

Chief Executive's Office

Chief Executive: N.M. Pringle

**To: All Members of Cabinet:
R.J. Phillips (Leader)
G.V. Hyde (Deputy Leader)
Mrs. L.O. Barnett
P.J. Edwards
Mrs. J.P. French
J.C. Mayson
D.W. Rule MBE
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Your Ref:

Our Ref: NMP/CD

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23rd January, 2004

Dear Councillor,

**MEETING OF CABINET
THURSDAY, 29TH JANUARY, 2004 AT 2.15 P.M.
COUNCIL CHAMBER, BROCKINGTON, 35 HAFOD ROAD, HEREFORD**

AGENDA (03/21A)

3. MEDIUM TERM FINANCIAL PLAN 2004/05 - 2007/08

To determine the Council's Medium Term Financial Plan, aligning estimated financial resources with the Council's strategic priorities, for the period 2004/05 to 2007/08. (*Pages 1 - 6*)

4. REVENUE BUDGET 2004/05

To consider further the parameters for the preparation of the Revenue Budget 2004/05 in the light of recommendations of the Budget Panel. (*Pages 7 - 22*)

Yours sincerely,



**N.M. PRINGLE
CHIEF EXECUTIVE**

Copies to: Chairman of the Council
Chairman of Strategic Monitoring Committee
Vice-Chairman of Strategic Monitoring Committee
Chairmen of Scrutiny Committees
Group Leaders
Directors
County Secretary and Solicitor
County Treasurer

MEDIUM TERM FINANCIAL PLAN

2004/05 TO 2007/08

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

29TH JANUARY 2004

Wards Affected

County-wide

Purpose

To determine the Council's Medium Term Financial Plan, aligning estimated financial resources with the Council's strategic priorities, for the period 2004/05 to 2007/08.

Key Decision

This is not a Key Decision as final decisions on budgets will not be taken by Cabinet but by Council each year.

Recommendation

THAT

- (i) **Cabinet determines a Medium Term Financial Plan for the four-year period commencing 2004/05.**
- (ii) **Cabinet identifies the level of investment it feels able to make to support the Medium Term Financial Plan over the four-year period.**
- (iii) **Cabinet identifies a planned programme for redirecting expenditure from within existing budgets.**

Reasons

Developing a Medium Term Financial Plan will assist in ensuring that financial resources are aligned to the Council's key policies and strategic priorities. The Council needs to set a balanced budget which ensures a minimum level of budget provision to meet its stated service objectives, commitments and liabilities.

Further information on the subject of this report is available from Mr N M Pringle, Chief Executive, on (01432) 260044 and Mr I Hyson, County Treasurer on (01432) 260235

Considerations

1. The Council has recognised the importance of forward planning and has adopted key principles, to be reflected in budget considerations, within a Medium Term Financial Framework. Building on this approach, further work is required to develop a Medium Term Financial Plan for the period 2004/05 to 2007/08.

The National Outlook

2. Prior to considering local priorities, it is worth giving consideration to the national outlook. The next national Comprehensive Spending Review is due this year and will set out the Government's resource forecasts for local government for the following three years. Major changes in current central spending levels are not predicted but influencing factors will include the Gershon Review, which is currently looking at identifying large-scale efficiencies across the public sector. The increases in resources made available centrally in 2004/05 and 2005/06 are largely targeted towards Social Care and this, together with the ongoing requirement to passport the Education Formula Spending Share (FSS) increase, places even greater pressure on the other services the Council provides.

Local Priorities

3. In addition to those additional costs reflected in the standstill budget, i.e. inflation, capital financing costs etc., the Budget Panel has considered service bids totalling over £13,000,000 over the proposed four-year planning period. Accepting that the bids are reasonable, particularly in terms of improving the Council's performance, it has been recognised that increases averaging 5.5% each year above standstill would not be sustainable.
4. A judgement is, therefore, required as to what burden can be met by the council taxpayer, what resources the Council is able to generate by other means and ultimately, which pressures will not be addressed, identifying any consequences both to service delivery and Council policies and objectives.
5. The priorities for the medium term financial plan have already begun to emerge from the work the Budget Panel has already undertaken, namely:
 - (a) The underlying principle of the medium-term financial strategy is that the Council would intend to maintain the real purchasing power of current revenue budgets throughout the life of the planned period 2004/2005 to 2007/2008.
 - (b) An acceptance that the Education budget will largely be driven by a national agenda which has driven investment in Education above the level of inflation throughout the life of this Council. The emphasis within that investment is on passporting cash to schools. The Council wishes to support that approach whilst recognising that this can create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics. The Council does, however, believe that spending on Education must be contained within these allocations.

- (c) There will be a need to continue to strengthen the Social Care budget through the medium-term financial plan period if the Council is to maintain improvement in this key area of its performance. This is particularly true in the area of care for older people where the Council spends significantly below its FSS. The Council will need to quantify its approach to the Business Case presented for the improvement and development of Older People's Services.
 - (d) The Council has been postponing investment in information and communications technology, partly because of its poor and inconsistent inheritance but also because of the difficulty of making judicious investment in those areas based on the occupation of existing accommodation. Investment cannot, however, be further postponed without the Council risking failure in the way it works and delivers services to the public.
 - (e) The Council needs to address its performance in relation to highways, transport, planning and waste. This will require investment but also requires the Council to support significant changes in the pattern of provision.
 - (f) There is a need to continue to resource activity, which is of direct benefit to the community. Recent inspections have led to criticism of levels of investment in adult learning and libraries. The Council needs to maintain resources for these services if it is to continue to offer them. If it is unable to maintain those minimum levels of resources, then it needs to consider in some cases whether to continue to maintain the services at all in some areas.
6. In addition, Cabinet also needs to consider the extent it wishes to resource any additional borrowing required as a consequence of the Prudential Guidelines. Broadly speaking, each £1,000,000 of capital investment incurs an ongoing revenue cost of £100,000 per annum. The Medium Term Financial Plan will need to incorporate sums consistent with the Council's aspirations for capital spend within Prudential Guidelines.
7. A critical component in determining local priorities will be the outcomes anticipated from the investment of such sums.

Service Reviews

8. Although Best Value still exists on the statute books, the prescriptive version has been replaced by such initiatives as the Comprehensive Performance Assessment and targeted reviews such as the Gershon review. The principles remain, however, and given the downward pressures on Council Tax increases that are currently enjoying a high profile in the national media, it is even more important now to plan ahead in line with them. This will include:
- A continuation of working through the Partnership and investigating new and improved ways of service delivery.
 - Identification of those service areas, which are not considered to be a high corporate priority and a willingness to transfer resources to higher priority areas.

- In the absence of formalised Best Value Reviews, the Council needs to maintain its commitment to service review and embracing the key principles within the Best Value legislation. The Service Improvement Programme will be a key element of such reviews.

Policy and Performance Issues

9. In addition to these spending pressures, there are a number of areas which are relevant to the medium term financial strategy. The Comprehensive Performance Assessment (CPA) continues to place the Council in the 'good' category and the Council's status, in the eyes of the Government, funding agencies and the public may decline if this is not maintained. It is also highly likely that methodology changes will raise the standards required to maintain current classification. Although this will not necessarily entail significant additional resources, the rating is dependent on current services levels being at least maintained. Targeted improvements in services using the CPA methodology are predominantly in Environment and specifically within Waste Management. However, the increasing pressures on Social Care for Older Peoples Services, for example, make that particular service score, along with others such as Library Services, sensitive to resource input.
10. Other performance considerations include the Local Public Service Agreement (LPSA). Such Performance Reward Grant as is received, in the two years starting in 2005/06, will be available to assist in securing wider performance gains in non LPSA services in addition to pump priming the second LPSA. The one-off nature of this grant means that it is inadvisable to use it to offset Council Tax increases or fund recurring spending commitments.

Status and Risks

11. Clearly a feature of the budget proposals is the potential impact in terms of Council Tax. However, it is also vital that the Council has regard to the risks faced, both in terms of impact on service delivery and its status and reputation, in determining its Medium Term Financial Plan. The following paragraphs highlight the status and risk issues to be considered.
12. The Council has maintained its position as a "Good" authority as part of the revisit of the Audit Commission's Comprehensive Performance Assessment and has achieved a top score of 4 on the use of resources. The Council has made progress on its service scores for Benefits but has fallen back in its Education score. It needs to continue to apply resources to achieving through its Improvement Plan "Committed to Excellence". The assessment of the Council's financial standing by its external auditors remains satisfactory. They express themselves satisfied that the Council remains in a position to drive forward improvement. The Council has been advised that it is eligible for a corporate assessment in 2004 (with a view to progressing to excellent) although the current steer of the Council, agreed by Cabinet, is to await the next CPA round in 2005. It does, however, need to invest in its medium-term financial planning but also to concentrate on detailed aspects of audit, particularly in relation to Best Value Performance Indicators and information security.

13. The Council does, however, face significant risk in the following areas over the medium term:
- (a) The Social Care budget, which without ongoing investment would place the Council at risk with a growing prospect of increased expectation, increasing number of clients and increased exposure to challenge.
 - (b) The difficulty of estimating the escalating costs of waste disposal and collection. There are a number of facets such as the need to re-negotiate the Waste Disposal PFI contract and the pressure of ever-increasing volumes of waste (above those estimated), coupled with the annual increases in landfill tax. There is also the cost of recycling, particularly in a scattered rural community. The standstill budget reflects the costs associated with anticipated increases in waste volumes and a provisional allowance for increased costs. A figure in the order of £800,000 to £900,000 per annum has been included.
 - (c) There is a need to continue to address issues of levels of performance within Environment and Planning, which contribute to poor inspection scores in these areas.
 - (d) In relation to other service areas, national targets and standards, which are subject to a variety of inspection regimes, do have to be met, both in the short and medium-term. They require either a realistic budget provision or for the Council to formulate a strategy for dealing with the non-achievement of those targets.
 - (e) Regarding the late additional monies in this year's settlement, it is not known at this time whether they will be made available again next year. If not, that would place a further pressure on the Council Tax.
 - (f) The Council is due to receive an actuarial review of the Pension Fund, during 2004, which will review employer contributions, and until such time as this report is received, additional costs could exceed those currently predicted.
14. As reported to Cabinet in December, the Local Government Act 2003 has a number of implications for local authorities. Section 25 requires the County Treasurer to report to the Council when it is determining the budget and council tax each year. The County Treasurer is required to give professional advice on those two elements which are inter-dependant and must be considered together. Decisions on the appropriate level of reserves must be considered in the context of risk and uncertainty, with decisions ultimately guided by advice based on an assessment of all the circumstances considered likely to affect the Council. The report to Cabinet on 19 February will reflect this requirement.
15. The standstill budget incorporates a provision of £1,000,000 in 2004/05 required to replenish reserves to the minimum prudent provision of £3,000,000 in accordance with the resolution of Council in March 2003.

Conclusion

16. In determining a Medium Term Financial Plan, Cabinet will wish to take account of the foregoing paragraphs; the views of the Budget Panel and the opportunities providing by the Prudential Code for capital expenditure.
17. The total service bids considered by the Budget Panel totalled over £13,000,000 over the proposed four-year planning period. Whilst the aspirations reflected in the bids were considered reasonable, the Panel felt that the year on year increases, above standstill, and equivalent to an average of 5.5% per annum could not be sustained.
18. The recommendation from the Budget Panel, reflected in agenda item 4, amounting to £7,000,000 over the four-year period is equivalent to some 3% per annum on Council Tax. The sums required to meet priorities in 2004/05 and the rate of further investment will influence the allocation of that sum over the four-year period and will be the subject of annual review.
19. It is fair to say that the change in administration has inevitably impacted on the timetable for the budget process for 2004/05. A timetable for 2005/06 will be presented to Cabinet in February which proposes bringing forward consideration on the Medium Term Financial Plan to the early summer. The timeframe therefore will allow for an earlier alignment of financial resources with service and strategic priorities. With that delay in mind, it is proposed that a one-off “budget implementation” exercise be undertaken for each programme area to ensure that any potential issues regarding the 2004/05 budget are identified at an early stage and addressed accordingly. Such an exercise will also inform the further development of the Medium Term Financial Plan.

Risk Management

Failure to consider the medium term financial pressures facing the Council and planning the alignment of resources accordingly may result in short-term decisions. This can result in inadequate service planning and not being able to optimise increasingly tight financial resources.

Consultees

Budget Panel.

Background Papers

None identified.

REVENUE BUDGET 2004/05

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET**29TH JANUARY 2004**

Wards Affected

County-wide

Purpose

To consider further the parameters for the preparation of the Revenue Budget 2004/05 in the light of the recommendations of the Budget Panel.

Key Decision

This is not a Key Decision. The final decision will not be taken by Cabinet but by Council at its meeting on 5th March 2004.

Recommendation

THAT due consideration be given to the recommendations of the Budget Panel and initial Revenue Budget proposals for 2004/05 be formulated.

Reasons

Initial consideration of the recommendations from Budget Panel is required, which together with the views of Strategic Monitoring Committee, will assist in the formulation of Cabinet's final recommendations to Council on 5th March 2004.

Considerations

1. It is now appropriate to give further consideration to the budget position in the light of the recommendations of the Budget Panel. Strategic Monitoring Committee, at its meeting on 9th February, will also consider the recommendation of the Budget Panel and Cabinet will no doubt wish to give further consideration to its recommendation to Council following that meeting.
2. The Budget Panel met on a number of occasions during December to receive presentations, from Cabinet Members supported by Directors, on the range of budget pressures faced. The Panel also met on the 20th January to consider the attached report, Appendix 1, which highlights the following key points:
 - The critical importance of adopting a Medium Term Financial Plan for the period 2004/05 to 2007/08. (see Agenda item 3).

Further information on the subject of this report is available from
Mr N M Pringle, Chief Executive on (01432 260044) and Mr I Hyson, County Treasurer on (01432 260235)

- The impact of capital financing costs arising out of the introduction of Prudential Guidelines. See Agenda item 5 – Supported Capital Borrowing report.
- Status and risk issues.
- Reserves and balances.
- Aligning the Medium Term Financial Plan with the 2004/05 Budget.
- Council Tax Capping.

These factors will be influenced by the revenue budget proposals and will need to be reflected in the final budget report due to be considered by Cabinet on 19th February.

Standstill Budget

3. A key component of the Council's budgeting process in recent years, endorsed by Council last year in adopting a set of Financial Framework Principles, has been the maintenance of the real terms purchasing power of current revenue budgets. In essence this is the impact of inflation for pay and prices on current budgets over the life of the planned period.
4. The standstill budget takes account of this anticipated inflation together with unavoidable commitments, either known or anticipated, of a **corporate** i.e. Council wide nature. Account is also taken of changes to the budget required as a result of the transfer of funding between mainstream RSG funding and Specific Grants (e.g. Children's Services Grant). The position reached is the total cost of providing current levels of service before taking into account of service pressures or any other policy decisions. Standstill budgets for 2004/05 to 2007/08 are detailed in Appendix 2.
5. Government Funding through the Revenue Support Grant (RSG) Mechanism is then taken into account to arrive at the Council Tax required to meet the approved level of spending. For 2004/05 the Final RSG settlement is expected in late January and should not differ to any significant degree from the provisional settlement. The projections for 2005/06 are based on the Government's Spending Review 2002. No data is available for 2006/07 onwards therefore government funding and indeed expenditure projections should be viewed with a degree of caution.

Council Tax

6. The level of Council Tax for 2004/05 is driven by the Council's Medium Term Financial Plan. To arrive at an indicative Council Tax figure it is necessary to take account of the Government guideline for spending at FSS, i.e. 5.6%, the Medium Term Financial Plan and the late subsidy announcement by Government in support of Council Tax. On current planning that would point to a Council Tax of 5½% to 6%. However, as explained last year and as reflected in the budget framework report considered by Budget Panel, Council needs to take account of the expenditure included in the 2003/04 budget for which ongoing provision was not made, i.e. a further 5%.

7. Appendix 3 summarises the budget pressures considered in detail by the Budget Panel.
8. The priorities for consideration in the context of the Council's Medium Term Financial Plan, from the Budget Panel, are as follows:
 - (a) The underlying principle of the medium-term financial strategy is that the Council would intend to maintain the real purchasing power of current revenue budgets throughout the life of the planned period.
 - (b) An acceptance that the Education budget will largely be driven by a national agenda which has driven investment in Education above the level of inflation throughout the life of this Council. The emphasis within that investment is on passporting cash to schools. The Council wish to support that approach whilst recognising that that does create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics.
 - (c) There will be a need to continue to strengthen the Social Care budget through the medium-term financial plan period if the Council is to maintain improvement in this key area of its performance. This is particularly true in the area of care for older people where the Council spends significantly below its FSS.
 - (d) The Council has been postponing investment in information and communications technology, partly because of its poor and inconsistent inheritance but also because of the difficulty of making judicious investment in those areas based on the occupation of existing accommodation. Investment cannot however be further postponed without the Council risking failure in the way it works and delivers services to the public.
 - (e) The Council needs to address its performance in relation to highways, transport, planning and waste. This will require investment but also requires the Council to support significant changes in the pattern of provision.
 - (f) There is a need to continue to resource activity, which is of direct benefit to the community. Recent inspections have led to criticism of levels of investment in adult learning and libraries. The Council needs to maintain resources for these services if it is to continue to offer them. If it is unable to maintain those minimum levels of resources then it needs to consider in some cases whether to continue to maintain the services at all in some areas.
9. The Council needs to continue to strive for efficiency. It would be foolish to pretend with an organisation of the size of the Council delivering the range and breadth of services that it does always maintain 100% efficiency. There is however a recognition that the amount which can be driven out by traditional approaches to improving efficiency are likely to be insufficiently significant to support the Council's medium-term financial plan. Budget Panel has therefore agreed to look at two specific projects as an alternative to traditional approaches to economies and efficiencies. That is not to say that the traditional approaches won't continue.

The Service Improvement Programme - this programme is intended to take a fundamental look at the way in which we operate. It will seek to address the prospects for savings by entirely changing the process through which we do things. It is believed that there are significant opportunities for efficiency savings. Budget Panel has agreed in principle to pursuing this approach, ensuring that savings generated are freed to support the Council's medium-term financial planning rather than individual Directorate and Departmental activity.

Accommodation - the Council's current occupation of accommodation is massively inefficient both in terms of the actual occupation of space but also in terms of maintenance and loss of staff time. Again Budget Panel has approved in principle a process for managing the accommodation requirements of the Council in a way that will be at least cost neutral and hopefully over the planned period will make a modest revenue return for reinvestment.

10. The Budget Panel has formed the view that meeting budget pressures in total, from Council Tax, was not sustainable, acknowledging the bids as reasonable. On balance, and having regard to all the factors, Budget Panel is recommending that additional resources of £7,000,000, over the four-year planning timeframe, are necessary to meet the priorities reflected in paragraph 8 (a) to (f) above.
11. Cabinet's consideration of these recommendations is now required, having regard to the Medium Term Financial Plan report at Agenda Item 3.

Risk Management

Due consideration of budget pressures is required to ensure that financial resources are aligned to the Council's strategic priorities.

Consultees

Budget Panel.

Background Papers

None identified.

BUDGET FRAMEWORK 2004/05 - 2007/08

INTRODUCTION

1. This document is intended only as a framework document designed to assist the Chief Executive in preparing final documents for consideration by Cabinet and then Council, both of which tasks need to be completed before the council tax is set at the March meeting of Council. The Chief Executive and County Treasurer would advise that two separate documents be prepared:
 - (a) a medium-term financial plan which sets out the Council's approach to financial planning for the financial years 2004/05 - 2007/08. It is important to note that although the next election will be held in May 2007, it is this administration that will be responsible for setting the budget and therefore the council tax for that year.
 - (b) a revenue budget strategy which will be a detailed document so far as 2004/05 is concerned and will provide the basis for setting the council tax for 2004/05. It should also realistically address the pattern of spend (and therefore the pattern of council tax) which is likely to be required to fund the medium-term financial plan to 2007/08. Adopting a medium-term financial plan which the Council does not have the capacity or the willingness to address will severely damage assessments of the Council through the ever-growing regulation, inspection and audit regimes.

BACKGROUND

2. The Council is by definition a low spending council and that has translated through consistently into low levels of council tax. Until the last financial year, 2003/04, Herefordshire Council had the lowest council tax in each year in the whole of the West Midlands. It has the 10th lowest supported spending (i.e. FSS) per head of population of all unitary authorities. This is, however, a misleading figure. Herefordshire is the second largest unitary authority in terms of land area (only the East Riding of Yorkshire is larger) and it is the most sparsely populated unitary authority. The majority of newly created unitary authorities were urban based and given the costs of providing services in a sparsely populated rural area it is remarkable that Herefordshire Council is so poorly placed against other unitary authorities. To put that in context, if you were to compare Herefordshire's spending on the major key service areas with other County authorities with whom it is more directly comparable then it would be close to or at the foot of all those tables.
3. This is a message which the Council needs to convey to the public without making excuses. To date, the explanation of the Council's budget position has failed to fully address this key issue.
4. In the financial year 2003/04, there was a major revision to the system of allocation of Government funding via Revenue Support Grant (RSG). The former system of Standard Spending Assessments (SSAs) was replaced by a system which was similar in principle but which went under the title of Formula Spending Share (FSS). Both systems seek to establish the spend which the Council needs to make to provide a universal national level of service. It is acknowledged as an imperfect system. Spending at that level is not mandatory but it drives much of the financial support which is available to local authorities. It also has a direct impact on council tax levels. The intention is to ensure, in as far as is possible, that authorities who are spending at FSS would have to raise similar levels of council tax to support that

spend. In 2003/04, the Council determined to spend at its FSS but to do so, and because of the changes, it would have had to levy a council tax of 17.3%. In the event, the Council decided to dampen the effect on the council tax payer by taking money from reserves and balances to support the 2003/04 spend. In doing so, it took the level of reserves below the level £3 million (previously advised as being the minimum prudent level of reserve) with a clear resolution to replenish reserves in the financial year 2004/05. The Council potentially therefore has to make provision to support the level of spending in 2003/04 which was met from reserves (2.5%) and replenish reserves to the previously agreed minimum prudent level of £3 million (1.7%). If the Council was to fully restore the amount taken from reserves and balances in 2003/04, it would cost an additional 2.5%.

MEDIUM-TERM FINANCIAL PLAN

5. The Budget Panel has already undertaken a good deal of work in the preparatory round which has resulted in service bids totalling over £13 million over the proposed four year planning period. It will be necessary as part of any medium-term financial planning exercise to look at whether those aspirations can be realistically financed. Even though as Chief Executive I believe the aspirations are reasonable, particularly if the Council wishes to strive for Excellent status, I am doubtful that year on year increases above the level of inflationary pressures of in average terms 5.5% could be achieved. The Council will then have to make a judgement about what burden can be met by the council tax payer and what resources the Council is able to generate over and above those levels by other means.
6. The priorities for the medium-term financial plan have already begun to emerge from the work that Budget Panel have undertaken. They are:
 - (a) The underlying principle of the medium-term financial strategy is that the Council would intend to maintain the real purchasing power of current revenue budgets throughout the life of the planned period.
 - (b) An acceptance that the Education budget will largely be driven by a national agenda which has driven investment in Education above the level of inflation throughout the life of this Council. The emphasis within that investment is on passporting cash to schools. The Council wish to support that approach whilst recognising that that does create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics.
 - (c) There will be a need to continue to strengthen the Social Care budget through the medium-term financial plan period if the Council is to maintain improvement in this key area of its performance. This is particularly true in the area of care for older people where the Council spends significantly below its FSS.
 - (d) The Council has been postponing investment in information and communications technology, partly because of its poor and inconsistent inheritance but also because of the difficulty of making judicious investment in those areas based on the occupation of existing accommodation. Investment cannot however be further postponed without the Council risking failure in the way it works and delivers services to the public.
 - (e) The Council needs to address its performance in relation to highways, transport, planning and waste. This will require investment but also requires the Council to support significant changes in the pattern of provision.

- (f) There is a need to continue to resource activity which is of direct benefit to the community. Recent inspections have led to criticism of levels of investment in adult learning and libraries. The Council needs to maintain resources for these services if it is to continue to offer them. If it is unable to maintain those minimum levels of resources then it needs to consider in some cases whether to continue to maintain the services at all in some areas.
- (g) The Council needs to continue to strive for efficiency. It would be foolish to pretend with an organisation of the size of the Council delivering the range and breadth of services that it does always maintain 100% efficiency. There is however a recognition that the amount which can be driven out by traditional approaches to improving efficiency are likely to be insufficiently significant to support the Council's medium-term financial plan. Budget Panel has therefore agreed to look at two specific projects as an alternative to traditional approaches to economies and efficiencies. That is not to say that the traditional approaches won't continue.
 - (i) The Service Improvement Programme - this programme is intended to take a fundamental look at the way in which we operate. It will seek to address the prospects for savings by entirely changing the process through which we do things. It is believed that there are significant opportunities for efficiency savings. Budget Panel has agreed in principle to pursuing this approach, ensuring that savings generated are freed to support the Council's medium-term financial planning rather than individual Directorate and Departmental activity.
 - (ii) Accommodation - the Council's current occupation of accommodation is massively inefficient both in terms of the actual occupation of space but also in terms of maintenance and loss of staff time. Again Budget Panel has approved in principle a process for managing the accommodation requirements of the Council in a way that will be at least cost neutral and hopefully over the planned period will make a modest revenue return for reinvestment.

PRUDENTIAL GUIDELINES

- 7. Central government support to the ongoing costs of financing capital expenditure, through the RSG mechanism, is limited. In the main, centrally supported capital is based on submitted plans and restricted to the areas of Transportation (Local Transport Plan), Education (Education Asset Management Plan) and Strategic Housing (Housing Strategy). Whilst final figures remain to be confirmed, a sum of some £18m of supported borrowing will be possible in 2004/05.
- 8. As members are only too well aware, there is a need for capital investment over and above the supported borrowing for the three areas referred to above. The Prudential Guidelines, as previously reported to Cabinet, provide the potential for locally based decisions on borrowing to support further capital projects. Broadly speaking, for each £1m of capital investment, a revenue charge of £100,000 per annum is incurred. Cabinet are due to consider a report in late January with proposals for potential further schemes. The Medium-Term Financial Plan will need to incorporate sums consistent with the Council's aspirations in this area.

APPLYING THE MEDIUM-TERM FINANCIAL PROCESS TO BUDGET POLICY

9. In determining its budget policy, the Council will need to take into account immediate factors outside the medium-term financial plan. These include:
 - (a) the need to protect the Council's financial reputation, managing and highlighting potential risks to the medium-term financial strategy both in terms of the forthcoming annual budget but also into future years.
 - (b) continuing to learn from the monitoring of the current year's financial performance translating that practical experience into amendments to the budget for the forthcoming year. This requires an examination of both overspends and underspends although clearly overspends represent a greater risk.
 - (c) assessing the Government's financial settlement for the forthcoming year but also seeking to anticipate trends over the medium-term financial plan period.

All those three factors need, of course, to be set in the context of the medium-term financial plan.

STATUS AND RISKS

10. The Council has maintained its position as a "Good" authority as part of the revisit of the Audit Commission's Comprehensive Performance Assessment and has achieved a top score of 4 on the use of resources. The Council has made progress on its service scores for Benefits but has fallen back in its Education score. It needs to continue to apply resources to achieving through its Improvement Plan "Committed to Excellence". The assessment of the Council's financial standing by its external auditors remains satisfactory. They express themselves satisfied that the Council remains in a position to drive forward improvement. It does, however, need to invest in its medium-term financial planning but also to concentrate on detailed aspects of audit, particularly in relation to Best Value Performance Indicators and information security.
11. The Council does, however, face significant risk in the following areas:
 - (a) The Social Care budget which without further investment would place the Council at risk with a growing prospect of increased expectation and increased willingness to challenge.
 - (b) The difficulty of estimating the escalating costs of waste disposal and collection. There are a number of facets. There is a need to re-negotiate the Waste Disposal PFI contract. There is the pressure of ever-increasing volumes of waste (above those estimated) coupled with continuing likely increases in landfill tax. There is also the cost of recycling, particularly in a scattered rural community.
 - (c) There is a need to continue to address issues of levels of performance within Environment and Planning which contribute to poor inspection scores in these areas.
 - (d) In relation to other service areas, national targets and standards, which are subject to a variety of inspection regimes, do have to be met, both in the short and medium-term and they require either a realistic budget provision or for

the Council to formulate a strategy for dealing with the non achievement of those targets.

12. As reported to Cabinet in December, the Local Government Act 2003 has a number of implications for local authorities. Section 25 requires the County Treasurer to report to the Council when it is determining the budget and council tax each year. The County Treasurer is required to give professional advice on those two elements which are inter-dependant and must be considered together. Decisions on the appropriate level of reserves must be considered in the context of risk and uncertainty with decisions ultimately guided by advice based on an assessment of all the circumstances considered likely to affect the Council.

THE CURRENT YEAR'S BUDGET AND ACCUMULATED BALANCES AND RESERVES

13. This year's net revenue budget was set at £167.5 million. A summary of the Council's balances and reserves as provided for Council prior to the budget last year is set out as Appendix 1A. An estimate of the position on reserves as anticipated at the same period 2004 is set out as Appendix 1B.
14. Cabinet receives regular reports on progress on the revenue budget.
15. The main features arising from this year's revenue budget which are relevant to the medium-term financial plan are:
 - Demographic demand for older peoples services.
 - Waste management – increasing volumes.
 - Loss of external income – support services
 - ICT support
 - Reducing income:
 - Land Charges.
 - Industrial Estates.
 - Commercial Property.
 - Grounds maintenance:
 - Adopted land etc.

The pressures above have been reflected in earlier presentations to the Budget Panel. Further factors, whilst not directly impacting on the current year's budget, are Job Evaluation and Capital Financing costs, both of which have been reflected, in part, in future years standstill budget projections.

THIS YEAR'S FINANCIAL SETTLEMENT

16. The Government announced its provisional financial settlement for local government on 19th November. The proposed settlement is set out in detail at Appendix 2.

Subsequently the Council has been advised by the Office of the Deputy Prime Minister that the provisional Revenue Support Grant entitlement for 2004/05 is to be increased by £110 million to £111.3 million.

ALIGNING THE MEDIUM-TERM FINANCIAL PLAN WITH THE 2004/05 BUDGET

17. There are two key steps to be taken at the next Budget Panel. The Budget Panel needs to make recommendations on the resourcing of the medium-term financial plan.

The key questions are:

- Can a medium-term plan be sustained on the basis of the work reported to Budget Panel at its last meeting? That leads to a series of further questions.
- Is the Council committed to maintaining the real terms revenue spend of existing services?
- If it is not, which services does it wish to reduce and which would it be prepared to cease to maintain?
- What level of increase does it believe it can sustain over the four year period based on the current council tax base? Every £1 million addition will generate a council tax rise of 1.7% or 0.425% per annum, thus 3% per annum above government guideline would allow the Council to raise £7 million over the period.
- How much can the Council realistically hope to generate from the Service Improvement Programme?
- How much additional expenditure over the rate of inflation will the Government's spending plans generate?
- How much additional capital spending, via Prudential Guidelines, is anticipated?
- Does the Council want to adopt an even approach to raising additional monies or does it want to structure the increases to reduce the pattern over the planned period

COUNCIL TAX CAPPING

18. An extremely complex position is developing in relation to the prospect of capping for the forthcoming financial year.
19. In 2003/04, authorities rated as Excellent or Good in the Comprehensive Performance Assessment were immune from capping. The current Government has never exercised its power to cap the expenditure of a local authority although it reserves the right to do so. It has called in Councils (including Herefordshire) to give an explanation for their spending plans but has not so far resorted to capping.
20. The prospect of capping has been re-introduced for all Councils this year as a result of announcements made by the Office of the Deputy Prime Minister faced with what was considered to be unacceptable council tax rises in the current year. The Audit Commission has recently reported on those issues and has concluded that much of the council tax increase in the current year was generated by the change in the Government's support arrangements for local authorities. This is very easily illustrated in Herefordshire by reference to the Government's systems under SSA and FSS. If the Council had spent at SSA in the last year of the SSA system then

32% of its expenditure would have been met by the council tax payer. If the Council had levied its council tax in 2003/04 at FSS (i.e. 17.3%) then 37% of the Council's expenditure would have been met by the council tax payer. That is a very stark indication of the Audit Commission's conclusion. Local authorities were not, however, immune from criticism and there were particular comments about the inability/unwillingness of Councils who do not expect to drive down costs in the provision of additional services.

21. Since the Audit Commission's report, as mentioned in paragraph 20, the Office of the Deputy Prime Minister have injected additional monies into local government. Herefordshire has gained significantly in that additional allocation. It is therefore extremely difficult to predict the approach to capping in the forthcoming year. Government will always be reluctant to cap more than a handful of authorities. Costs involved in rebilling all council tax payers (this is because the council tax bills have to go out before the Government can exercise its right under the capping regime) means it is an exercise which is carried out at the expense of the public purse and that is unsustainable if a large number of authorities are capped. We know that there are Councils that are already contemplating figures significantly in excess of that which will be faced by Herefordshire but better information will emerge on those issues in the coming weeks.
22. The initial indication was that the Office of the Deputy Prime Minister were unlikely to cap authorities (in year) but that they might impose a limit in line with the Government guideline for the ensuing financial year. Whilst the announcement from the Office of the Deputy Prime Minister might appear to have changed that stance, given that a General Election may well be held in 2005, technically the capping of authorities' spend for the ensuing year 2005/06 would still appear to be the more likely prospect. The position is, however, much more uncertain than it was immediately post the provisional settlement. This is a political judgement for the Council as a whole to make and it can only be effectively made when better information is available about the increases likely to be imposed by other local authorities.
23. Whatever the level of resourcing the Council determines for the medium term financial planning, then the balance of advantage will still seem to lie in raising a significant amount of the total burden in the first year with reducing sums in the subsequent three years. This is a pattern, when coupled with effective communication strategies, that appears to have served other authorities well in creating a constructive approach to their medium-term financial planning.

CHIEF EXECUTIVE

COUNTY TREASURER

9 January 2004

	2004/2005			2005/2006			2006/2007			2007/2008		
	Total £'000	Education £'000	Other Services £'000	Total £'000	Education £'000	Other Services £'000	Total £'000	Education £'000	Other Services £'000	Total £'000	Education £'000	Other Services £'000
Base Budget	169,444	79,723	89,721	174,689	84,055	90,634	185,623	89,183	96,440	193,750	92,750	101,000
Inflation	4,533	2,084	2,449	6,136	2,657	3,479	5,097	2,661	2,436	5,288	2,764	2,524
	173,977	81,807	92,170	180,825	86,712	94,113	190,720	91,844	98,876	199,038	95,514	103,524
Other Items	530		530	661		661	325		325	330		330
- Waste management - PFI Contract	300		300	250		250	500		500	250		250
- Waste disposal (contract renegotiation)	167		167	127		127	0		0	0		0
- Flood Defence & Land Drainage Levies (above inflation)	30		30	0		0	(30)		(30)	0		0
- LPSA expenditure (Youth Offending)	50		50	0		0	0		0	0		0
- Corporate (Race Equality Steering Group)	100		100	0		0	0		0	0		0
- Corporate (Public Liability Insurance)	92		92	0		0	0		0	0		0
- Jarvis (Ongoing Contract Service Deficit)	600		600	0		0	0		0	0		0
- Jarvis (Contract Service Benefit)	(600)		(600)	0		0	0		0	0		0
- Hereford City Council	60		60	0		0	0		0	0		0
- Job Evaluation	400		400	805		805	(100)		(100)	(455)		(455)
- Hampton Bishop Stank (2003/04 one off expenditure)	(200)		(200)	0		0	0		0	0		0
- Use of Reserves re: Social Care & Highways (2003/04 one off expenditure)	(400)		(400)	0		0	0		0	0		0
- Changes in Capital Financing Costs	1,476		1,476	1,484		1,484	1,429		1,429	1,428		1,428
- Repayment of LGR SCA	210		210	0		0	0		0	0		0
- Council Tax Benefit & Rent Allowances transfer	(1,000)		(1,000)	0		0	0		0	0		0
- Whitecross School - PFI Contract	0		0	700		700	0		0	0		0
- Social Care Children Services	1,131		1,131	0		0	0		0	0		0
- Reduction in Flood Defence (direct funding of Env Agency)	(87)		(87)	0		0	0		0	0		0
- Fire Authority - Precepting Authority	(5,395)		(5,395)	0		0	0		0	0		0
	(2,537)	0	(1,537)	4,027	700	3,327	2,124	0	2,124	1,553	0	1,553
Policy Commitments	1,000		1,000	(1,000)		(1,000)	0		0	0		0
- Replenish Reserves	1,000	0	1,000	(1,000)	0	(1,000)	0	0	0	0	0	0
	(1,537)	0	(1,537)	3,027	700	2,327	2,124	0	2,124	1,553	0	1,553
	172,441	81,807	90,634	183,852	87,412	96,440	192,844	91,844	101,000	200,591	95,514	105,077
Reinstated Education budget at FSS	2,248	2,248	0	1,771	1,771	0	906	906	0	946	946	0
TOTAL STANDSTILL BUDGET	174,689	84,055	90,634	185,623	89,183	96,440	193,750	92,750	101,000	201,537	96,460	105,077
Assumed FSS (Excluding Fire)	173,034			184,702			192,090			199,773		
Assumptions												
Assumed Pay and Price Increase	Employees - 3%			Teachers - 2.95%			Employees - 3%			Teachers - 3%		
	Other Expenditure - 2.5%			Income - 2.5%			Other Expenditure - 2.5%			Income - 2.5%		
Assumed FSS increase (as per Consultation/Spending Review)	2.4%	cash increase		6.7%			4.0%			4.0%		
Assumed Net Aggregate External Finance increase (as per Consultation/Spending Review)	5.8%	'real' increase		6.9%			4.0%			4.0%		
Assumed Collection Fund Surplus	7.0%			£0.4million			£0.4million			£0.4million		

NOTE

Fire Authority will become precepting authority wef 1/4/04.

Summary of Budget Pressures presentable to Budget Panel

APPENDIX 3

	2004/5 £000	2005/6 £000	2006/7 £000	2007/8 £000
Programme Areas				
Environment				
Planning Services	591	-168	-151	0
Environmental Health	229	-30	-29	0
Highways and Transportation	988	75	-100	0
	<u>1808</u>	<u>-123</u>	<u>-280</u>	<u>0</u>
Policy and Finance				
Policy and Community	95	0	0	0
ICT with Option 1	4,012	-651	15	1
County Treasurer	90	0	0	0
County Secretary & Solicitor	273	0	0	0
Human Resources	105	0	0	0
Property	688	524	250	250
	<u>5,263</u>	<u>-127</u>	<u>265</u>	<u>251</u>
Social Care and Housing				
Improving Older Peoples Services (inc reducing delays)	1567	995	720	520
Quality of Assessment in Children's and Adults Services	200	-150	0	0
Modernisation Customer Care and Access	440	-250	0	0
Children with disabilities/complex needs and Family Support	180	300	150	150
Housing and Supported Housing Development	130	0	0	0
Loss of funding Source/Inflationary Pressures	109	250	170	160
	<u>2626</u>	<u>1145</u>	<u>1040</u>	<u>830</u>
of which Expected Funding through modernisation Programme	600	-400	0	0
	<u>2026</u>	<u>1,545</u>	<u>1,040</u>	<u>830</u>

Social and Economic Development

Social and Community Development	770	221	37	43
Community and Economic Development	154	96	-40	-10
	<u>924</u>	<u>317</u>	<u>-3</u>	<u>33</u>
Total	<u>10,021</u>	<u>1612</u>	<u>1022</u>	<u>1114</u>

Note: Please note Education Budget Pressures are not included on the basis that Education will budget at F.S.S.