

## **Medium Term Financial Management Strategy 2009 – 12**

### **Foreword by the Leader & Cabinet Member (Resources)**

The Medium Term Financial Management Strategy (MTFMS) is an important document because it reflects our strategic and operational intentions over a three-year time frame. The strategy continues to have a significant influence on our financial culture, helping to shift thinking and financial behaviour away from short-term budget setting to a more appropriate, longer-term approach that brings stability to our support for service improvement.

When the current MTFMS was agreed by council in March 2008, few people could have accurately assessed the scale of the impact of the economic downturn that has affected the world economy. Herefordshire has not been immune from these effects and we have adapted our medium term plans to address the implications of the dramatic change in the economy. With interest rates at their lowest ever level, we will see less interest received from our cash holdings, but, at the same time, the reduced cost of borrowing means that we will take the opportunity to reschedule debt if appropriate, so that we reduce the cost of existing borrowing for future generations. It is because we have a flexible MTFMS that we can make decisions as and when it is appropriate to do so.

We will shortly see our performance measured within the new Comprehensive Area Assessment (CAA) framework as we move away from a focus on individual organisations to an area-based review of performance. The change to our inspection and assessment framework is allied to the funding received by Herefordshire, which sees the Area Based Grant (ABG) putting previously separate funding streams into a single 'pot' to deliver area-based improvements. The MTFMS reflects these developments.

In 2008, the council has seen continued improvements in its financial performance and procedures that underpin our activity. This performance has been acknowledged by the Audit commission with an improved Use of Resources score that assesses the council to be a "good" performer in this important area.

The following year will be challenging as a result of the economic downturn and, as a result, it is important that we continue to deepen our partnership with the primary care trust. This deep partnership is already paying dividends and, over the next 12 months, there will be stronger evidence of its impact, including the delivery of a Joint Medium Term Financial Management Strategy that helps support the service improvement of both organisations.

**Cllr. Roger Phillips**  
**Leader of the Council**  
**(Resources)**

**Cllr. Harry Bramer**  
**Cabinet Member**

## **Foreword by the Chief Executive and Director of Resources**

Planning the use of public money is a special accountability for Herefordshire and, as a result, it is important we continue to ensure Herefordshire has financial stability and also deploys resources to support agreed priorities. This cannot be achieved if we limit our planning horizon to a single year. The Medium Term Financial Management Strategy (MTFMS) helps the council plan over a longer time framework and demonstrate how it will use its resources in the future.

The MTFMS is now a key part of the way we deliver our services. It is an appropriate way to plan our expenditure and has played a part in helping the council's Use of Resources score improve in 2008. However, we have continued to review and, where appropriate, improve the strategy. This latest MTFMS is a shorter document, reflecting that we now have less explaining to do around some of the basic assumptions. As a result, it should be a more accessible document for the public, as well as our partners

The MTFMS has helped change Herefordshire's financial management culture. It also includes a requirement that responsibility for managing individual budgets rests with our budget managers who operate within our financial policies and procedures. The MTFMS helps explain the overall position, so that we all know that financial management is part of our day-to-day activity and that we must demonstrate we provide value for money at a time when the economic downturn is having a widespread effect.

**Chris Bull**  
**Chief Executive**

**David Powell**  
**Director of Resources**

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## **1. Introduction**

- 1.1 This Medium-Term Financial Management Strategy (MTFMS) for Herefordshire covers the financial years 2008/09 to 2011/12 and it sets out how the council intends to maintain financial stability, support investment in priority services, deliver improved value for money and manage risk as we face up to very challenging times for local government.
- 1.2 The MTFMS forms part of Herefordshire's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities.
- 1.3 The outcome of the Comprehensive Spending Review 2007 (CSR07) set the financial context for the three financial years 2008/09 to 2010/11. The stability brought to local government finance by a three year settlement was confirmed by the 2009 financial settlement that remained unchanged from the original allocations outlined in CSR07.
- 1.4 A major development since the last MTFMS has been the downturn in the economy and the "credit crunch", which has impacted across the world. This has had a direct impact on income earned from investing council reserves and also on the demand for the council's services. This significant change in circumstances is reflected in the revised Financial Resource Model (FRM) included in the strategy.
- 1.5 It is important to stress that whilst the Director of Resources is responsible for leading and advising on financial issues, budget managers are responsible for delivering their services within the budget made available to them and in line with the council's financial policies and procedures. This financial discipline must remain in place if the council is to maintain its reputation for good financial management confirmed in the latest Use of Resources assessment.

## **2. Economic Background**

### **2.1 Introduction**

2.1.1 This section outlines the current economic climate. The economic landscape changed dramatically in 2008 because of the 'credit crunch', the subsequent banking crisis and the change in economic outlook from slow growth to recession.

### **2.2 The Credit Crunch and Banking Crisis**

2.2.1 August 2007 saw the beginning of what has become known as the 'credit crunch' that affected the markets and the global economy. The credit crunch originated in the United States through lending to the sub-prime housing market. World wide investors, particularly banks, had invested in packages of sub-prime loans, attracted by the higher yields offered. The inter connection of the financial system meant that when these loans defaulted the impact was global.

2.2.2 At the start of 2008, the sub-prime loans crisis and the major downturn in the housing market in the United States, prompted fears around the world of the potential impact on world banking systems and on world growth. At the same time the Bank of England's Monetary Policy Committee (MPC) was very concerned at the build up of inflationary pressures, especially the rise in the oil prices and the knock on effects on general prices. Consequently, the MPC was cautious about cutting interest rates at that time.

2.2.3 The position shifted significantly in the Autumn of 2008 when the world banking system came near to collapse and governments around the world were forced to recapitalise and rescue their major banks. In the UK the Government and the Bank of England intervened by supplying liquidity to the banking market.

2.2.4 Late 2008 also saw oil and commodity prices start to fall sharply and inflationary fears were replaced by fears of recession. The housing market also came to a virtual standstill.

2.2.5 It was clear by October 2008, after the collapse of a number of financial institutions, including the Icelandic banks, that the financial crisis had precipitated an economic crisis. The extent of the banking crisis and recognition that the economic downturn would be more severe than previously predicted prompted swift reductions in the bank interest rate. On 8<sup>th</sup> October 2008 there was a co-ordinated global interest cut of 0.5%, followed in the UK by 1.5% on 6<sup>th</sup> November, 1% on 4<sup>th</sup> December and 0.5% on 8<sup>th</sup> January 2009.

2.2.6 On 19<sup>th</sup> January 2009 Gordon Brown announced a further range of initiatives, designed to get the banks lending to consumers and businesses.

2.2.7 It was evident that to try to tackle the financial position the Government abandoned its 'golden rule' to borrow only to invest over the economic cycle. The pre Budget Report on 24<sup>th</sup> November 2008 revealed the Government's plans for a significant increase in Government borrowing over coming years. This is designed to help stimulate economic growth to counter the recession.

## **2.3 Treasury Management Strategy**

- 2.3.1 The council produces an annual Treasury Management Strategy for borrowing and investment activities. The importance of the strategy is heightened by the effect of the credit crunch and banking crisis. The recent circumstances have resulted in a further tightening of investment practices and a more cautious approach.
- 2.3.2 As interest rates and the number of institutions the council invests with reduced this has had a significant impact on investment income to support the council's budget. The council has appointed Sector Treasury Services as treasury adviser to the council and part of their service is to assist the council to formulate a view on interest rates. Sector are currently predicting that the bank rate will reduce to 0.5% by 2009/10 because of the intensifying global recession. As a result the Financial Resource Model (FRM) includes a reduction in the investment income budget of £1.5m.

## **2.4 Summary of Current Situation in Herefordshire**

- 2.4.1 The latest report "Impact of the credit crunch on the Herefordshire economy" produced by Herefordshire Council Research Team uses facts and figures to give an overview of the effects of the down turn in the economy. In summary the findings suggest:
- An upward trend in unemployment, although levels are still low compared to other areas
  - An increase in number of empty business properties
  - A decline in the number of people visiting retail outlets
  - A decline in activity in the housing market
  - An increase in numbers of people experiencing debt
- 2.4.2 The impact on the council and council support services is as follows;
- Increase in people presenting as homeless
  - Increased requirement for debt advice
  - Decline in income covering planning services for Development Control and Building Control.
  - Decrease in building activity
  - Parking charges decrease
  - Licensing decreases
  - Property income reduces
  - Grant-giving charities receive less return on their investment that can be passed to public and voluntary sector schemes
- 2.4.3 The current economic down turn is therefore affecting individuals, businesses, voluntary and public sectors. Much of the impact is down to the non-availability of credit and its consequences.

## **2.5 Council Response to the Economic Downturn**

- 2.5.1 The council is intervening in a number of areas to address the negative effects of the down turn in the economy including;

- a) **Rural Enterprise Grants (REG)** – The new REG programme will provide access to finance for small scale diversification and business development projects for the benefit of rural businesses. Herefordshire Council administer this grant on behalf of AWM for the whole of the West Midlands region. The programme was launched in October 2008 and the team have experienced a high level of enquiries.
- b) **Broadband at Rotherwas** – Exploring an improved broadband service at Rotherwas that could reduce costs for some users that currently need leased lines, and help persuade others to make more use of e-business, with improved productivity and wider market opportunities.
- c) **Herefordshire Industrial Association (HIA) portal for local businesses** - This site gives signed-up businesses details of procurement/contract opportunities tendered by Herefordshire Council. The Economic Development Service is also in discussion with Business Link about delivering tailored contracting training to businesses to improve their knowledge of the procurement process and increase the quality of their responses. This approach should improve opportunities for local business to tender successfully for council contracts.
- d) **Retail Support** – A strong element of The Hereford City Centre Regeneration Strategy is to reinvigorate the retail element of the city centre. Rural shops are also under pressure due to the withdrawal of Post Offices. An approach has been made to AWM to support rural shops, and a new Market Town programme could support retail/services if implemented in 2009/10 financial year.
- e) **Housing Financial Support Packages** - The Homelessness and Housing Advice Team offer a range of preventative interventions aimed at reducing the risk of homelessness.
- f) **Affordable Housing** - Strategic Housing are supporting applications for grant support to the Homes and Communities Agency (HCA) for the funding of additional affordable homes. Private sector landlords are also being offered the opportunity to lease their empty property to the council for the purpose of offering a home to homeless households on the waiting list.
- g) **Energy Efficiency grants** – These are promoted to support households to improve energy efficiency in their homes and tackle fuel poverty in support of the Affordable Warmth Strategy.
- h) **Communication regarding benefit entitlement** - An advertising campaign began in December 2008 at Morrison Supermarket, followed by promotional material on the local buses and future advertising is planned at local hospitals in Bromyard and Leominster.
- i) **Access to benefit information** – The Benefit Service is increasing training for front line staff at the Info Shops around the County to give improved benefits advice to customers. Claim forms are being improved and increased publicity leaflets are being produced to provide easier access to help and more useful information to customers.
- j) **Maximise Benefit Database** – There is joint working across the Benefit Service and Children and Young Peoples Directorate to use the council's



benefit database to provide access to free school meals to children who are entitled.

- k) **Benefits for older people** - Recent activity includes an advertising campaign about welfare benefits entitlement and the availability of energy efficiency grants.

2.5.2 The potential loss of income to the council as a result of the economic downturn has been addressed in the financial strategy. The FRM includes £500k reduced income in 2009/10, which is expected to recover to £400k in 2010/11 and £300k in 2011/12.

2.5.3 The proposed allocation of the £500k for 2009/10 is as follows;

- Deputy Chief Executive's Directorate: The current target for land charges is likely to suffer a £150k shortfall in 2009/10.
- Regeneration Directorate: The recession has impacted upon planning income and the current estimate for 2009/10 is for a shortfall of £175k.
- Resources Directorate: A reduction in income for business units is likely and £50k is to be used to support this position.
- Environment Directorate: An additional £125k is to be used to support the reduction in car park fee income.

2.5.4 The 2009/10 capital bids in Section 6.11.8 largely reflect initiatives to mitigate the impact of the economic downturn.

### **3. The National Financial Context**

#### **3.1 Introduction**

3.1.1 This section of the MTFMS sets out the financial context at national level for local government.

#### **3.2 Comprehensive Spending Review 2007 (CSR07)**

3.2.1 CSR07 set Departmental Expenditure Limits (DEL) for all government departments, including local government, taking account of spending plans and priorities for 2008/09 to 2010/11. CSR07 was prepared in the context of projected lower economic growth and was tighter than the previous spending review. However it still assumed underlying economic growth and as a result CSR07 provided local government with a real increase in funding of 1% a year, with the Chancellor stating that annual increases in council tax would be capped at 5%.

3.2.2 Ring-fencing of a number of grants was removed and switched to revenue support grant or area based grant. This change was in line with a commitment to increase flexibility.

3.2.3 Within CSR 07 the key challenges identified for local government were;

- Adult Social Care – rising demands due to long-term demographic changes
- Education – including capital investment
- Waste – pressure to reduce household landfill
- Communities – increasing place-shaping role for councils
- Services – rising expectation for modern and personalised services

3.2.4 Local authorities were expected to develop services within this funding regime by a rigorous pursuit of the efficiency agenda. Public services were set a target of achieving at least 3% per annum net cash releasing gains over the CSR07 period. Cashable efficiency savings of £4.9bn were expected from local government, mainly from better procurement and business processes.

3.2.5 As part of the CSR07 framework announcements around the performance framework for local government included;

- A single set of local government priorities in Public Service Agreements
- 198 national performance indicators
- A maximum of 35 national targets negotiated through Local Area Agreements (LAA)

#### **3.3 Local Area Agreements (LAA) and Area Based Grants**

3.3.1 LAAs are three year agreements between central and local government, designed to meet national targets as well as local priorities. They are intended to devolve more power to local communities combining area based funding streams into an area based grant to give local authorities and their partners more flexibility to make funding decisions in response to local needs and priorities.

#### **3.4 Pre Budget Report 2008**

3.4.1 The Chancellor of the Exchequer's 2008 Pre-Budget statement to the House of Commons on 24<sup>th</sup> November 2008 informed Parliament about what has been achieved to date, updated Parliament on the state of the economy and public

finances, and set out the direction of Government policy in the run up to the spring Budget. At the same time the chancellor indicated that the Government's immediate priority was to support the economy through the current downturn. The Treasury reduced its forecasts for economic growth for 2008 and predicted that the economy would shrink in real terms in 2009. The expectation is that economic growth will recovery from 2010/11 onwards.

3.4.2 Headlines from the Pre-budget report are;

**a) Economy**

- Growth forecast for the UK is expected to fall to -0.75% to -1.25% in 2009
- Inflation is expected to continue to fall
- A £20bn fiscal 'boost' between now and 2010
- Borrowing will be significantly higher than forecast (£78bn in 2008, £118bn in 2009)
- The Government will find £5bn extra efficiency savings by 2010/11.
- £3bn of capital spending will be brought forward from 2010/11.

**b) VAT**

- Temporarily reducing VAT by 2.5 % (17.5% to 15%) until the end of 2009 providing £12.5bn to stimulate the economy

**c) Income Tax**

- The temporary £120 allowance for people who lost out as a result of ending the 10% income tax rate will be made permanent, with the amount rising to £145
- A new 45% income tax rate on earnings over £150k from April 2011 (if Labour wins the next election)

**d) National Insurance**

- National Insurance to go up by 0.5 per cent from April 2011

**e) Alcohol, Tobacco and Petrol**

- Increased duty on alcohol, tobacco and fuel to compensate for the fall in VAT

**f) Car Tax**

- Car tax increases to be less than announced in the April Budget

**g) Businesses**

- Temporary extension of empty property reliefs
- £1bn for a temporary Small Business Finance Scheme
- 1p rise in small business corporation tax postponed

**h) Mortgages**

- Measures to help mortgage payers to be announced
- £15m funding for debt advice
- Help for people with mortgages up to £200k who have lost their jobs

**i) Environment**

- £100m to help households insulate homes
- £530m to be spent on energy efficiency, rail and environmental protection
- Air passenger duty to be rated on distance travelled

#### **j) Social Housing and Regeneration**

- An additional £775m to invest in social homes and regeneration

#### **k) Children and the Elderly**

- Child Benefit to increase from £18.80 to £20 in January 2009
- Pension Credit will increase from £124 to £139 a week for single people
- State Pension for single people increasing from £90.70 to £95.25 a week from April 2009
- Pensioner one-off payment of £60 in January 2009

### **3.5 Local Government**

3.5.1 The Chancellor's only real mention of local services was his promise to continue "improving" public services and ensuring "value for money".

3.5.2 Those announcements of particular interest to local authorities were:

- Bringing forward of £3bn of capital spending from 2010/11 into 2009/10 and 2008/09 for housing, education, transport and other construction projects
- Local government will achieve £4.9bn of annual net cash-releasing efficiency savings by 2010/11.

### **3.6 Local Government Settlement 2008/09 to 2010/11**

3.6.1 The Provisional 2009/10 Settlement was originally announced on 6 December 2007 as part of the first three-year settlement along with Provisional 2008/09 and 2010/11 allocations. The final Local Government Settlement for 2008/09 and provisional settlements for 2009/10 to 2010/11 were laid before the House of Commons in January 2008.

3.6.2 On 26th November 2008 the Minister for Local Government, John Healey MP, presented the Provisional Settlement for 2009/10 and confirmed that;

- a) Formula grant, which includes Revenue Support Grant, redistributed business rates and Police Grant, would be the same as announced in January 2008.
- b) Formula grant will total £28.3bn in 2009/10 and £29bn in 2010/11, increases of 2.8% and 2.6% respectively.
- c) Total funding for councils, including specific grants, would be £73.1bn in 2009/10, an increase of 4.2%, and £76.4bn in 2010/11, an increase of 4.4%.
- d) Specific grants, including PFI and Area Based Grant increased by 4.9%

3.6.3 At the same time the Government published figures for specific grants, including Area Based Grant of £49.1bn in 2009/10 and £51.7bn in 2010/11.

3.6.4 The Minister stressed the importance of the annual efficiency improvements and announced that councils need to be finding more than £1.5bn new savings every year. In order to ensure that local residents have information about their council's efficiency performance the Minister confirmed that councils will be required to set out efficiency figures on council tax bills and in accompanying leaflets from 2009/10.

- 3.6.5 The Government made it clear that they expect council tax increases for 2009/10 to be substantially less than 5% overall and that they would not hesitate to use capping powers if necessary.
- 3.6.6 John Healey MP presented the Final Local Government Finance Report in a written statement to the House of Commons on 21<sup>st</sup> January 2009 and confirmed that the final figures remained unchanged from those published in November 2008.

### **3.7 Efficiency Agenda**

- 3.7.1 The national efficiency agenda was initiated by the 2004 Gershon Review, which promoted savings from shared back office services and joint procurement arrangements. The aim was to make the best use of resources available for the provision of public services and to release more resources to the front line.
- 3.7.2 The 2004 Spending Review incorporated these objectives. All councils had to deliver 2.5% efficiency savings per year, with at least half of these to be cash releasing. The target was a total of £3bn by the third year (2007/08).
- 3.7.3 The 2007 Comprehensive Spending Review (CSR 07) required councils collectively to deliver 3% cash releasing savings per year. The target is £4.9bn by the third year (2010/11).
- 3.7.4 In the 2008 Pre Budget Report the Government announced that departments were making good progress towards the CSR 07 value for money target and announced an additional £5bn target for 2010/11. The details of how the £5bn will be distributed will be published in the Spring Budget.

### **3.8 Outlook for Local Government**

- 3.8.1 The indication for local government is that there will be increasing pressure on services. Demand for services including housing, social services and economic development will increase. Regeneration will be a key priority. Pension costs too are increasing and the concept of public sector pensions is under challenge.
- 3.8.2 The indication is that funding settlements from 2011/12 are likely to include slower growth rates than CSR07. As the council's MTFMS now includes the first year of the next CSR cycle it is taking a cautious assessment of the financial position in 2011/12. As a result nil growth in central government funding is factored into our planning from that year.

## 4. Herefordshire's Financial Context

### 4.1 Introduction

4.1.1 This section of the MTFMS describes Herefordshire's financial position. It is important to set the scene locally before considering the best approach to the high-level management of the council's financial resources to ensure cash follows priorities.

### 4.2 Formula Grant

4.2.1 The three year settlement under CSR07 was confirmed in January 2009. Over the CSR07 period Herefordshire Council's Formula Grant allocation, including Revenue Support Grant and Non-distributed rates is:

	<b>2008/09 Final</b>	<b>2009/10 Final</b>	<b>2010/11 Provisional</b>
Formula Grant	£53.3m	£55.4m	£57.6m
Increase on like-for-like basis	4.8%	4.0%	4.0%

4.2.2 These figures remain unchanged from those announced in January 2008. We do not have any indicative figures for 2011/12 and the Financial Resource Model includes an assumption that the grant will remain unchanged from 2010/11.

### 4.3 Specific Grants

4.3.1 The allocation of specific grants was confirmed in January 2009 including Dedicated Schools Grant. The figures for Herefordshire are as follows;

	<b>2009/10 £000</b>	<b>2010/11 £000</b>	<b>Change £000</b>
<b>REVENUE GRANTS</b>			
<b>Education and Children's Personal Social Services</b>			
Dedicated Schools Grant	84,291	87,411	+3,120
Schools Standards Grant (including Personalisation)	5,129	5,236	+107
Ethnic Minority Achievement	47	47	0
Music Services	293	293	0
Extended Schools	513	723	+210
School Development Grant	7,666	7,782	+116
School Meals	239	239	0
Free Entitlement for 3-4 Year Olds	351	1,165	+814
Sure Start, Early Years and Childcare	3,770	4,422	+652
Youth Opportunity Fund	90	90	0
Short Breaks (Aiming High for Disabled Children)	167	537	+370
			0
<b>Adults' Personal Social Services</b>			0
Social Care Reform	712	886	+174
Stroke Strategy	89	89	0
			0
<b>Other</b>			0
Concessionary Fares	555	571	+16
Homelessness Basic Revenue	60	60	0

* Supporting People	5,887		-5,887
Growth Areas - Revenue	171	171	0
			0
<b>CAPITAL GRANTS</b>			0
<b>Department for Children, Schools and Families</b>			0
Devolved Formula Grant	2,745	2,745	0
Extended Schools	321	166	-155
Harnessing Technology Grant	1,225	1,091	-134
Modernisation Grant		1,457	+1,457
Intervention Centre	850	850	0
Sure Start, Early Years & Childcare Capital Grant	1,257	1,010	-247
TCF 14-19 diplomas & SEN projects	2,000	6,000	-4,000
Youth Capital Fund	76	76	0
Building Schools for the Future	7,882	8,644	+762
Academy Funding	9,146	8,662	-484
			0
<b>DEFRA</b>			0
Waste Infrastructure	312	115	-197
			0
<b>Dept of Health</b>			0
Mental Health Grant	96	96	0
Social Care	96	96	0
Improving Management Information	59	64	+5
			0
<b>Dept for Transport</b>			0
Local Transport Plan Highways Maintenance	100	125	+25
Local Transport Plan Integrated Transport (Part)	748	714	-34
Road Safety	74	72	-2
			0
<b>Home Office Capital Grants</b>			0
Safer Stronger Community Fund	44	44	0
			0
<b>DCLG</b>			0
Disabled Facilities Grant	468	tbc	-468
Housing Market Renewal	734	734	0
Growth Areas – Capital	1,460		-1,460
			0
<b>TOTAL</b>	<b>139,723</b>	<b>142,483</b>	<b>+2,760</b>

\*From 2010/11 Supporting People grant will be included in the Area Based Grant. In 2009/10 it will not be ringfenced.

#### 4.4 Area Based Grant

4.4.1 As part of the 2007 Comprehensive Spending Review, the Government announced the creation of Area Based Grants (ABG), a non-ringfenced general grant, made up of a wide range of former specific grants.

4.4.2 The area based grant for Herefordshire Council for 2009/10 is £9.5m, which is made up of the following grant streams;

	<b>£000</b>
Cohesion	49
Supporting People Administration	119
Climate Change (Planning Policy Statement)	22
School Development Grant	82
Extended Schools Start-Up Grants	813
Primary National Strategy - Central Co-ordination	115
Secondary National Strategy - Central Co-ordination	141
Secondary National Strategy - Behaviour and Attendance	68
School Improvement Partners	108
Education Health Partnerships	55
School Travel Advisers	32
Choice Advisers	20
School Intervention Grant	70
14 - 19 Flexible Funding Pot	48
Sustainable Travel - General Duty	16
Extended Rights to Free Transport	257
Connexions	1,470
Children's Fund	357
Child Trust Fund	2
Positive Activities for Young People	86
Teenage Pregnancy	99
Children's Social Care Workforce	40
Care Matters White Paper	115
Child Death Review Processes	16
Young Peoples Substance Misuse	27
Adult Social Care Workforce	504
Carers	834
Child & Adolescent Mental Health	217
Learning & Disability Development Fund	132
Local Involvement Networks	119
Mental Capacity Act & Independent Mental Capacity	107
Mental Health	444
Preserved Rights	1,471
Stronger Safer Communities	182
Young People Substance Misuse Partnership	31
Road Safety Grant	331
Rural Bus Subsidy	921
<b>TOTAL</b>	<b>9,520</b>

4.4.3 The ABG represented a significant shift in the Government's approach to funding when it was introduced in 2008/09. It is important to stress this is not 'new' money.



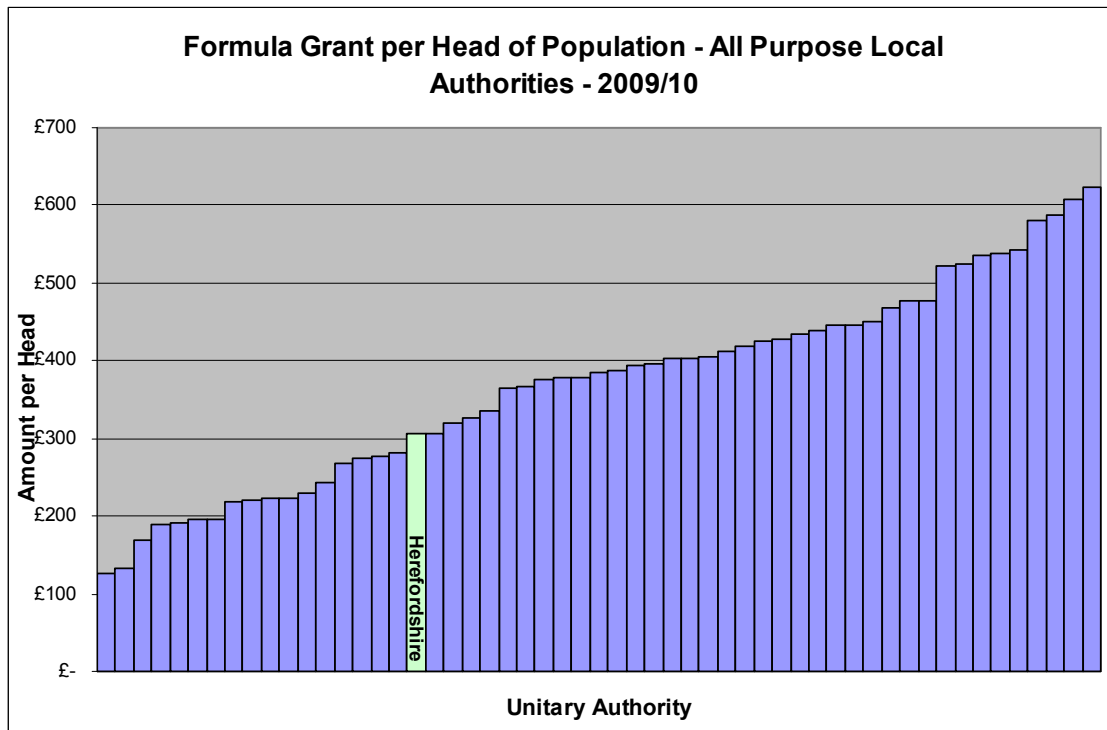
It is a change to the way existing grant schemes are presented and can be used. The challenge faced by all local authorities is one of transition from funding existing services using specific grants that become part of ABG. To help the transition Herefordshire's approach is that all grants automatically stay within existing service areas for the year immediately following their inclusion in ABG. Thereafter the funding decisions are part of the governance arrangements of the Herefordshire Partnership.

#### 4.5 Comparative Funding Position

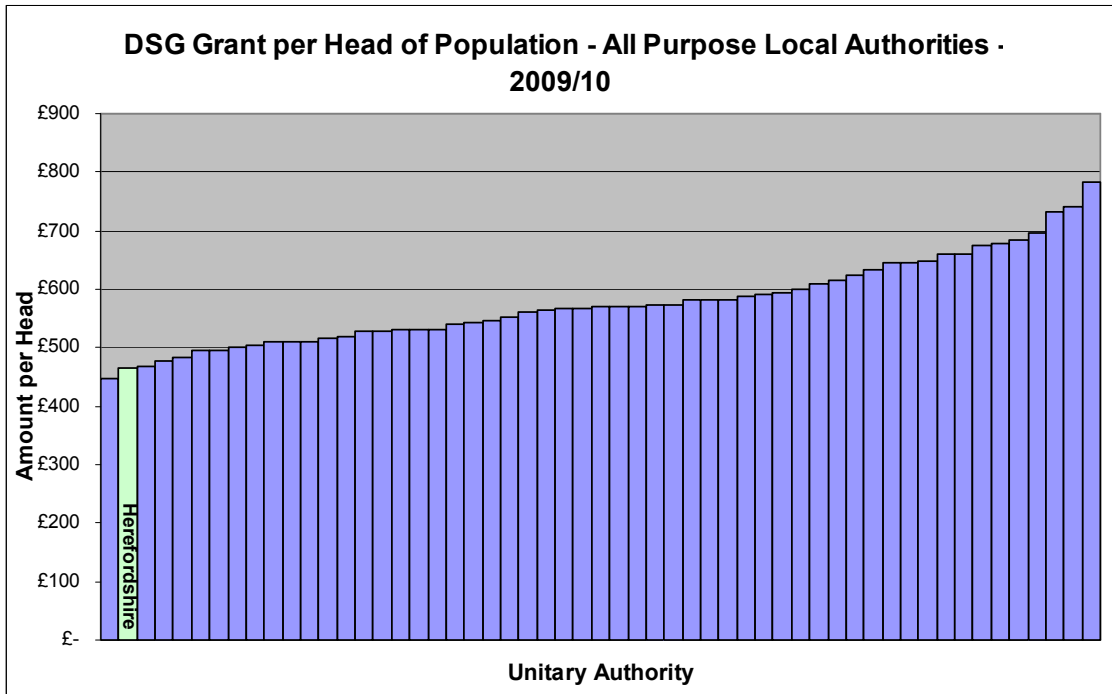
4.5.1 Herefordshire does not get a fair share of central Government funding and this continues to be the case. The 2009/10 settlement figures show that:

- a) Formula Grant per head of population is £306 – 17% below the unitary authority average of £369.
- b) Indicative Dedicated Schools (DSG) Grant per head of population is £466 – 19% below the unitary authority average of £576.
- c) Formula Grant plus indicative DSG per head of population is £771 – 18% below the unitary authority average of £945.

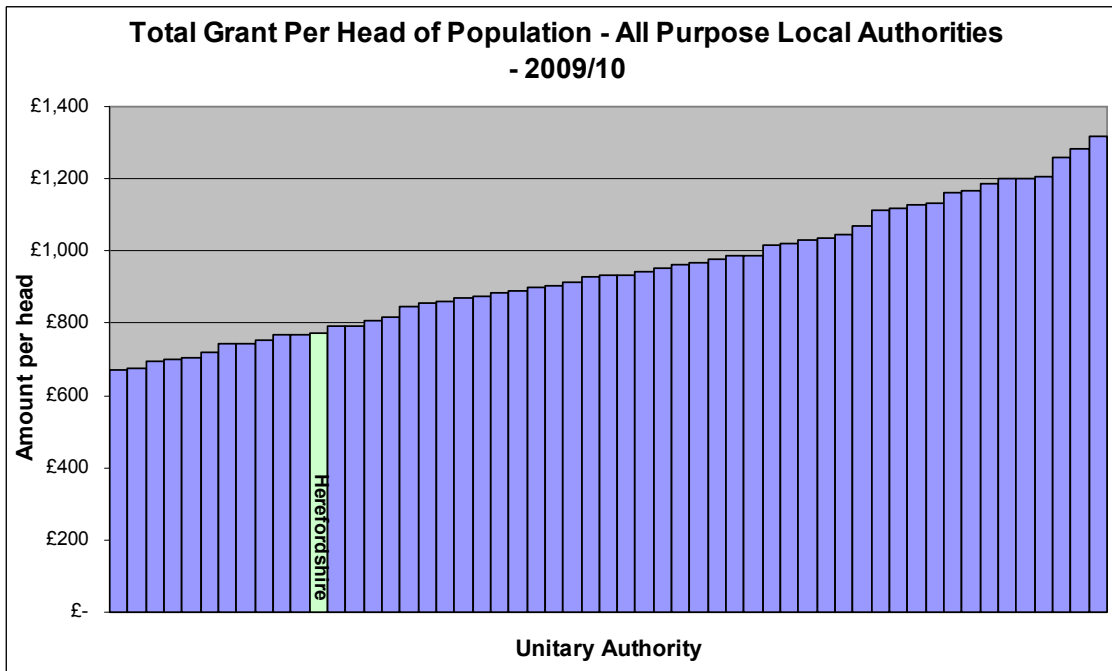
4.5.2 The graph below shows Formula Grant per head of population for all unitary councils for 2009/10. It shows that Herefordshire is 38th out of 55 unitary authorities.



4.5.3 The graph below shows DSG per head of population for all unitary authorities for 2009/10. It shows that Herefordshire is 54th out of 55 unitary authorities.



4.5.4 The graph below shows grant per head of population, including both Formula Grant and DSG for all unitary authorities for 2009/10. It shows that Herefordshire is 44<sup>th</sup> out of 55 unitary authorities.



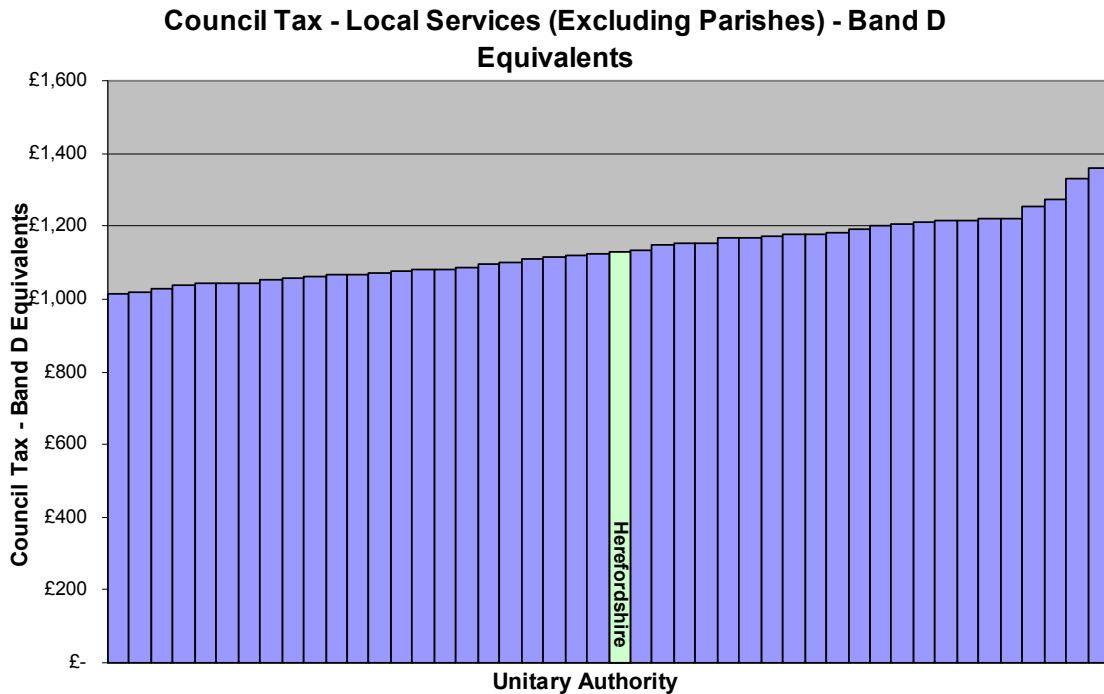
## 4.6 Council Tax

4.6.1 The Government has stated that councils are expected to agree council tax increases of substantially less than 5% overall.

4.6.2 The previous section clearly demonstrated that Herefordshire does not get a fair share of central government funding. This lack of funding is not at the expense of above average levels of council tax. In fact Herefordshire Council's council tax for 2008/09 is below average as shown below;

	Average Council Tax excl. Parish Payments (Band D)	Difference	% Difference
<b>Herefordshire</b>	<b>£1,131.13</b>	<b>-</b>	<b>-</b>
<b>Unitary authorities</b>	<b>£1,132.52</b>	<b>£1.39</b>	<b>0.1%</b>
<b>West Midlands</b>	<b>£1,330.63</b>	<b>£199.50</b>	<b>17.6%</b>
<b>England</b>	<b>£1,355.24</b>	<b>£224.11</b>	<b>19.8%</b>

4.6.3 The following graph shows Herefordshire's Council council tax position in relation to other unitary councils;



## 4.7 Reserves

### 4.7.1 Revenue Reserves

4.7.2 Herefordshire has 2 main sources of reserve funding to support the day to day spending that is recorded in the revenue account – the General Fund balance and Specific Reserves. As the titles suggest, the latter are held for a specific purpose whilst the former could be considered a general contingency.

4.7.3 The following table shows the balance on the General Fund and the level of Specific Reserves at the end of the last 4 financial years plus an indicative forecast of the position at the end of 2008/09.

Balance as at:	General Fund £000	Specific Reserves		Total £000
		Schools	Other	
31st March 2005	14,491	8,919	2,325	25,735
31st March 2006	14,525	8,739	5,203	28,467
31st March 2007	8,023	8,137	11,637	27,797
31st March 2008	6,728	5,657	10,915	23,300
31st March 2009 (estimated)	6,766	5,200	6,684	18,650

4.7.4 A significant proportion of the Specific Reserves belong to our schools and cannot be used to help pay for non-schools services.

4.7.5 From 1<sup>st</sup> April, 2008, the council's policy has been to maintain the General Reserve at £4.5m (approximately 3.5% of the net revenue budget). This level of General Reserve balance is in line with recommended best practice and is consistent with the approach other similar authorities take. The Director of Resources is content to make his statutory declaration that this level of General Reserves is prudent as it provides adequate cover for:

- a) Demand pressures that are volatile, difficult to predict or unforeseen at the time the budget is set and that are not covered by an earmarked reserve.
- b) The contingent liabilities at the end of the 2007/08 financial year as set out in the annual Statement of Accounts.
- c) An adverse change in the key variables within the Financial Resource Model (FRM) as identified in section 7.7 of the MTFMS 2009 – 2012.
- d) Daily cash flow needs.

### 4.7.6 Capital Reserves

4.7.7 There is one capital reserve that represents cash available to support spending on the creation or enhancement of assets that is recorded in the capital account. It is known as the Usable Capital Receipts Reserve.

4.7.8 The following table shows the level of usable capital receipts for the last 4 financial years and an estimate for 2008/09;

<b>Balance as at:</b>	<b>£000</b>
31st March 2005	18,291
31st March 2006	20,070
31st March 2007	22,426
31st March 2008	17,945
31st March 2009 (estimated)	9,459

4.7.9 The estimated position at 31<sup>st</sup> March 2009 includes additional receipts of £2.53m in 2008/09 and the anticipated use of £11.02m to fund the capital programme.

4.7.10 The council has a strategy for disposing of surplus assets. Capital receipts will be generated over the medium-term as these assets are vacated and sold but they will be used to support future capital expenditure requirements.

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

## **4.8 Summary**

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

## **5. Herefordshire's Policy Context**

### **5.1 Introduction**

5.1.1 This section of the MTFMS describes the local policy context for Herefordshire.

### **5.2 Herefordshire Sustainable Community Strategy**

5.2.1 *The Herefordshire Sustainable Community Strategy 2006 to 2020* sets out what the council and its partners aim to achieve to make the county an even better place to live and work. Our priorities are closely aligned with central government priorities for public services. *The Local Area Agreement (LAA)* between the council, its partners and the Government is at the heart of delivering the strategy.

### **5.3 Corporate Plan and Annual Operating Statement**

5.3.1 The current Corporate Plan sets out what the council aims to achieve over the years 2008 to 2011, including what it will do to make a reality of the *Herefordshire Sustainable Community Strategy (HSCS)*. A revised plan for 2010 to 2013 is scheduled to be approved by September 2009.

5.3.2 The Corporate Plan contains the current overall targets, milestones and actions, together with the current budgets and other resources to achieve them, over the coming years. In March 2009 the council will publish a one-year Annual Operating Statement, which will report progress in delivering the Corporate Plan targets and key actions in 2008/09 and set out targets and timetabled key actions in 2009/10.

5.3.3 The council's Corporate Plan themes are:

- a) Children and Young People
- b) Health and Well Being
- c) Older People
- d) Economic development and enterprise
- e) Safer and stronger communities
- f) Sustainable communities
- g) Organisational improvement and greater efficiency

### **5.4 The Council's Top Priorities**

5.4.1 The council's top priorities are:

- The best possible life for every child, safeguarding vulnerable children and improving educational attainment
- Reshaped adult health and social care, so that more older and other vulnerable people maintain control of their lives
- The essential infrastructure for a successful economy, enabling sustainable prosperity for all
- Affordable housing to meet the needs of local people
- Better services, quality of life and value for money, particularly by working in partnership with the Herefordshire Primary Care Trust and other local organisations
- to the HSCS and the Local Area Agreement.

5.4.2 The table in Appendix A illustrates how the council's themes and top priorities relate

## **5.5 Public Consultation**

5.5.1 During the Autumn of 2008, the council and PCT jointly commissioned a survey of a representative sample of households across the county to gauge the population's views on the balance we should strike between different priorities and between those and the level of council tax. This was supplemented with workshops for older people in a rural area, disabled people and carers, and teenagers.

5.5.2 The results for council-led services showed a close correlation between the public's choices and the council's top priorities as shown in its Corporate Plan. In particular, the public wanted to see improvements to tackle traffic congestion, the provision of more support for families to protect vulnerable children and an increase in provision to meet increasing demand for adult social care. The public didn't want any reductions in youth services or in the provision of short-term re-ablement therapy in people's homes. They also didn't want reductions in the amount of support given to carers, nor in services for people with dementia or other mental health problems. Additionally, they didn't want there to be any deterioration in the condition of minor roads and footways.

5.5.3 To help pay for their desired improvements, the public indicated that they would be prepared to see reductions in other services, as well as more being charged for car parking and non-residential social care.

5.5.4 The council and the PCT are considering the outcomes from the consultation as they draw up plans together for coming years. They will also take account of the findings of the new national *Place Survey*, the results of which are expected in March 2009. This measures people's perceptions of the quality of their lives and what they think most needs to be improved.

## **5.6 Directorate and Service Plans**

5.6.1 Plans for individual directorates and services set out what each directorate and service will do to contribute to the corporate plan and achieve relevant targets. These feed into the plans of individual teams and the objectives and targets set annually for individual managers and their staff.

## **5.7 Herefordshire Partnership**

5.7.1 To achieve the vision, organisations, groups and service providers work together in the Herefordshire Partnership. This is a non-statutory, voluntary partnership, known as the Local Strategic Partnership (LSP). Partners include:

- a) Chamber of Commerce Herefordshire and Worcestershire, and Business Link West Mercia.
- b) Herefordshire Association of Local Councils.
- c) Herefordshire Council.
- d) NHS Herefordshire.
- e) Learning & Skills Council, Herefordshire and Worcestershire.

- f) Third Sector Organisations.
- g) West Mercia Constabulary.
- h) Fire Rescue Service

5.7.2 A significant factor that will improve the partnership's effectiveness is that over the last year the council has entered into a 'deep partnership' with the primary care trust – Herefordshire Public Services (HPS) – to provide a more effective and efficient service that will improve outcomes for local people, a better experience of services and improved value for money.

5.7.3 The overarching vision and priorities for Herefordshire are embodied in the Sustainable Community Strategy (Herefordshire Community Strategy) and the associated Local Area Agreement. The Community Strategy is due to be refreshed in 2009 to ensure that it is aligned with other existing and emerging plans and strategies. The Local Area Agreement was signed off by ministers in June 2008 and is due to be refreshed, in line with central government guidance, in March 2009.

## **5.8 The Performance Improvement Cycle (PIC)**

5.8.1 The council's links its financial planning and monitoring with corporate and LAA priorities through the annual Performance Improvement Cycle (PIC) process. The purpose of the PIC is to enable the council to:

- a) link directly, at all stages of planning and performance management, the allocation of resources with the delivery of the council's priorities in terms of measurable outputs and outcomes
- b) make informed choices about the trade-offs between investment in different services
- c) achieve the best possible value for money, overall and in respect of individual services
- d) make cash-releasing and non-cash-releasing savings to meet Government requirements and deliver service improvements in priority areas
- e) drive continuous performance improvement for better customer services across the council
- f) take account of what it needs to contribute to the Herefordshire Community Strategy and the Local Area Agreement
- g) maximise the benefit of the developing public service arrangements with the PCT.

5.8.2 To these ends, the processes for corporate, service and financial planning are fully integrated into the cycle.

5.8.3 The timetable for key elements of the performance improvement cycle for 2008/09 is attached at Appendix B. The PIC will be reviewed and rolled forward shortly for 2009/10.



## **6. Financial Management Strategy**

### **6.1 Introduction**

6.1.1 This section of the MTFMS describes Herefordshire's corporate financial objectives given the national and local context. It also covers Herefordshire's financial management proposals to achieve these objectives. This section also describes the financial management strategies for:

- a) Revenue spending.
- b) Capital investment.
- c) Efficiency review and improving Value for Money.
- d) Treasury management.

6.1.2 Active risk management is a key component of the council's corporate governance arrangements. This section of the MTFMS therefore sets out the key corporate and financial risks the council will be monitoring to ensure it stays on course to deliver its overall objectives.

### **6.2 Corporate Financial Objectives**

6.2.1 Herefordshire's corporate financial management objectives are to:

- a) Ensure budget plans are realistic, balanced and support corporate priorities.
- b) Maintain an affordable council tax – the Financial Resource Model (FRM) in the MTFMS assumes a sub-5% increase. This is in line with the 2009/10 Local Government Settlement announcement.
- c) Manage spending within budgets – Directorates are required as a 'non-negotiable' to manage outturn expenditure for each financial year within budget.
- d) Ensure sustainable balances, reserves and provisions – within a reasonable limit consistent with the corporate financial risks without tying up public resources unnecessarily.
- e) Create the financial capacity for strategic priorities for service improvement.
- f) Support a prudent level of capital investment to meet the council's strategic requirements.
- g) Maintain a strong balance sheet position.
- h) Deliver year on year efficiency and Value for Money improvements.
- i) Ensure an integrated approach to corporate, service and financial planning in full consultation with key stakeholders.
- j) Ensure a whole-life costing approach is taken to both revenue and capital spending decisions.

### **6.3 Managing partnership resources**

6.3.1 Herefordshire welcomes the opportunity to work with strategic partners to improve outcomes. However, to achieve its corporate financial management objectives, we will always seek to ensure:

- a) The financial viability of partners before committing to an agreement.

- b) Clarity of respective responsibilities and liabilities.
- c) Accounting arrangements are established in advance of operation.
- d) Implications of terms and conditions on any associated funding are considered in advance of operation.

6.3.2 From 2008/09 the new Area Based Grant (ABG) has been introduced, which develops the integration of partnership funding to achieve shared objectives. As an interim arrangement it was agreed by the Herefordshire Partnership (HP) Chief Executive's Group (CEG) that 2008/09 would be a transition year, with ABG allocated back to the areas where the base grants originated, giving each partner the autonomy to allocate the funding to their areas of activity. At the same time it was recognised that there was a need to move from this position with resources targeted at areas of most need and linked to the priorities of the Local Area Agreement (LAA).

6.3.3 The need to address the distribution of ABG has become even more apparent as the requirements of Comprehensive Area Assessment emerge with the targeting and use of resources being a key success indicator. A mechanism for achieving this is currently being developed.

#### **6.4 Managing external funding**

6.4.1 External funding provides another opportunity to increase financial capacity. The MTFMS will be to pursue actively such opportunities, providing that:

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

#### **6.5 Managing Developer Contributions**

6.5.1 This is another source of external funding that can be secured through the planning system. It may be possible to secure funding to support the cost of day-to-day services (e.g. commuted sums for maintenance of public open spaces). Support for capital infrastructure can also be achieved in this way (e.g. developer contributing to cost of new access roads).

6.5.2 The MTFMS is to maximise the potential for increasing financial capacity and / or managing growth in volumes through s106 agreements where possible.

#### **6.6 Managing Fees and Charges**

6.6.1 The council is currently developing a corporate charging strategy with the aim of implementing a corporate charging policy.

6.6.2 The MTFMS is to recognise the potential for discretionary charges to fund services and influence behaviour in line with corporate priorities.

## 6.7 Managing the General Fund Balance & Specific Reserves

6.7.1 Herefordshire's General Fund balance at the start of 2008/09 was healthy at a level of £6.728m. This is in excess of the current policy in place to maintain a minimum balance of £4.5m.

6.7.2 The impact on General Fund balances in 2008/09 is illustrated in the following table:

	£000	£000
<b>General Fund balance on 1<sup>st</sup> April 2008</b>		<b>6,728</b>
<b>Plus</b>		
Potential 2008/09 underspend (month 9 monitoring)	238	
<b>Less</b>		
HALO Job evaluation funding	-200	
		38
<b>General Fund Balance on 31st March 2009</b>		<b>6,766</b>

6.7.3 The above table makes a number of assumptions but shows the likely position on General Fund balances at the end of 2008/09.

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

6.7.5 All Directorates are expected to manage budget pressures within the overall requirement to deliver an outturn at or below budget.

6.7.6 The need for the range and level of specific reserves and the policy for minimum General Fund balances is continually reviewed as part of the financial planning, monitoring and outturn processes. The strategy described here provides cover for the key corporate financial risks.

## 6.8 Managing financial performance

6.8.1 Maintaining strong financial control is a prerequisite to achieving the council's corporate priorities and the integrity of the MTFMS. Good systems and procedures are in place for regularly reporting on financial performance to Cabinet and Strategic Monitoring Committee as part of the integrated performance framework.

## 6.9 Efficiency Review

6.9.1 Herefordshire's strategy for securing efficiency gains is to seek continual improvement in the productivity of all our resources – people, land & property, ICT and cash.

6.9.2 Herefordshire has had a good track record delivering on 2.5% overall efficiency gains targets.

6.9.3 The government indicated a 3% "cashable" target over the term of the CSR07. This is on target for 2008/09 and will be published for the first time on council tax bills in 2009.

6.9.4 The Director of Environment is in the process of implementing a plan to achieve significant efficiencies and improvements in service delivery within the limits of the cash allocations for his area of responsibility.

## **6.10 Value for Money (VfM)**

6.10.1 Herefordshire is committed to routinely using VfM information and benchmarking data to review and challenge VfM throughout services and corporately, supporting continuous service improvement and the drive for efficiencies. This is an integral component of the new Performance Improvement Cycle.

6.10.2 We support the drive for VfM through the following mechanisms:

- a) Ensuring service managers deliver the outputs and outcomes agreed for their service area within budget – managing within budget is a key responsibility for all budget holders embedded in our staff review and development procedures.
- b) Support from the Procurement & Efficiency Review section and reviewing the level of corporate resource for this critical function.
- c) Integrating corporate, service and financial planning processes.
- d) Planning over the medium-term as well as the short-term.
- e) Developing our routine financial performance monitoring reports for Cabinet to include VfM data over the coming year.
- f) Benchmarking our costs and activities with other authorities.
- g) Through internal and external audit reviews.
- h) Through scrutiny reviews.

## **6.11 Financial Management Strategy for Capital Investment**

6.11.1 The council has received indicative funding notifications from central government for 2009/10 and future years. Supported Capital Expenditure allocations (borrowing supported by Revenue Support Grant) for 2009/10 total £13.57m, split £2.37m towards children's services and £11.20m towards environment and culture.

6.11.2 In addition the council can borrow to the extent it considers it is affordable and prudent to do so (Prudential borrowing).

6.11.3 The FRM for the revenue account reflects the new borrowing requirement implied by the Treasury Management Strategy (see section 6.12) to support the capital programme.

6.11.4 The capital receipts reserve totalled £17.94m as at 1st April, 2008. Receipts of £2.53m have been received to date in 2008/09. Expected capital receipt reserve spending in 2008/09 totals 11.02m leaving a balance of £9.45m to be carried forward into 2009/10. This may change if additional receipts arise before 31st March 2009 and depending on final funding decisions for capital spending in 2008/09 when the annual accounts are prepared.

6.11.5 Capital receipts reserve funding of £2.77m has been committed to fund the 2009/10 capital programme. However additional capital receipts from the sale of smallholdings are expected.

6.11.6 The financial management strategy for increasing capital investment capacity centres on:

- a) Maximising developers' contributions as outlined in the financial management strategy for the revenue account.
- b) Effective project management of capital schemes to ensure they stay within budget.
- c) Creating the capacity to implement the property review arrangements set out in the Asset Management Plan to see what further opportunities there are for rationalising property assets and releasing resources (capital and revenue).
- d) Maintaining our successful track record for innovative capital investment schemes – e.g. the Whitecross PFI project.
- e) Attracting external funding such as the grant allocation under the government's Building Schools for the Future programme.

6.11.7 The financial management strategy for capital investment also focuses on making sure the available resources are allocated in line with corporate priorities. To achieve this we will:

- a) Treat property assets as a corporate resource
- b) Ensure that corporate assets (including property assets and ICT infrastructure) are not neglected.
- c) Develop a corporate approach to maintaining and developing corporate assets.

#### **Capital Programme 2009/10**

6.11.8 The 2009/10 bids recommended for funding as summarised below. They mainly represent funding required to help mitigate the effects of the current economic climate.

**a) Mortgage Rescue**

This funding will assist families experiencing financial difficulties to remain in their own home by providing grant funding in partnership with a housing association which would buy the property and lease back to the household.

**b) Disabled Facilities Grant**

The disabled facilities grant adaptations within client homes are made in order to facilitate independent living and assist in early hospital discharge. This is a statutory grant the council is mandatorily obliged to provide and currently there is a backlog of grant applications.

**c) Hereford Cathedral Close**

The regeneration of the Cathedral Close will significantly improve the quality of the principal public green space at the heart of the mediaeval city. This bid is recommended or funding subject to confirmation of the grant funding available from the Heritage Lottery fund towards this scheme.

**d) Low Cost Home Ownership**

The scheme assists those in housing need to gain a foot on the housing ladder who would otherwise have no alternative but to seek rented accommodation through Home Point. All those assisted will be registered with Home Point as being in housing need.

**e) Maintenance for Halo Leased Properties**

This bid will fund backlog maintenance works to properties occupied by Halo in Hereford and Leominster. These works are the council's responsibility as landlord.

**f) Replacement Leominster Youth Centre**

This bid is to provide a new youth centre in Leominster through the refurbishment of a former design and technology block on the Minster college site. There is a possible S106 receipt that could be used to partly fund this. However, this funding may not be received so is excluded from the bid. The bid sets out an initial sum to provide further scope of the possible options and solutions. The release of further monies that may be required would be dependent upon an assessment of the viability of each option.

**g) Hereford City Shop Front Grants**

The grants would assist independent businesses in the current economic climate by providing £5k or 80% of the total project costs, whichever is the lesser.

**h) Relocation of Hereford Retail Open Market**

This bid is to relocate the Hereford Open Retail Market (held weekly on a Saturday and Wednesday) to the recommended site of Commercial Street where St Peters Street meets with High Town. This funding will be used to purchase thirty pop up stalls and a vehicle for the transporting and storing of the stalls.

**i) Hereford Academy**

The Department for Children Schools and Families (DCSF) expect local authorities to determine and fund post contract award project management costs of the new Hereford Academy scheme, to provide assurance to the council that the Framework agreement is working as it should be.

**j) Self Service PC Booking System**

The purchase of a new self-service PC booking and print management system for libraries and Info shops would enable service users to book items themselves.

**k) Rotherwas futures**

This bid is for Rotherwas estate development work, including infrastructure, re-roofing, land payments and road works to provide new jobs, part funded by AWM.

**l) Buttermarket Project**

This bid will cover feasibility costs to determine the total project and cost of capital scheme required following deterioration of structure of the building possibly leading to closure of the outlet.

**m) Maintenance for Schools – Legionella works**

This bid will fund backlog maintenance works to prevent legionella in schools within the county that are the council's responsibility.

**n) Essential Maintenance to Corporate Buildings – Legionella works**

This bid will fund maintenance works to building fabric, mechanical and electrical installations in corporate buildings to prevent legionella.

**o) Empty Property Activity**

This scheme is delivered in partnership with registered social landlord partners to bring empty properties back into use primarily through leasing the property from the owner for a six year period.

6.11.9 The following table summaries the existing capital investment programme updated for slippage. The table sets out the updated position.

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Investment by directorate:-</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Children's Services	17,315	29,668	30,097	3,655
Resources	4,210	2,910	8,600	-
Deputy Chief Executive	5,564	4,570	10	39
Adult Services	905	551	255	-
Regeneration	11,424	5,904	2,945	-
Environment & Culture	23,809	19,542	13,735	1,554
Available funding not yet allocated	-	3,821	646	646
	<b>63,227</b>	<b>66,966</b>	<b>56,288</b>	<b>5,894</b>
<b>Which is funded by:</b>				
Supported Capital Expenditure (Revenue)	12,751	13,567	13,210	1,200
Prudential Borrowing	16,041	16,477	9,650	1,039
Capital Receipts Reserve	11,016	2,768	1,264	-
Government Grants & Contributions	23,419	34,154	32,164	3,655
	<b>63,227</b>	<b>66,966</b>	<b>56,288</b>	<b>5,894</b>

6.11.10 The FRM does not assume any council funding towards the Edgar Street Grid.

## **6.12 Treasury Management Strategy**

6.12.1 The council is required to approve an annual treasury management strategy each year as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2009/10 complies with the detailed regulations that have to be followed.

6.12.2 The Treasury Management Strategy is a key element of the overall financial management strategy. It supports achievement of several corporate financial objectives, including creating financial capacity within the revenue account as it aims to optimise investment and borrowing decisions.

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

6.12.4 The Treasury Management Strategy also sets the Prudential Code limits for the year. These limits define the framework within which the council self-regulates its borrowing based on long-term affordability. These link back to the overall size of the capital investment programme and the FRM.

6.12.5 The current forecast for interest rates as suggested by Sector Treasury Services Limited, who are the councils external Treasury Management advisors, is that the bank base rate will:

- Fall to 0.5% in the first quarter of 2009.
- Remain at 0.5% until the second quarter of 2010.
- Rise to 4% by in the first quarter of 2012.

6.12.6 These forecasts form part of our Treasury Management Strategy helping us to plan our borrowing and investment activity. Crucially the assessments inform decisions about changing any existing investments activity to increase the level of interest we receive.

### **6.13 Key Corporate & Financial Risks**

6.13.1 Herefordshire sees risk management as an essential element of the corporate governance framework. All formal reports include a risk management assessment. The Cabinet receives regular updates on the corporate risk register as part of our Performance Reporting arrangements.

6.13.2 The most recent update of the Corporate Risk Register is provided for information at Appendix C.



## 7. Medium-Term Financial Resource Model (FRM)

### 7.1 Background

7.1.1 The FRM shown in Appendix D takes into account the corporate financial objectives and MTFMS proposed in this document. The FRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. It sets the financial context for the corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2009/10 to 2011/12.

### 7.2 Assumptions

7.2.1 The FRM includes the following assumptions;

**a) Council Tax**

The Government's expectation for council tax increases is substantially below 5%. The actual increase for 2008/09 was in line with that at 4.4%. The proposed council tax level for 2009/10 is a 3.9% increase.

**b) Formula Grant** – the FRM reflects the final local government finance settlement for 2009/10 and indicative figures provided by the government for 2010/11. The assumption for 2011/12 is that the level of grant remains static, which represents a cautious and prudent approach.

**c) Inflation**

The 2008/09 base budget included an assumption of a 2% pay award and a restated 2007/08 base of 0.475%, to take account of the 2007/08 pay award. The national employers have offered 2.45 per cent for the 2008 pay award, which was rejected by the trade unions and the dispute has now been referred to arbitration. The current FRM includes an estimated pay award of 2.0% per annum, plus a reinstatement of 0.5% for 2008/09.

The current FRM includes an inflationary uplift on non pay expenditure to be met by Directorate efficiency savings. This challenging policy ensures that managers:

- Negotiate appropriate contracts for the provision of services.
- Manage contracts and contractor performance effectively.
- Continually review service delivery arrangements to ensure improvements in efficiency and value for money.

**d) Employers' superannuation costs** – the FRM includes increases in employers' contributions rates in line with latest actuarial advice.

**e) National Taxation** – the FRM assumes there will be an increase in national insurance contributions in 2011/12 in line with the Pre-budget report.

**f) Interest Rates** – the FRM reflects interest rate assumptions for investment income and new borrowing costs in line with the Treasury Management Strategy for 2009/10.

### 7.3 Corporate Priorities

7.3.1 The FRM includes the following growth items and budget pressures identified as corporate priorities.

7.3.2 **Waste Management PFI contract** – the FRM includes additional base budget of £500k per annum pending the finalisation of the renegotiated contract. In the interim period any budget under spend will be transferred to a specific reserve to offset future increased costs.

7.3.3 **Local Development Plan** - £375k allowed in 2009/10 and £275k in 2010/11 for implementing the new planning framework.

7.3.4 **Office Accommodation Strategy** – the FRM reflects the potential financial consequences of rationalising council office accommodation. Funding totalling £17m is currently earmarked in the council's capital programme for a back office accommodation project as follows:

Source of funding	£m
Capital reserves as at 1 April 2008	2.3
Prudential borrowing in 2008/09	3.2
Prudential borrowing in 2009/10	2.9
Prudential borrowing in 2010/11	8.6
<b>Total</b>	<b>17.0</b>

7.3.5 **Capital Investment** – the FRM reflects the revenue implications of the approved capital programme (see Section 6.11)

7.3.6 **ICT Strategy** - £400k is included in 2009/10 for the retendering of the community network, server virtualisation and the new data centre.

7.3.7 **Job Evaluation** - £300k is included in the FRM to deal with the increased impact of Job Evaluation on external partners staff budgets. The council has an obligation to meet the impact of increased pay on transferred posts affected by the single status agreement. Over time this has increased as staff have progressed through pay grades.

7.3.8 **Social Care modernisation** – Funding of £275k in 2008/09 rising to £550k in 2009/10 is included in the FRM as approved in the previous MTFMS. The additional budget was included as the result of a needs analysis exercise for mental health and physical disabilities services.

7.3.9 **Income** - £500k to cover loss of income as a result of the 'credit crunch'.

7.3.10 **Hereford City Council** - £140k is included to correct the base budget position for services previously recharged to the Parish Council.

7.3.11 **CRB** - £88k is included to cover the cost of a new central CRB team within Human Resources

## 7.4 Directorate Budgets

7.4.1 2009/10 presents Directorates with a series of financial challenges and also a requirement that they support the council's overall budget position to deliver a balanced budget.

7.4.2 The Performance Improvement Cycle (PIC) as described in Section 5.8, has seen extensive involvement of the Joint Management Team (JMT). Directors have been involved in a rigorous challenge process around spending and savings proposals.

7.4.3 The final proposals by Directors is summarised in the table below;

Directorate	Spending requirement £000	Estimated savings £000
Adult Services	275	455
Children's and Young People	150	300
Chief Executive	0	50
Deputy Chief Executive	25	42
Environment and Culture	1,100	900
Regeneration	97	333
Resources	85	135
	<b>1,732</b>	<b>2,215</b>

7.4.4 The overall position is a net contribution of £483k, which is included in the FRM.

### 7.4.5 Funding of ICT Services

For 2009/10 ICT Services will be moving to a base budget funded approach rather than relying on recharging for their services. This will involve transferring budgets from Directorates and therefore there is no impact on the budget overall.

## 7.5 Herefordshire Connects

7.5.1 Herefordshire Connects is the council's transformation programme to modernise the way in which day-to-day business is transacted to deliver improved value for money and better services for the community.

7.5.2 The FRM includes the costs and benefits of the refreshed programme, including a Social Care system, Integrated Support Services, an Environment and Planning system, a Performance Management system, and electronic document records management.

7.5.3 At the core of the business plan for Herefordshire Connects is the requirement to make cashable efficiency savings to support the council's Medium Term Financial Management Strategy. The efficiency savings included in the FRM are as follows;

	2009/10 £000	2010/11 £000	2011/12 £000
Herefordshire Connects savings	700	1,300	3,300

The Benefits Realisation Board will closely monitor progress against efficiency targets.

## 7.6 Financial capacity

7.6.1 The FRM sets the overall financial context for corporate and service planning and the detailed budget work prior to setting the council tax. Given the assumptions outlined above, the following table summarises the potential financial capacity in the revenue account:

	2009/10 £000	2010/11 £000	2011/12 £000
Potential financial capacity in the base budget.	0	766	4,636

7.6.2 The table shows that there is little cash to allocate to corporate priorities until 2011/12 unless further efficiencies are delivered in addition to those produced by Herefordshire Connects.

## 7.7 Sensitivity Analysis

7.7.1 The projected budgets make assumptions about likely levels of funding. The variable nature of these factors could impact on the budget and the following gives an indication of the extent of the possible changes:

- a) An increase or decrease of 0.5% in the council tax base impacts the budget by £412k in 2009/10.
- b) 1% variance in council tax inflation impacts the budget by £792k for 2009/10.
- c) £100k increase in budget increases council tax by up to 0.13%.
- d) The Treasury Management Strategy for 2009/10 assumes that external borrowing for the capital programme for that year will be delayed into future years and will be funded by borrowing from internal reserves until the economic situation improves. In the current climate long term borrowing would be at considerably higher rates than investment income can generate and the number of counter parties has reduced due to poor credit ratings. Therefore any movement in borrowing rates will not affect the borrowing costs for 2009/10.
- e) A 0.5% variance on investment interest rates equates to £203k in 2009/10.
- f) If the pay settlement varies by 1% from the FRM's assumption this has an impact of approximately £560k

## **8. Statutory Statement by the Chief Finance Officer**

The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the council's case the Director of Resources must report on the:

- a) Robustness of the estimates made for the purposes of the budget calculations.
- b) Adequacy of the proposed financial reserves.

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

The Director of Resources states that to the best of his knowledge and belief these budget calculations are robust and have full regard to:

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

**David Powell**  
**Director of Resources**

**APPENDIX A**

**How the council's themes and priorities relate to the Herefordshire Sustainable Community Strategy and the Local Area Agreement.**

HSCS themes	The Corporate Plan themes	The Council's top priorities	LAA priorities
Children and young People	Children & young people	The best possible life for every child, safeguarding vulnerable children and improving educational attainment	<ul style="list-style-type: none"> <li>• Encourage and enable children and young people in Herefordshire to achieve their potential and participate in positive activities</li> <li>• To improve participation in, and achievement for, young people in education, employment and training post 14</li> </ul>
Healthier communities and older people	Health and well-being  Older People	Reshaped adult health and social care, so that more older and other vulnerable people maintain control of their lives	<ul style="list-style-type: none"> <li>• Encourage and promote a healthy lifestyle with particular attention to: reducing smoking, levels of obesity and excessive consumption of alcohol</li> <li>• Help vulnerable people to live safely and independently in their own homes</li> </ul>
Economic development and enterprise	Economic development and enterprise	The essential infrastructure for a successful economy, enabling sustainable prosperity for all	<ul style="list-style-type: none"> <li>• Improve access to integrated public and community transport, reduce traffic congestion and encourage alternatives to car use</li> <li>• Increase the economic potential of the county with a particular regard to higher skilled and better paid jobs</li> <li>• Increase access to learning and development at all levels, and increase participation, in order to raise achievement, address worklessness and improve workforce skills</li> </ul>
Safer and stronger communities	Safer & Stronger communities  Sustainable communities	Affordable housing to meet the needs of local people	<ul style="list-style-type: none"> <li>• Further reduce the low levels of crime, disorder and anti-social behaviour in the county and reduce any disproportionate fear of such</li> <li>• Increase safety for road users in the county</li> <li>• Increase the availability of appropriate and affordable housing</li> <li>• Improve the availability of sustainable services and facilities and access to them</li> <li>• Encourage thriving communities where people are able to influence change and take action to improve their area, regardless of their background</li> <li>• Minimise domestic and commercial waste and improve recycling</li> <li>• Lead a local contribution to climate change reduction</li> <li>• Enhance the recovery from events that have significant and potentially long-term impacts upon the community through proactive and effective inter-agency collaboration and coordination</li> </ul>
	Organisational improvement and greater efficiency	Better services, quality of life and value for money, particularly by working in partnership with the Herefordshire Primary Care Trust and other local organisations	

**APPENDIX B**

<b>The Performance Improvement Cycle – Timetable</b>	
17 October	Completed pro formas, approved by directors, submitted by improvement managers
31 October	Analysis and briefing to the Dir. of Resources and Deputy CX
November	<i>Updated Medium-Term Financial Management Strategy (MTFMS)</i>
November	<i>Confirmation of local government settlement</i>
November	<i>LAA Review started</i>
4 November & 6 November & 13 November	<b>Challenge meetings:</b> Dir. of Resources and Director of Public Health with directors
12 November	Draft Operating Statement issued to PIMs for comment and update
18 November	Identification of major issues and strategic options
24 November	JMT discussion of the major issues and strategic options
5 December	Report on public consultation on strategic options submitted by Research for Today
10 December	PIMs to submit revisions to draft Operating Statement
15 December	JMT to receive report on findings from public consultation on strategic options
<i>December</i>	<i>Budget advice to directorates and services</i>
18 December	Joint informal presentation to Cabinet & PCT Board members of the major issues and strategic options, including the results of the public consultation
End December	LAA review completed
<i>January</i>	<i>LAA refresh started</i>
<i>January</i>	Formal presentation of results of the public consultation results to Cabinet
<i>w/c 5 January</i>	<i>Draft 2009-10 operating statement and initial budget proposals</i>
9 January	First drafts of directorate and service plans to be submitted
13 January	JMT considers the draft operating statement/initial budget proposals
13 January	All member briefing on results of public consultation
19 January	Informal briefing/discussion with Strategic Monitoring Committee of the major issues and strategic options, including the results of the public consultation
February	<i>Updated MTFMS</i>
16 February a.m	All member briefing on results of public consultation, MTFMS and budget proposals
16 February p.m.	Strategic Monitoring Committee: results of public consultation, MTFMS and budget proposals
19 February	Cabinet: approval of MTFMS and budget proposals
End February	LAA negotiations completed and refreshed LAA submitted for sign off
Early March	Headline results of the <i>Place Survey</i>
6 March	Council approves the budget and Council Tax
13 March	Directorate and service plans finalised
End March	LAA refresh completed and signed off
End March	Full results of the <i>Place Survey</i>
End March	Draft of HPS Strategy (TBC)
April	Briefing/reports on the results of the Place Survey: JMT, then Leader's briefing, then SMC, then Cabinet
June	Refreshed Herefordshire Community Strategy approved by Partnership Board
June	HPS Strategy finalised and approved (TBC)
June/July	Draft Corporate Plan 2010-13: JMT, then Leader's briefing, then SMC, then Cabinet
September	Council approves the Corporate Plan 2010-13

**CORPORATE RISK REGISTER**

**APPENDIX C**

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR4	Organisational improvement and greater efficiency	Failure to prepare adequately for CAA and raise our DoT score from improving adequately.	4	2	8	The key mitigation actions for the next 12 months are: 1) sustaining our current rate of improvement in key performance indicators through the introduction of the NIS, 2) action to fundamentally improve data quality, 3) preparing adequately for audits / inspections	3	2	6	ALL/CB	
CR5	Organisational improvement and greater efficiency	The inability to provide critical services due to the failure of the ICT networks	4	5	20	Substantial capital investment has been made in ICT network and disaster recovery arrangements. Extensive ICT specific service continuity plans have been developed and are exercised. Workshops held for all directorates and service continuity plans have been prepared and due for testing during the year in business critical systems and services.	3	5	15	AF	



Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR11		Failure to recruit and retain staff where there are national skills shortages and including the impact of Job Evaluation. Ensuring consistent treatment of Equal Pay Claims.	3	3	9	Succession planning as part of management development provision. Utilise SRDs / implement career development posts and conclude job evaluation. HR to support Directorates deliver to identified training needs, to work to Investor in People standard.	2	3	6	ALL/AC	
CR17	Organisational improvement and greater efficiency	Reputational and organisational risk of failing to improve Use of Resources assessments to 4 by the end of the Corporate Plan period - 2011.	3	4	12	Use of Resources 2007/08 improvement plan has been implemented and reflects in a robust self assessment submitted in September 2008. A positive Annual Governance Report 2008 is a further reassurance of improvement over the last 12 months.	2	3	6	JMT	
CR27		CRB process not carried out to an appropriate and reliable level which could lead to inappropriate persons working with vulnerable people	4	4	16	Officers agreed areas of concern and an action plan to be drawn up to redress the issues as quickly as possible.	3	4	12	AMc	

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR28		Deliverable benefits from Herefordshire Connects not realised	4	3	12	MTFS updated for 08/09 to include modernisation fund to allow for review of Herefordshire Connects programme to be integrated with accommodation strategy for future organisation arrangements between Herefordshire Council and the PCT.	3	3	9	DP	
CR29	To ensure that its essential assets, including schools, other buildings, roads and ICT, are in the right condition for the long term cost-effective delivery of services, and ensure business continuity in the face of emergencies.	Both Data Centres are in non-Council owned properties with lease-time constraints; are near capacity, plus there are environment issues such as lack of sufficient power and fire suppression that need to be addressed. Loss of data centres will affect delivery of all services.	4	5	20	1) Data Centre/MRU relocation project approved by Cabinet 16/10/2008. Expected completion April 2011. 2) Server virtualisation Project in progress to decrease power consumption and physical space constraints. Project will also decrease recovery timescales for systems supporting services. Expected completion May 2009.	4	5	20	AF	£2.7m (budgets identified)

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR30	To ensure that its essential assets, including schools, other buildings, roads and ICT, are in the right condition for the long term cost-effective delivery of services, and ensure business continuity in the face of emergencies.	Previous hardware and software procurement by services has resulted in ageing hardware and software platforms with no forward plan or budgets identified for maintenance, support and replacement.	5	4	20	1) Herefordshire Connects programme replacing Social Care System. 2) Planned replacement of finance, HR and payroll systems. 3) Library Services accepted risk on current system. 4) Collation of register of systems and support coverage to identify gaps in key service areas. 5) Critical systems identified by business (first pass complete continuous updating). 6) Server Virtualisation project to replace ageing hardware and improving resilience of applications. 7) Desktop standardisation.	5	4	20	AF	
CR35	Organisational improvement and greater efficiency - data quality	Inadequate attention to data quality governance and leadership, policies, systems and processes, people and skills as well as poor data use and reporting i.e failure to adopt the voluntary national standards promoted by the audit commission	5	3	15	Include internal and external audits, directorate held proforma's for each indicator, limited checks on source systems, limited staff training, limited data sharing protocols	3	3	9	AF	

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR36	Organisational improvement & greater efficiency	Failure to deliver services and meet key objective of achieving performance targets due to lack of Data Base Administrator support and sufficient server capacity for housing benefit and local tax systems (risk BES1 from the Benefit & Exchequer Services ri	3	3	9	Remote support is provided by Academy and ICT are attempting to recruit additional Data Base Administrators. Working with the suppliers and ICT to identify options for resolving the server capacity issue.	3	3	9	DP	
CR37	Organisational improvement & greater efficiency	Failure to deliver services and meet key objective of achieving improvements needed in benefit services to meet the requirements of the new benefit inspection regime due to customer services performance (risk BES2 from the Benefit & Exchequer Services ris	4	4	16	An improvement plan has been developed with the Department for Work & Pensions for benefit and customer services. Input is being provided to the Customer Services Strategy Review.	3	4	12	DP	
CR38	Organisational improvement & greater efficiency	Failure to deliver services and meet key objective of achieving performance targets due to poor performance of ICT servers and network supporting Academy / Idox (risk BES2 from the Benefit & Exchequer Services risk register refers).	5	4	20	System performance has deteriorated significantly leading to poor benefit processing performance. The BES team is working with ICT services to isolate the cause of the problem which is most likely the way in which the council has chosen to deploy the service	4	4	16	DP	

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR39	Organisational improvement & greater efficiency	Failure to deliver the agreed benefits of the Herefordshire Connects programme required to justify the investment in the programme and release cash for reinvestment in priority outcomes for the Herefordshire community (risk FS1 from the Financial Services risk register refers).	4	4	16	Work with Capita and Deloitte to verify the cashable benefits of the Herefordshire Connects programme is complete. The Benefits Group will monitor and report on progress made by the benefit owners to the Herefordshire Connects Board.	3	3	9	DP	
CR40	To ensure that its essential assets, including schools, other buildings, roads and ICT, are in the right condition for the long term cost-effective delivery of services, and ensure business continuity in the face of emergencies.	Inadequate of corporate and service planning and prioritisation around ICT investments is having a significant detrimental impact on the ability of ICT to deliver to customers timescales and meet the value for money requirements of the organisation.	5	4	20	1) Client Account Managers (CAMs) attend Directorate DMTs and run workshops with services to advise on planning ICT investments. 2) Service Plan Guidance 2008, requests IT development to be identified. 3) Business Case process in place (IPG). 4) Corporate ICT Strategy prioritises infrastructural and supporting technologies. 5) Representation from ICT Services on Accommodation Board.	5	4	20		

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR41	Organisational improvement and greater efficiency; improving reputation of and public satisfaction with the council; manage resources efficiently and effectively thus developing the directorate + increasing service quality within the authority	People/Finance/Premises – Lack of resource to carry out surveys, extend opening hours, take on further services as part of Phase II of the Customer Services Strategy and undergo necessary ongoing training whilst maintaining front line service	5	4	20	Improved performance by use of monitoring and amending working patterns	4	4	16	AF	Funding identified to top slice directorate budgets to enable further resource to be taken on to improve capacity and resources

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR42	Corporate critical service	Failure to provide a 24 hour emergency response, resulting in Herefordshire public services not providing timely support to partners during an emergency. <i>Weaknesses: People - not enough EPO's to ensure continuity - Resilient Comms - Finance - on call payments inadequate for level of responsibility.</i>	4	5	20	Emergency Planning Duty Officer scheme in place	3	5	15	TG	
CR43	Corporate critical service	We are currently technically exceeding the number of CRM professional licences required to run the Info service (includes back office and complaints). A financial contingency of £65k has been put in the budget, however based on currently .user numbers the ficial exposure could be as much £178k	5	5	25	We are clarifying with SAP the specific type of licences required – particularly in respect of part-time staff and flexible workers, This may reduce the number of required additional licences The review of named users has confirmed that we have a significant shortfall .	5	5	25	MT	

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR44	Ongoing Customer Service Provision (including Info Centre and Inf Shops)	The current service budget includes a £500k fund (a two year special provision) that was made for the initial set-up and operation of the service. This funding is due to end in March 2009. Should this funding not be secured that the closure of some services will be required. For example; Closure of market town info shops.	5	5	25	Review of funding arrangement has been escalated through the performance improvement cycle and a service improvement plan has been produced for consideration by JMT in November. A detailed paper has been submitted in December 2008 to the Deputy Chief Executive and Director of Resources	5	4	20	AW / MT	
CR45	To ensure that its essential assets, including schools, other buildings, roads and ICT, are in the right condition for the long term cost-effective delivery of services, and ensure business continuity in the face of emergencies.	Breach of Information Security from IT platforms	4	5	20	1) ISO27001 achieved for ICT and MRU. 2) External supplier for external penetration testing for website/network. 3) Internal penetration testing capability being improved. 4) Education and awareness sessions for all employees / roadshows. Policies and procedures in place.	3	5	15		



Risk Details					Existing Controls		Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR46	Successful delivery of the Connects Programme	<p>The Council will be operational with a planning system that is not supported by the supplier (Northgate). The contract with Northgate finishes in October 2008. Comment – The selection of Civica as the new system for Planning has compounded this problem. Agreement reached with Head of planning that risk is acceptable providing Connects can ensure that:</p> <ul style="list-style-type: none"> <li>- the system (Civica) is made operational by August 2009;</li> <li>- the Council can continue to use Northgate (albeit unsupported) between April and August 2009.</li> </ul>	5	5	25	<p>1. Request an additional extension until October 2009.  2. Request the CE to write a letter to encourage Northgate to extend the support agreement for a final 6 months. This is to go to the CE at Northgate.  3. To ensure that data is extracted out of the legacy systems as quickly as possible so that the Civica planning system can be made operational</p>	5	3	15	AK	Budgeted for
CR47		<p>Agresso Payroll is not fit for purpose; Update Dec 2008 AK – Meetings between Payroll and Agresso have provided assurance that the functionality is in place.</p>	4	5	20	<p>Update note to be submitted to JMT on this; existing payroll system (Selima) to remain operational until testing is signed off by payroll</p>	3	5	15	AK	Budgeted for

Risk Details						Existing Controls	Current Risk Rating				
Risk Reference Number	Corporate Objectives	Risk Description	Likelihood	Potential Consequences (Severity)	Risk Score	Controls In place	Likelihood	Consequences (Severity)	Residual Risk Score	Risk Owner	Cost of Mitigation
CR48		Project resourcing is insufficient - there are not sufficient internal resources to deliver the projects	4	5	20	Project managers tasked with completing readiness reviews. Until resources are in place, projects will not start.	3	5	15	AK	Budgeted for
CR49		In adequate procedures in place to ensure safeguarding of children which could lead to closer scrutiny and in extreme cases a 'Baby P' case in Herefordshire	5	5	25	External review within CYPD has been commissioned to include a review of all cases of children subject to a child protection plan and the overall multi-agency child protection system.	3	5	15	SM	

MTFRM	APPENDIX D		
	2009/2010	2010/2011	2011/2012
	Budget	Budget	Budget
	£'000	£'000	£'000
<b>Base Budget</b>	<b>131,778</b>	<b>137,718</b>	<b>143,563</b>
<b>Inflation - Staff</b>	1,675	1,480	1,761
<b>Inflation - Gas &amp; electric</b>	217	0	0
<b>Inflation - contract</b>	2,273	2,294	2,304
<b>Inflation - Other costs</b>	1,308	1,380	1,394
<b>Inflation - Income</b>	(295)	(303)	(310)
<b>Inflation</b>	<b>5,178</b>	<b>4,851</b>	<b>5,149</b>
	<b>136,956</b>	<b>142,569</b>	<b>148,712</b>
<b>Deliverable Efficiency Gains</b>			
- Inflation efficiency savings	(3,580)	(3,674)	(3,698)
- Directorate savings identified	(483)	0	0
- Corporate budgets	(7)	0	0
<b>Transfers to/from RSG</b>			
- Student Finance	(71)	(27)	0
<b>MTFMS changes</b>			
- Waste management - PFI Contract	500	500	500
- Whitcross PFI requirement	0	200	0
- Local Development Framework	375	(100)	(275)
<b>Herefordshire Connects</b>			
- Revenue Costs	1,806	(1,292)	(204)
- Capital Financing	256	1,088	(47)
- Herefordshire Connects Savings	(700)	(600)	(2,000)
- Core team costs (rev)	(225)	245	9
- Core team costs (capital financing)	65	90	(6)
- Social Care System (rev)	(533)	0	0
- Social Care System (capital financing)	94	(13)	(13)
<b>Capital Financing Costs</b>			
Cost of borrowing	508	1,305	1,744
Investment income	1,493	(64)	(697)
<b>Emerging Pressures</b>			
- Student Finance	53	(42)	(47)
- ICT Strategy	400	0	0
- Modernisation	(300)	0	0
- Hereford City Council	140	0	0
- Unison	20	0	0
- HR CRB	88	0	0
- External partners JE	300	0	0
- Needs Analysis Mental Health/Physical Disabilities	275	0	0
- Income shortfall	500	(100)	(100)
<b>Use of 2008/09 capacity reserve</b>	1,500	0	0
<b>General reserves</b>	<b>(1,000)</b>	<b>2,000</b>	<b>(1,000)</b>
<b>LPSA reserve</b>	<b>(712)</b>	<b>712</b>	<b>0</b>
<b>Capacity to achieve desired Tax increase</b>	<b>0</b>	<b>766</b>	<b>4,636</b>
<b>TOTAL BUDGET</b>	<b>137,718</b>	<b>143,563</b>	<b>147,514</b>