high-quality team that will define our vision for children's services, consistently deliver the highest levels of social care and safeguarding practice, and improve outcomes for the children, young people and families of Herefordshire. This MTFS reflects the financial commitment we are making to achieve this.

## Future Revenue Resources

### Core Government Funding

Significant savings will be required to achieve a balanced budget in 2023/24 and address funding gaps over the medium term period. Savings plans will be aligned to planned transformation activity to ensure that identified savings result in sustainable improvements and efficiencies in the delivery of services.

Planned local government finance reforms are expected, the review of relative needs and resources (also called the Fair Funding Review), the business rates reset and the parameters of the new homes bonus have been on hold. This places uncertainty over funding over the medium term planning period.

This MTFS assumes the Fair Funding Review and new Adults Relative Needs Formula will be implemented from 2025/26 onwards.

Anticipated core grants are shown below, some of these sit outside the councils net budget requirement but remain funding to be utilised on providing council services.

<b>Core Grants:</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>2025/26* £'000</b>	<b>2026/27* £'000</b>
Revenue Support Grant	983	1,056	21,703	21,392
Improved Better Care Fund	6,783	6,783	-	-
New Homes Bonus	231	231	-	-
Rural Services Delivery Grant	5,353	5,353	5,353	5,353
Social Care Grant	13,466	15,355	31,507	33,372

Services Grant	1,268	1,268	-	-
<b>TOTAL CORE FUNDING</b>	<b>28,084</b>	<b>30,046</b>	<b>58,563</b>	<b>60,117</b>

\*assumes Fair Funding Review and new Adults Relative Needs Formula from 2025/26

## Council Tax

In the Autumn Statement of November 2022, the Chancellor confirmed the ability for councils to increase Council Tax up to 5% without a referendum; 3% for general services and 2% for local authorities with responsibility for Social Care.

The maximum level of local Council Tax Reduction scheme discount was approved by Council for 2021/22 and maintained in 2022/23 to ensure that eligible households receive support as the impact of the rising cost of living continues.

## 2023/24 Budget Proposal

The MTFS proposes a balanced budget for 2023/24 achieved by the proposed savings targets and an increase in council tax charge of 4.99% (inclusive of 2% adult social care precept).

Detail	22/23 base budget £'000	Pressures £'000	Savings £'000	23/24 proposed budget £'000
Community and Wellbeing	65,399	8,830	(6,105)	68,124
Children and Young People	42,262	13,050	(4,500)	50,812
Economy and Environment	24,787	5,148	(2,200)	27,735
Corporate	22,634	4,226	(1,330)	25,530
All Ages Social Care		4,000		4,000
<b>Sub Total</b>	<b>155,082</b>	<b>35,254</b>	<b>(14,135)</b>	<b>176,201</b>
Central	20,826	2,181	(5,900)	17,107
<b>TOTALS</b>	<b>175,908</b>	<b>37,494</b>	<b>(20,035)</b>	<b>193,308</b>
<b>Funded by:-</b>				
Council tax	119,549			126,980
Business rates	38,284			40,614
Collection fund surplus	1,260			1,400
Revenue support grant	663			983
Rural sparsity delivery grant	5,353			5,353
Social care support grant	7,691			13,466
Adult Social Care Discharge Fund				951
Market Sustainability & Fair Cost of Care	594			2,062
Lower Tier Services Grant	264			
Services Grant	2,250			1,268
New Homes Bonus				231
<b>TOTALS</b>	<b>175,908</b>			<b>193,308</b>

## Post 2023/24

The Medium Term Financial Strategy (MTFS) at Appendix M2 outlines the financial strategy for the period up to 2026/27. The 2022/23 spending review was announced December 2021. This MTFS reflects that, however, funding in future years is less certain.

Whilst a balanced budget is proposed for 2023/24, there is a total funding gap of almost £16m over the period from 2024/25 to 2026/26 and this must be addressed through future reductions in spending, savings or transformation of services.

### Total funding

The MTFS proposes a balanced budget for 2023/24 achieved by increasing council tax charges by 4.99% (inclusive of 2% adult social care precept). Projections for future years assume an annual increase in council tax of 2%.

Detail	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
<b>Net budget funding source</b>				
Council tax	126,980	129,520	132,110	134,752
Business rates	40,614	41,426	42,255	43,100
Collection fund surplus	1,400	-	-	-
Revenue support grant	983	1,056	21,703	21,392
Rural sparsity delivery grant	5,353	5,353	5,353	5,353
Social care support grant	13,466	15,355	31,507	33,372
Adult Social Care Discharge Fund	951	1,585	-	-
Market Sustainability & Fair Cost of Care	2,062	3,100	-	-
Services Grant	1,268	1,268	-	-
New Homes Bonus	231	231	-	-
<b>TOTALS</b>	<b>193,308</b>	<b>198,894</b>	<b>232,928</b>	<b>237,969</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 (£6.8m), Public Health Grant (£9.6m) and Dedicated Schools Grant funding.

## Expenditure pressures

### Adult Social Care

One of the key drivers of demand for council services, and therefore cost pressures, is demographic growth, principally in terms of residents and customer numbers, with a demographic shift towards the older ages. This results in significant pressures in the social care system. This MTFS includes an increase of almost £3m in the Community Wellbeing budget for 2023/24 to fund the impact of these cost pressures and a proposed £4m All Ages Social Care budget to fund investment in edge of care and preventative services and the continued transformation of Children's services.

### Children's Services

The council continues to prioritise the improvement of its Children's services in this MTFS to deliver sustained transformation in social care offered to children and families across the county and respond to increasing demographic and cost pressures in placements for Looked After Children.

The recruitment of social workers remains a key risk and pressure across both Children and Adult

sectors and the achievement of increased social care staffing permanency is integral to the delivery of expenditure within budget in 2023/24 and the medium term.

## High Needs Deficit

The number of children and young people with Education, Health and Care Plans (EHCPs) has risen each year over the past decade. The costs of Special Educational Needs and Disabilities (SEND) are funded through the Dedicated Schools Grant (DSG) however many councils are in a deficit position, meaning the cost exceeds the funding provided.

It is illegal for councils to contribute to the high needs budget without the Secretary of State's approval. Whilst the Department for Education has extended its statutory override for a further three years, a number of councils continue to highlight this as a major risk. Herefordshire is not currently in a deficit position and continued financial monitoring will enable action to be taken to mitigate the risk of the council entering a deficit position.

## Inflation

Significant inflationary increases have been noted across care sector contracts (adults and children's social care) as well as the council's waste contracts and energy costs and the pressures identified in 2022/23 will have a cumulative effect across the medium term period. A number of inflationary assumptions have been built into the 2023/24 budget to reflect increases in fuel, wage and energy inflation across the council's contracts and purchases.

## Interest Rates

In response to the impact of inflationary pressures on the economy, the Bank of England has increased the base rate from 0.1% in December 2021 to the current rate of 3.5% (as at December 2022). Any increase in the base rate will result in an increase in the council's borrowing costs with a corresponding impact on the revenue budget. The effect of rising interest rates will be monitored during the period of the MTFs; aligned with the council's Treasury Management Strategy.

## Pay Inflation

The agreed pay award for 2022/23 above the 2% assumed in the budget creates a budget pressure in 2023/24. Whilst the award for 2023/24 is yet to be agreed, national employer discussions with Trade Unions will take place in the context of significant cost of living pressures and high inflation. The proposed budget for 2023/24 assumes a prudent 5% pay award, with an impact of £5.4m, and a 4% increase in subsequent years.

The latest pay policy was approved by the council's employment panel on 17 January 2022 and Council on 11 February 2022.

## 2023/24 Pressures by Directorate

A number of budget pressures have been identified for 2023/24, these are listed below:

Pressure	Detail	2023/24 £'000
<b>Community Wellbeing</b>		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	1,608
Demand pressures	Based on most recent client numbers and weekly care costs. This pressure includes adjustments to reflect planned activity in the service.	1,925
Service redesign	'Take the Current' Business Case re Library/Museum projects.	159

Inflation	Includes Provider fee uplifts and spot placements (8% non-contractual uplift) and contractual inflation based on a blend of RPI & AWE indices.	5,870
Removal of one-off prior year	Represents draw down for seed funding (Talk Community) and Fair Cost of Care one-off funding	(732)
	<b>Sub-total</b>	<b>13,050</b>
<b>Children &amp; Young People</b>		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	1,897
Demand pressures	Demand pressures reflect increased in Looked After Children and Agency Fostering placements.	5,221
Transformation Activity	Additional staff to support transformation under Children's Improvement Plan.	4,498
Inflation	Inflation assumed at 6% for placements and the relevant rate for other areas of spend.	1,434
	<b>Sub-total</b>	<b>13,050</b>
<b>Economy &amp; Environment</b>		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	1,090
Demand pressures	Reflects additional demand for Home to School Transport and Concessionary Travel in 2022/23.	469
Energy Inflation	Reflects inflationary increase on energy.	993
Inflation	Inflation assumed at 8% or contract specific rate.	2,596
	<b>Sub-total</b>	<b>5,148</b>
<b>Corporate Services</b>		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	822
Demand pressures	Changes in charging mechanism for a number of key ICT systems plus £900k historic property savings.	1,702
Service redesign	Increase in staff capacity in Legal and HR & OD.	665
Inflation	Contract inflation based on blend: ICT 12%, Hoople 7%.	1,037
	<b>Sub-total</b>	<b>4,226</b>
<b>Central</b>		
Financing Costs	Increase in interest payable and Minimum Revenue Provision (MRP) aligned to Capital Programme.	2,226
	<b>Sub-total</b>	<b>2,226</b>
	<b>TOTAL PRESSURES</b>	<b>33,520</b>

## Saving plans

To propose a balanced budget for 2023/24 the following Directorate savings are required:

Directorate	2023/24 £'000
Community Wellbeing	6,105
Children & Young People	4,500
Economy & Environment	2,285
Corporate Services	1,330
<b>TOTAL</b>	<b>14,135</b>

## Community Wellbeing Savings Proposals

Ref	Proposal	Summary	2023/24 £'000
S1	Stable engaged workforce	Reduction in reliance on agency staff and move to a permanent staffing establishment. Review of vacant posts	710
S2	Edge of Care and Prevention	Transformation of 'front door' service to deliver efficient working practices to respond to initial contact for adult social care	300
S3	New integrated models of care (Shared Lives/Home Share/Personal Assistants)	Extension of Shared Lives Scheme and review of geographically based Personal Assistants to provide more options in the community	550
S4	Occupational Therapy Delivery Model	New model of delivery for occupational therapy	100
S5	Digital and technology	Improved, systemic deployment of digital and technology solutions across the directorate, including care packages	500
S6	Respite Provision	Transformation of provision of respite care	300
S7	Process efficiency: Block Bed contracts	Reduce the number of spot placements to create a better balance of placement options	300
S8	Telecare Charges	Increase charges for Telecare	150
S9	Process efficiency: Business Support	Review of business support costs including postage, scanning, training	100
S10	Process efficiency: Income collection and Debt Management	Transformation of income collection processes to maximise income (including benefits) and reduce debt and corresponding debt recovery activity	600
S11	Process efficiency: Repairs and Maintenance	Review of contract to deliver repairs and maintenance	100
S12	Process efficiency: Brokerage	Review of brokerage functions, including potential for supporting self-funders and integration across the Integrated Care System	100
S13	All Age Commissioning	Transformation of services for vulnerable homeless people and care experienced young people	600
S14	Social Care Delivery	Management of demand through Talk Community initiatives and wider health input	750
S15	Public Health	Review of weight management services, NHS health checks for adults and oral checks for children aged 4-6 months, withdrawal of occupational flu vaccine offer and end of online mental health support pilot	326
S16	Supported Living	Remodelling of Supported Living	369
S17	Care & Funding	Continuation of Fair & Consistent Care & Funding Pathway	250



Pathway		
<b>TOTAL COMMUNITY WELLBEING SAVINGS</b>		<b>6,105</b>

### Children & Young People Savings Proposals

Ref	Proposal	Summary	2023/24 £'000
S18	Placement Management	Reduction in numbers of children coming into our care; increased recruitment of foster carers; review of sufficiency; tight management control of high-cost placements*	2,500
S19	Recruitment and Retention	Reduction in reliance on agency staff and move to a permanent staffing establishment. Gradual withdrawal of previously added additional capacity. Revised Workforce Strategy*	2,000
<b>TOTAL CHILDREN &amp; YOUNG PEOPLE SAVINGS</b>			<b>4,500</b>
<i>* Each of these key areas of focus are inextricably linked to progress of the wider Children's Improvement Plan</i>			

### Economy & Environment Savings Proposals

Ref	Proposal	Summary	2023/24 £'000
S20	BBLP Annual Plan Revision	Efficiencies within the contract including management of streetwork permits and highway reinstatements	355
S21	Waste Collections	Revision to household collections on Bank Holidays – no collections on Bank Holidays, collections to slip a day	80
S22	Parking Income	Delivery of deferred proposals from 2022/23	450
S23	Fees & Charges: Regulatory Services	Application of inflationary charges across all fees & charges and a review of services where charges are not currently applied	300
S24	Fixed Penalty Notice Pilot Scheme	Introduction of trial enforcement for littering offences	50
S25	Transformation of Planning & Regulatory Services (Stage 1)	Restructure of Planning to be in place by April 2023, followed by a review of income generation services including Pre-Application advice and the introduction of Planning Performance Agreements	350
S26	Economic Development: Vacancy Management	Removal of 2 vacant posts to be offset by funding as part of UK Share Prosperity Fund award	50
S27	Economy & Environment Directorate Transformation Programme	Review of frontline services, Demand Management, Partnership and Commercial Opportunities and Strategies for growth	650
<b>TOTAL ECONOMY &amp; ENVIRONMENT SAVINGS</b>			<b>2,285</b>

### Corporate Savings Proposals

Ref	Proposal	Summary	2023/24 £'000
S28	Exit from inefficient properties	Exit from buildings which are expensive to maintain and those which are energy efficient	300
S29	Increase in rental income	Review of charges to ensure maximisation of rental income, charging for internal use of properties and full cost recovery	170
S30	Finance Payment Process Efficiencies	Transformation of payment processes to embed purchase cards and full recovery of costs for Revenue & Benefits activity	100
S31	Mobile Phones	Reduction in mobile phone provision to staff	20
S32	Herefordshire Now	Delivery of Herefordshire Now as online magazine only	100
S33	Children's Services Legal Support	Children's specific lawyers to be funded from Children's Transformation Fund	200
S34	Transformation of legal support	Reduction in reliance on external legal advice due to increase in-house capacity	140

S35	Transformation of Programme Management Office (PMO)	Transformation of PMO service delivery and increased recovery of costs	300
<b>TOTAL CORPORATE SERVICES SAVINGS</b>			<b>1,330</b>

## Planning Assumptions

The following planning assumptions are included within the Medium Term Financial Strategy:

Area	Assumptions
Base Budget	The starting point for planning is the 2022/23 base budget as agreed by Council in February 2022, adjusted for any approved budget virements.
Council Tax Increase	An increase of 4.99% is assumed for 2023/24 with a 2% increase in the years 2024/25 to 2026/27.
Capital Borrowing Rates	Capital borrowing rates of 4.0%, 3.5%, 3.3% and 3.3% have been assumed in respect of financing the Capital Programme over the next 4 years respectively. This assumption will remain under constant review and will be informed by forecasts provided by our Treasury Management Advisors: Link Group.
Inflation	For 2023/24 inflation is assumed at 8% or the contract specific rate. For the remaining three years, inflation is assumed at 5%.
Pay Assumptions	5% per annum has been budgeted for 2023/24 with 4.0% for the remaining three years of the MTFs period.
Pensions	The triennial valuation of the Pension Fund took place on 31 March 2022. The provisional results have been reflected in the MTFs at a corporate level.
Increase in Fees & Charges	Any increases in fees & charges have been incorporated within the budget proposals.
Capital Financing	Prudential borrowing costs associated with the proposed Capital Programme are included within the revenue budget.
Transformation Programme	The council will continue to improve services through transformation activity and the estimated efficiencies and savings resulting from planned activity is reflected in the MTFs.

## Capital investment

Detailed in Appendix M3 is the proposed capital programme, detailing each project and the budget profile over the current and future years. The capital programme has a proposed budget of £368.696m and a number of areas to be invested in are housing, a care home, new school build at Peterchurch and integrated wetlands. Along with continued investment in the councils estate, IT, highways, broadband, energy projects, continued development of the enterprise zone and other potential employment land. A number of annual grants for highways, schools maintenance and disabled facilities grant continue each year.

The £368.696m is funded using £34.505m of the £43.3m capital receipts reserve, £186.282m grants of which £45.13m have yet to be secured, £6.8m use of revenue reserves and £141.109m borrowing.

There are a number of projects that will continue or commence delivery in the next financial year for waste management changes, development of the Hereford Town Investment Plans projects such as a new Museum, development of the Maylords site, which were part of a £25m funding bid approved. The third council project was for greening the city and since approval by the Towns Board is also progressing towards delivery. The council is the accountable body for the £22.4m funding but a number of projects will be run by other organisations. The museum project is also subject to securing £5m Heritage Lottery Funds Grants to secure the full £18m required to deliver the project, with £5m from Stronger Towns and £8m contribution from the council.

A decision was taken to pause the works on the Shirehall and these will come forward after external funding sources are looked into. Also improvement or new build at the Westfield school site are being developed with the opportunity to source external funding being awarded after the initial Department for Education (DfE) announcement.

## **Capital Strategy and Revenue Implications of the Capital Strategy**

Any requirement to make capital repayments from revenue budgets (for example, for an invest-to-save prudential borrowing project) will be explicit in the Resource Implications of the relevant decision report. It is important the implications on the future revenue budget is understood so that the budget is in place for when these repayment deductions are taken. These are referred to as projects generating a return on investment which therefore funds the capital costs incurred through either reduced costs or increased income.

Where a capital budget (with either internal or external funding) is approved within the council's capital programme, service areas will also be asked to commit to funding any abortive costs from their revenue budgets when seeking approval to spend the capital budget provision, should a capital project initially begin delivery but is unable to complete for any reason. In the event that a capital asset has been enhanced / purchased / created by the incomplete capital investment this would remain as capital expenditure, although there may be implications if an external funding source (e.g. capital grant) is lost due to the project being incomplete. Careful consideration needs to be taken to ensure the council are not over exposed for projects where the risk is high that they may not be delivered and abortive costs are high.

## **Value for Money**

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.

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.

To that end, the council has worked closely with our auditors to develop a Value for Money Strategy as shown in Appendix M6 and also a more comprehensive internal Value for Money Policy.

As a custodian of public funds, the council 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, for example through the council's corporate procurement and commissioning strategy, by ensuring that:

- Contract procedure policies are regularly reviewed in line with national policy and incorporate social value and local needs and;
- 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.

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.

## Risks

There are a number of external risks that could affect the delivery of the MTFS, appendix M5 sets out more detail on the key risk areas which are:

- The government settlement for 2023/24 is a one year settlement meaning that the MTFS is based on assumptions for future years that cannot be confirmed.
- 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 council has started a well-resourced transformation journey expected to address some issues in this area.
- The results of the review by the Commissioner for Children's Services and the financial implications of required improvements are expected to be reported in early 2023. The council has allocated funds in the All Ages Social Care budget to fund these improvements.
- 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.

## 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 Councils 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.

## Reserves

The council's useable revenue reserves are split between a general reserve (the General Fund) and earmarked reserves that are held for certain purposes. Part of the council's General Fund is held as a strategic reserve to cover emergency events such as unforeseen financial liabilities or natural disasters. The reserves policy is attached at M3.

In line with the council's policy, this reserve is maintained at a minimum level of between 3% and 5% of the net revenue budget. As at 31 March 2022 the general reserve balance totalled £9.6m, being 6.0% of the council's 2021/22 approved net revenue budget. The remainder of the council's general reserve balance is held to support one-off, unforeseen financial costs and for smoothing the impact of the late delivery of savings plans.

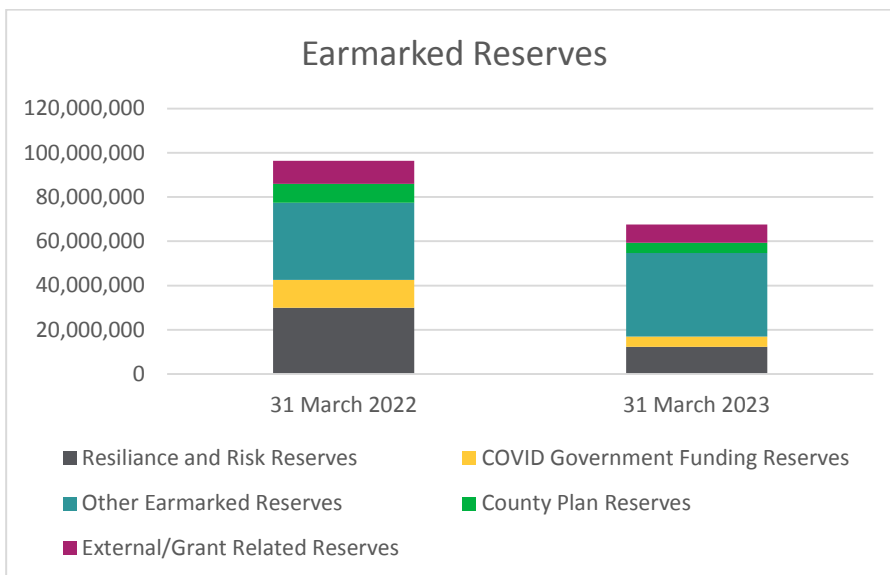
**Earmarked reserves** are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose, usage and basis of transactions needs to be clearly defined. Cabinet reviews earmarked reserves on an annual basis.

## Use of earmarked reserves

Reserves enable the council to:

- 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.
- Create 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 is reported to Cabinet at least annually, the last report to Cabinet was in September 2022. The chart below demonstrates the planned reduction in earmarked reserves in the 2022/23 financial year from a balance of £96.5m at 31 March 2022 to £67.5m at 31 March 2023. A significant proportion of the reduction relates to the use of COVID funding in 2022/23. The council's financial strategy will seek to minimise the use of reserves in the medium term and to replenish them to support future sustainability and enable the council to respond to unexpected changes and to invest in the continued transformation and improvement of its services.



The financial resilience reserve was established to manage risks present in the base budget, for example additional placement costs from unexpected demands. This reserve will also fund the two year transformation programme the council has embarked upon to improve the journey of the children in our care and services to the local community in line with the corporate plan.

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.

It is expected that a forecast overspend of £6m in 2022/23 will be funded from the council's Financial Resilience Reserve.

## Conclusion

This medium term financial strategy proposes delivering a balanced budget for 2023/24 with a clear focus on aligning resources to deliver the revised county plan ambitions.

## **Appendices**

Appendix M1 - Net Revenue budget

Appendix M2 – MTFS 2023/24 to 2026/26

Appendix M3 - Proposed Capital Investment Budget

Appendix M4 - Reserves Policy

Appendix M5 - Risk Assessment

Appendix M6 – Draft Value for Money Strategy

## Net Revenue budget and Directorate Spending Limits 2023/24

Detail	22/23 base budget £'000	Pressures £'000	Savings £'000	23/24 proposed budget £'000
Community and Wellbeing	65,399	8,830	(6,105)	68,124
Children and Young People	42,262	13,050	(4,500)	50,812
Economy and Environment	24,787	5,148	(2,200)	27,735
Corporate	22,634	4,226	(1,330)	25,530
All Ages Social Care		4,000		4,000
<b>Sub Total</b>	<b>155,082</b>	<b>35,254</b>	<b>(14,135)</b>	<b>176,201</b>
Central	20,826	2,181	(5,900)	17,107
<b>TOTALS</b>	<b>175,908</b>	<b>37,494</b>	<b>(20,035)</b>	<b>193,308</b>
<b>Funded by:-</b>				
Council tax	119,549			126,980
Business rates	38,284			40,614
Collection fund surplus	1,260			1,400
Revenue support grant	663			983
Rural sparsity delivery grant	5,353			5,353
Social care support grant	7,691			13,466
Adult Social Care Discharge Fund				951
Market Sustainability & Fair Cost of Care	594			2,062
Lower Tier Services Grant	264			
Services Grant	2,250			1,268
New Homes Bonus				231
<b>TOTALS</b>	<b>175,908</b>			<b>193,308</b>

## Medium Term Financial Strategy 2023/24 to 2026/27

Detail	Actual 2022/23 £'000	Proposed 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000
<b>Funding</b>					
Council tax	119,549	126,980	129,520	132,110	134,752
Business rates	38,284	40,614	41,426	42,255	43,100
Collection fund surplus	1,260	1,400	-	-	-
Revenue support grant	663	983	1,056	21,703	21,392
Rural sparsity delivery grant	5,353	5,353	5,353	5,353	5,353
Social care support grant	7,691	13,466	15,355	31,507	33,372
Adult Social Care Discharge Fund	-	951	1,585	-	-
Market Sustainability & Fair Cost of Care	594	2,062	3,100	-	-
Lower Tier Services Grant	264	-	-	-	-
Services Grant	2,250	1,268	1,268	-	-
New Homes Bonus		231	231	-	-
<b>Total Funding</b>	<b>175,908</b>	<b>193,308</b>	<b>198,894</b>	<b>232,928</b>	<b>237,969</b>
<b>Expenditure</b>					
Base Budget	175,908	175,908	199,208	207,999	233,103
Pay Award		5,417	2,809	2,954	3,076
Growth – Demand & Pressures		32,018	10,982	22,150	8,302
Savings & Efficiencies		(20,035)	(5,000)	-	-
<b>Net Expenditure Budget</b>	<b>175,908</b>	<b>193,308</b>	<b>207,999</b>	<b>233,103</b>	<b>244,481</b>
<b>Surplus/(Gap) to be funded</b>	-	-	<b>(9,105)</b>	<b>(175)</b>	<b>(6,512)</b>



## Proposed capital investment budget

Scheme Name	Spend in	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	Prior Years £000	Total Budget £000	Total Budget £000	Total Budget £000	Total Budget £000	Total Budget £000	Scheme Budget £000
Hereford City Centre Transport Package	35,031	3,549	4,899	3,500	0	0	46,979
Hereford City Centre Improvements (HCCI)	1,972	2,135	1,892	0	0	0	6,000
Hereford ATMs and Super Cycle Highway		0	1,000	0	0	0	1,000
Emergency Active travel Fund	19	119	0	0	0	0	137
Passenger Transport Fleet (Electric)		0	7,800	15,600	15,600	0	39,000
<b>Sustainable Transport &amp; Place Making Delivery Board</b>	<b>37,022</b>	<b>5,803</b>	<b>15,592</b>	<b>19,100</b>	<b>15,600</b>	<b>0</b>	<b>93,116</b>
Local Transport Plan (LTP)		15,466	15,466	15,466	0	0	46,398
Priority Flood Repair Works	1,802	2,225	0	0	0	0	4,027
Extra Ordinary Highways Maintenance & Biodiversity Net Gain	17	1,891	392	0	0	0	2,299
Public Realm Maintenance - Mitigating Risk on the Network		2,475	2,475	0	0	0	4,950
Winter Resilience		532	145	290	435	0	1,402
Highways Equipment		548	0	0	0	0	548
Natural Flood Management		352	234	279	239	170	1,274
Highways Infrastructure Investment		0	4,085	4,085	3,985	3,885	16,040
Public Realm Improvements for Ash Die Back		0	315	367	367	367	1,416
Moving Traffic Enforcement Phase 2		0	144	0	0	0	144
Masters House		0	762	0	0	0	762
Investment in Infrastructure Assets	1,874	126	0	0	0	0	2,000
<b>Highways Maintenance Delivery Board</b>	<b>3,692</b>	<b>23,615</b>	<b>24,018</b>	<b>20,487</b>	<b>5,026</b>	<b>4,422</b>	<b>81,260</b>
E & E's S106		1,332	3,703	1,092	1,922	0	8,049
C & F's S106		1,200	1,017	351	2,265	0	4,833
<b>Planning Delivery Board</b>	<b>0</b>	<b>2,532</b>	<b>4,720</b>	<b>1,443</b>	<b>4,187</b>	<b>0</b>	<b>12,882</b>
Integrated Wetlands	691	1,309	0	0	0	0	2,000
Solar Photovoltaic Panels	699	260	1,175	0	0	0	2,134
Wye Valley AONB		96	80	80	0	0	256
SEPUBU Grant	76	66	290	0	0	0	432
Warm Homes Fund	579	381	0	0	0	0	960
Air Quality Monitoring Station		192	0	0	0	0	192
Resource Improvements		0	18,090	0	0	0	18,090
Waste		0	73	0	0	0	73
E-Cargo Bike Share		0	2,042	0	0	0	2,042
Herefordshire Retrofit Hub		0	0	0	0	0	0
Green Homes Grant - Local Authority Delivery		1,835	0	0	0	0	1,835
Home Upgrade Grant		1,725	3,098	4,646	0	0	9,469
<b>Environment &amp; Sustainability Delivery Board</b>	<b>2,045</b>	<b>5,864</b>	<b>24,848</b>	<b>4,726</b>	<b>0</b>	<b>0</b>	<b>37,483</b>
Hereford Enterprise Zone	13,090	1,657	200	0	0	0	14,947

Marches Business Investment Programme	1,884	1,340	205	0	0	0	3,428
Employment Land & Incubation Space in Market Towns	341	500	3,000	10,000	6,860	0	20,701
Leominster Heritage Action Zone	167	1,104	1,833	0	0	0	3,104
Safer Streets / CCTV		383	0	0	0	0	383
Herefordshire Hoard		776	0	0	0	0	776
Fastershire Broadband	22,157	3,282	2,767	7,532	0	0	35,738
Development Partnership activities	10,415	25	1,975	3,000	5,185	0	20,600
<b>Economic Development Delivery Board</b>	<b>48,054</b>	<b>9,067</b>	<b>9,980</b>	<b>20,532</b>	<b>12,045</b>	<b>0</b>	<b>99,678</b>
Stronger Towns Fund - Hereford Museum & Art Gallery Redevelopment	2	1,398	10,800	5,800	0	0	18,000
Stronger Towns Fund - Greening the City		78	332	0	0	0	410
UK Shared Prosperity Fund		81	210	845	0	0	1,135
Rural Prosperity Fund		0	850	856	0	0	1,706
Stronger Towns Fund - Maylord Orchard Redevelopment and Learning Resource Centre	1	767	2,732	0	0	0	3,500
<b>Major External Funded Delivery Board</b>	<b>3</b>	<b>2,323</b>	<b>14,924</b>	<b>7,500</b>	<b>0</b>	<b>0</b>	<b>24,751</b>
PC Replacement	1,418	98	0	0	0	0	1,516
Electronic Document Management Storage	212	103	0	0	0	0	315
Capital Development Fund		500	500	0	0	0	1,000
Key Network Infrastructure (Core Data Centre Switches & Corporate Wi-Fi)		555	0	0	0	0	555
HARC SAN Lifecycle Replacement		0	372	0	0	0	372
Data Centre Equipment Lifecycle Replacement		0	329	0	0	0	329
Windows Server Upgrades		0	330	0	0	0	330
Backup Storage		0	82	0	0	0	82
Device and Ancillary kit replacement programme		0	365	365	415	448	1,593
M365 E5 Implementation		0	300	150	0	0	450
Primary Data Storage Area Network (Plough Lane)		335	0	0	0	0	335
<b>IT Services Partnership Board</b>	<b>1,630</b>	<b>1,591</b>	<b>2,278</b>	<b>515</b>	<b>415</b>	<b>448</b>	<b>6,877</b>
Flexible Futures	167	683	0	0	0	0	850
My Account		313	130	0	0	0	443
<b>Corporate Transformation Delivery Board</b>	<b>167</b>	<b>996</b>	<b>130</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,293</b>
Schools Capital Maintenance Grant		3,265	3,908	1,195	0	0	8,368
Peterchurch Area School Investment	228	100	7,350	3,175	0	0	10,853
Brookfield School Improvements	214	337	3,654	795	0	0	5,000
High Needs Grant		300	1,077	2,678	0	0	4,055
Basic Needs Funding		259	7,496	8,610	0	0	16,365
Preliminary works to inform key investment need throughout the county	200	316	0	0	0	0	516
School Accessibility Works	99	141	1,000	0	0	0	1,240
Estates Capital Programme 2019/22	2,773	1,499	1,810	0	0	0	6,082
Residual property works identified in the 2019 condition reports		1,199	193	0	0	0	1,392

Estates Building Improvement Programme 22-25	1,329	1,414	264	0	0	3,007
Estates Building Improvement Programme 2023-25	0	2,460	1,247	0	0	3,707
Upgrade of Hereford CCTV Cameras	42	0	0	0	0	42
Hereford Library	145	0	200	0	0	345
<b>Asset Management Delivery Board</b>	<b>3,659</b>	<b>8,787</b>	<b>30,562</b>	<b>17,963</b>	<b>0</b>	<b>60,972</b>
Disabled facilities grant	3,018	2,540	2,000	0	0	7,558
Super Hubs	0	2,000	0	0	0	2,000
Unified Tech Fund – Digitising Social Care Prog	75	0	0	0	0	75
Rough Sleepers Accommodation Programme	280	143	0	0	0	423
<b>Community Wellbeing Delivery Board</b>	<b>280</b>	<b>3,237</b>	<b>4,540</b>	<b>2,000</b>	<b>0</b>	<b>10,056</b>
Hillside Care home & Extra Care Development	589	411	0	0	0	1,000
Empty Property Investment & Development	100	500	3,000	9,000	1,400	14,000
Gypsy & Traveller Pitch development	414	900	0	0	0	1,314
Strategic Housing Development	755	30	1,092	0	0	1,877
Private sector housing improvements (Demo Centre)	140	1,252	6,200	6,504	5,904	20,000
	25	174	0	0	0	199
<b>Housing &amp; Accommodation Delivery Board</b>	<b>1,508</b>	<b>2,380</b>	<b>8,692</b>	<b>9,504</b>	<b>14,904</b>	<b>38,389</b>
<b>Total Capital Programme</b>	<b>98,060</b>	<b>66,195</b>	<b>140,283</b>	<b>103,771</b>	<b>52,177</b>	<b>6,270</b>
						<b>466,756</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 31 March 2022 the General Fund balance was £9.6m (6.0% 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 Risk	Likelihood	Impact	Mitigating Action
<p><b>Not delivering required improvements</b></p> <p>The council must address the statutory direction and improvements across Children's Services</p>	Low	Medium	<p>The Children's Improvement Board is working with the Department for Education and the appointed Commissioner for Children's Services and resources have been allocated to address required transformation and improvement.</p> <p>Performance against the Improvement Plan is monitored and reported on a quarterly basis.</p>
<p><b>Unexpected events and emergencies</b></p> <p>By its nature, the financial risk is uncertain</p>	Low	High	<p>The Council maintains a strategic reserve at a level of between 3 and 5% of its revenue budget for emergency purposes. The level of this reserve at 31 March 2022 was 9.6m (6.0% of budget). Additionally, national resources have historically been provided to support national issues.</p>
<p><b>Increasing demand for Adult and Children's Social Care</b></p> <p>Demand for Children's services continue and demand for adult services increases as the population ages.</p>	High	Medium	<p>Demand led pressures are reflected within our spending plans. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand. Talk Community and strength Based Assessment have evidenced managing demand and investing in Early Help and Prevention will support our response to increasing demand.</p>
<p><b>Potential overspend and non-delivery of savings required to balance the budget</b></p>	Medium	Medium	<p>High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Leadership Teams and Cabinet enables the identification actions to mitigate the risk of overspends.</p>
<p><b>Volatility in Government funding streams</b></p> <p>The government settlement for 2023/24 is a one year settlement; the assumed funding for the MTFS period is not confirmed</p>	High	Medium	<p>The MTFS reflects prudent estimates and assumptions in the financial planning over the medium term period where it is acknowledged that uncertainty over future funding exists.</p>
<p><b>Interest and Inflation</b></p> <p>There is uncertainty over interest and inflation rates</p>	Medium	Medium	<p>The Treasury Management Strategy is informed by latest forecast, as provided by our Treasury Management Advisors. Increases in borrowing rates will be offset by increases in investment returns.</p>

## Draft Value for Money Strategy

# VALUE FOR MONEY STRATEGY

## Introduction and our Vision for Herefordshire

This document sets out Herefordshire Council's strategy for assuring ourselves of Value for Money (VfM) in the planning and delivery of all of its services.

The Chartered Institute of Public Finance & Accountancy Financial Management Code states that in making decisions, allocating resources and planning the delivery of services, the authority should seek to ensure that its services are economical, efficient, effective and equitable and break the concept of value for money down into four 'pillars' which are more readily measurable:

- Economy
- Efficiency
- Effectiveness
- Equity

This Strategy has been developed as we want to improve the way we manage our approach to Value for Money to ensure we provide financial, social, economic and environmental value and are able to show the real impact that we have on our residents and our communities.

Our ambition for Herefordshire is set out in the County Plan 2020-2024 and sets the strategic priorities of which value for money is central to its delivery:

*“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”.*

A new Delivering Value for Money Policy is in place and value for money will be incorporated into the performance review process to ensure that services and the council as a whole are constantly reviewing and improving the use of our resources and the quality of services that are offered.

## Key Drivers

In seeking to fulfil its vision of delivering services that perform well and outcomes that improve our residents' quality of life, at a cost that compares favourably with other similar councils, the council has identified four key drivers:

- Ensure that Value for Money remains a clear and sustained focus for the council and is integral to its key decision making processes;
- Promote a shared understanding across the council of what Value for Money means in practice and a culture of continuous improvement;
- Deliver savings that will provide resources for improving services; and
- Demonstrate to residents and other stakeholders that the council achieves good Value for Money.

## Approach to Value for money at Herefordshire Council

Value for Money at Herefordshire Council is:

*“Achieving our business priorities economically, efficiently, effectively and equitably whilst maximising social and environmental value”*

Value for Money is about achievement of the 3E’s:

- Economy - doing things at the best price
- Efficiency - delivering with the least waste of time and effort
- Effectiveness - delivering what we said we would deliver
- Achieving VfM is not simply about one-off reviews, it is a process of continuous service review and improvement.

### **Our Value for Money priorities**

- Integrate VfM and Social Value as part of the Herefordshire Council culture
- Manage our assets to optimise our return on investment
- Gain best possible value out of procurement
- Understand and be able to report on social and environmental value
- Fully understand our costs their impacts across Herefordshire Council and how they link to performance and how we compare with others
- Increase service efficiency and effectiveness – understanding our residents and community needs (performance and continuous improvement)
- Further involve our Staff and Stakeholders in gaining value for money
- Be transparent, accountable and have accessible communication

### **Framework for Delivering Value for Money**

To support delivery of these opportunities, a structure has been put in place around which the plan can be developed and success achieved:

### **VfM Delivery Framework**



## Who is involved?

Value for Money needs to be embedded across the council and involves all our governance structures, customers, staff and contractors.

The council's executive, Management Board, are ultimately responsible for ensuring the delivery of value for money, monitoring progress and ensuring that it is embedded into the council's policies and procedures.

However, the responsibility for increasing value for money lies with all Members and officers at all levels of the council. It is not restricted to those with resource or financial management responsibilities, or to the directors of service.

Managers have the executive responsibility to maintain an awareness of good practices in their own area of operation and to ensure that these are followed appropriately. Value for money must be delivered in all of the budgets that they manage. Managers also have the responsibility to keep up to date with developments in good practice in their own service areas. They should actively attempt to identify and review new and developing good practices and apply them to Herefordshire where appropriate.

Every member of staff at Herefordshire Council has a responsibility for delivering value for money on a day to day basis for our customers and working with contractors to get value for money from contracts. All members of staff should attempt to seek and achieve value for money in all of their activities and to bring to management's attention any possible areas for improvement.

The responsibilities of Members are set out in the terms of reference for both the offices they hold and the committees and panels of which they are Members. This information is contained within the Constitution.

## Measuring and monitoring how well we are doing

We will use a variety of ways to assess if we are delivering value for money:

- High level financial, operational and satisfaction measures will be reviewed regularly;
- Management accounts are reviewed monthly;
- Key performance measures identified in the council's Delivery Plan are reviewed quarterly;
- We will compare our costs and performance with our peers through internal benchmarking;
- Internal audit carry out reviews as agreed in the internal audit work planning process; and
- Our external auditors will conduct an annual review and provide findings and suggestions for improvement, where appropriate.

## Related Council Documents

- 1 Herefordshire Council County Plan 2020-2024
- 2 Herefordshire Council Delivery Plan 2020-2022, Respecting our Past Shaping our Future
- 3 Herefordshire Council Medium Term Financial Strategy 2021/22 – 2023/24
- 4 Herefordshire Council Treasury Management Strategy
- 5 Herefordshire Council Social Value Statement
- 6 Herefordshire Council Contract procedure rules
- 7 Herefordshire Council Procurement and Commissioning Strategy
- 8 Herefordshire Council Annual Report
- 9 Herefordshire Council Risk Management Policy
- 10 Herefordshire Council Digital Strategy
- 11 Herefordshire Council Performance Management Framework
- 12 Herefordshire Council Customer Service Standards
- 13 Herefordshire Council Workforce Strategy



