

Strategic Monitoring Committee

Date: **Monday, 18th February, 2008**

Time: **10.00 a.m.**

Place: **The Council Chamber, Brockington, 35
Hafod Road, Hereford**

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

*Tim Brown, Democratic Services, tel 01432
260239
e-mail tbrown@herefordshire.gov.uk*

**County of Herefordshire
District Council**

AGENDA

for the Meeting of the Strategic Monitoring Committee

To: Councillor PJ Edwards (Chairman)
Councillor WLS Bowen (Vice-Chairman)

Councillors PA Andrews, WU Attfield, SPA Daniels, KG Grumbley, TM James, RI Matthews, SJ Robertson, RH Smith and JK Swinburne

1. APOLOGIES FOR ABSENCE

To receive apologies for absence.

2. DECLARATIONS OF INTEREST

To receive any declarations of interest by Members in respect of items on the Agenda.

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

The Council's Members' Code of Conduct requires Councillors to declare against an Agenda item(s) the nature of an interest and whether the interest is personal or prejudicial. Councillors have to decide first whether or not they have a personal interest in the matter under discussion. They will then have to decide whether that personal interest is also prejudicial.

A personal interest is an interest that affects the Councillor more than most other people in the area. People in the area include those who live, work or have property in the area of the Council. Councillors will also have a personal interest if their partner, relative or a close friend, or an organisation that they or the member works for, is affected more than other people in the area. If they do have a personal interest, they must declare it but can stay and take part and vote in the meeting.

Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is and leave the meeting room.

3. MINUTES

To approve and sign the Minutes of the meetings held on 21st January, 2008 and 31st January, 2008.

Pages

1 - 20

4.	SUGGESTIONS FROM MEMBERS OF THE PUBLIC ON ISSUES FOR FUTURE SCRUTINY	
	To consider suggestions from members of the public on issues the Committee could scrutinise in the future.	
5.	DRAFT FINANCIAL STRATEGY 2008-2011	21 - 118
	To seek the Strategic Monitoring Committee's views on the draft financial strategy for 2008 - 2011.	
6.	DRAFT CAPITAL PROGRAMME 2008/09	119 - 140
	To seek the Strategic Monitoring Committee's views on the draft capital programme for 2008/09.	
7.	REVIEW OF FINANCIAL PROCEDURE RULES AND CONTRACT PROCEDURE RULES	141 - 192
	To seek the Strategic Monitoring Committee's views on proposed revisions to the Council's Financial Procedure Rules and Contract Procedure Rules made in the light of the Section 151 Officer report and Crookall Review last year.	
8.	WORK PROGRAMME	193 - 196
	To consider the Committee's work programme.	

PUBLIC INFORMATION

HEREFORDSHIRE COUNCIL'S SCRUTINY COMMITTEES

The Council has established Scrutiny Committees for Adult Social Care and Strategic Housing, Childrens' Services, Community Services, Environment, and Health. A Strategic Monitoring Committee scrutinises corporate matters and co-ordinates the work of these Committees.

The purpose of the Committees is to ensure the accountability and transparency of the Council's decision making process.

The principal roles of Scrutiny Committees are to

- Help in developing Council policy
- Probe, investigate, test the options and ask the difficult questions before and after decisions are taken
- Look in more detail at areas of concern which may have been raised by the Cabinet itself, by other Councillors or by members of the public
- "call in" decisions - this is a statutory power which gives Scrutiny Committees the right to place a decision on hold pending further scrutiny.
- Review performance of the Council
- Conduct Best Value reviews
- Undertake external scrutiny work engaging partners and the public

Formal meetings of the Committees are held in public and information on your rights to attend meetings and access to information are set out overleaf

PUBLIC INFORMATION

Public Involvement at Scrutiny Committee Meetings

You can contact Councillors and Officers at any time about Scrutiny Committee matters and issues which you would like the Scrutiny Committees to investigate.

There are also two other ways in which you can directly contribute at Herefordshire Council's Scrutiny Committee meetings.

1. Identifying Areas for Scrutiny

At the meeting the Chairman will ask the members of the public present if they have any issues which they would like the Scrutiny Committee to investigate, however, there will be no discussion of the issue at the time when the matter is raised. Councillors will research the issue and consider whether it should form part of the Committee's work programme when compared with other competing priorities.

Please note that the Committees can only scrutinise items which fall within their specific remit (see below). If a matter is raised which falls within the remit of another Scrutiny Committee then it will be noted and passed on to the relevant Chairman for their consideration.

2. Questions from Members of the Public for Consideration at Scrutiny Committee Meetings and Participation at Meetings

You can submit a question for consideration at a Scrutiny Committee meeting so long as the question you are asking is directly related to an item listed on the agenda. If you have a question you would like to ask then please submit it **no later than two working days before the meeting** to the Committee Officer. This will help to ensure that an answer can be provided at the meeting. Contact details for the Committee Officer can be found on the front page of this agenda.

Generally, members of the public will also be able to contribute to the discussion at the meeting. This will be at the Chairman's discretion.

(Please note that the Scrutiny Committees are not able to discuss questions relating to personal or confidential issues.)

Remits of Herefordshire Council's Scrutiny Committees

Adult Social Care and Strategic Housing

*Statutory functions for adult social services including:
Learning Disabilities
Strategic Housing
Supporting People
Public Health*

Children's Services

Provision of services relating to the well-being of children including education, health and social care.

Community Services Scrutiny Committee

*Libraries
Cultural Services including heritage and tourism
Leisure Services
Parks and Countryside
Community Safety
Economic Development
Youth Services*

Health

*Planning, provision and operation of health services affecting the area
Health Improvement
Services provided by the NHS*

Environment

*Environmental Issues
Highways and Transportation*

Strategic Monitoring Committee

*Corporate Strategy and Finance
Resources
Corporate and Customer Services
Human Resources*

The Public's Rights to Information and Attendance at Meetings

YOU HAVE A RIGHT TO: -

- Attend all Council, Cabinet, Committee and Sub-Committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public Register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and of all Committees and Sub-Committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Cabinet, Committees and Sub-Committees.
- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge (20p per sheet subject to a maximum of £5.00 per agenda plus a nominal fee of £1.50 for postage).
- Access to this summary of your rights as members of the public to attend meetings of the Council, Cabinet, Committees and Sub-Committees and to inspect and copy documents.

Please Note:

Agenda and individual reports can be made available in large print. Please contact the officer named on the front cover of this agenda **in advance** of the meeting who will be pleased to deal with your request.

The Council Chamber where the meeting will be held is accessible for visitors in wheelchairs, for whom toilets are also available.

A public telephone is available in the reception area.

Public Transport Links

- Public transport access can be gained to Brockington via the service runs approximately every half hour from the 'Hopper' bus station at the Tesco store in Bewell Street (next to the roundabout junction of Blueschool Street / Victoria Street / Edgar Street).
- The nearest bus stop to Brockington is located in Old Eign Hill near to its junction with Hafod Road. The return journey can be made from the same bus stop.

If you have any questions about this agenda, how the Council works or would like more information or wish to exercise your rights to access the information described above, you may do so either by telephoning the officer named on the front cover of this agenda or by visiting in person during office hours (8.45 a.m. - 5.00 p.m. Monday - Thursday and 8.45 a.m. - 4.45 p.m. Friday) at the Council Offices, Brockington, 35 Hafod Road, Hereford.



Where possible this agenda is printed on paper made from 100% Post-Consumer waste. De-inked without bleaching and free from optical brightening agents (OBA). Awarded the Nordic Swan for low emissions during production and the Blue Angel environmental label.

COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

FIRE AND EMERGENCY EVACUATION PROCEDURE

In the event of a fire or emergency the alarm bell will ring continuously.

You should vacate the building in an orderly manner through the nearest available fire exit.

You should then proceed to Assembly Point J which is located at the southern entrance to the car park. A check will be undertaken to ensure that those recorded as present have vacated the building following which further instructions will be given.

Please do not allow any items of clothing, etc. to obstruct any of the exits.

Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.

COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

MINUTES of the meeting of Strategic Monitoring Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Monday, 21st January, 2008 at 10.00 a.m.

Present: Councillor PJ Edwards (Chairman)

Councillors: TM James, SJ Robertson, RH Smith and JK Swinburne

In attendance: Councillors MD Lloyd-Hayes and AT Oliver

49. APOLOGIES FOR ABSENCE

Apologies were received from Councillors PA Andrews, WLS Bowen, KG Grumbley and RI Matthews.

50. DECLARATIONS OF INTEREST

There were no declarations of interest.

51. MINUTES

Attention was drawn to a spelling mistake and punctuation error on page 3 of the Minutes, as printed in the agenda papers. A corrected page was provided for signature.

RESOLVED: That the Minutes of the meeting held on 19th November, 2007, as corrected at page 3, be approved as a correct record and signed by the Chairman.

52. SUGGESTIONS FROM MEMBERS OF THE PUBLIC ON ISSUES FOR FUTURE SCRUTINY

A member of the public expressed the wish to add to the written question he had submitted on the report on the May 2007 elections.

He informed the Committee that it was Herefordshire Association of Local Councils' view that election costs should in future be met in full by Herefordshire Council and asked that the Committee consider this point.

The Head of Legal and Democratic Services noted that the legal requirement was that local government bodies should meet the cost of their own elections. The Council currently met 50% of the costs of elections to Town and Parish Councils.

53. INTEGRATED PERFORMANCE AND FINANCE REPORT

The Committee considered the Council's performance for the first eight months of 2007-08 against the Annual Operating Plan 2007-08 and national performance indicators used externally to measure the performance of the Council; partnership performance for the first six months in delivering the Local Public Service

Agreement, Local Area Agreement and Herefordshire Community Strategy; and performance against revenue and capital budgets and corporate risks, and remedial action to address areas of under-performance.

Performance against Performance Indicators

The Corporate Policy and Research Manager (CPRM) presented this section of the report, summarising progress.

He reported a slight increase in the number of red indicators (not on target) and those marked green (on target or met target) since the last report.

He provided an update on progress in identifying an agreed set of defined indicators and targets for measures of healthy teenage lifestyles, an issue highlighted by the Committee in November 2007. He reported that a set of proxy indicators had been developed for consideration by the Director of Children's Services prior to submission to the Children's Trust Board and the Herefordshire Partnership Performance Management Group. Subject to their consideration, these would be included in future IPRs.

He also updated the Committee on the percentage of children on the child protection register that are re-registrations (26 HCS), which had improved significantly in the third quarter; the % of 15 year-old pupils achieving 5 or more GCSEs at grades A* - G or equivalent, including English and Maths (30 HCS) and the number of half-day sessions missed by looked after children as a % of total number of sessions in primary schools (35b HCS) – in both cases, although the target had not been achieved, performance had improved compared with the previous year; and the completion rate of initial assessments of children in need within 7 working days of referral (89b HC), where third quarter out-turn had improved compared with quarter two.

He also referred to the apparent stabilisation in the number of referrals of children in need (89a HC) at around 240 to 245. Although the necessarily tentative target set following the 2005 Joint Area Review had been 280, there were no longer concerns about the thresholds for referrals and the level being achieved was regarded as within the acceptable range.

He drew attention to the findings of the satisfaction survey 2007, the results of which had been taken into account in the IPR, noting that the survey was something to which the Committee might wish to give further consideration. In summary there were few significant changes since the previous year's General Survey. Performance against a few perception indicators had declined but there had also been improved performance against some others. Work was underway to examine in detail what underlay areas where public satisfaction was relatively low or had declined.

He added that a new national survey was being introduced in September 2008. This would be a place survey focusing on citizens' perceptions in relation to quality of life and outcomes.

He reported that the Audit Commission would publish the 2007 Comprehensive Performance Assessment (CPA) score in February 2008. The Council's direction of travel seemed likely to be classed by the Audit Commission as continuing to be in the category of "improving adequately".

Looking forward to the equivalent 2008 assessment, which would be published in early 2009, the current data showed that 62% of indicators were on course to

improve, but 25% to be worse than last year.

The overall CPA score was expected to show a fall from 3* to 2*. The CPRM explained the reasons for the change. This was the result of an expected change in the score for housing from 2 to 1 because of a one-year change in the selection of housing performance indicators used in the Audit Commission's assessment. This was against the background of performance having improved in some respects against the overall suite of indicators previously assessed.

As a result of a proposed further one-year change in the housing indicators to be used for this Audit Commission assessment in 2008, if nothing significant changed in the housing performance in 2007/08 the score was expected to increase to 3.

He added that if housing were to be scored 3 in 2008 and all other service scores were to stay at their expected 2007 level, the overall Council score would fall to 2 because the protection for the 2002 Corporate Assessment score of 3 was to end and the 2005 Corporate Assessment score of 2 to come into play.

In the ensuing discussion the following principal points were made (page references are to pages of the Integrated Performance and Finance Report (IPR) circulated as a separate document.)

- The time it was taking to establish some baselines and targets was questioned. The CPRM said that the Council and Partners were becoming more disciplined in this respect. He commented on the importance, having established a baseline and target, of measuring performance in-year. He noted that there were a number of targets where the performance figure itself was only measured annually and a way had to be found of tracking progress against those targets, for instance by means of proxy indicators or timetabled actions that were necessary to improve performance. There had in the past been Government pressure to adopt particular indicators for the Local Public Service Agreement and the Local Area Agreement that had led to there being some in respect of which there had not been baselines on the basis of which targets could be set. This deficiency had now been addressed in the majority of cases but there were a significant few where baselines and targets had not yet been established. Members reiterated the importance of ensuring that there were baselines established and targets set in a timely manner.
- (p18 89 HC) The completion rate of initial assessments of children in need within 7 working days of referral was discussed. The CPRM added that a benchmarking survey was being undertaken to inform target setting for 2008/09. Recruitment of social workers was on track towards the longer-term target increases, enabling the number of agency staff to be reduced, which should lead to improved performance.
- Concern was expressed that the report stated that performance against this indicator continued to decline. The CPRM reiterated that since the publication of the IPR performance information showed some improvement. However, the difficulty in recruiting social work staff was a national issue, which would continue to require constant attention. Aspects of recruitment were discussed. Members decided, on balance, that given the evidence that officers were taking all possible measures to strengthen recruitment and retention, they would make no further recommendations on this point at this time.
- (p5 HC 73) Disappointment was expressed that Investors in People accreditation, the aim to achieve which the Committee had supported, would not be achieved by the target date of March 2008. It was asked whether there were

any particular reasons and noted that whilst the external assessment had identified areas of strength it had also identified areas of weakness. The view remained that the process was beneficial to the organisation. It was noted that an action plan was being developed with the aim of gaining accreditation by the end of 2008.

- It was asked what action was planned to monitor the effectiveness of the Council's Communication Strategy given the importance of perception in the new format of satisfaction survey and the bearing this would have on external assessments of the Council's performance. The CPRM said that an action plan was in place. He added that, under the new Comprehensive Area Assessment arrangements, the onus was on the Council and its partners to demonstrate a good understanding of need and of the views of service users and citizens generally. Members requested that the importance of monitoring the effectiveness of the Council's communication strategy should be highlighted.
- It was asked whether there was a risk that the current level of performance might deteriorate, affecting the Audit Commission's assessment of the Council's direction of travel. The CPRM said that intensive work was underway to seek to improve performance where this was below last year's whilst maintaining performance in those areas where it was better. The experience in 2006/07 had been that in the last three months of the year it had been possible to improve performance against a significant number of indicators in respect of which performance had been below that in the previous year. This involved ensuring that data had been properly collected as well as focusing on performance itself.
- Members remarked on perceived vagaries of the CPA scoring system.

Revenue and Capital Budgets and Corporate Risks

The Head of Financial Services presented the section of the report on the revenue and capital budgets and corporate risks.

He reported that the overall revenue budget position showed a reduction in the projected overspend to £1.005 million and explained the reasons for this, as described in the report.

He drew attention to the claim to be lodged to the Government Office West Midlands (GOWM) under the Bellwin scheme for damage caused by the flooding in July 2007, noting the possible risk that the Government might not agree to support the entire claim.

Turning then to the analysis of expenditure by Directorates he highlighted a number of potential financial risks: the position on temporary accommodation; negotiations with HALO Ltd in relation to the implementation of single status and job evaluation; and the possible claw back of grant associated with the Actively Regenerating Communities in Herefordshire programme following an audit by GOWM; aspects of ICT expenditure; and the Waste Contract.

The further slippage on the capital programme was noted.

The Head of Financial Services highlighted that the VAT position would now be included as part of the budget monitoring reports adding that the position was satisfactory.

He also noted the change in the prudential borrowing position.

In the ensuing discussion the following principal points were made:

- Asked about the Bellwin claim the Head of Financial Services confirmed that every effort had been made to ensure that all eligible expenditure was claimed.
- Concern was expressed that a change of strategy in the arrangements for allocating places in the new accommodation for older people at Leadon Bank, Ledbury was being considered. It was understood that negotiations were taking place, initiated by the Council, which could lead to the number of places reserved for placements by Herefordshire Council under the current agreement being reduced and being released by the Council for the contractor to let privately. It was requested that any proposed changes to the current strategy for the provision of places at Leadon Bank, Ledbury should be reported to Cabinet for consideration and Members of the Committee and Local Members advised of any such intention.
- In response to questions the Head of Financial Services agreed to provide a written answer on the number of partners involved in the Actively Regenerating Communities in Herefordshire programme, and to confirm the position on expenditure on the Riverside school amalgamation scheme.
- The continued improvements in the presentation of the information on the revenue budget and capital programme in response to the Committee's requests were welcomed.
- It was asked what assumptions had been made in the budget about the expected savings from the current review of the provision of school places. The Head of Financial Services, whilst noting that while generating overall savings the review would require new elements of funding as well, replied that consideration was being given to how savings might be phased. Savings would be expected to be ring-fenced within the schools budget.
- Clarification was sought on the significant projected overspend on the community network upgrade and the fact that savings on the old network had yet to be realised. The Director of Corporate and Customer Services said that a combination of factors was involved. These included that some buildings had been added to the old network after the initial scoping work and that some buildings had remained on the old network for longer than expected.
- A question was asked about the treatment of invest to save monies within the adult social care budget. The report stated that as the funding would be underspent at the year-end part of the sum had been used to fund specific short-term packages. The Head of Financial Services confirmed that the allocation of £2.7 million for invest to save monies remained in the base budget.
- The continued improvement in the presentation of the information on the revenue budget and capital programme was welcomed.
- The forecast expenditure on the Herefordshire Connects programme provided for in the capital programme was questioned. The Head of Financial Services replied that whether the sum was expended depended on whether the purchase of specific replacement systems proceeded following the Committee's call-in of Cabinet's decision to do so.
- The potential that the projected cost of the cattle market would exceed expectations and that this was due to be considered by Cabinet on 24th January,

2008 was noted.

- It was noted that tenders had been let for the replacement of the Minster High School, Leominster and some concern expressed at how this and other developments fitted with the proposals associated with the review of the provision of school places.
- Asked about the lack of detail in the corporate risk log alongside risks CR 29-32 the Head of Financial Services said that these were newly identified risks and the entries in the risk register would be completed shortly.

Members noted that the IPR had been circulated as a separate document and was available to the public on request. It was suggested that in future where documents were circulated separately in this way this was clearly indicated on the agenda papers.

RESOLVED

- That (a) **the importance of ensuring that baselines were established and targets set in a timely manner be re-emphasised to all Directorates and in particular the Council's partners;**
- (b) **any proposed changes to the current strategy for the provision of places at Leadon Bank, Ledbury should be reported to Cabinet for consideration and Members of the Committee and Local Members advised of any such intention;**
- (c) **the importance of monitoring the effectiveness of the Council's communication strategy be highlighted;**
- and**
- (d) **the continued improvement in the presentation of the information on the revenue budget and capital programme be welcomed.**

54. ELECTIONS MAY 2007

The Committee considered a report by the Head of Legal and Democratic Services arising from the May 2007 elections and an action plan designed to improve the service and process based on lessons learned.

The Head of Legal and Democratic Services (HOLD) presented the report. He informed the Committee that any challenge to the procedural conduct of an election had to be by way of an electoral petition. A petition had to be lodged within 21 days from the day the election was held. No such petitions had been lodged and the May 2007 elections must therefore be considered good elections in accordance with the relevant legislation. However, a number of issues had arisen.

He commented on the issues point by point as described in the report. He also referred to the action plan appended to the report which was designed to improve the electoral registration service, addressing the issues that had arisen in the May 2007 elections.

He added that the Electoral Commission had agreed that the late introduction of significant legislation in an election year had not been appropriate. A paper from the

Commission (Electoral administration in the United Kingdom – the Electoral Commission’s assessment) published in December 2007 was also appended to the report. He noted that this indicated that electoral registration in its current structure was at “breaking point” and that there should be: “a “no change” period of at least one year until after May 2008 to help embed recent changes and give those who run our electoral processes a chance to ensure that proper resources are devoted to planning and managing the new procedures.”

The Commission was due to report to the Government in the summer of 2008 with recommendations. It was expected that significant additional resources would be required for the electoral registration process.

In conclusion he praised the electoral registration services team, the support from Legal and Democratic Services together with Corporate and Customer Services and all election staff for their efforts in what had been very difficult circumstances.

In the ensuing discussion the following principal points were made:

- That the elections in May 2007 had been described as a shambles and had placed stress on all those participating in the election. Whilst a large proportion of the difficulties could be attributed to the legislative changes that had been introduced, it was essential that substantial improvements were made to avoid the problems that had been experienced reoccurring.

The HOLD said that difficulties had been experienced across the whole Country. He commented on the efforts that had been made to deal with the problems that had arisen, noting in particular the difficulties relating to postal votes.

- Referring to problems in calling candidates to their count it was proposed that action should be taken to ensure that the public address system used on election nights functioned effectively.
- That it had to be recognised that the difficulties with postal votes meant that some people had been unable to vote. This was unacceptable to the Head of Legal and Democratic Services as it was everyone’s right to vote. Contingencies had been put in place which whilst not ideal did allow for as many of the electorate as possible to register their vote.
- That further consideration should be given to whether the count should be held on the day following the elections, given the pressure caused by the length of time it took to conduct the count.
- The HOLD noted that the Electoral Commission was developing a set of performance indicators for Returning Officers and that this might be of future interest to the Committee.
- The report was welcomed for clearly and comprehensively setting out the issues.
- That it was important that the action plan addressed the workload demands that had been placed on the electoral registration service staff.
- That the review of polling stations needed to be conducted sensitively having regard to the potential effect on the perception of the democratic process that reducing the number of polling stations might have.

- The contribution Town and Parish Councils were required to make to the cost of their elections was discussed including whether the cost should be borne by all councils, whether holding elections or not, or borne in their entirety by Herefordshire Council. The Director of Resources commented that any change to the present arrangements was not accounted for in the budget proposals. Members noted that if a change to the current arrangements were to be agreed this might need time to implement, recognising the budgetary implications. It was proposed that the issue of whether contributions to the costs of elections should be shared with Parish Councils holding elections or instead met in full by the Council should be revisited.
- If Parish Councils were to meet the costs of their elections it was important that they were notified in a timely manner. It was stated in reply that a preliminary invoice for the 2007 elections was to be issued imminently to all affected Parish Councils by letter.
- That the effort made by staff to seek to overcome the difficulties encountered should be acknowledged.
- The action plan was welcomed.
- A Member suggested that the Council should organise an annual conference with Town and Parish Councils to resolve issues. It was noted that to an extent the relationship with Herefordshire Association of Local Councils (HALC) was intended to fulfil this purpose, whilst acknowledging that not all Councils were members of HALC.
- Clarification was sought of the implications of the statement that some ballot papers for the District Council election had been discovered during the parish council count and could not therefore be counted in the District Council election, the results having been declared at the District Count the night before. The HOLD said that this had amounted to some 12 votes and had not had a bearing on the result in the ward affected,
- The issue of verification of the number of ballot papers was also discussed. The HOLD advised that it was for the Returning Officer to resolve such issues with the candidates.
- The need for training to ensure problems were not repeated was emphasised. The Director of Corporate and Customer Services said that the action plan was intended to address resourcing issues.
- The unavailability of refreshments as the Count had run on was also raised. No licence extension had been sought at the venue and future consideration would be given to this matter with HALO Ltd.
- In response to further criticism of the process the HOLD stated that he considered that due process had been followed. Ultimately it was open to individuals if they were dissatisfied to seek legal redress. No action had been lodged against the Council.
- It was noted that it was proposed that the HOLD would present a further report to the Committee on conclusion of legal issues with the supplier contracted to deliver aspects of the election. It was requested that a representative from the Electoral Commission should be invited to attend the meeting at which this further report was presented.

The HOLD also reported that two written questions had been received and said that written answers would be sent in reply.

RESOLVED

- That
- (a) the elections action plan 2007 –2008 be welcomed, noted and received;
 - (b) the issue of whether contributions to the costs of elections should be shared with Parish Councils holding elections or instead met in full be Herefordshire Council should be revisited;
 - (c) action should be taken to ensure that the public address system used on election nights functions effectively;
 - (d) further consideration be given to whether the count should be held on the day following the elections;
 - (e) the Committee's recognition of the considerable efforts made by staff to deliver the elections be recorded;
 - (f) a further report from the Head of Legal and Democratic Services be made to the Committee on conclusion of legal issues with the supplier contracted to deliver aspects of the election; and
 - (h) a representative from the Electoral Commission should be invited to attend the meeting at which the further report from the Head of Legal and Democratic Services was presented.

55. SCRUTINY ACTIVITY REPORT

The Committee noted the work being undertaken by the scrutiny committees.

56. WORK PROGRAMMES

The Committee considered the Scrutiny Committees' current and future work programmes.

It was noted that in the view of its earlier discussions the following issues needed to be reflected in the work programme:

- ongoing work on the electoral registration service in response to the elections 2007
- the findings of the annual satisfaction survey
- monitoring of the effectiveness of the Communication Strategy

Requests from the Audit and Corporate Governance Committee, as set out in the report remained to be considered.

RESOLVED: That subject to the amendments above the current Work Programmes serve as a basis for further development.

The meeting ended at 1.02 p.m.

CHAIRMAN

MINUTES of the meeting of Strategic Monitoring Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Thursday, 31st January, 2008 at 10.00 a.m.

Present: Councillor PJ Edwards (Chairman)
Councillor WLS Bowen (Vice Chairman)

Councillors: WU Attfield, SPA Daniels, TM James, RI Matthews,
SJ Robertson, RH Smith and JK Swinburne

In attendance: Councillors H Bramer (Cabinet member - Resources), JP French (Cabinet Member - Corporate and Customer Services and Human Resources), JA Hyde (Cabinet Member - Children's Services), MD Lloyd-Hayes and JD Woodward

57. APOLOGIES FOR ABSENCE

Apologies were received from Councillors PA Andrews and KG Grumbley.

58. DECLARATIONS OF INTEREST

There were no declarations of interest.

59. SUGGESTIONS FROM MEMBERS OF THE PUBLIC ON ISSUES FOR FUTURE SCRUTINY

There were no suggestions from Members of the Public.

60. CALL-IN OF CABINET DECISION ON HEREFORDSHIRE CONNECTS AND CONSIDERATION OF A CONSOLIDATED REPORT ON THE HEREFORDSHIRE CONNECTS PROGRAMME

The Committee considered Cabinet's decision of 13th December, 2007 on the acquisition of the preferred technology to replace the current client systems used within both Adult Social Care and the Children and Young People's Directorate, together with a consolidated report on the Herefordshire Connects programme.

The decision had been called in by three Members of the Committee: Councillors PJ Edwards, TM James and RH Smith.

The reasons for the call-in were set out in the report. The report to Cabinet on 13th December was appended together with the Decision Notice. The Minutes of the Cabinet meeting on 13th December had been circulated separately. Also appended was a consolidated report on the Herefordshire Connects programme and a document titled: Social Care Solution Selection – Strategic Monitoring Committee – Management Summary. A section of this second report contained responses to the reasons for the call-in set out in the call-in notice. A supporting information pack had also been circulated separately.

The Chairman welcomed the submission of a consolidated report on the Connects programme, whilst expressing disappointment that it had been some months since the Committee had originally requested such a report. He considered the consolidated report would be of benefit to the Councillors, officers and the public.

He explained that in scrutinising Cabinet's decision of 13th December the Committee intended to focus on five main themes, building on the reasons for the call-in set out in the call-in notice: how Cabinet's decision related to the overall Connects programme; the procurement process for the social care solution; the costs of the social care solution and the Connects programme; the quality of reports; and the Cabinet process.

The Herefordshire Connects Programme Manager presented the consolidated report on the Connects programme.

He reminded Members of the reasoning behind the development of the original concept, which was one of business change not simply an information technology programme. He outlined the development of phase 1 of the project and the business case for the programme; and the development of three high level business cases for corporate performance management; integrated customer services and integrated support services. He noted that it had been recognised from the outset that the cost and benefit profiles of the programme might change as the programme progressed. This was typical of strategic long-term programmes of this nature and business cases had to be regularly revisited to ensure that they remained sound.

Phase 2 had been the selection of the strategic partner which would enable the Council to implement the transformation programme. He explained the reasoning behind the procurement route chosen for the selection of the partner and the rigour of the selection process, as described in the report.

Phase 3 had focused on defining the programme and had included the review of the original three high level business cases, as had always been the intention, together with a review of the estimated costs and benefits including cashable and non-cashable benefits. The current estimate was that there would be an ongoing, but not cumulative, annual saving of £7.994 million from 2010/2011 onwards.

He concluded by noting that there had been a strategic pause in the Programme and the Corporate Management Board was reviewing the way forward.

The Project Manager (Corporate Programmes) explained that in presenting the report on the Social Care Solution he intended amongst other things to draw on comments from those in the relevant services.

Members of the Committee indicated that the service need for a replacement system was broadly accepted and, having regard to the evidence set out in the papers before them, they did not therefore require additional detailed justification on this point.

The Project Manager (Corporate Programmes) presented the report on this basis. He outlined the process for selecting the social care solution, noting the involvement of the internal audit service in validating the process. Corelogic had clearly been the preferred supplier.

He also commented on the importance of change management to the implementation of the social care solution. Deloitte had recommended the appointment of a full time Change Management Consultant who would also need to draw on additional expertise. He noted that it was instead proposed to deliver much

of this work from resources within directorates, drawing on support from Deloitte on a time and materials basis. Deloitte's role in the actual implementation of the solution was on a fixed price basis.

He concluded by saying that further analysis of the network capacity had indicated that there was sufficient network capacity to operate the social care solution from Bath Street.

From the adult social care perspective the Director of Adult and Community Services said that whilst the Council's adult social care performance had improved to a one star rating, under the Commission for Social Care Inspectorate's (CSCI) assessment framework, it was still relatively weak. Failure to replace the current information and communication technology case management systems for social care would damage CSCI's confidence in the Council's ability to improve. CSCI's Business Relationship Manager had recently sought assurance that the proposed replacement was proceeding. Failure to proceed carried a risk to the reputation of the Council and its overall performance assessment by the Audit Commission.

He added that Worcestershire County Council had recently successfully replaced their system, which had been the same as that still operated by Herefordshire Council, with the solution Cabinet had agreed to acquire. He considered the replacement system, which would enable him to monitor performance on a daily basis, something he could not do with the present system, to be essential from a managerial standpoint. He had every confidence that the proposed system from Corelogic would meet the Service's requirements. Staff across the Directorate had been involved in its selection.

From the Children's Services perspective, the Head of Safeguarding and Assessment noted the Committee had broadly accepted the case for the need for replacement. On this basis he commented on the importance of developing the Integrated Children's System (ICS) required by the Department for Children, Schools and Families (DCFS). He too was convinced that the Corelogic system was the best and this view was shared by practitioners and other managers who had been fully involved in the selection process. This was in contrast to the concerns he had had about the SAP social care solution that had initially been proposed, based on the experiences of some other local authorities of which he was aware. He knew that colleagues across the Country supported the Corelogic solution.

He added that the DCFS had expected that all relevant authorities would have had the necessary ICT system to deliver the ICS in place by 1 January 2007. There had been continuing discussions with the DCFS and their expectation, having rebuked the Council, was that the system would now be in place by June 2008. Whilst it was now looking extremely difficult to achieve that date it would be detrimental to the Council's reputation and performance assessments if it were not to be close to doing so.

He noted that the technical benefits of the system were described in the report. He drew attention to the competitive market for recruiting social workers, the frustrations current staff felt with the current ICT system and the implications this had for recruitment and retention. It was also very difficult to integrate with partner agencies under the current system. Ultimately, however, the key point was that the replacement system would improve the outcomes for children.

The Committee then asked a series of questions based on the five themes to which the Chairman had referred in his opening remarks. The principal areas of questioning and the responses are summarised below.

How Cabinet's decision related to the overall Connects programme

It was observed that Cabinet on 13th December had clearly been under pressure, for various reasons, to approve the acquisition of the social care package. However, the package formed part, say one tenth, of the Connects programme. It was asked what progress had been made towards achieving the aim of the programme as a whole.

The Director of Corporate and Customer Services explained that there had been a strategic pause in the programme in the summer of 2007 in response to the Council's projected financial position. It had been decided that those elements of the programme that would realise few cashable benefits should be deferred. It had been agreed that the acquisition of the social care package was one element of the programme that needed to proceed. The programme now needed to be reviewed and a report made to Cabinet on a proposed way forward, having regard amongst other things to issues such as partnership working with the Primary Care Trust in particular.

The Cabinet Member (Corporate and Customer Services and Human Resources) (CCSHR) referred to the proposals for implementation of the social care solution. She said that she needed to be convinced that, as was now proposed, the Council itself had the resources to fulfil the change management role necessary to the implementation of the social care solution, although support could be bought from Deloitte if required.

She emphasised that whilst the financial settlement for 2008/09 had looked tighter than had now proved to be the case it had been prudent to pause the programme and reflect on what could be delivered within the Medium Term Financial Management Strategy. She emphasised, however, that the organisation had to act to reduce the wide variety of systems that it currently used and modernise its services.

It was asked what similar packages to the social care package were envisaged and their estimated cost. Following some discussion the Chief Executive said in summary that no decision had been taken because, as previously referred to, the programme was under review. The Council had agreed to implement a core system using SAP software. Whilst it had been agreed that the social care solution offered by SAP itself was not the best and that a different solution was therefore needed for that aspect of service it remained the case that the intention was to modernise other services within the core solution as far as possible.

It was asserted that the decision to adopt SAP as the core solution was flawed. It had proved inappropriate for delivering the social care solution and, it was suggested, was inappropriate for other services as well. In reply the Cabinet Member (CCSHR) said that the consolidated report provided to the Committee demonstrated that the selection of SAP as the core system had been soundly based. However, one of the overriding principles in taking the Connects programme forward was that unproven technology would not be adopted. The SAP social care solution was unproven and had therefore not been adopted.

The Chief Executive added that, whilst the presumption was that services would be delivered through the core system, there was a need for some flexibility if it was clear that a particular application better met a specific service need.

The interrelationship of the Connects programme and the accommodation strategy was discussed. The Cabinet Member (CCSHR) commented on the scope the

programme afforded for developing flexible working which in turn reduced the need for accommodation. The Director of Resources said that the Accommodation Strategy Group was focusing on where accommodation could be sited. What type and level of accommodation was provided depended on organisational development considerations. ICT requirements formed part of the discussions about future accommodation provision and was also being taken into account as interim accommodation moves were made. It was clear that standardisation of ICT equipment would make it easier to relocate staff as necessary. The Connects programme did provide scope for a limited flexible working pilot. The aim in developing the financial strategy was to retain as much flexibility as possible as plans evolved.

The possible loss of specific grant money of £43,000 in support of developing the Integrated Children's Services system was raised. The Director of Children's Services confirmed that if the money was not spent on the ICS by the end of the 2007/08 tax year the grant would be lost.

In response to a question about the other effects of delay in developing the system the Director of Children's Services said that whilst the last Annual Performance Assessment by CSCI had recorded an improvement in performance the delay did leave the Council vulnerable to criticism.

The Procurement Process For The Social Care Solution

A series of questions were asked about the procurement process, including, on what basis the three initial potential contractors were identified for consideration by Deloitte; whether there had been any quality assurance as to whether there were any links between Deloitte and the supplier; whether there had been any in-house validation and was it really the case that there were no other potential tenderers? In addition, given that there had been only one compliant tender received it was asked who had drafted the specification and whether it had been checked whether the way in which the specification had been drafted had led to this situation. It was asked whether Deloitte or the Council had conducted the technical appraisal of the tenders, what criteria had been used to judge two of the tenders invalid, who had made that judgment and why had the process not been aborted when there was only one valid tender? It was also asked on what basis had Deloitte then selected OLM, again had there been no other potential tenderers? Why had OLM not been included in the initial discussions? Who had conducted the technical appraisal of OLM? In addition had there been any value for money assessment or assurance and if so had this been assessed by Deloitte or in-house?

In reply the Herefordshire Connects Programme Manager said that Deloitte had recommended the three initial potential contractors. There were very few firms, about 5, that could potentially have fulfilled the Council's requirements for a system that would serve both Adult Social Care and Children's Services. The selection and appraisal of the potential contractors and then OLM as well had been carried out by Council staff with involvement also from the Primary Care Trust. The technical appraisal had been carried out by ICT staff. Value for money had been considered and had been one of the reasons for investigating an alternative to the SAP social care solution.

Mr D Harker, on behalf of Deloitte, commented on phase one of the Connects programme. Following Deloitte's appointment the firm had raised the need to look at the technology underpinning the programme. Deloitte had proposed SAP as the technology for the social care solution and believed it would become the market leader in a few years time. However, that particular product was in the early stages of development and Deloitte had supported a review of the proposal. There were

very few software packages on the DCFS accredited list. Having discounted SAP there had been five packages to consider, three of which had been shortlisted. Two: Anite and OLM, had been rejected because they were based on old technology. Whilst a single solution for both adult social care and Children's Services had been specified the possibility of a hybrid solution had been considered as part of the process. Following failure of two suppliers to fulfil the functional requirements OLM had then been invited to make a submission. The only supplier with whom Deloitte had a relationship was with Anite, as its auditors, and that supplier had not been shortlisted. He added that no Council officer had suggested an alternative solution to those that had been put forward.

Members suggested that it would have been helpful for this information to have been explained in the report to Cabinet.

The Cabinet Member (CCSHR) acknowledged that the quality of documentation supplied to Cabinet needed to be improved and she had made this known. However, there came a point at which the Executive needed to take a decision and could not simply keep referring reports back. Cabinet Members did have briefings and private discussions and had satisfied themselves on a range of issues relating to the social care solution. She acknowledged that not all the assurances received had been reflected in the final Cabinet report.

In response it was suggested that this was not acceptable and the basis on which Cabinet made its decisions should be fully and transparently set out. It was added that the time taken to prepare the reports for the Committee in response to the call-in indicated that the relevant information had not been readily available as it should have been.

A further question was asked about the Council's policy when only one valid tender was received. The Director of Resources said that normally the expectation would be that there would be three good quality tenders to choose from. However, it was possible in some case where there was a specialist product with few suppliers that there may be only one valid tender to consider.

The Head of Legal and Democratic Services added that if only one valid tender was received it had to be considered on its merits. The Council had to consider whether the tender met the specification for the work required and represented value for money. Regard also had to be had to the number of potential suppliers in respect of any given tender. If the Council was unhappy with the sole tender it would have to consider retendering the project. In doing so it would have to balance out whether there were likely to be a number of companies able to tender. Ideally three tenders should be considered but on occasion that was not possible due to the specialist nature of the work required and there perhaps only being a single supplier.

A question was asked about data security and data transfer arrangements and compatibility with systems operated by the Council's partners. In reply the work that had been undertaken on data security and transfer was described and an assurance given that processes would be put in place with all partners. It was added that the Primary Care Trust had been fully involved in discussing these issues.

Assurance was also given about the security of data and flexible working. It was stated that any connection with the NHS database itself was governed by very rigorous security standards.

(The Committee adjourned at this point between 11.45 and 11.50 am)

The Costs of the Connects Programme and the Social Care Solution

It was asked whether the revised costings for the programme, in particular the estimated savings were robust, noting that they showed a significant reduction from the initial estimates. Experience of other Council projects had shown that savings did not always materialise as expected and, although significantly reduced, the projected savings remained substantial. It was noted that the report projected annual ongoing, not cumulative, savings of £7.994 million from 2010/2011 onward and it was questioned how these would be achieved.

The Herefordshire Connects Programme Manager said that he believed the original estimated savings were achievable and that by aiming high the higher the likely return would be. However, revisiting the business case and taking a more conservative view based on bankable savings produced the estimates now reported.

Mr Harker added that it was right to revisit the business case at every stage. He considered that the current figures were robust although he too thought there could be the potential to achieve significantly higher savings. In the longer term the savings would be achieved from a reduction in staff, from the improvements in back office processes, improved procurement and the links developed with the Primary Care Trust. He considered that the Resources Directorate had a clear idea of where savings would come from.

In reply to a question about his experience of similar projects in other authorities he said that he had been involved with 8 or so other authorities and they had achieved savings to varying degrees. Change management was an important element of the process.

Asked about the current financial forecast for the programme the Head of Financial Services said that no benefits would be accrued as initially expected in 2007/08. With the strategic pause in the programme the budget for 2008/09 now assumed some £0.75 million in efficiency savings.

Further concern was expressed about the projected level of savings and, it was suggested, a lack of evidence as to how these would be achieved. The Cabinet Member (CCSHR) said that it had been made clear that identified savings would be removed from the relevant budgets and the Council asked to decide what to do with them.

Clarification was sought on the relationship between the three sets of figures set out on pages 13, 55 and 79 of the agenda papers. The Head of Financial Services explained that page 79 of the report set out the current estimated cost of the social care package; page 13 summarised the assumptions made with the Medium Term Financial Strategy for that package and page 55 related to the Connects programme as a whole.

The social care system was to be placed on a server at Plough Lane. The report to Cabinet on the social care system had stated that investigations were necessary to show that the ICT network could support the link between Plough Lane and Bath Street where staff using the system currently worked. The supplementary report to the Committee stated that tests had now shown that there was sufficient capacity at Bath Street to accommodate the social care solution. Clarification was sought on the position and the statement, as recorded in the Minutes of Cabinet, that to upgrade the Bath Street premises could cost £130,000-150,000. It was stated that this was another point on which Cabinet should have sought and received clarification before making its decision.

In response the Cabinet Member (CCSHR) said that the Cabinet had had to make progress and deliver a solution. Staff could have been relocated from Bath Street had network capacity proved to be an issue.

The Project Manager (Public Service Trust and Corporate ICT Strategy) confirmed that tests conducted since the Cabinet report had been prepared had confirmed that there was sufficient capacity at Bath Street to support the system. Costs would have been incurred had there been a need to connect to the community network, and would be incurred in future if that became necessary.

Asked about data centre capacity he clarified the reference to virtualising servers in the Cabinet report. He explained that virtualising servers was a process which made the most effective use of the existing equipment, reducing the size and cost of data centres. There were costs associated with virtualising servers. These had not been separated out in respect of the social care solution because the intention was to virtualise as many servers as possible across the Council and a capital bid had been made for this work as a whole.

The Head of Financial Services confirmed that account had been taken of this potential cost in the Council's overall budget.

Asked about the fees payable to Deloitte the Head of Financial Services said that these were incorporated into the overall cost. Members suggested that this was another matter that should have been made explicit to Cabinet. It was noted that Deloitte had been appointed on the basis of a fixed price tender except in respect of change management work which was on a time and materials basis.

Quality of Reports

The Chairman emphasised that the debate had made clear the dissatisfaction with the deficiencies in the report to Cabinet on 13th December, some of which were specifically referred to in the reasons for calling in Cabinet's decision. It was essential that future Cabinet reports contained clear, complete information.

A number of points were highlighted recognising that whilst some of these errors and omissions might be minor, collectively they detracted from the authority of the report. The Chief Executive said that this criticism was acknowledged and it was important that Members had the information they needed to fulfil their role.

The Cabinet Process

The Chairman stated that the dissatisfaction with the quality of the report to Cabinet undermined the Cabinet process. It was important that all Members could discern from reports to Cabinet the basis on which decisions were being taken.

The Cabinet Member (CCSHR) thanked Members and officers for what she considered to have been a valuable exercise, not least in generating the production of the consolidated report on the Herefordshire Connects project.

The Chairman thanked everyone for their contributions emphasising that the intention had been to highlight widespread concerns and seek constructive solutions to them.

(The meeting adjourned again between 12.45 pm and 12.52 pm.)

On reconvening the Committee's conclusions were read to the meeting.

RESOLVED TO RECOMMEND TO CABINET

- a) That Cabinet should require a revised submission on the proposed replacement of the relevant client systems in the Adult Social Care and the Children and Young Peoples' Directorates setting out clearly and quantifying all costs (including fees) whether forecast or potential.
- b) That the revised submission referred to above be extended to demonstrate clearly respective responsibilities for: the identification of potential tenderers, the technical appraisal of tenders and judgment as to compliance of the tenders.
- c) The above submission further explains and justifies the decision not to abort the tender process and explains the basis for selection of OLM as a further individual tenderer and the exclusion of OLM from the first tender list.
- d) Assurances regarding data security and transfer arrangements and compatibility with current systems (if retention is considered) should be included in the revised submission to Cabinet.
- e) Neither the totality of this decision nor its place within the context of the Herefordshire Connects project was clear. To ensure proper, informed decision making, reports of this nature submitted to Cabinet in future should state clearly the dimensions of what is presented for approval and its place within the context of the overall project.
- f) Future reports to Cabinet requesting authorisation to proceed with a particular course of action such as an acquisition should state this explicitly in the title and should not merely be described as an update.
- g) That the Head of Legal and Democratic Services be requested to revise the format of the Decision Notice template to clarify the meaning of the entry in the template headed "urgent decision", to make clear that this is a technical term having regard to the relevant Regulations and does not necessarily relate to the importance and urgency of a matter under consideration in practical terms.
- h) The inclusion of a second option in the Cabinet report did not approach the minimum standard of acceptable information. If alternative options are presented in Cabinet reports fully argued consideration is necessary; and
- i) Reports to Cabinet and all Committees should be expressed in clear, comprehensible English without jargon or unexplained abbreviations. Any statistical or financial information must be clear and arithmetically correct.

The meeting ended at 1.02 p.m.

CHAIRMAN

DRAFT FINANCIAL STRATEGY 2008-2011**Report By: DIRECTOR OF RESOURCES****Wards Affected**

County-wide

Purpose

1. To seek the Strategic Monitoring Committee's views on the draft financial strategy for 2008 - 2011. The Committee's views will be considered by the Cabinet on 21st February 2008 when it finalises its recommendations to Council on 7th March 2008 on the budget and Council Tax for 2008/09 and financial strategy for 2008 - 2011.

Financial Implications

2. As outlined in the draft Medium Term Financial Strategy 2008 – 2011 appended to this report

Background

3. Cabinet received a report from the Director of Resources on 24th January 2008 that set out the Corporate Management Board's (CMB) detailed recommendations for updating the current financial strategy to cover the 2008 – 2011 period. A copy of that report is attached for ease of reference.
4. Following detailed consideration of the report, Cabinet resolved to approve CMB's recommendations subject to:
 - a) Inclusion of the final local government finance settlement figures for Herefordshire for 2008/09 and the indicative figures for 2009/10 and 2010/11.
 - b) A revised planning assumption for a Council Tax increase of 4.4% in 2008/09.
 - c) Continued discussion on the level of reserves in the light of a) and b) above.
5. The draft Medium Term Financial Management Strategy 2008 – 2011 attached as an appendix to this report takes into account the updated approach recommended by CMB as amended by Cabinet. It also includes the draft Treasury Management Strategy for 2008/09 as it impacts directly on both the capital and revenue spending plans for the year.
6. The Financial Resource Model included in the financial strategy document attached to this report therefore includes a 4.4% increase in Council Tax for 2008/08 and the final local government finance settlement figures.

7. The Financial Resource Model included in the financial strategy document attached to this report includes three further amendments. The results of the latest triennial actuarial valuation of the pension fund have been received since Cabinet on 24th January 2008. Assumptions in the financial resource model about the likely level of increase have therefore been replaced with firm figures. The assumptions around increases in the Council Tax base have also been reviewed and updated, partially offsetting the adverse impact of the other changes.
8. In addition the settlement has changed the amount of supported borrowing for capital projects the authority has to repay following a shift from grant to this funding source. Central government had indicated in consultation that this would not occur.
9. The following table shows how these changes have impacted on estimated financial capacity:

<i>(All figures in £000's)</i>	2008/09	2009/10	2010/11
Estimated financial capacity as reported to Cabinet on 24 th January 2008	542	3,002	4,689
Less:			
Reduction in Council Tax income	-221	-234	-247
Reduction in financial settlement/RSG transfers	-76	-66	-62
Increase in superannuation costs	-43	-85	-88
Capital Programme and Project updates	+9	-475	-629
Plus:			
Additional growth in Council Tax base	+145	+153	+161
Adjustment to Budget capacity brought forward	0	+142	+147
Estimated financial capacity as a result of the above	356	2,437	3,971

10. The overall impact of the above changes is a reduction in estimated financial capacity in 2008/09 of £186k and a corresponding reduction in the amount estimated to be available to establish an earmarked reserve for Modernisation Plans (paragraph 42 of the Cabinet report attached as an appendix refers). The estimated sum now available is £2.056m compared to £2.242m.
11. Cabinet is monitoring the impact of any reduction in estimated financial capacity on the level of reserves. The month 10 financial monitoring reports will be available to Cabinet on 21st February 2008 when it considers the Strategic Monitoring Committee's comments on the draft financial strategy and finalises its recommendations to Council on the budget

and Council Tax for next year. If the outturn position improves further as the current trend suggests, the estimated sum available for establishing the earmarked reserve for Modernisation Plans would increase from the lower level of £2.056m. It is therefore suggested that a final decision on the level of reserves be taken in the light of the month 10 financial monitoring report.

RECOMMENDATION

THAT the Strategic Monitoring Committee examines the draft Medium Term Financial Management Strategy 2008 – 2011 attached as an appendix to this report and formulates a response to Cabinet.

APPENDICES

- The Director of Resources report for Cabinet dated 24th January 2008 entitled 'Draft Financial Strategy 2008 – 2011' is appended to this report.
- The draft Medium Term Financial Management Strategy 2008 – 2011 prepared in the light of Cabinet's decisions on 24th January 2008.

DRAFT FINANCIAL STRATEGY 2008 – 2011

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

24TH JANUARY 2008

Wards Affected

County-wide.

Purpose

Council approved the Medium Term Financial Strategy (MTFS) for 2007 – 2010 when the budget for 2007/08 was set in March 2007. This report is seeking Cabinet approval to Corporate Management Board's (CMB's) recommendations for updating the current MTFS for the 2008 – 2011 period. The report has been drafted by the Director of Resources in consultation with the CMB.

Cabinet will receive a further report on the MTFS for 2008 – 2011 from the CMB at its meeting on 24th February 2008 that will include details of the final local government finance settlement and any other suggested changes. Cabinet will also consider views expressed by the Strategic Monitoring Committee (SMC) on this report and finalise its recommendations to Council on the financial strategy for 2008 – 2011, budget for 2008/09 and Council Tax for 2008/09 at that meeting.

Key Decision

This is not a Key Decision as Cabinet will not be confirming its financial strategy recommendations to Council until 24th February 2008. Council will be meeting on 7th March 2008 to set the budget and Council Tax for 2008/09.

Recommendation

THAT Cabinet approves the CMB's recommendations for updating the current medium term financial strategy and resource model highlighted in the body of this report.

Reasons

The current financial strategy set the financial framework within which corporate and service planning for 2008 – 2011 has been taking place. This strategy now needs updating in the light of the:

- a) Pressures revealed by the corporate and service planning process.
- b) Provisional local government finance settlement for 2008/09 – 2010/11.
- c) External assessments and reviews that have taken place since March 2007.

Further information on the subject of this report is available from Sonia Rees, Director of Resources, on (01432) 383519

- d) Refresh of the Corporate Plan for the 2008 – 2011 period that is currently underway.
- e) Continuing need to modernise and improve internal business processes and key services to the public.
- f) Plans to modernise the way in which Herefordshire Council and Herefordshire Primary Care Trust (PCT) work together to better meet the needs of the community.
- g) Latest view of corporate financial risks – reflecting quantifiable pressures within policies for balances and reserves and highlighting other potential issues.
- h) Latest view of likely outturn for the current financial year.

The external auditor commented favourably on the Council's MTFS for 2007 – 2010 in her Use of Resources report for 2007. The CMB's recommended updates endeavour to ensure that the financial strategy continues to support corporate priorities, despite the pressures listed above, whilst maintaining as much flexibility as possible to respond to the emerging agenda for change.

Considerations

2007/08 Revenue Budget Summary

1. Council set a net revenue budget excluding specific grant funding for schools of £122m for 2007/08. Herefordshire Council's element of householders' overall Council Tax bill was increased by 3.8%. This resulted in a Band D Council Tax of £1,083.44 for Herefordshire Council services. Schools funding provided by the government in the form of Dedicated Schools Grant (DSG) amounted to £78m.
2. The net revenue budget excluding schools is funded as follows:

Source of funding	£m	%
Herefordshire's share of national business rates provided by the government	41	34
Revenue Support Grant provided by the government	7	6
Herefordshire's Council Tax	74	60
TOTAL	122	100

3. The revenue budget allocated to each of the Council's core service areas (excluding schools) amounts to £111.4m out of the total net revenue budget available for 2007/08. The remaining £10.6m is spent on corporate budgets such as:
 - a) The net cost of borrowing.
 - b) Local Authority Business Growth Incentive (LABGI) grant.
 - c) Funding set aside for modernising social care services and business processes.
 - d) Contingency funding for social care services.

4. The following table shows how resources for core services have been allocated in the current financial year:

CORE SERVICE BUDGET 2007/08	£m	%
Adult & Community Services	44.5	40
Central Services	3.4	3
Children & Young People's Services	23.2	21
Corporate & Customer Services	7.9	7
Environment	24.8	22
Human Resources	1.4	1
Resources	6.2	6
TOTAL CORE SERVICE BUDGET	111.4	100

5. In setting the budget for 2007/08, Council ensured that cash resources were allocated in line with priorities. A corporate contingency of £1.3m for social care services was maintained within the base budget. A £2.7m 'Invest to Save / Mitigate' (increasing demand pressures) budget was created and held corporately to support a modernisation programme for adult social care services (older people and learning disabilities). A £824k 'Invest to Save / Mitigate' (increasing demand pressures) budget was also created and held corporately to support a modernisation programme for children's social care services. More minor adjustments to core service base budgets were also made. A tough policy of no inflation on non-pay budgets provided the scope to create additional resources for the priority areas of the budget and ensured that all core services continued to deliver improved levels of efficiency.

2007/08 Forecast Outturn

6. The latest forecast of revenue outturn for the current financial year (the Integrated Performance Report for the year to 30th November 2007 refers) predicts an over spend of £4.7m on core service budgets and an under spend of £3.7m on corporate budgets giving rise to an overall over spend of £1m. The position is summarised in the following table:

FORECAST OUTTURN 2007/08	NET BUDGET £m	OVER / UNDER (-) £m	%
Adult & Community Services	44.5	3.7	8.3
Central Services	3.4	- 0.4	- 11.8
Children & Young People's Services	23.2	0.7	3.0

Corporate & Customer Services (including cost of Siemens contract not currently in the revenue budget)	7.9	1.2	15.2
Environment	24.8	- 0.4	- 1.6
Human Resources	1.4	0	0
Resources	6.2	- 0.1	- 1.6
FORECAST OUTTURN FOR SERVICE BUDGETS	111.4	4.7	4.2
FORECAST OUTTURN FOR CORPORATE BUDGETS			
	10.6	- 3.7	-34.9
FORECAST OUTTURN FOR THE REVENUE BUDGET			
	122	1.0	0.8

7. The position outlined in the table shown in paragraph 6 could improve further if:
- Delays in revenue and capital programmes continue.
 - The reduction in the forecast over spend for adult social care services detected for the first time between September and November 2007 for 2007/08 continues a downward trend.
 - More LABGI grant is awarded.
 - The outturn cost of the June and July flood repairs and the settlement of the Belwin grant claim.
8. The table in paragraph 6 shows an overall over spend of 0.8% of the total net revenue budget is currently forecast for 2007/08. This is within the Council's current policy of managing to within a +1% tolerance of net budget. There are three points to note however:
- The current practice of holding the social care contingency in the corporate base budget distorts the over spend position for the Adult & Community Services and Children & Young People's core service budgets.
 - The current practice of holding the modernisation funding for adult social care and children's social care in the corporate base budget distorts the over spend position for these service budgets and for corporate budgets.
 - The current policy of requiring core services to manage within a +1% tolerance of net budget means that managers potentially do not achieve excellence in financial management.
9. The presentational issues outlined in 8 a) and 8 b) above are important in terms of the Council's Use of Resource assessment. Given the Comprehensive Spending Review 2007 (CSR07) sets out a challenging agenda for public services within challenging financial constraints, a policy of allowing a +1% tolerance on net revenue spending

compared to budget cannot be sustained. Managers at all levels must achieve efficiency and performance improvements in support of corporate plans within the agreed budget.

10. The CMB therefore recommends the following amendments to the current MTFS to address the issues identified in paragraph 8:

- a) That the social care contingency of £1.3m in the corporate base budget be shared equally between the adult and children’s social care base budgets.
- b) That the adult social care modernisation funding of £2.7m be transferred from the corporate base budget to a ring-fenced budget within the Adult & Community Services service budget and that it is released by the Director of Adult & Community Services in consultation with the Director of Resources.
- c) That the children’s social care modernisation funding of £824k be transferred from the corporate base budget to a ring-fenced budget within the Children & Young People’s Services core service budget and that it is released by the Director of Children & Young People’s Services in consultation with the Director of Resources.
- d) That all managers with budget responsibilities shall ensure that spending is within the agreed budget.

Provisional Local Government Finance Settlement 2008/09 – 2010/11

11. The provisional local government finance settlement for 2008/09 – 2010/11 was announced on 6th December 2007. In overall terms, it was in line with the funding allocated within CSR07 for local government spending programmes and was widely heralded as the worst settlement for 10 years.

12. The provisional Formula Grant funding figures for Herefordshire for the next three years are as follows:

Year	Formula Grant £m	Increase £m	Increase
2008/09	53.373	2.569	5.1%
2009/10	55.445	2.143	4.0%
2010/11	57.652	2.234	4.0%

13. The table in paragraph 12 indicates that Herefordshire’s cash increase on a like-for-like basis is 5.1% for 2008/09 falling to 4% in the following two years. Using the government’s inflation figure of 2.75%, this represents a real terms increase of 2.35% in 2008/09 and 1.25% thereafter. The increase for 2008/09 matches the average increase for shire unitaries without fire service responsibilities. Cabinet considered the outcome of the provisional local government finance settlement in more detail at its meeting on 13th December 2007.

14. The current MTFS assumed there would be a cash standstill in Formula Grant for 2008/09 and 2009/10. When the MTFS was agreed in March 2007, the prognosis for CSR07 was that it would prove very challenging and there were concerns that proposed changes to the distribution formulae would have an adverse effect. The Council’s

assumptions were in line with those made by most other authorities when setting their budgets for 2007/08.

15. The CMB recommends that the Financial Resource Model (FRM) within the MTFS is updated with the provisional Formula Grant figures for the next three financial years and for known transfers in and out of the local government finance system.

The resource model will be updated again when the final figures have been announced later this month. A financial risk is that the final figures may vary from the provisional more significantly than was the experience for 2007/08.

Financial Resource Model (FRM) 2008/09 – 2010/11

16. The CMB has reviewed the FRM within the current MTFS and has a series of recommendations to make to Cabinet for the FRM within the draft MTFS for 2008 – 2011 concerning:

- a) Future Council Tax increases.
- b) Inflation uplifts.
- c) Deliverable efficiency gains.
- d) Base budget adjustments.
- e) Funding for modernisation and integration programmes.

Future Council Tax Increases

17. The current MTFS assumes Council Tax increases of 4.7%. The government has been clear about its expectation for an **average** Council Tax increase of well below 5% in 2008/09. Whilst the situation will need to be carefully monitored, a 4.7% increase is not expected to present a difficulty in terms of the government's stated policy intention. A 1% increase in Council Tax represents approximately £750k of additional cash resource in the first year it is generated, a figure that compounds over time with subsequent increases. A corresponding reduction in planned spend would be required if the Council Tax were lower than the planning assumption which would affect the Council's ability to improve services in line with corporate priorities. **The CMB therefore recommends that the 4.7% planning assumption for Council Tax increases is retained for the draft MTFS for 2008 – 2011.**

Inflation Uplifts

18. The current FRM for 2007 - 2010 includes 2% for pay inflation in each year in line with government assumptions at the time. The pay award for 2007/08 was settled at 2.475%. The government's assumption for pay inflation for the next three financial years remains at 2% and its stated intention is to negotiate a three-year pay agreement for public sector workers. **The CMB therefore recommends that the 2007/08 salary base budget be uplifted by an additional 0.475% and that the policy of a 2% uplift for pay inflation be retained for the draft MTFS for 2008 – 2011.**

19. The current FRM for 2007 – 2010 does not provide for an inflationary uplift on non pay expenditure budgets. This challenging policy ensures that managers:

- a) Negotiate robust contracts for the provision of services.

- b) Manage contracts and contractor performance effectively.
- c) Continually review service delivery arrangements to ensure improvements in efficiency and value for money.

20. The CMB has checked that this approach to securing efficiency gains for 2008/09 – 2010/11 in can be achieved in all service areas through better use of resources without any significant reductions in the level of service provided. The following table identifies the core services where this policy creates the most financial pressure in absolute terms and explains how CMB expects that pressure to be managed:

Core Service	Estimated Financial Pressure	Management action
Adult social care	£880k	This pressure reduces to £596k after allowing for additional income from Fairer Charging in the FRM and the effect of the proposed efficiency targets outlined in paragraph 23 of this report. The Director of Adult & Community Services advises that this pressure cannot be managed without a reduction in the level of service provided. He further advises that he will have an efficiency plan in place by the end of March 2008 designed to manage this pressure without a reduction in the level of service provided. The CMB recommends that the adult social care base budget should be increased by £596k in order to avoid service cuts.
Waste	£360k	The Environment Directorate's efficiency plan is designed to manage this pressure without a reduction in the level of service provided.
Children's social care	£220k	This pressure can be managed by allocating £650k from the social care contingency currently in the corporate base budget to the service base budget.
Highways	£200k	The Environment Directorate's efficiency plan is designed to manage this pressure without a reduction in the level of service provided.
Schools Transport	£180k	The Director of Children's Services plans to review the school transport policy.

21. The CMB has only identified one significant example of the current policy for efficiency gains causing difficulty if retained for the FRM for 2008 – 2011. A reduction in the level of adult social care services that can be provided is clearly not acceptable given this service is a corporate priority. **The CMB therefore recommends that the current policy is retained as an incentive to improve efficiency and value for money with the exception of a one-off increase of £596k to the base budget for adult social care.**

22. The current FRM assumes inflation on client and customer receipts budgets of 2.5%. The key exceptions are income budgets where the fee is dictated by a statutory arrangement. **The CMB recommends that this policy is retained for the draft FRM for 2008 – 2011 and that the review of all fees and charges is integrated into the budget policy framework.**

Deliverable Efficiency Gains

23. The CMB has assessed corporate opportunities to reflect the efficiencies managers deliver on a day-to-day basis in the base budget for core services. **The CMB recommends that the following efficiency gains that are already delivered on a routine basis are included in the draft FRM for 2008 – 2011:**

- a) **A vacancy turnover rate of 1% thereby reducing the Council's overall pay bill by £500k.**
- b) **A reduction in expenditure on supplies and services of 1% thereby reducing overall expenditure by £200k.**
- c) **A further reduction in the cost of employing agency and temporary staff of £100k through consistent use of the new framework contract.**

24. The CMB has also reviewed proposals from the Benefits Group that exists as part of the governance arrangements for the Herefordshire Connects programme on efficiencies both within that programme and outside of it that can be delivered whilst waiting for final approval to proceed with the programme. In total, further efficiency gains totalling £750k a year from 1st April 2008 have been identified as follows:

Efficiency Gain	Estimated Saving
Printer / copier rationalisation	£100k
New mobile telephone tariff	£25k
New postal services contract	£70k
New BT line rental contract	£10k
New PC supplier contract	£10k
Improved WMS usage	£50k
Increase in WMS dividend	£90k
Externalise travel management arrangements	£10k
Standardisation of PC specification	£200k
Purchasing card rebate	£25k
Strategic sourcing	£160k
TOTAL	£750k

25. **The CMB recommends that the efficiency gains outlined in the table in paragraph 24 are included in the FRM within the draft MTFS for 2008 – 2011.**

26. The Director of Environment is in the process of implementing a plan to achieve efficiencies and improvements in service delivery within the limits of the cash allocations for his area of responsibility. The CMB supports this proactive approach to financial management and service improvement as an example of good practice in obtaining value for money from public money.

27. The Director of Adult & Community Services is currently preparing an efficiency plan to ensure services are delivered within budget without the need for any significant change in the level of service provided. This efficiency plan will need to complement the service modernisation plan for adult social care. The CMB endorses this approach as an essential component of every Director's financial management responsibilities. The plans need to be finalised and formally approved as a matter of urgency in readiness for the new financial year.

Base Budget Adjustments

28. The current FRM needs to be continually reviewed to refine the way the model works and to reflect the most up-to-date information that is available.
29. **The CMB recommends removing grant budgets from the list of income budgets to be inflated by the agreed uplift of 2.5%.** This will make the model more precise and avoid creating unrealistic income expectations.
30. **The CMB recommends that the following adjustments to the FRM are made to reflect the latest available information:**
 - a) **Updating capital financing costs to reflect slippage in the approved capital programme and a prudent level of additional borrowing to fund new capital investment.**
 - b) **Removing £100k spare capacity in corporate budgets such as banking, insurance and audit fees.**
 - c) **Adding £1.1m to revenue to cover the net revenue cost of the Siemens contract (Community Network Upgrade or CNU project).**
 - d) **Additional property related pressures due to changes in the empty properties rate relief scheme (£126k), loss of income following the sale of industrial units (£201k) and service charges for Plough Lane (£100k).**
 - e) **Additional funding needed to prepare the Local Development Framework (£500k in 2009/10 and 2010/11).**

Modernisation Funding

31. The current FRM allows £2.7m a year to support the modernisation of adult social care services for older people and those with learning disabilities. This funding was allocated following a detailed needs analysis for these particular client groups. The needs analysis for adults with mental health and physical disabilities has now been completed and modernisation funding for these services of £275k in 2008/09 rising to £550k in 2009/10 is required. **The CMB recommends that modernisation funding for adult social care services:**
 - a) **Is included in the FRM within the draft MTFs for 2008 – 2011 as modernisation of these services is a key corporate priority.**
 - b) **Is ring-fenced within the base budget for adult social care for modernisation purposes only.**
 - c) **Is released by the Director of Adult & Community Services following consultation with the Director of Resources.**
32. The CMB anticipate that plans to modernise both service provision and support services will start to take shape now that the new joint Chief Executive has taken up post. The PCT has already taken an opportunity to set aside some cash to help support implementation of emergent plans for modernisation. The PCT will transfer £300k to the Council to manage on its behalf. **The CMB recommends that the FRM within the draft MTFs for 2008 – 2011 includes a Council match funding contribution to be**

held in an earmarked reserve called 'Modernisation Plans' until such times as an modernisation plan for the two organisations has been formally approved.

33. The Council has been developing a corporate 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. That programme – Herefordshire Connects – is poised at a strategic decision making point pending conclusion of discussions on the affordability of the programme in the context of the MTFs and to give the new Chief Executive the opportunity to influence the way forward.
34. The FRM within the MTFs for 2007 – 2010 includes the financial envelope for Herefordshire Connects programme as outlined in April 2006 but adjusted to reflect estimated timings of investment and benefits as at March 2007. The passage of time means that the original financial model is now too old to be a reliable basis for the FRM within the draft MTFs for 2008 – 2011. Much work has been done since Deloitte were appointed as the preferred supplier to revise the financial envelope. **However, the CMB recommends that the assumptions in the current FRM about the Herefordshire Connects programme are removed and replaced with the following:**
- a) **The investment requirement for a replacement social care management information system (£706k in 2008/09 reducing to £154k thereafter – subject to the call-in process).**
 - b) **Funding for the Herefordshire Connects Core Team so there is a resource to maintain a Council-wide modernisation programme (£450k in 2008/09 reducing to £300k in 2009/10 and £200k in 2010/11).**
 - c) **Funding for urgent ICT strategy work needed to support the Herefordshire Connects programme and ICT infrastructure (£247k in 2008/09 rising to £647k thereafter).**
 - d) **The Herefordshire Connects programme is a modernisation programme awaiting review and formal decision. Detailed financial information is yet to be finalised pending that review and may not be available in time for decisions on the budget for 2008/09. The CMB therefore recommends that the financial capacity to support the programme is provided through a new earmarked reserve called 'Modernisation Plans' rather than through the FRM until such times as a formal decision on the way forward has been taken.**

Financial Capacity 2008 - 2011

35. Were Cabinet minded to agree the CMB's recommendations for updating the MTFs and FRM outlined in this report so far, the updated FRM for 2008 – 2011 indicates financial capacity figures as follows:
- a) 2008/09 – financial capacity £542k.
 - b) 2009/10 – financial capacity £3.002m.
 - c) 2010/11 – financial capacity £4.689m.
36. The CMB is acutely aware that the agenda for change is significant in terms of the need to modernise:

- a) Transactional business processes – the Herefordshire Connects programme.
 - b) Working practices – introducing alternatives to having a fixed office base where that supports business need more efficiently and supporting better use of ICT.
 - c) Schools infrastructure – supporting plans to make more efficient use of cash and assets to release resources for improving educational attainment and supporting plans to structure the Children & Young People’s Directorate by September 2008.
 - d) Services other than those mentioned already in this report – the learning disability service is one such proposal in the pipeline. A new accommodation and support contract may be agreed by Cabinet in 2008.
 - e) Office accommodation – improving value for money and efficiency.
 - f) Positively in response to the Crookall report – including investing in additional strategic procurement and ICT audit capacity.
 - g) Council and PCT service provision and support functions (paragraph 32 refers).
37. There are a range of strategic issues that need to be brought together into one coherent plan for modernisation that the Council will need help and support to develop over the next 5 – 6 months. **The CMB therefore propose that the financial capacity available in 2008/09 (currently estimated at £542k) is used as an initial contribution to a proposed earmarked reserve to be called ‘Modernisation Plans’ to be released as such plans are formally approved.**
38. The FRM indicates financial capacity of approximately £3.0m for 2009/10 and £4.7m for 2010/11. This flexibility is most welcome but CMB would caution against allocating that resource in advance of the modernisation plan referred to in the preceding paragraph so that cash can be allocated in line with corporate priorities yet to be established. **The CMB therefore recommends that the financial capacity indicated in the updated FRM for 2009/10 and 2010/11 be allocated in line with corporate priorities for modernisation as these are distilled in the coming months.**

Reserves and Balances

39. The CMB has identified an opportunity to use an earmarked reserve that is no longer needed to provide for another purpose. An earmarked reserve was created at the end of 2007/08 for £505k to deal with an expected change in the accounting treatment for a certain type of loan instrument. The proposed change has been dropped and the earmarked reserve is no longer needed for this purpose. **The CMB recommend that this funding is used to create an earmarked reserve to cover the Bellwin threshold to be called the ‘Bellwin Threshold Reserve’ in the event it is triggered due to flooding or other eligible emergency.**
40. The audited accounts for the 2006/07 financial year confirmed an opening position on the general reserve for the current financial year of £8m. The MTFs for 2007 – 2010 included planned use of balances of £1.4m that would reduce this figure to £6.6m. This figure may reduce by up to a £1m on the basis of the current forecast for outturn. At £5.6m, the level of general reserve balance is comfortably in excess of the Council’s current policy to retain a minimum of £3m. However, the £3m minimum represents just 2.5% of the current net revenue budget and is at the low end of the 2.5% to 5% recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA).

41. The external auditor commented favourably on the Council's improved approach to managing reserves and balances as set out in the MTFs for 2007 – 2010 but she also noted that there was scope for further improvement. **The CMB therefore recommends the following changes to the current MTFs for the draft MTFs for 2008 – 2011:**
- a) **The policy for a minimum general reserve balance be increased to £4.5m (approximately 3.5% of the net revenue budget) to provide adequate cover for demand pressures that are volatile, difficult to predict or unforeseen at the time the budget is set.**
 - b) **That the excess above the £4.5m minimum requirement for the general reserve is allocated to the proposed earmarked reserve to be called 'Modernisation Plans' to be released as such plans are formally approved.**
42. Application of this policy, based on the latest assessment of outturn for the current financial year, the changes to the FRM outlined in this report and the provisional local government finance settlement figures, would establish an earmarked reserve for Modernisation Plans totalling approximately £2.242m (estimated £1.1m excess on the general reserve, estimated financial capacity in 2008/09 of £542k and £600k funding set aside by the Council and PCT for modernising health & social care services).

Financial Implications

43. As outlined in the body of the report.

Risk Management

44. The CMB recognises that core service areas need to manage financial pressures within the resources made available for each area. This section of the report highlights potential risks that Directors consider might be difficult to contain within the resource allocation. This list will be kept under review and may change as new pressures emerge or potential ones are absorbed within budget. Formal agreement to over spend must be sought (emergency situations are allowed for within the Constitution) before a commitment to over spend is entered into.
45. ICT budgets could potentially experience pressure in the future as measures to balance the budget in the current financial year have been incisive. It has not yet certain that the cuts are sustainable in the long term. There may be a need for further investment in the ICT infrastructure due to the increasing level of risk associated with some elements of the ICT platform that have not be upgraded due to expected replacement through the Herefordshire Connects programme.
46. Customer Services budgets are supported through to the end of 2008/09 with additional funding of £500k a year as frontline services transfer from Directorates to the Customer Services team. Progress with implementing this policy needs to be carefully tracked against the current financial resource provision.
47. There may be financial pressure on the Coroners budget if the Herefordshire Coroner is required to assist with an increased number of inquests into the deaths in service of members of the armed forces.

48. Pressure on Democratic Services continues to grow with the volume of scrutiny work that is under way that requires officer support. This is a position that is being carefully monitored.
49. If Council opts to carry out a strategic consultation exercise on corporate priorities later in the year, this would involve currently unplanned expenditure of approximately £32k.
50. Full details of how the new Area Based Grant (ABG) will work are awaited. The ABG will comprise 38 former specific and special grants totalling approximately £8.8m that currently make a significant contribution to the Council's financial capacity and ability to deliver core services.

Alternative Options

The CMB considered a number of options for managing the financial pressures to produce a balanced revenue budget for 2008/09 with cash allocated to priorities and flexibility for the future. The reasoning underpinning CMB's recommended approach is explained in the body of the report.

Consultees

The CMB and the Monitoring Officer have been consulted on the content of this report.

Appendices

Appendix 1 – CMB's draft Financial Resource Model (FRM) 2008 – 2011.

Background Papers

Medium Term Financial Management Strategy 2007 – 2010.
Provisional local government finance settlement 2008/09 – 2010/11.

Glossary

CMB – Corporate Management Board; the most senior management team within the Council.

CSR07 – Comprehensive Spending Review 2007; the government's review of its public spending priorities for 2008 – 2011 published in October 2007.

DoH – Department of Health; the government department responsible for the National Health Service.

DSG – Dedicated Schools Grant; ring-fenced grant funding provided for the government to run schools, calculated on a per capita basis.

FRM – Financial Resource Model; a term used within the Council to refer to the financial model for the revenue account in future years.

LABGI – Local Authority Business Growth Incentive; a grant allocation from government redistributing additional national business rate income.

MTFS – Medium Term Financial Strategy; a term used within the Council to refer to the

financial strategy for the revenue account, the capital account, treasury management, reserves and balances, financial management etc.

NHS – National Health Service; needs no further explanation.

PCT – Primary Care Trust; commissioners / providers of public health services.

SHA – Strategic Health Service; represent the Department of Health at regional level.

SMC – Strategic Monitoring Committee; the Council's over-arching policy scrutiny committee.

	2007/2008 Budget £'000	2008/2009 Budget £'000	2009/2010 Budget £'000	2010/2011 Budget £'000
Base Budget	118,285	122,371	131,920	138,602
Inflation - Staff	1,152	1,159	1,290	1,362
Inflation - Income	(534)	(308)	(316)	(323)
	118,903	123,622	132,895	139,640
Deliverable Efficiency Gains				
- Audit Fees/bank charges/insurance	0	(100)	0	0
- Employee savings	0	(500)	0	0
- Supplies & Services savings	0	(200)	0	0
- Pertemps Saving	0	(100)	0	0
- Improved procurement practices	0	(750)	0	0
Transfers to/from RSG				
- Children's Services Grant	0	490	0	0
- Delayed Discharge	0	384	0	0
- Access Systems Capacity	0	2,059	0	0
- Waste PEG	0	183	0	0
- Gower Review	0	13	0	0
- Food Hygiene Enforcement on Farms	0	28	0	0
- Animal feed	0	4	0	0
- Contaminated land	0	1	0	0
- New conduct regime	0	9	0	0
- Student Finance	0	12	(18)	(63)
MTFMS changes				
- Waste management - PFI Contract (net of £2m reserve)	550	450	500	500
- Whitecross PFI requirement (net of schools contribution)	451	0	0	168
- Queenswood Park	25	0	0	0
- Procurement & Efficiency Staff	55	0	0	0
- Herefordshire Matters	50	0	0	0
- Chief Executives Development Fund	150	0	0	0
- HB & CT Benefit Administration	150	0	0	0
- Support Services Review	100	0	0	0
- ESG	225	0	0	(225)
- Local Development Framework	0	0	500	0
Herefordshire Connects (revenue)				
- Social Care System	0	706	(552)	0
- Core team costs	0	450	(150)	(100)
Capital Financing Costs				
- Herefordshire Connects	189	(189)	0	0
- Accommodation Strategy	0	146	254	492
- Repayment of LGR SCA	0	(453)	(334)	(230)
- Existing SCE(R) & Prudential Borrowing	210	470	633	303
- New Prudential Borrowing Bids	68	23	108	193
- Cash flow implications of externally funded projects	500	0	0	0
- Social Care System	0	246	89	(13)
Funding Sources				
- Use of existing Herefordshire Connects Reserve	(1,500)	1,500	0	0
- Transfer of Part of Social Care Contingency Reserve	(1,300)	1,300	0	0
- Transfer of Budget Management Reserve	(1,100)	1,100	0	0
- LABGI Grant	(2,000)	2,000	0	0
- Increased Cash Transactions Income	(500)	0	0	0
- Balance Sheet Review	(300)	300	0	0
- Procurement & Efficiency	(250)	0	0	0
- Use of 2008/09 capacity reserve	0	(1,500)	1,500	0
- Use of reserves to maintain capacity	0	0	0	0
Emerging Pressures				
- Customer Services Division	500	0	(500)	0
- Corporate Capacity	400	0	0	0
- Community Network Upgrade	0	1,100	0	0
- ICT Strategy	0	247	400	0
- Adult social care	0	596	0	0
- Match funding contribution to proposed Modernisation Plans reserve	0	300	0	0
- Plough Lane Service Charge	0	100	0	0
- NNDR Empty Properties	0	126	0	0
- Rotherwas - loss of Income	0	201	0	0
Capacity to achieve desired Tax increase				
2008/09 capacity reserve	1,500	(1,500)	0	0
Herefordshire Connects	1,771	(1,771)	0	0
Invest to save	3,524	0	0	0
Needs Analysis Mental Health/Physical Disabilities	0	275	275	0
Capacity	0	542	3,002	4,689
TOTAL BUDGET	122,371	131,920	138,602	145,354
Council Tax increase	3.80%	4.70%	4.70%	4.70%
Assumptions				
Assumed Pay and Price Increases				
- Employees	2.0%	2.5%	2.0%	2.0%
- Employers pension contributions - additional on basic pay	0.6%	0.6%	0.5%	0.6%
- Other Expenditure	0.0%	0.0%	0.0%	0.0%
- Income	2.5%	2.5%	2.5%	2.5%
Provisional Formula Grant increase on adjusted baseline	2.4%	5.1%	4.0%	4.0%
Assumed Collection Fund Surplus (£'000)	256	-	300	300
Assumed Taxbase Increase	0.7%	0.75%	0.75%	0.75%
New prudential borrowing (£m)	0	1.00	1.00	1.00
Dedicated Schools Grant b/fwd	78,151	81,892	84,484	86,272
Increase	3,741	2,592	1,788	2,707
Dedicated Schools Grant	81,892	84,484	86,272	88,979
DSG % increase	4.8%	3.2%	2.1%	3.1%

Foreword by the Leader & Cabinet Member (Resources)

This is Herefordshire's refreshed Medium Term Financial Management Strategy (MTFMS). Its predecessor was agreed by Council in early 2007 and at that time represented a significant shift in the Council's financial management. It is not too dramatic to say that the move to a three year financial plan was evidence of the need to change the Council's financial culture from one centred on short-term budget setting to a more considered and adaptable medium-term model able to support service improvement.

Since the original MTFMS was agreed last year much has changed. Herefordshire is the first place in the country to have a single chief executive running both the council and the primary care trust and at a national level a new Prime Minister has confirmed that the pace of change in the public sector will not slow down. We will shortly see our performance measured within a new Comprehensive Area Assessment (CAA) framework. The new Area Based Grant (ABG) will be a significant force for change in 2008 as it pools over £8m of Herefordshire's specific grants into a single "pot" to deliver area based improvements. The MTFMS has had to reflect all these developments along with the outcome of national reports such as the Lyons Review.

Locally we have continued to see challenges and change affect the way we do business. The MTFMS is accompanied by a new set of Contract Procedure Rules and Financial Procedure Rules that support implementation of the financial strategy. Our new set of detailed policies and procedures will ensure budget holders have proper regard to the management of finance and ensure that the cash follows our priorities.

The challenges and opportunities that modernisation of service provision will bring are supported by the way we allocate our money. The refreshed MTFMS signals the establishment of a Modernisation Fund built up with the limited financial headroom we have in 2008/09 and the funds available after we have implemented a new policy covering the level of general reserves we hold. Perhaps most significantly the fund will include a £300,000 contribution from the Herefordshire Primary Care Trust (PCT). This is matched by the same amount from the Council and is strong evidence of a clear commitment by Herefordshire to ensure greater partnership working and value for money, ensuring Herefordshire continues to make decisions on how public services are delivered.

Cllr Roger Phillips
Leader of the Council

Cllr Harry Bramer
Cabinet Member (Resources)

Foreword by the Chief Executive & Director of Resources

As a public body, Herefordshire has special accountabilities for the stewardship and use of public money and for ensuring financial stability and sustainability into the future. Last year, we recognised that we could no longer rely on an annual budget process to guarantee Herefordshire's long-term financial health. Year-on-year changes at the margin to match budgeted income and expenditure will not support the transformation in services we aspire to achieve, the Government is seeking and, most importantly, our communities deserve.

The outcome of the Comprehensive Spending Review 2007 (CSR07) will provide a financial challenge over the next three years every bit as challenging as we predicted last year. Whilst Herefordshire's Financial Settlement provided some headroom the Council must meet increasing demands for services in the years ahead. The Medium-Term Financial Management Strategy (MTFMS) now forms an important part of our financial governance and leadership arrangements. It sets out our approach to strategic financial management, concentrating on longer-term financial planning in support of longer-term corporate and service priorities.

The MTFMS is helping to ensure a change in Herefordshire's financial management culture takes shape and we change the way we use our financial resources. Whilst the Director of Resources is responsible and accountable for leading and advising on financial issues, all managers have a collective responsibility for financial management, including efficiency review and Value for Money, and treating cash as a corporate resource. The 'non-negotiables' in the job descriptions of all our Heads of Service underline this responsibility at Corporate Management Board and Senior Management Team level.

Financial management must be part of everyone's job and is a critical success factor for the Council as growth in public spending reduces significantly.

151 Statement by 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 Corporate Head of Finance and Resources must report on:

- a) the robustness of the estimates made for the purposes of the budget calculations; and
- b) the adequacy of the proposed financial reserves.

Chris Bull
Chief Executive

Sonia Rees
Director of Resources

Contents

- 1. Executive Summary**
- 2. Introduction**
 - 2.1 Background
 - 2.2 Aim
 - 2.3 Purpose
 - 2.4 Objectives
 - 2.5 Coverage
 - 2.6 Summary
- 3. National Policy Context**
 - 3.1 Introduction
 - 3.2 Place-Shaping: a Shared Ambition for the Future of Local Government
 - 3.3 Review of Sub-National Economic Development and Regeneration
 - 3.4 The Local Government and Public Involvement in Health Bill
 - 3.5 The Transition from Comprehensive Performance Assessment
 - 3.6 Other Government Policy Initiatives
 - 3.7 Summary
- 4. National Financial Context**
 - 4.1 Introduction
 - 4.2 National economy
 - 4.3 Comprehensive Spending Review 2007
 - 4.4 Formula Grant Review Issues
 - 4.5 Summary
- 5. Herefordshire's Policy Context**
 - 5.1 Introduction
 - 5.2 Herefordshire Community Strategy
 - 5.3 Herefordshire Corporate Plan & Annual Operating Plan
 - 5.4 The Performance Challenge
 - 5.5 Herefordshire's Business Transformation Programme
 - 5.6 Office Accommodation
 - 5.7 Summary
- 6. Herefordshire's Financial Context**
 - 6.1 Introduction
 - 6.2 Background
 - 6.3 Relative funding position
 - 6.4 Reserves
 - 6.5 Trends in outturn
 - 6.6 Local Spending Pressures
 - 6.7 Summary

7. Financial Management Strategy

- 7.1 Introduction
- 7.2 Corporate Financial Objectives
- 7.3 Financial Management Strategy for the Revenue Account
- 7.4 Financial Resource Model
- 7.5 Sensitivity Analysis
- 7.6 Financial Management Strategy for Capital Investment
- 7.7 Medium-Term Capital Plan
- 7.8 Efficiency Review & Value for Money
- 7.9 Treasury Management Strategy
- 7.10 Key Corporate & Financial Risks
- 7.11 Summary

Appendices

- A – Medium-Term Financial Resource Model
- B – Medium-Term Capital Plan
- C – Treasury Management Strategy 2008/09
- D – Corporate Risk Register
- E - Glossary

1. Executive Summary

- 1.1 Herefordshire Council's Medium-Term Financial Management Strategy 2008-2011 (MTFMS) sets out how the Council intends to maintain financial stability, support investment in priority services, allocate resources, deliver improved Value for Money and manage risk as we face up to very challenging times for local government.
- 1.2 Whilst building on the previous strategy the emphasis remains one that supports the Council's financial management culture where everyone strives for a greater shared understanding of the pressures the Council is working to address. Financial objectives and policies are no longer something that is only of interest to accountants but to all colleagues concerned with service delivery and improvement.
- 1.3 In the year since the publication of the MTFMS 2007-2010, public service reform has remained high on the government's agenda, with local providers required to work together more closely than ever before. In Herefordshire, the agreement to develop proposals for establishing Herefordshire Public Services (HPS) is evidence of a commitment to deliver modern effective services.
- 1.4 Herefordshire is an under-resourced council, stretched to deliver services throughout a large, sparsely populated area. Our government funding is approximately 18% lower per head of population than the average for similar authorities and we have a lower than average Council Tax too. Capital resources are also limited.
- 1.5 Sound financial governance is vital as we enter the most challenging period the Council has faced since it came into being. Our key financial objectives for improving our service and financial performance are to continue to ensure that budget plans are realistic and support corporate priorities, to maintain an affordable Council Tax, to protect the vulnerable, to deliver services within budget and to ensure an integrated approach to service and financial planning.
- 1.6 The MTFMS encompasses revenue spending, capital investment, efficiency improvement and treasury management in order to achieve these objectives, ensuring complete transparency about what is and what is not resourced. The factors that will underpin the Council's ability to maintain its current financial standing into the future and achieve its service improvement aspirations are strong corporate working supported by open book accounting and good financial management systems.

2. Introduction

2.1 Background

2.1.1 This is a comprehensive Medium-Term Financial Management Strategy (MTFMS) for Herefordshire covering the financial years 2008/09 to 2010/11 and it sets out Herefordshire's key financial aims and objectives. It shows how it intends to manage its financial affairs in order to maintain financial stability over the challenging period faced by local government.

2.1.2 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.

2.1.3 The MTFMS is reviewed annually at the start of the integrated financial and service planning cycle. Any material changes to the assumptions it contains will be reported in the routine Integrated Performance Reports produced for Cabinet at the end of months 4, 6, 8 and 10.

2.2 Aim

2.2.1 The MTFMS aims to ensure that the Council has a stable and sustainable financial basis for supporting investment in priority services.

2.3 Purpose

2.3.1 The purpose of this strategy is to show how the Council's cash resources will be used to support achievement of the objectives set out in the:

- a) Herefordshire Community Strategy (HCS).
- b) Local Area Agreement (LAA).
- c) Local Public Service Agreement (LPSA2).
- d) Corporate Plan.
- e) Annual Operating Plan (AOP).

2.4 Objectives

2.4.1 The objectives of the MTFMS are to:

- a) Define the financial context for future service improvement decisions.
- b) Set a baseline for reviewing resource availability & financial performance.
- c) Establish and maintain a balanced budget.
- d) Ensure corporate priorities drive the allocation of cash resources.
- e) Promote strong financial governance at all levels within the Council.
- f) Manage risks by keeping reserve funding and debt at appropriate levels.
- g) Plan for Council Tax increases in line with national guidance.
- h) Provide a focus on delivering improving efficiency & Value for Money.

2.5 Coverage

2.5.1 The MTFMS contains:

- a) An overview of the financial outlook for local government and how we expect that to impact on Herefordshire.
- b) A revenue budget strategy that sets out how we will achieve improving efficiency and Value for Money.
- c) A medium-term financial plan for the revenue account.
- d) A capital strategy covering investment decisions including ICT.
- e) A medium-term capital investment plan.
- f) A treasury management strategy setting out our view of likely interest rate movements, timing of investment and borrowing decisions, how we will deal with risk in our treasury management activities and our view on affordable debt limits.
- g) A detailed financial risk assessment that shows the major areas of financial uncertainty, their likelihood of occurrence, their potential impact and how we propose to mitigate those risks.
- h) A sensitivity analysis that shows the impact of adverse variations in key assumptions in the Financial Resource Model (FRM) included in the MTFMS.

2.6 Summary

2.6.1 Herefordshire faces a series of significant challenges and opportunities over the next three years. This situation can be assisted by adopting a corporate approach to financial management as outlined in the MTFMS.

3. National Policy Context

3.1 Introduction

3.1.1 Change in the public sector has been extensive in recent years and this trend is set to continue for the foreseeable future, not least because the UK has a new Prime Minister and Cabinet. It is important to set the MTFMS in the context of the changing policy context at national level so we have the financial capacity and flexibility to deal with the change as it happens.

3.1.2 The following national policy documents have been published in the last 12 months that have significant implications for local government:

- a) The Local Government and Public Involvement in Health Bill (December 2006).
- b) The Transition from Comprehensive Performance Assessment to Comprehensive Area Assessment (Audit Commission - April 2007).
- c) Place-shaping: a shared ambition for the future of local government (final report of the Lyons Inquiry - March 2007).
- d) Review of sub-national economic development and regeneration (HM Treasury - July 2007).
- e) Comprehensive Spending Review 2007 (CSR07).

3.1.3 These build on and develop ideas from the Local Government Association (Closer to People and Places – a new vision for Local Government); the Local Government White Paper – strong and prosperous communities as well as the Prime Minister’s Strategy Unit’s report – the UK government’s approach to public service reform.

3.1.4 A brief summary of these papers is provided below in sections 3.2 to 3.5 respectively.

3.1.5 Finally, section 3.6 of the MTFMS identifies the key pieces of new legislation that are likely to impact on service delivery.

3.2 Place-shaping: a shared ambition for the future of local government

3.2.1 Sir Michael Lyons published his final report on the future role and function of local government on 21 March 2007.

3.2.2 In his report, Sir Michael called for a new partnership between central and local government. This needed to be based on changes in behaviour from all tiers of government to achieve a stronger relationship – creating a shared ambition for the future.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- 3.2.3 Sir Michael argued that central government needed to leave more room for local discretion and recognise the value of local choice; while local government needed to strengthen its own confidence and capability, engage more effectively with local people, make the best use of existing powers and stop asking for central direction.
- 3.2.4 Sir Michael concluded that council tax was not 'broken' but is seen as unfair and had been put under too much pressure.
- 3.2.5 The budget statement confirmed the Government's response to the Lyons report and indicated it would:
- a) Examine the local government grant system for potential to provide greater rewards to councils delivering increased economic prosperity in their areas.
 - b) Set targets for reducing specific grants, ring fenced funding, complex time consuming reporting and data provision.
 - c) Continue with capping powers.
 - d) Consider the proposal relating to Council tax benefit.
 - e) Modernise the empty business property rate scheme.
 - f) Not revalue Council Tax during this Parliament thus ruling out any changes to the banding structure.
 - g) Not introduce any tourism tax.

3.3 Review of sub-national economic development and regeneration

- 3.3.1 This further piece of work also provided context for the CSR07 and was published in July. This policy document proposed significant changes to the roles and balance between regional and sub-regional bodies and placed emphasis on improving their working relationships in future.
- 3.3.2 The review was based on three principles:
- a) Managing policy at a spatial level.
 - b) Ensuring clarity of roles.
 - c) Enabling places to reach their potential.
- 3.3.3 Key policy proposals were:
- a) A duty on upper tier local authorities to carry out an economic assessment of their area along with a requirement / duty for named bodies to co-operate in its production.
 - b) To devolve budgets to local authorities and to strengthen local decision making and leadership.
 - c) To transfer funding for 14-19 year olds back from the Learning and Skills Councils to local authorities.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- d) To encourage sub regional working through the development of Multi Area Agreements (MAAs), with the first MAAs in place by mid 2008.
- e) To enable local authorities to pool resources and develop / implement policies on a sub regional level.
- f) That Regional Development Agencies (RDAs) produce a combined regional economic and spatial strategy, taking the role of Regional Planning Body from the Regional Assembly.
- g) That local authorities be given responsibility for scrutinising RDA performance.
- h) The government would strengthen the RDA performance management framework.
- i) Regional assemblies would be abolished by 2010.
- j) That each region have a ministerial champion – Liam Burn MP has since been appointed for the West Midlands.

3.3.4 In summary, the sub national review is a package of change across government in response to the Lyons Inquiry into local government, the Barker Review of land use planning, the Eddington transport study and the Leitch review of skills.

3.4 The Local Government and Public Involvement in Health Bill

3.4.1 This contains proposals on council restructuring, designated political leadership models, creating a new inspection and scrutiny regime, enabling broader and stronger local area agreements, empowering frontline councillors and creating a duty for councils to develop and create local involvement networks (LINKS).

3.4.2 The Bill takes forward the decentralisation and deregulation proposals in the Local Government White Paper 2006 but does not address the recommendation in the Lyons Inquiry report on the future role and funding of local government. If enacted, the Bill would pave the way for:

- a) Restructuring in nine areas of the country and the creation of new unitary authorities in what are currently two tier areas.
- b) The introduction of Comprehensive Area Assessments from 2009.
- c) A reduced national data set of performance indicators for local government.
- d) The adoption of one of three forms of political management arrangements.
- e) A statutory framework for local area agreements across the country supported by a duty of co-operation on a wide range of public bodies.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- f) The introduction of community calls for action and LINKS to offer more health and social care accountability.

3.5 The transition from CPA

3.5.1 Work has already begun on the practical aspects of the new performance framework for local government – the Comprehensive Area Assessment (CAA) - set out in the Local Government and Public Involvement in Health Bill. The Audit Commission have published three reports:

- a) The evolution of regulation.
- b) The transition from CPA to CAA.
- c) CPA - the harder test framework.

3.5.2 The CAA is a fundamentally different approach to assessment that is area based, risk focussed and more forward looking than CPA. It will take account of how services are delivered across areas and focus on outcomes and the active engagement of people in the design, delivery and assessment of services.

3.5.3 At the core of CAA lie:

- a) An area based risk assessment on the chances of the successful achievement of an area's priority outcomes.
- b) A direction of travel assessment building on those that already exist for individual public bodies.
- c) A use of resources judgement.
- d) A national data set of 198 indicators with an emphasis on perception indicators.

3.5.4 Future inspection will be targeted on areas with specific weaknesses in any respect. CAA will be introduced in the Spring of 2009.

3.6 Other Government Policy Initiatives

3.6.1 On Tuesday 6th November 2007 the Queen's speech indicated the Government will bring forward legislation that will have varying levels on impact on local government. The Key Bills for local government and their potential impact are set out below:

3.6.2 Housing and Regeneration Bill:

- a) Establishes the **Homes and Communities Agency (HCA)** in England – merging the Housing Corporation and English partnerships.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- b) Creates the Office for Tenants and Social Landlords – a new, independent regulator for the social housing sector.
- c) Introduces the statutory planning charge to fund infrastructure, this is the government's alternative to the Planning Gain Supplement.
- d) Allows “eco towns” – with zero or low carbon housing – to be built more quickly.

3.6.3 Health & Social Care Bill:

- a) The creation of a new single and integrated regulator for health and adult social care – the Care Quality Commission - bringing together the three existing health and social care regulators.
- b) Following on from the Shipman inquiry, this Bill will form part of government's response to reform professional regulation which will enhance public and professional confidence and strengthen clinical governance.
- c) Amending the Public Health (Control of Diseases) Act 1984 including port health requirements, to take into account emerging threats, human rights legislation and worldwide developments.
- d) The bill announces new provisions where a one off payment will be made to all expectant mothers from the 29th week of pregnancy.

3.6.4 Climate Change Bill:

- a) Pilot scheme for reducing waste – provide a power for local authority incentives for household waste minimising and recycling.
- b) Setting a 60% reduction in CO₂ by 2050 in statute – along with a set of measures to pave the way to this target.
- c) The establishment of a Committee on Climate Change – to provide an institutional framework to manage the transition to a lower carbon economy.
- d) Powers to introduce trading schemes – the draft bill proposes powers to enable the government to introduce measures to help achieve the targets through secondary legislation.
- e) Proposals for reporting – the proposed Committee on Climate Change will be required to review progress on adaptation.

3.6.5 Draft Constitutional Renewal Bill:

- a) Aims to rebalance power between parliament and government, and to give parliament more ability to hold government to account.
- b) Measures to strengthen democracy and increase participation in decision-making.
- c) Clarification of the role of both central and local government.
- d) Placing on a statutory footing the role of parliament in the process for ratifying treaties.

3.6.6 Children and Young Persons Bill:

- a) Reforms the statutory framework around the care system focussed on the needs of the child.
- b) Councils given power to test a different model of organising social care, by commissioning and regulating services from “Social Work Practices”.
- c) Placing the role of the designated teacher on a statutory footing, and ensuring that children in care do not move schools in Year 10 and 11 except in exceptional circumstances.
- d) Improving the financial support available to care leavers who go on higher education.
- e) Ensuring children in care and custody are visited regularly and have a voice in the decision making when they move into independence.
- f) Extending the duty to visit children in youth custody.
- g) Seeking to improve the support for children cared for by family and friend carers.

3.6.7 Citizenship and Immigration Bill:

- a) This Bill will take forward recommendations emerging from the Goldsmith review of Citizenship. The review was trailed in *The Governance of Britain*, launched formally on 5th October 2007 and due to report by the end of March 2008.
- b) Much of the review – and likely focus of subsequent legislation – will focus on technical and legal issues around the formal rights, responsibilities and status of British citizenship.

3.6.8 Education and Skills Bill:

- a) Provisions to raise the minimum age at which young people can leave education or training to 18. It also establishes an enforcement process with a system of penalties for those who do not participate up to 18.
- b) Implement key elements of the Leitch Review into the long term skills needs.
- c) New duties which will be placed on young people and on parents and employers to take reasonable steps to ensure or encourage children to participate in education.
- d) New registration duties on providers and local authorities in relation to young people with special educational needs, and possibly some other groups.

3.6.9 Local Transport Bill:

- a) The bill, published in draft in May 2007, aims to tackle congestion and improve public transport by giving councils more power to develop local solutions to local transport challenges.

3.6.10 Planning Reform Bill:

- a) Establishes an infrastructure planning commission, its powers and functions; a single consent regime for nationally significant projects and a streamlined process for considering applications.
- b) Changes to process for local development plan documents and establishing arrangements for local authorities to decide appeals on minor planning applications.
- c) Introduces Housing and Planning Delivery Grant to incentivise local planning authorities.

3.6.11 Adult & Community Services:

The following government policy issues will heavily influence service delivery plans for the future in this Directorate:

- a) **Herefordshire Public Services Trust:** the Council has committed to establishing joint working arrangements between health and social care services in Herefordshire.
- b) **Housing Related Funding:** responding to the government's changed approach to funding the Supporting People Programme and allocating capital resources for housing renewal to focus resources on affordable housing.
- c) **City Region Proposals:** responding to government proposals for the establishment of a City Region for the West Midlands

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

based on the metropolitan areas. The governance and funding arrangements will have implications for the non-metropolitan areas.

3.6.12 Children & Young People:

The following government policy issues will heavily influence service delivery plans for the future in this Directorate:

- a) **Every Child Matters Change Programme:** will require continued effort to put planned reforms in place.
- b) **Youth Matters Change Programme:** will require strengthened links to the Youth Council and new service approaches.
- c) **Education & Inspections Bill:** will require new relationships with schools.
- d) **Dedicated Schools Grant (DSG):** this grant covers both individual schools budgets and support services provided for schools such as Special Education Needs (SEN) support services. DSG gives schools much greater choice on how to procure such services. Over spends on DSG are carried forward to count against the following year's grant allocation. Under spends are returned to the Department for Children, Schools and Families (DCFS). Efficiency gains within DSG can be kept within DSG and will be essential to help offset reductions in DSG from falling pupil numbers. DSG distribution was reviewed for the 3-year period covered by Comprehensive Spending Review (CSR07).
- e) **E-learning, E-admissions, Integrated Children's System and Information Sharing Index:** will require transformation of service arrangements.
- f) **Safeguarding Guidance & Looked After Children Green Paper:** will require new arrangements and targets to be resourced.

3.6.13 Corporate & Customer Services (including Human Resources):

The following government policy issues will heavily influence service delivery plans for the future in this Directorate:

- a) **Unification Project for Registration Services:** potential for significant changes in existing service delivery arrangements.
- b) **Further development of the LAA framework:** with potentially both corporate and directorate implications.
- c) **Support services:** ensuring all support services are adequately resourced to provide the level of service needed to achieve national and local priorities.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- d) **Adult & Children's Services Workforce Strategies:** the requirement to deliver integrated strategies with health.
- e) **Welfare to Work Reforms:** ongoing requirement including reducing the numbers of people on benefit by providing work.
- f) **Local Government Pension Scheme:** advising employees on the agreed changes as from 1st April 2008.
- g) **Changes in employment legislation:** embedding age and disability legislation.
- h) **National Skills Agenda:** new frameworks for social work and priority training for minimum skills standards.

3.6.14 Environment:

The following government policy issues will heavily influence service delivery plans for the future in this Directorate:

- a) **Landfill Diversion:** targets are increasingly more challenging requiring either increased resources and / or radical changes to service delivery.
- b) **Respect Agenda:** community safety including anti-social behaviour, cleaner neighbourhoods and improvements to the street scene.
- c) **Transport Innovation:** funding based on innovative proposals to relieve congestion, create better integrated transport provision and in particular better quality bus services and national concessionary travel.
- d) **Reform of the Planning System:** roll-out of the local development framework and proactive response to further proposals for change from the government.
- e) **Improving Road Conditions:** government targets require sustained and increasing investment.

3.6.15 Resources:

The following government policy issues will heavily influence service delivery plans for the future in this Directorate:

- a) **Reform of the local government finance system:** may affect billing services.
- b) **Comprehensive Spending Review 2007:** extra demands on the Resources Directorate to provide leadership in the management of corporate resources.
- c) **Green Paper on Welfare Reform:** Local Housing Allowances will impact on benefit services.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- d) **Efficiency gains:** increasing pressure on strategic procurement services to make significant and demonstrable efficiency gains was confirmed in CSR07.
- e) **National Procurement Strategy for Local Government:** increasing need to deliver key milestones in the Council's procurement strategy.
- f) **Use of Resources Assessment:** increasing pressure to demonstrate the effectiveness of the Council's overall governance arrangements. There will be a new assessment framework for 2008.

3.7 Summary

3.7.1 The evidence is that the new Prime Minister will continue to reform public services over the medium-term.

3.7.2 Some of the common themes in the key discussion papers on the nature of the public service reform are as follows:

- a) The agenda will accelerate the move to greater localism, not just to local authorities but also to the individual neighbourhoods within them.
- b) Integral to this will be an even stronger expectation, amounting to a requirement, that public services in an area will deliver measurable improvements by working together to a common agenda.
- c) There will be more powers and duties underpinning local government's community leadership and well-being responsibilities.
- d) Greater freedom for local government will be matched by more effective and more streamlined systems of performance management.
- e) Achieving quality, efficiency and Value for Money in service provision will remain a high priority.
- f) Services will need to be citizen-centred and service users will have a greater say in the design of services.
- g) More will be done to ensure social justice and close the widening social divisions.
- h) There will be greater pooling of resources as LAAs are developed and funded by the new Area Based Grant.

4. National Financial Context

4.1 Introduction

4.1.1 This section of the MTFMS sets out the financial context at national level for local government. It provides an assessment of the outcome of CSR07 following its announcement on 9th October 2007.

4.2 National economy

4.2.1 The government has signalled that the growth expectation for the UK economy will be lower in the future. This has a direct impact on local government and the rest of the public sector. Much of the increased investment in recent years has been provided by an unprecedented economic expansion.

4.3 Comprehensive Spending Review 2007

4.3.1 In July 2005, the Chief Secretary to the Treasury announced that the government intended to launch a second Comprehensive Spending Review (CSR07) report in 2007 to identify what further investments and reforms were needed to equip the UK for the global challenges of the decade ahead.

4.3.2 CSR07 sets the Departmental Expenditure Limits (DEL) for all Government departments including local government spending programmes. The announcement of Public Service Agreements (PSA), alongside these, details the key improvements the public can expect from these resources.

Key challenges for local government

4.3.3 Adult social care and waste have been included as key challenging areas for local government. The four key headlines were:

- a) Adult social care - rising demands due to long-term demographic changes.
- b) Waste - pressure to radically reduce household landfill to meet EU commitments.
- c) Communities - increasing place-shaping role for local councils.
- d) Services - rising expectation for modern and personalised services.

Value for Money

4.3.4 For the three-year CSR07 period authorities can now expect:

- a) 3% annual cashable efficiency savings.
- b) 5% annual Council Tax cap with actual increases expected to be “well below” that figure.

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

- c) £150m efficiency support over the CSR07 period.

4.3.5 The Government has also published a corporate report on Value for Money entitled '**Delivering Value for Money in Local Government: Meeting the challenge of CSR07**'. The document outlines the ways in which councils may deliver this expectation and the activities planned to support their implementation.

Performance Framework

4.3.6 Announcements surrounding the performance framework for local government were as follows:

- a) A single set of local government priorities in Public Service Agreements and Departmental Strategic Objectives.
- b) 198 national performance indicators (still to be advised).
- c) Maximum of 35 national targets (plus a statutory 17 for education) negotiated through the LAAs.
- d) A third round of LAA Reward Grant (to be announced in November) to incentivise partnership working.
- e) Asset Management Programme to help improve Local Authority's capacity - updating existing guidance to place a greater emphasis on asset management.

Funding Streams

4.3.7 Enforcing the Government's commitment to reduce specific and ring-fenced grant, local authority funding will be delivered through Formula Grant and Area Based Grant (ABG). Specific grants that will be delivered via Formula Grant from 2008/09 include:

- a) Access and Systems Capacity
- b) Delayed Discharges
- c) Children's Services
- d) Waste Performance and Efficiency

4.3.8 Area-Based Grant (ABG) (previously known as LAA grant) includes various previous specific grants. Ring fenced grants will only be used where a programme is particularly novel or expenditure has little or no discretionary element at local level.

4.3.9 The ABG includes the following grants:

Grant	Government Dept
14-19 Flexible Funding Pot	DCSF
Adult Social Care Workforce	DH
Aggregates Levy Sustainability Fund	DEFRA
Care Matters White Paper	DCSF

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

Carers	DH
Child and Adolescent Mental Health Services	DH
Children's Social Care Workforce	DCSF
Children's Fund	DCSF
Choice Advisers	DCSF
Cohesion	DCLG
Connexions	DCSF
Crime Reduction, Drugs Strategy and Anti Social Behaviour	HO
Detrunking	DfT
Education Health Partnerships	DCSF
Extended Rights to Free Transport	DCSF
Extended Schools Start Up Costs	DCSF
Local Enterprise Growth Initiative	DCLG
Local Involvement Networks	DH
Mental Capacity Act and Independent Mental Capacity Advocate Service	DH
Mental Health	DH
Positive Activities for Young People	DCSF
Preserved Rights	DH
Secondary National Strategy–Behaviour and Attendance	DCSF
Secondary National Strategy – Central Coordination	DCSF
Preventing Extremism	DCLG
Primary National Strategy – Central Coordination	DCSF
Respect	HO
Road Safety Grant	DfT
Rural Bus Subsidy	DfT
School Development Grant	DCSF
School Improvement Partners	DCSF
School Intervention Grant	DCSF

4.3.9 In addition, CLG aim to include the Supporting People programme grant within the Area Based Grant from 2009/10. The DCSF aim to include Contact Point (formerly Sharing IS Index grant in ABG) from 2010/11.

4.4 Formula Grant Review Issues

4.4.1 Consultation on proposed changes to the system of local government finances was released by the Department for Communities and Local Government in July.

4.4.2 The document, like the series of settlement working group (SWG) meetings that preceded it, looks at the assumptions the system for distributing formula grant makes about local authorities' needs. These

Draft Medium Term Financial Management Strategy (MTFMS) 2008-2011

relate to the provision of fire and police services; adult and children's social services; highways maintenance; and environmental, protective and cultural services. It questions their validity and suggests options for change.

- 4.4.3 One of the biggest issues noted was to find a way to distribute the extra £212m for national concessionary bus fares for older and disabled people without adverse impacts on other services. The various local government groups were in agreement: allocate the cash through a specific grant.
- 4.4.4 There were other topics of discussion, none more contentious than the potential removal of damping in the children and younger adults relative needs formulae.
- 4.4.5 The consultation paper is clear about the problem. It says "the government remains committed to fully implementing the new formulae which better reflect the current patterns of relative need than those they replaced. This however needs to take account of the government's policy in favour of stability and predictability".
- 4.4.6 The consultation document also raises the prospect of the grant floors themselves being tapered down through the three years of the next spending review. The gradual removal of grant floor will be a slow torture for councils who find themselves there purely because of issues – such as concessionary bus fares – that don't affect them.

4.5 Summary

- 4.5.1 Since Council approved the MTFMS 2007-2010 for consultation in March 2007 we know the future financial pressures for local government will increase as public sector expenditure has tightened as evidenced in CSR07.
- 4.5.2 The local government finance settlement and DSG settlement announcements that followed on from CSR07 set out the level of funding we can expect for non-school and school services respectively for 2008/09 to 2010/11.

5. Herefordshire's Policy Context

5.1 Introduction

5.1.1 This section of the MTFMS describes the local policy context for Herefordshire. Our priorities are closely aligned with the government's priorities for public services as described in section 3. The vision for Herefordshire and how it will be achieved are set out in the *Herefordshire Community Strategy (HCS) 2006 – 2020*. This has been developed, and is being delivered, by *The Herefordshire Partnership*, which comprises the Council and its major partner organisations across the public, private and voluntary and community sectors.

5.1.2 The Council's 3-year Corporate Plan sets out what the Council will do to fulfil its contribution to delivering the HCS (as well as what the Council will do internally to be as efficient and effective as possible). The Council's Annual Operating Plan sets out, in more detail, what it will do each year to those ends. This is followed through in the plans for individual directorates and services, and then on to the plans of individual teams and the objectives and targets set annually for individual managers and their staff.

5.2 Herefordshire Community Strategy

5.2.1 The Herefordshire Community Strategy – A Sustainable Future for the County was the culmination of a major review in 2005 of the Herefordshire Plan.

5.2.2 The HCS sets our aspirations for the County by 2020 and how they might be achieved. The HCS sets out a shared vision for the future of Herefordshire. This gives an idea of the sort of place that people would like it to be in 2020. If the outcomes identified in the HCS are achieved, the County will be much closer to achieving the vision.

5.2.3 To achieve the vision, organisations, groups and service providers work together in the Herefordshire Partnership. This is a non-statutory, voluntary partnership, otherwise 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) Herefordshire Primary Care Trust.
- e) Learning & Skills Council, Herefordshire and Worcestershire.
- f) Voluntary Organisations.
- g) West Mercia Constabulary.

Medium Term Financial Management Strategy (MTFMS)

5.2.4 In addition, many other groups and organisations are involved in the Herefordshire Partnership and contribute to achieving the vision. Examples include Advantage West Midlands and the Government Office for the West Midlands.

5.2.5 The HCS consists of:

One vision – Herefordshire will be a place where people, organisations and businesses, working together within an outstanding natural environment, will bring about sustainable prosperity and well-being for all.

Five guiding principles - to:

- a) Realise the potential of Herefordshire, its people and communities.
- b) Integrate sustainability into all our actions.
- c) Ensure an equal and inclusive society.
- d) Build on achievements of partnerships working and ensure continual improvement.
- e) Protect and improve Herefordshire's distinctive environment.

Outcomes covering four themes – which are:

- a) Economic development and enterprise.
- b) Healthier communities and older people.
- c) Children and young people.
- d) Safer and stronger communities.

5.3 Herefordshire Corporate Plan & Annual Operating Plan

5.3.1 Herefordshire's Corporate Plan for 2008 – 2011 sets out the Council's objectives for the next three years in support of the Herefordshire Community Strategy. This is under review for the next three year period.

5.3.2 The Council's top priorities for the period of the Plan are:

- a) To maximise the health, safety, economic well-being, achievements and contribution of every child, with special emphasis on sound arrangements for safeguarding vulnerable children and sustained improvements in educational attainment.
- b) To reshape adult social care, enabling vulnerable adults to live independently and, in particular, enabling many more older people to continue to live in their own homes.
- c) To secure the essential infrastructure for a successful economy.

Medium Term Financial Management Strategy (MTFMS)

- d) To streamline its processes, assets and structures, and secure significant efficiency savings, particularly by delivering the *Herefordshire Connects* programme.

5.3.3 The Council's other priorities are:

- a) To sustain thriving communities, including by securing more efficient, effective and customer-focused services, clean streets, tackling homelessness and effective emergency planning.
- b) To protect the environment, including by producing much less waste, recycling much more of what remains and significantly reducing carbon emissions.
- c) To improve transport and the safety of roads, including further reductions in the numbers of people killed or seriously injured.
- d) To promote diversity and community harmony and strive for equal opportunities for all the people of Herefordshire, regardless of race, religion, disability, sex, sexual orientation, geographical location, income or age.
- e) To give effective community leadership, working with partners to deliver the *Herefordshire Community Strategy*, including the *Local Area Agreement*.

5.3.4 To make these things possible, the Council's organisational priorities, in addition to securing significant efficiency savings, are:

- a) 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.
- b) Better to understand the needs and preferences of service users and Council Tax-payers, and to tailor services accordingly.
- c) To recruit, retain and motivate high quality staff, ensuring that they are trained and developed so as to maximise their ability and performance.
- d) To embed corporate planning, performance management and project management systems so as to continue to drive up service standards and efficiency.

5.4 The Performance Challenge

5.4.1 Under the Comprehensive Performance Assessment (CPA) Harder Test, Herefordshire's score is currently 3 (out of a possible 4). The Council's underlying CPA score is 2, but all upper tier Councils' score are protected until all authorities have been assessed under the Harder Test.

Medium Term Financial Management Strategy (MTFMS)

5.4.2 The Council for the second year running has been adjudged in 2006 to be improving adequately and overall, to, have maintained services at the same level as in the previous year. The judgement for 2007 is awaited. Whilst there are some signs of improvement (e.g. Benefits and Children & Young Peoples Services), the Council has been assessed as level 2 for Use of Resources Score for 2007 which may affect the overall rating.

5.5 Herefordshire's Business Transformation Programme

5.5.1 At the time of drafting, the Herefordshire Connects programme is on hold and the Council's financial model now includes delivery of a social care management system and capacity for modernising the way we provide our services.

5.5.2 One of the key themes of the Herefordshire Connects programme is improving customer interfaces and improving customer information management. This will be delivered through our Customer Services Strategy improving access to services by extending our Info and Info by Phone services.

5.5.3 Particular attention is also being given to the continued improvement of customer interfaces and information management in respect of Children and Young People.

5.6 Office Accommodation

5.6.1 The Council originally approved an Accommodation Strategy in May 2005. It approved an updated business case in May 2006 and put both the revenue and capital budget in place to implement the strategy.

5.6.2 It became clear at the end of September 2006 that the full 2-phase plan for occupying Plough Lane with the option to extend the building was no longer available as the landlord had revised its plans for the site.

5.6.3 The Plough Lane building has been secured until 31st December 2010 – including the middle floor. This provides the certainty needed to reconsider both medium term and long term options for office accommodation in conjunction with the Council's strategic partners.

5.7 Summary

5.7.1 This section of the MTFMS shows how the Council's objectives and targets cascade down the organisation to ensure we work as one organisation with all parts pulling in the same direction. It also shows how corporate priorities are being progressively integrated to the maximum extent possible with our key partners and the Herefordshire Partnership generally.

Medium Term Financial Management Strategy (MTFMS)

- 5.6.2 Herefordshire has entered the most challenging period it has faced since it came into being in 1998, with demands all round for improvement at a time when cash resources are not going to increase at the rate previously experienced by local government. Sound financial governance will be essential to ensure the Council's continued financial health.
- 5.6.3 The next section of this MTFMS sets out the financial context at the local level before moving on in the following section to describe the Council's approach to strategic financial management during this difficult period.

Medium Term Financial Management Strategy (MTFMS)

6. Herefordshire's Financial Context

6.1 Introduction

6.1.1 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.

6.2 Background

6.2.1 On 6th December 2007 the Minister of State for Local Government announced the provisional three year settlement for local government covering 2008/09 to 2010/11. The announcement has a direct impact on the level of financial resources Herefordshire will have over the next three years and is reflected in the Medium Term Financial Management Strategy (MTFMS). The final settlement was announced on 24th January 2008.

6.2.2 Key national points:

- a) In total, government revenue funding for local authority services will be £70.4 billion in 2008/09; £73.5 billion in 2009/10 and £76.7 billion in 2010/11.
- b) These are increases of 4.0%, 4.4% and 4.3% respectively – an annual average increase of 1.5% above inflation.
- c) Every authority will receive a Formula Grant increase in every year.
- d) The Formula Grant is made up of Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR). For 2008/09 the amount of NNDR for England has increased by 10.8% to £20.5bn. This is due to the extension of business rates to empty properties.

6.2.3 Key points for Herefordshire:

- a) The announcement on 24th January provided notification of the level of Formula Grant to be received by Herefordshire over the next three years as follows:

	Formula Grant Amount £m	Adjusted Increase £m	Percentage Increase
2008/09	53.307	2.419	4.8%
2009/10	55.379	2.143	4.0%
2010/11	57.584	2.232	4.0%

Medium Term Financial Management Strategy (MTFMS)

- b) The above indicates that Herefordshire's 2008/09 increase on a like-for-like basis is 4.8%. Herefordshire, in common with most unitary authorities and county councils, had a better than expected settlement.
- c) Herefordshire's assumptions about a cash standstill and likely efficiency savings for 2008/09 were in line with other authorities and based on the widely accepted assessment that Comprehensive Spending Review 2007 (CSR07) would be "tight". There was also concern that changes made to the distribution formula would adversely affect Herefordshire.
- d) As part of the CSR07, it was announced that the following grants would be delivered via the overall Formula Grant. The adjustments to base budgets for 2008/09 are in brackets:
 - i) Children's Services (£490k).
 - ii) Delayed Discharges (£384k).
 - iii) Access and Systems Capacity (£2.059m).
 - iv) Waste Performance and Efficiency (£183k).
 - v) Contaminated Land (£1k).
 - vi) Food Hygiene Enforcement on Farms (£28k).
 - vii) New Conduct Regime (£9k).
 - viii) Animal Feed (£4k).
 - ix) New Conduct Regime (£9k).
 - x) Student Finance (a reduction of £24k).
- e) Councils are expected to agree Council Tax increases 'well below 5%'. There is some debate about whether the Government means an individual council must set its Council Tax 'well below 5%' or whether this refers to the overall position across the country. With some councils getting a settlement in high single figures it may be that the Government will expect very low or no increase in some cases.

6.3 Relative Funding Position

- 6.3.1 As our inspectors have acknowledged, government funding per head of population in Herefordshire is significantly below the average for all-purpose authorities. The inspectors noted that our funding per head of population was 18% below the average in our last Corporate Assessment report.

Medium Term Financial Management Strategy (MTFMS)

6.3.2 Updating the position for the 2008/09 settlement figures reveals that the gap in funding has widened. The figures for this year are as follows:

- a) Formula Grant per head of population is £296 – 23% below the unitary authority average of £383.
- b) Indicative Dedicated Schools Grant per head of population is £469 – 19% below the unitary authority average of £575.
- c) Formula Grant plus indicative Dedicated Schools Grant per head of population is £764 – 19% below the unitary authority average of £946.

6.4 Reserves

Revenue Reserves

6.4.1 Herefordshire has 2 main sources of reserve funding to support its 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.

6.4.2 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 2007/08.

(All figures £000k)

Balance as at:	General Fund	Specific Reserves		Total
		Schools	Other	
31st March 2004	9,847	6,845	2,562	19,254
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 (estimated)	5,861	7,730	6,226	19,817

6.4.3 There are a number of important points to note about the figures in this table:

- a) A significant proportion of the Specific Reserves belong to our schools and cannot be used to help pay for non-schools services.
- b) The General Fund balance at 31st March 2007 included £157,000 of budgets carried forward into the current financial year and £1m of LABGI grant to be used in 2007/08.
- c) The large increase in Other Specific Reserves as at 31st March 2007 was due to a specific policy change signalled in last year's MTFMS of earmarking funds for specific purposes in order to give greater transparency.

Medium Term Financial Management Strategy (MTFMS)

6.4.4 The Council's policy of having at least £3m in the General Reserve will be increased to £4.5m (approximately 3.5% of the net revenue budget) from 1st April 2008 to provide adequate cover for demand pressures that are volatile, difficult to predict or unforeseen at the time the budget is set. The excess above the £4.5m minimum requirement for the general reserve is to be allocated to a proposed earmarked reserve to be called 'Modernisation Plans' with money to be released as such plans are formally approved.

Capital Reserves

6.4.5 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.

6.4.6 The following table compares the final capital budgets for the last 3 financial years to actual spend together with a forecast outturn for the current year.

(All figures in £000k)

Financial Year	Original capital budget	Capital outturn	Over / (under) spend for year
2004/05	40,100	33,198	(6,902)
2005/06	37,131	31,845	(5,286)
2006/07	58,977	39,542	(19,435)
2007/08 (Estimate)	65,462	53,168	(12,294)

6.4.7 The Council agreed a strategy for disposing of surplus assets as part of the Asset Management Plan (AMP). Capital receipts will be generated over the medium-term as these assets are vacated and sold but they will be used to reduce the potential borrowing requirement for future years.

6.4.8 The Council has set the Smallholdings Estate an annual target of realising £1m capital receipts net of capitalised repairs and maintenance expenditure. This policy ensures a steady but modest stream of new capital receipts each year.

6.4.9 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 unless allocated for a specific purpose.

Medium Term Financial Management Strategy (MTFMS)

6.5 Trends in Outturn

Revenue Overview

- 6.5.1 The table below compares the actual use of General Fund balances to planned use for the last 4 financial years and an estimate for 2007/08 based on the latest Integrated Performance Report covering the period to the end of November 2007.

(All figures in £000k.)

Financial Year	Planned use of General Fund balances ¹	Actual use of General Fund balances ²	Improvement in financial performance ³
31st March 2004	(2,942)	3,479	+6,421
31st March 2005	(3,176)	4,644	+7,820
31st March 2006	(4,063)	34	+4,097
31st March 2007	(8,890)	(6,502)	+2,388
31st March 2008 (estimated)	(1,157)	(2,162)	-1,005

Notes

1 – brackets means there was planned contribution from the General Fund balances to the revenue account – a top-up from the general contingency to get the budget to balance for the year.

2 – no brackets means that there was actually a surplus on the revenue account for the year that was used to top the general contingency.

3 - a plus sign means actual financial performance was better than planned whilst a minus sign means that actual performance is worse than planned.

- 6.5.2 The table in the preceding paragraph shows that financial capacity is decreasing year on year. There is an urgent need for all Directors to commit their emerging budget strategies to paper and seek help and guidance from Financial Services to assess the benefits and cash savings.

6.6 Local Spending Pressures

- 6.6.1 The audited outturn position for 2006/07 provided evidence of Herefordshire's spending pressures for the future, many of which reflect the national trends identified in section 4.4 of the MTFMS. The projected outturn for 2007/08 is further evidence of these pressures.

- 6.6.2 As in the MTFMS for 2007-2010 the key concern is the Adult Social Care service budgets. The base budget funding position for these services in 2006/07 was enhanced with real terms growth for at least the 3rd successive year in a row. In 2007/08 this area also received

Medium Term Financial Management Strategy (MTFMS)

£2.7m of additional recurring funding to improve outcomes for the Older People and Learning Disabilities service areas.

- 6.6.3 The additional resource for Adult Services is based on the findings of research into the impact that Herefordshire's ageing population and other factors will have on demand for social care services and the options for the patterns and levels of services needed to meet them. Further needs analysis work on Mental Health and Physical Disabilities services indicates financial support is required. In 2008/09 an additional £275k will be provided with a further £275k in 2009/10. these amounts will be ring-fenced to these service areas.
- 6.6.4 The 2007/08 projected outturn for social care across both adults and children's services is an overspend of £4.2m before use of the £1.3m centrally held contingency and spend to save resources.
- 6.6.5 Other spending pressures that need consideration include:
- a) Waste disposal – the Specific Reserve for this issue stands at £2.3m but needs review as the date for agreeing changes to the original PFI contract continues to slip and waste tonnages continue to grow.
 - b) Contingent liabilities – there is no provision for these items of expenditure which could cost up to £726,000 if the liability was confirmed (the Statement of Accounts for 2006/07 refers).
 - c) The Council has committed to a programme of review of its school provision. This may create spending pressures for the future.

6.7 Summary

- 6.7.1 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. Many sparsely populated councils – such as Cornwall, Devon or Cumbria – have great tracts of land that people just do not live in.
- 6.7.2 Despite the challenges to date, financial performance has been good in overall terms providing a healthy level of reserves. There are however some areas – notably social care – that continue to need attention.
- 6.7.3 The MTFMS thus far has set out the national and local policy and financial context for Herefordshire. Having set the scene, it is now possible to describe a medium-term financial management strategy to ensure that we preserve our financial health through a period of significant change and improvement whilst growth in financial support from the government decreases.

Medium Term Financial Management Strategy (MTFMS)

7. Financial Management Strategy

7.1 Introduction

7.1.1 The first Herefordshire MTFMS 2007-2010 indicated it supported all of Herefordshire's other resource management and service delivery strategies. This remains the case in this update.

7.1.2 This section of the MTFMS therefore sets out to describe Herefordshire's corporate financial objectives given the national and local context and its financial management strategies for:

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

7.1.3 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.

7.2 Corporate Financial Objectives

7.2.1 Herefordshire's corporate financial management objectives are to:

- a) Ensure budget plans are realistic, balanced and support corporate priorities – especially those that protect the vulnerable in our communities.
- b) Maintain an affordable Council Tax – the Financial Resource Model (FRM) in the MTFMS assumes a sub-5% increase. This has proven correct given the recent CSR07 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.

Medium Term Financial Management Strategy (MTFMS)

- j) Ensure a whole-life costing approach is taken to both revenue and capital spending decisions.

7.3 Financial Management Strategy for the Revenue Account

7.3.1 This section of the MTFMS sets out Herefordshire's financial management proposals for achieving the corporate financial objectives outlined above.

Managing the General Fund Balance & Specific Reserves

7.3.2 Herefordshire's General Fund balance at the start of 2007/08 was £8.023m. This is significantly in excess of the policy in place at that time to maintain a minimum balance of £3m.

7.3.3 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 will ensure there is complete transparency about what is and what is not resourced for corporate financial risks that, if realised, would affect the Council's financial standing. It represents an 'open-book' approach to accounting.

7.3.4 All Directorates will be expected to manage budget pressures within the overall requirement to deliver an outturn at or below budget.

7.3.5 The need for the range and level of Specific Reserves and the policy for minimum General Fund balances will be continually reviewed as part of the financial planning, monitoring and outturn processes. The strategy described here provides cover for the key corporate financial risks. Part of the review of General Fund balances indicates it is now appropriate to maintain a level of £4.5m (3.5%) to provide adequate cover for demand pressures. The excess above £4.5m will be allocated to the proposed earmarked reserve to be called Modernisation Plans.

Managing a balanced budget

7.3.6 Over the years Herefordshire has sought to ensure that all services are adequately funded given available resources. Keeping up with increasing demand for services – particularly in social care – has been difficult but Herefordshire can show that it has consistently provided real terms growth for these services over the years although it recognises more will be needed to meet future demand.

Medium Term Financial Management Strategy (MTFMS)

7.3.7 The impact on General Fund balances in 2007/08 is illustrated in the following table:

	£000	£000
General Fund balance on 1st April 2007		8,023
Less		
Possible 2007/08 overspends (Month 8 IPR)	1,005	
LABGI grant carried forward	1,000	
Carry forward budgets from 2006/07	157	-2,162
General Fund Balance on 31st March 2008		5,861

7.3.8 The above table makes a number of assumptions but shows the likely pressure on General Fund balances. The key pressure will arise from possible overspends in 2007/08 that will need to be covered by the General Fund.

Managing financial performance

7.3.9 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 reporting on financial performance as part of the Integrated Performance Reporting framework.

7.3.10 Non-financial information was incorporated into the routine bi-monthly financial performance reports that form part of the Integrated Performance Report.

7.3.11 Certain types of income and expenditure budgets are classified as 'non-controllable'. In the main, these are budgets that are allocated to Directorates on a recharge basis (e.g. support service recharges, insurances). The support service provider will exercise the budgetary control for these services.

Managing budget carry forwards

7.3.12 The Council's Financial Procedure Rules have been amended to ensure the cash resource redeployed through the year-end budget carry forward arrangement is allocated in line with corporate priorities.

7.3.13 Budgets are now only carried forward if there is an under spend on the Council's overall Revenue Account and at Directorate level. Such under spends are top-sliced if necessary to ensure corporate priorities and financial risks are funded. Budget carry forwards can only be used to fund one-off spending.

7.3.14 Budget carry forwards on support service and other recharged items are not to be permitted. Budget carry forwards on income budgets such as car park charges, planning fees and investment property income will not generally be permitted either.

Medium Term Financial Management Strategy (MTFMS)

Managing Directorate base budgets

7.3.15 Base budget needs to be in the right place at Directorate level as well as the corporate level to support effective financial management and to avoid repeated over spends in one area being consistently offset by under spends in others.

7.3.16 A virement process that allows the transfer of resources between budget headings is in place. This financial management strategy will actively encourage Directorates to use this facility to ensure there is an 'open book' approach to accounting at Directorate level, ensuring such virements support corporate priorities.

Managing growth and inflationary pressures

7.3.17 The current FRM includes 2% for pay inflation in each year in line with government assumptions at the time. The pay award for 2007/08 was settled at 2.475%. The government's assumption for pay inflation for the next three financial years remains at 2% and its stated intention is to negotiate a three-year pay agreement for public sector workers. The CMB therefore recommends that the 2007/08 salary base budget be uplifted by an additional 0.475% and that the policy of a 2% uplift for pay inflation be retained for the draft MTFS for 2008 – 2011.

7.3.18 The current FRM for 2007 – 2010 does not provide for an inflationary uplift on non pay expenditure budgets as an inbuilt efficiency target. This challenging policy ensures that managers:

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

7.3.19 Corporate Management Board (CMB) has checked that this approach to securing efficiency gains for 2008/09 – 2010/11 can be achieved in all service areas through better use of resources without any significant reductions in the level of service provided. The following table identifies the core services where this policy creates the most financial pressure in 2008/09 and explains how CMB expects that pressure to be managed:

Medium Term Financial Management Strategy (MTFMS)

Core Service	Estimated Financial Pressure	Management action
Adult social care	£880k	This pressure reduces to £596k after allowing for additional income from Fairer Charging in the FRM and the effect of the proposed efficiency targets. The Director of Adult & Community Services advised that this pressure could not be managed without a reduction in the level of service provided. He further advised that he will have an efficiency plan in place by the end of March 2008 designed to manage this pressure without a reduction in the level of service provided. The FRM allows for the adult social care base budget to be increased by £596k in order to avoid service cuts.
Waste	£360k	The Environment Directorate's efficiency plan is designed to manage this pressure without a reduction in the level of service provided.
Children's social care	£220k	This pressure can be managed by allocating £650k from the social care contingency currently in the corporate base budget to the service base budget.
Highways	£200k	The Environment Directorate's efficiency plan is designed to manage this pressure without a reduction in the level of service provided.
Schools Transport	£180k	The Director of Children's Services plans to review the school transport policy.

7.3.20 CMB has only identified one significant example of the current policy for efficiency gains causing difficulty if retained for the FRM for 2008 – 2011. A reduction in the level of adult social care services that can be provided is clearly not acceptable given this service is a corporate priority. The CMB therefore recommends that the current policy is retained as an incentive to improve efficiency and value for money with the exception of a one-off increase of £596k to the base budget for adult social care.

7.3.21 The current FRM assumes inflation on client and customer receipts budgets of 2.5%. The key exceptions are income budgets where the fee is dictated by a statutory arrangement. This policy is to be retained for the draft FRM for 2008 – 2011 and there will be a review of all fees and charges so that these can be integrated into the budget policy framework.

7.3.22 The MTFMS covers income generation. The overall approach is to:

Medium Term Financial Management Strategy (MTFMS)

- a) Ensure income budgets reside with the client service where the service is responsible for determining service strategy.
- b) Adopt an entrepreneurial approach to generating income from investment properties, commercial properties and trading activities with risks being managed in line with the Council's risk management procedures.
- c) Focus on debt collection by setting targets for improvement.
- d) Building on the agreed revised charging structure for Adult Services consider the scope for higher levels of charging for services elsewhere especially where there is clear evidence that Herefordshire attracts much lower levels of income than comparator authorities.
- e) Investigate new freedoms to charge for services.

Managing partnership resources

7.3.23 Herefordshire welcomes the opportunity to work with strategic partners to improve outcomes. But, in order 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) There is clarity of respective responsibilities and liabilities.
- c) The accounting arrangements are established in advance of operation.
- d) The implications of terms and conditions on any associated funding are considered in advance of operation.

7.3.24 From 2008/09 the new Area Based Grant will be a significant component of partnership working. It is likely that governance arrangements will be shaped by forthcoming guidance from central government.

Managing external funding

7.3.25 External funding provides another opportunity to increase financial capacity. The MTFMS will be to actively pursue such opportunities, including Public Finance Initiative (PFI) funding, 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.

Managing Developer Contributions

7.3.26 This is another source of external funding that can be secured through the planning system. It may be possible to secure funding to support

Medium Term Financial Management Strategy (MTFMS)

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).

7.3.27 The MTFMS is to maximise the potential for increasing financial capacity and / or managing growth in volumes through s106 agreements. This will involve a much more commercial and co-ordinated approach to such opportunities. To achieve better monitoring of these agreements a new post has been agreed with the Environment Directorate.

Managing Modernisation Initiatives in Social Care Services

7.3.28 The following amendments to the current MTFMS reflect the relevant Director's accountability for financial management:

- a) The social care contingency of £1.3m in the corporate base budget be allocated in equal shares to the adult and children's social care base budgets.
- b) The adult social care modernisation funding of £2.7m will be transferred from the corporate base budget to a ring-fenced budget within the Adult & Community Services service budget for release by the Director of Adult & Community Services in consultation with the Director of Resources in support of modernisation plans.
- c) The children's social care modernisation funding of £824k will be transferred from the corporate base budget to a ring-fenced budget within the Children & Young People's Services core service budget for release by the Director of Children & Young People's Services in consultation with the Director of Resources in support of modernisation plans.

Modernisation Plans:

7.3.29 The needs analysis for adults with mental health and physical disabilities has now been completed and modernisation funding for these services of £275k in 2008/09 rising to £550k in 2009/10 is required. It is recommended that modernisation funding for adult social care services:

- a) Is included in the FRM within the draft MTFMS for 2008 – 2011 as modernisation of these services is a key corporate priority.
- b) Is ring-fenced within the base budget for adult social care for modernisation purposes only.
- c) Is released by the Director of Adult & Community Services following consultation with the Director of Resources.

Managing Value Added Tax (VAT)

7.3.30 To preserve financial capacity, Herefordshire will continue to actively manage business activity that is classed as 'exempt' under current VAT

Medium Term Financial Management Strategy (MTFMS)

legislation to ensure that the partial exemption limit is not breached. We are allowed to reclaim the VAT on exempt business activities providing it does not exceed 5% of our total VAT liability. If we breach the 5% limit, HM Customs & Revenues will expect us to hand over the VAT on exempt activity too – approximately £750k a year.

7.3.31 VAT is a particularly specialised field within the accountancy profession and we supplement in-house resources with external consultancy support when needed. The Technical Accounting Team will continue to ensure service managers are aware of the circumstances that represent greatest financial risk in terms of the Council's overall VAT liability so they can seek the specialist advice.

7.4 Medium-Term Financial Resource Model (FRM)

7.4.1 The FRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. This sets the financial context for the corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2008/09 to 2010/11.

7.4.2 Cabinet has decided to retain the policy for a planned increase in council tax of 4.7%. The actual increase for 2007/08 was 3.8% which reduced council tax income by £560k per annum. The proposed council tax level for 2008/09 is a 4.4% increase representing a potential £225k reduction in council tax income.

7.4.3 The FRM shown in Appendix A takes into account the corporate financial objectives and MTFMS proposed in this document. It also makes a number of other assumptions. These are summarised below to ensure the financial planning process is open and transparent:

- a) **Herefordshire Connects** – the FRM includes funding the social care solution.
- b) **Office Accommodation Strategy** – the FRM reflects the latest financial assessment approved by Cabinet in May 2006.
- c) **Customer Services Strategy** – the FRM provides £500k per annum in each of 2007/08 and 2008/09 to support the strategy. It should be noted this ends in 2009/10 by which time the service model is to deliver compensating savings thus removing the needs for financial support.
- d) **Capital Investment** – the FRM reflects the revenue implications (cost of prudential borrowing) of the capital programme approved by Council in 2007 plus slippage from 2006/07 and 2007/08 as well as the draft capital programme presented to Cabinet on 24th January 2008. It allows for £1m of new prudential borrowing in 2008/09 and each year thereafter.

Medium Term Financial Management Strategy (MTFMS)

- e) **Formula Grant** – the FRM reflects the final local government finance settlement for 2008/09 and indicative figures provided by the government for 2009/10 and 2010/11.
- f) **Dedicated Schools Grant** – the FRM reflects the 4.3% increase for 2008/09 and assumes a 2% increase in following years.
- g) **Employers’ superannuation costs** – the FRM includes increases in employers’ contributions rates in line with latest actuarial advice.
- h) **Interest Rates** – the FRM reflects interest rate assumptions for investment income and new borrowing costs in line with the Treasury Management Strategy for 2008/09 included at Appendix C.
- i) **National Taxation** – the FRM assumes there will be no significant change to national taxation systems.
- j) **Local government finance system** – the FRM assumes the status quo with no change to the grant distribution system, Council Tax or National Non-Domestic Rates. This is a key area and will be amended in the future for the outcome of the Government’s review when it is announced.
- k) **Housing Benefit / Council Tax Benefit Administration Subsidy** – the FRM reflects the implications of a 5% real terms cut in this subsidy each year starting from 2007/08;
- l) **Local Authority Business Growth Incentive Grant** – the FRM assumes no further grant income after the current scheme ceases in March 2008.
- m) **Council Tax Income** – 4.4% for 2008/09 and 4.7% for the remaining two years of the MTFMS.
- n) **Local Development Plan** - £500k allowed in 2009/10 and 2010/11 for implementing the new planning framework.

7.4.4 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:

	2008/09	2009/10	2010/11
Potential financial capacity in the base budget.	£356k	£2.437m	£3.971m

Medium Term Financial Management Strategy (MTFMS)

- 7.4.5 The above table demonstrates that the total budget in 2008/09 exceeds estimated resource requirements by £356k given current planning assumptions.
- 7.4.6 To summarise, the FRM looks at the totality of the revenue account and identifies indicative cash limits at the corporate level.
- 7.6.1 Plans to modernise both service provision and support services will start to take shape now that the new joint Chief Executive has taken up post. The Primary Care Trust (PCT) has already taken an opportunity to set aside some cash to help support implementation of emergent plans for modernisation. The PCT will transfer £300k to the Council to manage on its behalf. The FRM within the draft MTFMS for 2008 – 2011 includes a Council match funding contribution to be held in an earmarked reserve called 'Modernisation Plans' until such times as a modernisation plan for the two organisations has been formally approved.
- 7.6.1 The Council has been developing a corporate 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. That programme – Herefordshire Connects – is poised at a strategic decision making point pending conclusion of discussions on the affordability of the programme in the context of the MTFMS and to give the new Chief Executive the opportunity to influence the way forward.
- 7.6.1 The FRM within the MTFMS for 2007 – 2010 includes the financial envelope for Herefordshire Connects programme as outlined in April 2006 but adjusted to reflect estimated timings of investment and benefits as at March 2007. The passage of time means that the original financial model is now too old to be a reliable basis for the FRM within the draft MTFMS for 2008 – 2011. Much work has been done since Deloitte were appointed as the preferred supplier to revise the financial envelope. However, CMB recommends that the assumptions in the current FRM about the Herefordshire Connects programme are removed and replaced with the following:
- a) The investment requirement for a replacement social care management information system (£687k in 2008/09 reducing to £154k thereafter – subject to the call-in process).
 - b) Funding for the Herefordshire Connects Core Team so there is a resource to maintain a Council-wide modernisation programme (£450k in 2008/09 reducing to £300k in 2009/10 and £200k in 2010/11).
 - c) Funding for urgent ICT strategy work needed to support the Herefordshire Connects programme and ICT infrastructure (£247k in 2008/09 rising to £647k thereafter).

Medium Term Financial Management Strategy (MTFMS)

7.6.1 The Herefordshire Connects programme is a modernisation programme awaiting review and formal decision. Detailed financial information is yet to be finalised pending that review and may not be available in time for decisions on the budget for 2008/09. The CMB therefore recommends that the financial capacity to support the programme is provided through a new earmarked reserve called 'Modernisation Plans' rather than through the FRM until such times as a formal decision on the way forward has been taken.

7.5 Sensitivity Analysis

7.5.1 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 £410k in 2008/09.
- b) 1% variance in Council Tax inflation impacts the budget by £765k for 2008/09, increasing to £840k by 2010/2011.
- c) A 0.5% loss on collection in the tax base would see a reduction of 346 units of collection.
- d) A £100k increase in budget increases council tax by up to 0.13%.
- e) An increase of 1% in average base rates would also have an impact. Existing debt is at fixed rate and increases in base rates have little impact upon long term (50 year) borrowing rates from the Public Works Loan Board (PWLb), so the impact on cost of borrowing is marginal. Investments would generate an extra £272k, based on an average cash balance of £27.2m (Historically); therefore an increase in base rates means the net effect is we generate greater investment income.
- f) A variance in the average cash holding of £8m would impact on investment returns by between £400k - £420k a year, depending on the average base rate for the year.
- g) If the pay settlement varies by 1% from the FRM's assumption this has an impact of approximately £560k.

7.6 Financial Management Strategy for Capital Investment

7.6.1 The capital receipts reserve totalled £22.426m as at 1st April, 2007. Receipts of £1.8m have been received to date in 2007/08. Expected capital receipt reserve spending in 2007/08 totals £7.104m leaving a balance of £17.122m to be carried forward into 2008/09. This may change if additional receipts arise before 31st March 2008 and depending on final funding decisions for capital spending in 2007/08 when the annual accounts are prepared.

Medium Term Financial Management Strategy (MTFMS)

- 7.6.2 Capital receipts reserve funding of £10.108m has been committed to fund the 2008/09 capital programme however additional capital receipts from the sale of smallholdings and the old Whitecross High School site are expected.
- 7.6.3 The FRM for the revenue account reflects the new borrowing requirement implied by the Treasury Management Strategy (see section 7.8) to support the capital programme. Potential capacity in the revenue account to absorb the revenue implications of yet more borrowing is limited.
- 7.6.4 This leaves limited capacity in the revenue account to accommodate new projects unless ongoing efficiency savings can match the additional borrowing costs. This is a problem because there are a number of projects that are likely to be a high priority for the Council such as:
- a) The provision of a new Cattle Market.
 - b) Repairs, maintenance and enhancement of corporate assets such as property assets and ICT.
 - c) Investment in property assets needed to deliver the changes needed in adult social care.
 - d) ICT Strategy to support the Business Transformation programme.
 - e) Edgar Street Grid (ESG).
 - f) Office Accommodation Strategy.
- 7.6.5 The Council has an Asset Management Plan and Capital Strategy that has been given top marks by the Government Office for the West Midlands. These documents need fine-tuning to help address the impact of there being a scarcity of capital resources.
- 7.6.6 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 and the Edgar Street Grid redevelopment project.

Medium Term Financial Management Strategy (MTFMS)

- e) Attracting external funding such as the recent grant allocation under the government's Building Schools for the Future programme.

7.6.7 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 and move to a corporate landlord arrangement to provide greater flexibility in matching property assets to service needs.
- 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.
- d) Reallocate existing resources in Directorate base budgets used for this purpose to boost the corporate maintenance fund.

Capital Programme 2008/09

7.6.8 Schemes recommended for funding by Prudential Borrowing are as follows:

- a) Strangford landfill site
There is a legal requirement to assess the impact of the landfill site on groundwater. The scheme will provide groundwater monitoring boreholes.
- b) Holmer School Flood alleviation
This will fund remedial works to the school to prevent a re-occurrence of the flooding problems experienced in July 2007.
- c) Legionella prevention work
This scheme upgrades hot water installations to meet code of practice requirements in council owned buildings across the county.
- d) Prospect Wall repairs
Part of the existing retaining wall between The Prospect in Ross-on-Wye and the adjacent graveyard has collapsed. A large section of the wall needs to be rebuilt.
- e) Sustrans Lottery Match Funding
This covers the estimated match funding needed for a walking and cycling route exploiting an existing bridge over the River Wye by the Welsh Water treatment works. The current scheme includes extending the route along the disused Hereford to Ross railway line between Rotherwas and Holme Lacy. There is a requirement to get clarity from Sustrans about the timing of funding and the £300k represents an estimate of the 2008/09 requirement.

Medium Term Financial Management Strategy (MTFMS)

7.6.9 Directorates have been encouraged to bring forward schemes that can be funded by revenue savings or budget to make the prudential borrowing repayments. The following fall into this category:

- a) Development of Specialised Adults With Learning Difficulties Day Opportunities
A scheme funded by £40k annual savings. Savings need to be signed off, but once this is confirmed the scheme could proceed.
- b) Development of Community Support Centres
A scheme funded by £65k annual savings. Scheme rises to £100k in 2009/10. Savings need to be signed off, but once confirmed the scheme could proceed.
- c) Server virtualisation
This scheme can be funded by the additional resources for the ICT Strategy built in to the financial model. The scheme is one of the 'top 10' projects identified by ICT.
- (d) Salix funded Schemes
The Council has been awarded £100k towards carbon reduction works. This grant is based on match funding of £100k from the Council. The £200k is then 'lent' to the relevant properties and paid back. The ability to fund repayments needs to be signed off.

7.6.10 The estimated capital financing costs for the above schemes totals £61k in 2008/09, £168k in 2009/10 and £175k in 2010/11 with annual reductions in repayments thereafter.

7.6.11 The Council is involved in either facilitating or delivering a number of capital schemes funded from external sources. In some cases these schemes have cash flow implications that may have an impact in future years. The opportunity cost to the Council of temporarily funding external capital expenditure pending receipt of the anticipated external funding contribution has been built into the FRM. Schemes where this may apply are as follows:

- Rotherwas Futures
- Edgar Street Grid.
- Grant funded schemes such as the Building Schools for the Future programme.

7.7 Medium-Term Capital Plan

7.7.1 A summary of the approved capital investment programme is provided in Appendix B.

7.7.2 The following table summarises the existing capital investment programme updated for slippage. The table sets out the updated position.

Medium Term Financial Management Strategy (MTFMS)

	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
Investment by directorate: -				
Children and Young People's Services	12,235	15,380	30,120	26,354
Environment Services	27,566	16,369	12,847	13,266
Corporate and Customer Services	322	669	-	-
Resources	1,966	4,436	2,890	8,600
Adult and Community Services	10,135	15,794	3,005	844
Herefordshire Connects	944	508	-	-
	53,168	53,156	48,862	49,064
Which is funded by:-				
Supported Capital Expenditure (Revenue) and Grants	36,608	32,012	43,650	40,124
Capital Receipts Reserve and Revenue contribution	7,264	10,278	1,858	300
Prudential Borrowing	9,296	10,866	3,354	8,640
	53,168	53,156	48,862	49,064

7.8 Efficiency Review & Value for Money

Efficiency Review

- 7.8.1 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.
- 7.8.2 Herefordshire has had a good track record for delivering on its 2.5% overall Gershon efficiency gains target as can be evidenced in its Annual Efficiency Statements. This is helpful given the move to a 3% cashable target in 2008/09.
- 7.8.3 Given the tight funding levels for local government over the period covered by CSR07, and that the government has indicated a 3% "cashable" target over the term of the CSR we will use our existing experience of exceeding government targets to deliver the new required level of efficiencies.
- 7.8.4 Under the requirement of the annual efficiency process Herefordshire Council needs to identify as a minimum a cumulative savings target of £6.619m by the end of 2007/08 to meet the 'Gershon' savings target.
- 7.8.5 The target for 2008/09 will be an additional £3.75m which must be cashable. The resulting cumulative target to be achieved by the end of 2008/09 is £10.4m.
- 7.8.6 CMB has also reviewed proposals from the Benefits Group (that exists as part of the governance arrangements for the Herefordshire Connects programme) on efficiencies both within that programme and outside of it that can be delivered whilst waiting for final approval to proceed with the programme. In total, further efficiency gains totalling £750k a year from 1st April 2008 have been identified as follows:

Medium Term Financial Management Strategy (MTFMS)

Efficiency Gain	Estimated Saving
Printer / copier rationalisation	£100k
New mobile telephone tariff	£25k
New postal services contract	£70k
New BT line rental contract	£10k
New PC supplier contract	£10k
Improved WMS usage	£50k
Increase in WMS dividend	£90k
Externalise travel management arrangements	£10k
Standardisation of PC specification	£200k
Purchasing card rebate	£25k
Strategic sourcing	£160k
TOTAL	£750k

7.8.7 The Director of Environment is in the process of implementing a plan to achieve efficiencies and improvements in service delivery within the limits of the cash allocations for his area of responsibility. The CMB supports this proactive approach to financial management and service improvement as an example of good practice in obtaining value for money from public money.

7.8.8 The Director of Adult & Community Services is currently preparing an efficiency plan to ensure services are delivered within budget without the need for any significant change in the level of service provided. This efficiency plan will need to complement the service modernisation plan for adult social care. The CMB endorses this approach as an essential component of every Director's financial management responsibilities. The plans need to be finalised and formally approved as a matter of urgency in readiness for the new financial year.

Value for Money (VfM)

7.8.9 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.

7.8.10 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) Appointment of a Procurement & Efficiency Review Manager and reviewing the level of corporate resource for this critical function with the West Midlands Centre for Excellence.
- c) Integrating corporate, service and financial planning processes.
- d) Planning over the medium-term as well as the short-term.

Medium Term Financial Management Strategy (MTFMS)

- e) Developing our routine financial performance monitoring reports for Cabinet to include VfM reviews.
- f) Benchmarking our costs and activities with other authorities.
- g) Through internal and external audit reviews.
- h) Through scrutiny reviews.

7.8.11 A key development is including non-financial performance information in our routine financial performance monitoring.

7.9 Treasury Management Strategy

7.9.1 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 2007/08 complies with the detailed regulations that have to be followed. The 2008/09 strategy and prudential indicators is attached at Appendix C.

7.9.2 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.

7.9.3 It is not necessary to include the full Treasury Management Strategy in the MTFMS although the two documents do complement each other.

7.9.4 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.

7.9.5 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.

7.9.6 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:

- Peak at 5.75% (current rate) in quarter 4 2007.
- Then fall to 5.50% in the first quarter of 2008.
- Then fall to 5.25% in the second quarter of 2008.
- Then fall to 5% by in the second quarter of 2009.

Medium Term Financial Management Strategy (MTFMS)

7.9.7 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.

7.10 Key Corporate & Financial Risks

7.10.1 Herefordshire sees risk management as an essential element of the corporate governance framework. We have done much in recent months to promote our corporate Risk Management Strategy with our Audit Committee, councillors, Corporate Management Board, Directorate Management Team and our Senior Management Team. In late 2007 and early 2008 we held additional training to ensure this is part of Service Planning arrangements.

7.10.2 All formal reports include a risk management assessment. The Cabinet receives regular updates on the corporate risk register following review by CMB as part of our Integrated Performance Reporting arrangements.

7.10.3 Corporate Management Board and Directorate Management Teams can demonstrate that their risk registers are regularly reviewed. Risks are regularly discussed in performance review meetings at all levels although at lower levels they might not be recognised as such. To help deliver this change the Insurance Manager's post was redesignated Corporate Risk Manager in April 2007.

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

7.10.5 The assumptions underpinning the MTFMS and the FRM and Capital Investment Plan are identified in the relevant section of this document.

7.110 Summary

7.11.1 There are 3 key things that will underpin the Council's ability to maintain its current financial standing into the future and achieve its service improvement aspirations:

- a) Strong corporate working supported by open book accounting.
- b) Strong financial management.
- c) Successful and timely delivery of the business transformation programme.

7.11.2 The corporate financial objectives and financial management strategies set out in this section of the MTFMS all support these three pre-requisites, providing the financial ground rules within which medium-term service plans can be developed.

Medium Term Financial Management Strategy (MTFMS)

Appendix A

MTFRM	2008/2009 Budget £'000	2009/2010 Budget £'000	2010/2011 Budget £'000
Base Budget	122,371	131,778	138,455
Inflation – Staff	1,602	1,375	1,450
Inflation - Income	(310)	(318)	(326)
	123,663	132,835	139,579
Deliverable Efficiency Gains			
- Audit Fees/bank charges/insurance	(100)	0	0
- Employee savings	(500)	0	0
- Supplies & Services savings	(200)	0	0
- Pertemps Saving	(100)	0	0
- Improved procurement processes	(750)	0	0
Transfers to/from RSG			
- Children's Services Grant	490	0	0
- Delayed Discharge	384	0	0
- Access Systems Capacity	2,059	0	0
- Waste PEG	183	0	0
- Gower Review	13	0	0
- Dog Control	12	0	0
- Food Hygiene Enforcement on Farms	28	0	0
- Animal feed	4	0	0
- Contaminated land	1	0	0
- New conduct regime	7	0	0
MTFMS changes			
- Waste management - PFI Contract	450	500	500
- Whitecross PFI requirement (net of schools contribution)	0	0	168
- ESG	0	0	(225)
- Local Development Framework	0	500	0
Herefordshire Connects (revenue)			
- Social Care System	687	(533)	0
- Core team costs	450	(150)	(100)
Capital Financing Costs			
- Accommodation Strategy	146	254	492
- Repayment of LGR SCA	(453)	(334)	(230)
- Existing SCE(R) & Prudential Borrowing	482	1,088	1,015
- New Prudential Borrowing Bids	23	112	112
- Social Care System	225	89	(13)
Funding Sources			
- Use of existing Herefordshire Connects Reserve	1,500	0	0
- Transfer of Part of Social Care Contingency Reserve	1,300	0	0
- Transfer of Budget Management Reserve	1,100	0	0
- LABGI Grant	2,000	0	0
- Balance Sheet Review	300	0	0
- Use of 2008/09 capacity reserve	(1,500)	1,500	0
Emerging Pressures			
- Student Finance	12	(18)	(69)
- Customer Services Division	0	(500)	0

Medium Term Financial Management Strategy (MTFMS)

- Community Network Upgrade	1,100	0	0
- ICT Strategy	247	400	0
- Adult Social Care	596	0	0
- Match funding contribution to proposed Integration Reserve	300	0	0
- Plough Lane Service Charge	100	0	0
- NNDR Empty Properties	126	0	0
- Rotherwas Loss of Income	201	0	0

Capacity to achieve desired Tax increase			
2008/09 capacity reserve	(1,500)	0	0
Herefordshire Connects	(1,939)	0	0
Invest to save			
Needs Analysis Mental Health/Physical Disabilities	275	275	
Capacity	356	2,437	3,971

TOTAL BUDGET	131,778	138,455	145,200
---------------------	----------------	----------------	----------------

Council Tax increase	4.40%	4.70%	4.70%
-----------------------------	-------	-------	-------

Assumptions

Assumed Pay and Price Increase			
Employees	2.5%	2.0%	2.0%
Employers pension contributions - additional on basic pay	0.7%	0.7%	0.8%
Other Expenditure	0.0%	0.0%	0.0%
Income C & CR only 08/09,09/10,10/11	2.5%	2.5%	2.5%
Prov Formula Grant increase on adjusted baseline	4.8%	4.0%	4.0%
Assumed Collection Fund Surplus (£'000)	-	300	300
Assumed Taxbase Increase	0.75%	0.75%	0.75%
New prudential borrowing (£m)	1.00	1.00	1.00

Dedicated Schools Grant b/fwd	81,892	84,484	86,272
Increase	2,592	1,788	2,707
Dedicated Schools Grant	84,484	86,272	88,979
DSG % increase	3.2%	2.1%	3.1%

Medium Term Financial Management Strategy (MTFMS)

APPENDIX B

MEDIUM-TERM CAPITAL PLAN

	2007/08	2008/09	2009/10	2010/11
	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000
Children and Young People's Services	12,235	15,380	30,120	26,354
Resources	1,966	4,436	2,890	8,600
Corporate and Customer Services	322	669	-	-
Adult and Community Services	10,135	15,794	3,005	844
Environment Services	27,566	16,369	12,847	13,266
Herefordshire Connects	944	508	-	-
	53,168	53,156	48,862	49,064
Funded by:				
Supported Capital Expenditure (Revenue)	9,963	12,750	12,695	13,814
Prudential Code Borrowing	9,296	10,866	3,354	8,640
Capital Receipts Reserve	7,104	10,108	1,858	300
Revenue Contribution	160	170	-	-
Government Grants & Contributions	26,645	19,262	30,955	26,310
	53,168	53,156	48,862	49,064

TREASURY MANAGEMENT STRATEGY 2008/09

1. INTRODUCTION

- 1.1 The Head of Financial Services is responsible, under the direction of the Director of Resources, for the day-to-day management of the Council's treasury management activities. The Treasury Management Strategy for borrowing and Annual Investment Strategy for 2008/09 details the expected activities in the coming financial year and has been produced in accordance with the Council's approved Treasury Management Policy Statement.
- 1.2 The 2003 Prudential Code for Capital Finance in local authorities introduced new requirements for the manner in which capital spending plans are to be considered and approved and, in conjunction with this, the development of this integrated Treasury Management Strategy.
- 1.3 The Treasury Management Strategy covers the:
- a) Current treasury portfolio position.
 - b) Treasury limits for 2008/09.
 - c) Prudential indicators for 2008/09 – 2010/11.
 - d) Prospects for the economy and interest rates.
 - e) Borrowing strategy.
 - f) Debt rescheduling opportunities.
 - g) Specified and non-specified investments.
 - h) Investment objectives.
 - i) Security of capital: the use of credit ratings.
 - j) Investment strategy.
 - k) Externally managed funds.
 - l) End of year report.
- 1.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. A local authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from either:
- a) Increases in interest payments caused by increased borrowing to finance additional capital expenditure, and/or
 - b) any increases in running costs from new capital projects
- are limited to a level that is affordable within the projected income of the Council for the foreseeable future.

Medium Term Financial Management Strategy (MTFMS)

2. CURRENT TREASURY PORTFOLIO POSITION

2.1 The Council's debt position as at 7th January 2008 is as follows:

DEBT POSITION	Principal (£)	Borrowing Rate (%)
Public Works Loan Board	91,572,716	4.5
Market Debt *	12,000,000	4.5
Total Debt	103,572,716	4.5

* The Market debt refers to two LOBO (Lender Option Borrower Option) loans that were taken out at low interest rates fixed for 2 years with the remaining 48 years of the loans currently running at an interest rate of 4.50%

2.2 Estimated Borrowing Requirement 2008/09 – supported borrowing approvals of approximately £12.75 million, plus the potential for an additional £17.83 million unsupported borrowing under the Prudential Code (which includes slippage from previous year). In addition refinancing of maturing debt of £486,000 in the year will be required, plus there is the potential for the market debt of £12,000,000 to be recalled and require refinancing.

2.3 The Council's investment position as at 7th January 2008 is as follows:

INVESTMENT POSITION	Principal (£)	Rate of Return (%)
Internally managed funds	55,460,000	6.16
Externally managed funds**	0	n/a
Total Investments	55,460,000	6.16

**The externally invested funds were brought back in house during 2007/08 because the fund manager under performed.

3. TREASURY LIMITS FOR 2008/09

3.1 It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003.

3.2 The Council must have regard to the Prudential Code when setting their Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

3.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

Medium Term Financial Management Strategy (MTFMS)

4. PRUDENTIAL INDICATORS FOR 2008/09 – 2010/11

4.1 The following prudential indicators are relevant for the purposes of setting an integrated Treasury Management Strategy.

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11
(1). Budget Setting Indicators				
	£'000	£'000	£'000	£'000
Capital Expenditure	53,168	60,123	50,268	49,064
Ratio of financing costs to net revenue stream				
Net Revenue Stream	122,371	132,073	138,762	145,525
Financing Costs	9,364	10,434	13,072	14,310
Ratio of financing costs to net revenue stream	7.65%	7.90%	9.42%	9.83%
		2008/09	2009/10	2010/11
Incremental effect of Prudential Borrowing		£ p	£ p	£ p
Existing Prudential Borrowing allocations		44.96	76.64	83.80
New Prudential Borrowing bids		0.32	1.92	3.49
Total		45.28	78.56	87.29
Contributions from existing revenue budgets		(9.11)	(8.67)	(3.71)
Net Band D Impact		36.17	69.89	83.58
		2008/09	2009/10	2010/11
Capital Financing Requirement (as at 31/3)	£'000	£'000	£'000	£'000
Total	138,207	161,775	171,324	185,368
PRUDENTIAL INDICATOR				
(2). Treasury Management Prudential Indicators				
	2007/08	2008/09	2009/10	2010/11
Authorised Limit for External Debt	£'000	£'000	£'000	£'000
Borrowing	166,000	175,000	195,000	210,000
Other Long Term Liabilities	3,000	10,000	10,000	10,000
Total	169,000	185,000	205,000	220,000
Operational Boundary	£'000	£'000	£'000	£'000
Borrowing	130,500	154,000	164,000	174,000
Other Long Term Liabilities	1,500	6,000	6,000	6,000
Total	132,000	160,000	170,000	180,000
Upper Limit for Fixed Interest Rate Exposure	£ or %	£ or %	£ or %	£ or %
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	£ or %	£ or %	£ or %	£ or %
Net principal re variable rate borrowing / investments	50%	50%	50%	50%

Medium Term Financial Management Strategy (MTFMS)

investments

Maturity Structure of new fixed rate borrowing during 2007/08	Upper Limit	Lower Limit			
Under 12 Months	50%	0%			
12 months and within 24 months	50%	0%			
24 months and within 5 years	100%	0%			
5 years and within 10 years	100%	0%			
10 years and above	100%	0%			
Upper Limit for total principal sums invested for over 364 days	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	
	10,000	10,000	10,000	10,000	

5. PROSPECTS FOR THE ECONOMY & INTEREST RATES

5.1 The Council currently has Sector Treasury Services Limited as its treasury advisers and part of their service is to assist in forming a view on economic trends and the effect on interest rates. This section of the strategy outlines the Council's view of the economy and interest rates based on the advice of its treasury advisers.

Economic Background – UK

5.2 The key points to note are:

- a) Gross Domestic Product (GDP): growth has been strong during 2007 and hit 3.3% year on year towards the second half of the year. Growth is expected to cool from 3.0% in 2007 as a whole to 2.0% in 2008.
- b) Higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation.
- c) House prices started on the downswing in 2007 and this is expected to continue into 2008.
- d) The combination of increases in bank rate and hence mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure.
- e) Banks have also tightened their lending criteria since the sub prime crisis started and that will also dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages.
- f) Government expenditure will be held under a tight reign for the next few years, undermining one of the main props of strong growth during this decade.
- g) The Monetary Policy Committee (MPC) is very concerned at the build up of inflationary pressures especially the rise in the oil price to \$90 – \$100 per barrel (was \$30 in 2003) and the consequent likely knock on effects on general prices. The prices of UK manufactured goods have

Medium Term Financial Management Strategy (MTFMS)

risen at the fastest rate in 16 years in November 2007 – 4.5%. Food prices have also risen at their fastest rate for fourteen years (6.6% annual increase) driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates in the face of these very visible inflationary pressures. In addition, UK growth was still exceptionally strong in the third quarter of 2007, as has also been the growth in the money supply. The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.50% in view of the MPC minutes which showed a unanimous MPC vote for a cut and the consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. However, if those pressures subside, then there is a possibility of lower rates than the current Sector forecast which only allows for 0.25% cuts in the first and second quarters of 2008 before Bank Rate stabilises at 5.0% for the next two years.

5.3 Economic Background – International

- a) The US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures.
- b) The US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. The Federal Bank rate peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis which started in August 2007 and has subsequently resulted in banks making some major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers with poor credit standing.
- c) The Federal Bank has cut its rate again, to 4.5% in October 2007 and to 4.25% in December and is expected to cut by another 0.25% to 0.75% by April 2008 to try to stimulate the economy and to ameliorate the extent of the downturn. However, the speed and extent of these cuts will be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could well be heading into stagflation in 2008 – a combination of inflation and a static economy (but the economy could even tip into recession if the housing downturn becomes severe enough).
- d) The major feature of the US economy is a steepening downturn in the housing market which is being undermined by an excess stock of unsold houses stoked by defaulting sub prime borrowers pushed into forced sales. Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so conversely will lead to a fall in consumer expenditure. Petrol prices have trebled since 2003 and, with similar increases in the price of home heating oil, this will also depress consumer spending with knock on effects on house building, employment etc.

Medium Term Financial Management Strategy (MTFMS)

- e) The downturn in economic growth in the US in 2008 will depress world growth, especially in the western economies, which will also suffer directly under the impact of high oil prices. However strong growth in China and India will partially counteract some of this negative pressure. EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008.

5.4 Interest rate forecast

The prospects for interest rates are summarized below:

Sector's current interest rate view is that the Bank (base) Rate: -

- Started on a downward trend from 5.75% to 5.50% in December 2007.
- To be followed by further cuts in Q1 2008 to 5.25% and to 5.00% in Q2 2008.
- Then unchanged for the following two years.

There is downside risk to this forecast if inflation concerns subside and so open the way for the MPC to be able to make further cuts in Bank Rate

- 5.5 Having set the scene in economic terms, the likely impact for interest rates can be assessed and is illustrated in the following tables.

Table 1 Sector Treasury - Interest Rate Forecast

(This table represents the view of the Council's Treasury advisors as at December 2007)

%	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Base Rate	5.50	5.25	5.00	5.00	5.00
5 Year PWLB	4.70	4.65	4.55	4.55	4.60
10 Year PWLB	4.70	4.60	4.55	4.55	4.55
25 Year PWLB	4.60	4.55	4.55	4.50	4.55
50 Year PWLB	4.50	4.45	4.45	4.45	4.45

Table 2 Summary of Independent Forecasts of Base Rate

(This table represents the views of independent forecasters' views of base rate as at December 2007)

%	2008 Q4	2009 average	2010 average	2011 average
Median	5.30%	5.24%	5.22%	5.26%
Highest	6.30%	6.00%	6.00%	6.00%
Lowest	4.80%	4.50%	4.06%	4.00%

6. BORROWING STRATEGY

Medium Term Financial Management Strategy (MTFMS)

- 6.1 Based upon the prospects for interest rates outlined above, the forecast indicates that the borrowing strategy for 2008/09 should be set to take longer term borrowing towards the end of the financial year. However, as there is expected to be little variation in interest rates throughout the year there may be attractive rates at any time in the year when there is a dip down in rates. Variable rate borrowing and borrowing in the five year area are expected to be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing.
- 6.2 The main strategy is therefore as follows:
- a) To undertake new borrowing over the longer term (25 years and above) at any time in the financial year. A suitable trigger point for considering new fixed rate long term borrowing would be 4.60%.
 - b) If shorter term rates become available around this rate they will also be considered.
 - c) To take account of future rescheduling opportunities by reviewing the differentials between new borrowing rates and rates for early repayment of debt, which are the basis of the calculation of premiums and discounts. Currently the 25 -30 year loans are more attractive for rescheduling.
 - d) To maintain an even spread debt maturity profile.
 - e) Money Market debt will also be considered where opportunities are available to minimise borrowing costs. The Director of Resources will carefully monitor the interest rates available and take advice from the Treasury Management Consultants.
- 6.3 Against this background caution will be adopted with the 2008/09 treasury operations. The Director of Resources will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.
- 6.4 The main sensitivities of the forecast are likely to be the two scenarios below. The Council's officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:
- ***if it were felt that there was a significant risk of a sharp rise in long and short term rates***, perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.
 - ***if it were felt that there was a significant risk of a sharp fall in long and short term rates***, due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

7. DEBT RESCHEDULING OPPORTUNITIES

- 7.1 The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period

Medium Term Financial Management Strategy (MTFMS)

loans narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans.

- 7.2 The Director of Resources will actively give consideration during the year to undertaking rescheduling in line with the strategy set out in paragraph 6 above.
- 7.3 The reasons for any rescheduling to take place will include:
- a) The generation of cash savings and / or discounted cash flow savings.
 - b) Fulfil the borrowing strategy.
 - c) Enhance the balance of the portfolio (e.g. amend the maturity profile and/or the balance of volatility).

8. SPECIFIED AND NON-SPECIFIED INVESTMENTS

- 8.1 Under CIPFA's Treasury Management Code of Practice and the ODPM's Guidance on Local Government Investments issued in March 2004 the Council is required to formulate a strategy each year regarding its investments.
- 8.2 This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of **Specified Investments** and **Non-Specified Investments** as detailed in **Annex A**.
- 8.3 This Annex sets out:
- a) The procedures for determining the use of each category of investment (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments."
 - b) The maximum periods for which funds may be prudently committed in each category.
 - c) If non-specified investments are to be used, whether prior professional advice is to be sought from the Council's treasury advisors (Sector Treasury Services Ltd).
- 8.4 With regard to the Council's Joint Ownership of West Mercia Supplies and the level of balances held by this organisation; the Council may, if deemed in the best interest of prudent management of the West Mercia business undertake transactions pertaining to foreign currencies, such as foreign exchange deals and investments. Such dealings must have **relevance to the course of business of West Mercia Supplies**. These dealings will be classified as **non-specified** as they are not sterling denominated.

9. INVESTMENT OBJECTIVES

- 9.1 All investments will be in sterling. The general policy objective for Herefordshire Council is the prudent investment of its treasury balances, including monies borrowed for the purpose of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need). The Council's

Medium Term Financial Management Strategy (MTFMS)

investment priorities are:

- a) The **security** of capital.
- b) **Liquidity** of its investments.

9.2 The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.

9.3 The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

10. SECURITY OF CAPITAL: THE USE OF CREDIT RATINGS

10.1 The Council relies on credit ratings published by *Fitch Ratings* and *Moody's Investors Service* to establish the credit quality of counterparties and investment schemes. The Council has also determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment in conjunction with its Treasury Management advisor.

10.2 All credit ratings will be monitored monthly: The Council has access to Fitch and Moody's Investors Service credit ratings and is alerted to changes from its Treasury Management advisor.

10.3 If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. Any intra-month credit rating downgrade, which the Council has identified, that affects the Council's pre-set criteria will also be similarly dealt with.

11. INVESTMENT STRATEGY

11.1 The Director of Resources manages the Council's investment portfolio. Investments managed by the in-house team are generally temporary in nature and short-term. All decisions are made in the light of the Council's forecast cash flow requirements.

11.2 Sector is forecasting that Bank Rate has now started on a downward trend from 5.75% to 5.50% in December 2007. This will continue with further cuts forecast to 5.25% in Q1 2008 and again to 5.00% in Q2 2008. It is then expected to remain unchanged for the next two years

12. EXTERNALLY MANAGED FUNDS

12.1 For a number of years the Council had a fund management agreement with Investec, who managed a proportion of the Council's investments. However, during 2007/08 these funds were called back to be managed internally as the fund had not been performing as well as expected.

13. END OF YEAR REPORT

13.1 At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report.

Medium Term Financial Management Strategy (MTFMS)

HEREFORDSHIRE COUNCIL

PRUDENTIAL INDICATORS 2008/09

1. INTRODUCTION

The PIs set out below are recommended by the Prudential Code. However members may prefer additional or alternative indicators that will help with the decision making process.

2. ACTUAL AND ESTIMATED CAPITAL EXPENDITURE

This table takes into account new borrowing for which the government is providing support, government grants, capital receipts, other funding (including s106 receipts) and Prudential Borrowing. The second table shows how this programme would be funded.

Any further allocations of funding will be added to the Capital Programme and reported as part of the Capital Monitoring process.

	Forecast Outturn 2007/08	Estimated 2008/09	Estimated 2009/10	Estimated 2010/11
	£'000	£'000	£'000	£'000
Capital Programme Area:				
Children and Young Peoples Services	12,235	15,380	30,120	26,354
Environment Services	27,566	16,369	12,847	13,266
Corporate and Customer Services Resources	1,266	8,144	1,406	8,600
Adult and Community Services	1,966	4,436	2,890	
	10,135	15,794	3,005	844
	53,168	60,123	50,268	49,064
By funding				
Capital Receipts Reserve	7,104	10,108	1,858	300
Grants and Contributions	26,645	19,262	30,955	26,310
Supported Capital Expenditure	9,963	12,750	12,695	13,814
Revenue Contribution	160	170		
Prudential Borrowing	9,296	17,833	4,760	8,640
	53,168	60,123	50,268	49,064

3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

The net revenue stream is the budget amount to be met from Formula Grant and Council Tax income (the budget requirement) and no longer includes the Education element now funded by the Dedicated Schools Grant. The ratio is the proportion of the budget requirement that relates to the ongoing capital financing costs.

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Net Revenue Stream	122,371	132,073	138,762	145,525
Capital Financing Costs	9,364	10,434	13,072	14,310
Ratio of financing costs to net revenue stream	7.65%	7.90%	9.42%	9.83%

Medium Term Financial Management Strategy (MTFMS)

4. CAPITAL FINANCING REQUIREMENT

This indicator represents the underlying need to borrow for a capital purpose.

	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
Capital Financing Requirement (as at 31/3)	138,207	161,775	171,324	185,368

5. AUTHORISED LIMIT FOR EXTERNAL DEBT

The Authorised Limit for external debt represents the absolute maximum level of debt that may be incurred. This limit would only be reached in exceptional circumstances.

	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
Borrowing	166,000	175,000	195,000	210,000
Other Long Term Liabilities	3,000	10,000	10,000	10,000
Total	169,000	185,000	205,000	220,000

6. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

The Operational Boundary for external debt is the prudent expectation of the maximum level of external debt.

	2007/08	2008/09	2010/11	2010/11
	£'000	£'000	£'000	£'000
Borrowing	130,500	154,000	164,000	174,000
Other Long Term Liabilities	1,500	6,000	6,000	6,000
Total	132,000	160,000	170,000	180,000

7. COUNCIL TAX IMPLICATIONS OF THE INCREMENTAL EFFECT OF CAPITAL DECISIONS

This indicator represents the increases in Council Tax resulting from unsupported Prudential Borrowing decisions taken by Council.

Increase in council tax (Band D, per annum) for the Capital Financing costs of the following:	2008/09	2009/10	2010/11
	£ p	£ p	£ p
Existing Prudential Borrowing allocations	44.96	76.64	83.80
New Prudential Borrowing bids	0.32	1.92	3.49
Total	45.28	78.56	87.29
Contributions from existing revenue budgets	(9.11)	(8.67)	(3.71)
Net Band D Impact	36.17	69.89	83.58

Medium Term Financial Management Strategy (MTFMS)

8. TREASURY MANAGEMENT INDICATORS

These are specific indicators which relate to the management of the Treasury Management process.

	2007/08	2008/09	2009/10	2010/11
Upper Limit for Fixed Interest Rate Exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure				
Net principal re variable rate borrowing / investments	50%	50%	50%	50%
Maturity Structure of new fixed rate borrowing during 2006/07				
	Upper Limit	Lower Limit		
Under 12 Months	50%	0%		
12 months and within 24 months	50%	0%		
24 months and within 5 years	100%	0%		
5 years and within 10 years	100%	0%		
10 years and above	100%	0%		
Upper Limit for total principal sums invested for over 364 days				
	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000
(per maturity date)	10,000	10,000	10,000	10,000

SPECIFIED INVESTMENTS

All specified investments will be sterling-denominated with maturities up to a maximum of 1 year.

Investment	Security / Credit Rating	Circumstance of use
Debt Management Agency Deposit Facility (DMADF)	Govt-backed	In-house
Term deposits with the UK government or with UK local authorities (<i>i.e. deposits with local authorities as defined under Section 23 of the 2003 Act</i>)	High security although LAs not credit rated.	In-house
Term deposits with credit-rated deposit takers <i>i.e. deposits with banks and building societies, (including callable deposits), with maturities up to 1 year</i>	Yes-varied Minimum rating "A" Long-term and "F1" Short-term (or equivalent)	In-house
Certificates of Deposit issued by credit-rated deposit takers (<i>i.e. a certificate issued for deposits made with a bank or building society, who agree to pay a fixed rate of interest for the specified period of time and repay the principal at maturity</i>) up to 1 year. <i>Custodial arrangement required prior to purchase</i>	Yes-varied Minimum rating "F1+" Short-term (or equivalent)	External fund manager
Gilts: up to 1 year (<i>a fixed interest security issued or secured by the British Government</i>) <i>Custodial arrangement required prior to purchase</i>	Govt-backed	Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor
Money Market Funds (<i>a AAA credit rated collective investment scheme such as a mutual fund or a unit trust, as defined in Statutory Instrument 2004 No. 534, that invests exclusively in money market securities</i>)	Yes-varied Minimum AAA credit rated	In-house after consultation with Treasury Management advisor
Forward deals with credit rated banks and building societies < 1 year (<i>i.e. a deal negotiated before the deposit is paid, with the negotiated deal period plus period of deposit < 1 year</i>)	Yes-varied Minimum rating "A" Long-term and "F1" Short-term (or equivalent)	In-house

Medium Term Financial Management Strategy (MTFMS)

ANNEX A

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	YES-varied <i>Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent</i>	In-house	25%	5 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	YES-varied <i>Minimum rating "AA" Long-term and "F1+" Short-term (or equivalent)</i>	In-house after consultation with Treasury Management advisor	20%	5 years
Callable deposits with credit rated deposit takers (banks and building societies)	YES-varied <i>Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent</i>	In-house after consultation with Treasury Management advisor	20%	5 years in aggregate
Range trade deposits with credit rated deposit takers (banks and building societies)	YES-varied <i>Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent</i>	In-house after consultation with Treasury Management advisor	20%	5 years
Snowballs with credit rated deposit takers (banks and building societies)	YES-varied <i>Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent</i>	In-house after consultation with Treasury Management advisor	20%	5 years
Gilt Funds and other Bond Funds***. <i>[These are open-end mutual funds investing predominantly in UK govt gilts and corporate bonds. These funds do not have any maturity date. These funds hold highly liquid instruments and the Council's investments in these funds can be sold at any time.]</i>	<i>Minimum rating "AA-"</i>	External fund manager only subject to guidelines and parameters agreed with them	20%	10 years

Medium Term Financial Management Strategy (MTFMS)

ANNEX A

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
UK government gilts <i>Custodial arrangement required prior to purchase</i>	Govt backed	Buy and hold to maturity: in-house after consultation with Treasury Management advisor	20%	10 years (but also including the 10 year benchmark gilt)
Treasury bills <i>[Government debt security] Custodial arrangement required prior to purchase</i>	Govt backed	In-house after consultation with Treasury Management advisor	20%	5 years
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	Yes-varied <i>Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent</i>	In-house after consultation with Treasury Management advisor	20%	5 years
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution: any maturity	Not rated in their own right, but parent must be rated. <i>Minimum rating for parent "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent</i>	In-house	20%	1 year
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in Statutory Instrument 2004 No. 534) <i>Custodial arrangement required prior to purchase</i>	AAA / Govt guaranteed	Buy and hold to maturity: in-house after consultation with Treasury Management advisor	20%	10 years
Bonds issued by multilateral development banks (as defined in Statutory Instrument 2004 No. 534) <i>Custodial arrangement required prior to purchase</i>	AAA / Govt guaranteed	Buy and hold to maturity: in-house after consultation with Treasury Management advisor	20%	10 years

Medium Term Financial Management Strategy (MTFMS)

HEREFORDSHIRE COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

Statement of Purpose

1. Herefordshire Council adopts the key recommendations of CIPFA's *Treasury Management in the Public Services: Code of Practice*) and:
 - will put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities
 - will make effective management and control of risk the prime objectives of its treasury management activities
 - acknowledge that the pursuit of best value in treasury management, and the use of suitable measures of performance measures, are valid and important tools to employ in support of business and service objectives;
 - that, within the context of effective risk management, will ensure that its treasury management policies and practices reflect the pursuit of best value;
 - formally adopts Section 5 of the Code
 - will adopt a treasury management policy statement as recommended in Section 6 of the Code
 - will follow the recommendations in Section 7 of the Code concerning treasury management practice statements.

Definition of Treasury Management

2. Herefordshire Council defines its treasury management activities as:

'The management of the organisations cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

Policy Objectives

3. Herefordshire Council regards the successful identification, monitoring and control of risk as the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
4. Herefordshire Council acknowledges that effective treasury management will provide support towards the achievement of its business and services objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

Medium Term Financial Management Strategy (MTFMS)

Delegation & Reporting

5. Herefordshire Council retains responsibility for approving the Council's Treasury Management Policy and will consider amendments to it on the advice of Cabinet.
6. Herefordshire Council delegates responsibility for approving an annual Treasury Management Strategy to Cabinet as the mechanism for implementing the Treasury Management Policy.
7. Herefordshire Council delegates responsibility for monitoring that treasury management activity is in accordance with the approved policies, strategies and practices to Cabinet.
8. Herefordshire Council delegates responsibility for the development and maintenance of suitable Treasury Management Practice Statements to the Director of Resources.
9. Herefordshire Council delegates responsibility for the administration of treasury management decisions to the Director of Resources who will act in accordance with the approved Treasury Management Policy Statement, Treasury Management Strategy and Treasury Management Practice Statements. If the Director of Resources is a member of CIPFA, he/she shall also comply with CIPFA's Standard of Professional Practice on Treasury Management.
10. Herefordshire Council will receive reports from the Director of Resources on its treasury management policies, strategy, practices and activities, including, as a minimum, an annual strategy in advance of the year and an annual report after its close, in the form prescribed in the Council's Treasury Management Practice Statements.

Medium Term Financial Management Strategy (MTFMS)

APPENDIX D

Managing Risks – Corporate Risks November 2007

Stage 1					Stage 2					Stage 3		
Identified Risk Area	Risk Ref No	Impact (Severity)	Likelihood (Probability)	Priority Rating	Potential Mitigation Strategy Summary	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating	Action Description	Action Owner	Target/ Review Date
Corporate spending pressures outweigh the level of resources available to meet them. Particular pressures prevalent in Adult Social Care, Childrens Social Care and ICT & Customer Services	CR2	4	4	High	The Council's Medium Term Financial Management Strategy highlights the requirements for all Directorate budgets to be managed within a 1% overspend tolerance. Budgetary pressures continue for both adult and children social care services. Contingency funding has been set aside within the Council's budget plan to help mitigate this risk. A significant overspend on social care budgets is currently expected. The forecast outturn for ICT & Customer Services is now expected to be within budget for the year but there will be significant under and over spends within that position. Additional budget pressures include flood recovery costs and unbudgeted revenue costs of the Siemens contract. A new potential pressure is grant clawback on the ARCH programme.	ALL/SR	3	3	High	1. Budget management plan for A&CS agreed. 2. Budget management plan for C&YP agreed. 3. ICT base budget issues being examined by DC&CS with support from financial services. 4. Robust challenge of monthly budget monitoring reports from Directorates by financial services. 5. Robust challenge of Directorate budget management plans for the further through the Performance Improvement Cycle process. 6. Medium Term Financial Strategy being reviewed.	GH SM JEJ DP DP DP	Ongoing Complete Jan 2008
Failure to maintain CPA 3 start rating and move from improving adequately to improving strongly	CR4	4	4	High	The key threats to the direction of travel are now a failure to increase the proportion of satisfaction indicators that are improving year on year, data quality and adverse inspection results, recent governance/control issues and uneven annual service scores. The removal of the Council's current 'protected' corporate assessment score in 12008/09 will affect our start rating unless the national rules are changed or we achieve at least a score of ¾ in each of the three 'first tier' services. The impact of the rules base approach to service scores could mean a drop in our start rating if any service dropped below a 2/4. Use of Resources Improvement Plan for 2006 has been implemented. Considerable work has taken place embedding a strong performance management framework including structured meetings between Chief Executive and Directors. Performance Improvement Managers have been appointed for all Directorates. Additional support is being given to the service planning for 2008 through a series of training modules.	ALL/CB SR CB/JJ	3	3	High	a) Continue to respond positively to all corporate audits e.g. performance indicators and data quality, b) develop and implement robust improvement plans where audit results are poor, d) direction of travel audit handled well, e) getting agreement for a standard approach prior to all future audits/inspections, f) redirect PIMs to the areas that need most support, g) Herefordshire Connects provides corporate performance management solution – interim solution to be investigated. Use of Resources assessment for 2007 expected shortly, SR to lead on development of an improvement plans. Action plans resulting from internal audit reviews implemented to agreed timescales	a) TF b) relevant HoS/ Director d) TG e) TG f) TG g) Hfds Connects Board/ TG	d) Nov 07 e) Jan 08 f) as required g) visits to other authorities from Jan 08 Ongoing Nov 07 – Mar 08
The inability to provide critical services due to the failure of the ICT networks	CR5	3	4	High	Substantial capital investment has been made in ICT network and disaster recovery arrangements. Extensive ICT specific service continuity plans have been developed. 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. Monthly checks made to ensure amendments are made to all plans. The Council is reviewing the Community Network Contract with Siemens to ensure it provides value for money.	ALL/CB	3	3	High			

Medium Term Financial Management Strategy (MTFMS)

Stage 1					Stage 2					Stage 3		
Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)							
Identified Risk Area	Risk Ref No	Impact (Severity)	Likelihood (Probability)	Priority Rating	Potential Mitigation Strategy Summary	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating	Action Description	Action Owner	Target/ Review Date
Approach to Diversity: risk of not achieving level and not improving standard	CR12	3	2	Medium	Long term development produced. EIA action plans to be incorporated into service plans and monitored through the performance management process. The approach needs improving for 2007/08	JEJ	3	2	Medium	a) increased/improved training provision focused on critical service. b) improved service planning guidance and adherence to this c) corporate focus in contracts and consultation requirements d) external assessment during 2007/08	a) CT b) TG/all HoS c) CT/DH/MHR d) CT	a) from Jun 07 b) Oct 07-Mar08 c) Jul 07-Mar 08 d) by Mar 08
Review of Accommodation Strategy	CR13	4	4	High	An Accommodation Strategy Group has been established to review future options for the new Council to consider in Autumn 2007. Cabinet are considering officer recommendations. An emerging risk is the move towards flexible working. An initial observation/data analysis study has been commissioned to identify potential flexible working solutions.	SR MH	3 3	2 3	Medium High	Future options for consideration by Council have been developed by the Accommodation Strategy Group	SR	Jan 08
Timetable for the establishment of a Public Service Trust for Herefordshire	CR15	3	2	Medium	A Project Manager appointed. Steering group and work streams established.	CB	3	2	Medium			
Failure of Waste Management Contract leading to failure to meet diversion targets and the potential for the Authority to be paying £150 per tonne extra on our missed target tonnages. Failure of the contract would also lead to the loss of PFI credits	CR16	4	3	High	Ongoing commitment from Herefordshire and Worcestershire (H&W) to retaining the existing contract. The incorporation of subcontractors into the existing contract as a variation should enable adequate waste to be diverted to ensure the authority does not become subject to penalties under the Landfill Allowance Trading Scheme (LATS)	MH	4	2	Medium	H&W have an agreement to Trade LATS between the two authorities at "no cost" to offset risks – this risk needs to be formalised. The failure of negotiations with ReEnergy means that the issue of MWM identifying and introducing a new sub-contractor will need to be monitored to ensure early warning can be given of likely timescales for the negotiations and implementation of a varied contract. Because of the timescales involved in delivering a variation to the Contract it will be necessary to offset our risks of LATS penalties by maximising our recycling performance through Waste Collection to deliver increased diversion from landfill. In addition the two authorities are now also negotiating a contract to secure capacity at an Energy from Waste Plant to ensure we collectively meet our diversion targets. The contracts are both "out of county" and are designed to deliver the minimum quantity of waste to meet our LATS target and to minimise the amount of waste being transported out of the counties. In addition further work is being undertaken to secure appropriate diversion technology to secure the longer term viability of the contract.	MH	
Reduction in the Use of Resources overall assessment	CR17	4	2	Medium	Adverse opinion on Value of Money in Annual Governance letter, due to the financial governance issues in ICT & Customer Services highlighted in the Section 151 Officer report dated 20.09.07 and the Crookall report, will impact on the 2007 Use of Resources score for Internal Control and Value for Money	SR	3	4	High	Directorate Management Teams to review progress implementing actions arising from internal audit reviews on a monthly basis.	ALL	Ongoing
Benefits CPA Score 2007	CR18	2	2	Low	The BFI Performance Measures have been monitored closely. We have regained a 3 score.	SR	2	1	Low	The BFI has confirmed the self assessment in November 2007. This is now a "good" service.	SR	Completed for 2007

Medium Term Financial Management Strategy (MTFMS)

Stage 1					Stage 2					Stage 3		
Identified Risk Area	Risk Ref No	Assessment of Risk (Assume NO controls in place) using risk matrix			Potential Mitigation Strategy Summary	Responsible Directors	Assessment of Residual Risk (With control measures implemented)			Action Description	Action Owner	Target/ Review Date
		Impact (Severity)	Likelihood (Probability)	Priority Rating			Impact (Severity)	Likelihood (Probability)	Residual Priority Rating			
The inability of the Council to provide critical services and an effective emergency response due to non-IT related failures (Loss of accommodation, staff or resources)	CR19	4	3	High	Service continuity plans are in place to mitigate the effects of major incidents on the delivery of essential services. A monthly review of service impact assessments and continuity plans ensures the plans meet the changing requirements of the Council. Annual update of Council emergency response plans in support of the emergency services and the Council's arrangements to assist recovery and return to normality of the community and environment following an emergency. Bi-annual exercising of the Emergency Response Team. Annual exercising of emergency response plans.	ALL/CB	2	2	Low	A major review of service continuity plans to be undertaken in 2007/08 to ensure compliance with BS25999	ALL	Ongoing
CRB process not carried out to an appropriate and reliable level	CR27	4	3	High	Officers agreed areas of concern and an action plan to be drawn up to redress the issues as quickly as possible.	SM	4	2	Medium	Action plan to be developed that will address the 7 areas of concern as raised by the Director of Children's Services. Appropriate financial support to be allocated so that the recommendations of the plan can be actioned speedily and readily. Report to members.	SM	
Deliverable benefits from Herefordshire Connects not realised	CR28	4	3	High	The MTFMS highlights the investment and expected savings in the short and long term whilst minimising service costs to balance the budget. Benefit realisation framework in place and being managed through Benefits and Commercials Group (BCG), IPG and Programme Board. The Herefordshire Connects programme is in "strategic" pause. Savings are being utilised to balance Directorate budgets.	JEJ	3	3	High	a) BCG in place and meeting regularly, benefits envisaged to be assessed at each meeting b) Programme Board receive regular exception reports c) actual investment and savings monitored against the MTFMS	a) DP b) AK c) DP	Monthly, next review Jan 08
Both Data Centres are in leased accommodation, are near capacity, plus there are environment issues such as power and fire suppression that need to be addressed. Loss of data centres will affect delivery of all services. This is linked with accommodation strategy CR13	CR29	4	4	High	Decisions required from accommodation strategy to establish where future data centres should be located. Project to be established to relocate data centres to these locations. Investment required, server virtualisation will reduce risk in part.	JJ/SR	4	4	High	To be completed by risk owner		
Legacy systems out of support with vendors and on old hardware. Compounded by CR28 Benefits from Herefordshire Connects e.g. Cedar	CR30	4	4	High	Establish which systems are deemed critical and make good the systems. Any expenditure may need to be deducted from Herefordshire Connects benefits.	JJ/SR	1	1	Low	To be completed by risk owner		
Disaster recovery and business continuity does not fully support critical systems	CR31	4	4	High	Immediately establish some recovery process for each system. Then in conjunction with Data Centre relocation CR29 implement DR to support systems to agreed recovery parameters and business continuity	JJ/SR	1	1	Low	To be completed by risk owner		

115

Medium Term Financial Management Strategy (MTFMS)

Stage 1					Stage 2					Stage 3		
Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)							
Identified Risk Area	Risk Ref No	Impact (Severity)	Likelihood (Probability)	Priority Rating	Potential Mitigation Strategy Summary	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating	Action Description	Action Owner	Target/ Review Date
Currently the Council's websites use the Star internet feed which is becoming increasingly unreliable. The TOM target is to move the internet feed to the 16Mbytes pipe as soon as possible however feedback from Networks is that this is already reaching capacity usage at peak times from school traffic which already uses this feed. In addition the MLE/VLE hosted externally will place additional demands on this bandwidth but the level of additional traffic is not known	CR32	4	4	High	<p>Siemens are currently working on an alternative supplies to BT, whose costs are very high and they hope to significantly reduce the costs provided so far. These costs will also take into consideration any cancellation charges as the BT circuits were procured on a 3 year rental basis. Also these costs will be based on the service being provided to the 2 current data centres; if internet feeds are required at any new data centres it would require a "B" end shift(s). In reality this will be a new circuit and no provider will provide costs for doing this until the final destinations are known and the route/fibre capacity etc checked out.</p> <p>The technology used by BT the current feeds can only be incremented up to a total bearer bandwidth of 34Mb which gives 32Mb of usable bandwidth (limitation of ATM (Asynchronous Transfer Mode) over SDH (Synchronous Digital Hierarchy)). As mentioned above Siemens are looking at other technology options that can provide bandwidths from 30Mb up to 120Mb for HC to consider. Another option is to retain the existing 16Mb feeds for corporate and install totally new ISP Internet feed for schools.</p>	ALL	4	4	High	To be completed by risk owner		

Signed: _____

Position: _____

Date: _____

Key to Assessment of Risk Scores

Impact Rating	Score	Description/Examples
Catastrophic	4	One or more fatalities Service disruption for more than 5 days Adverse national publicity Financial loss up to 75% of budget Litigation almost certain and difficult to defend Breaches of law punishable with imprisonment
Critical	3	Extensive, permanent injuries, long term sick Service disruption 3-5 days Adverse local publicity Major injury to individual/several people Litigation is expected Financial loss up to 50% of budget
Significant	2	Severe injury to individual/several people Service disruption 2-3 days Needs careful public relations Financial loss of up to 25% of budget Higher potential for complaint, litigation possible Breaches of regulations/standards
Negligible	1	No injuries beyond first aid level No significant disruption of service capability Unlikely to cause any adverse publicity Financial loss of up to 10% of budget Unlikely to cause complaint/litigation Breaches of local procedures/standards

Likelihood Rating	Score	Description
Very Likely	4	Is expected to occur in most circumstances i.e. there is a more than 75% chance of occurrence.
Likely	3	Will probably occur in most circumstances i.e. there is a 40-75% chance of occurrence.
Unlikely	2	May occur in exceptional circumstances i.e. there is a 10-40% chance of occurrence.
Very Unlikely	1	Is never likely to occur i.e. a less than 20% chance of occurrence.

Medium Term Financial Management Strategy (MTFMS)

Appendix E

Glossary of Terms

ABG	Area Based Grant
AES	Annual Efficiency Statements
AOP	Annual Operating Plan
CAA	Comprehensive Area Assessment
DCLG	Department for Communities & Local Government
CMB	Corporate Management Board
CPA	Comprehensive Performance Assessment
CSR07	Comprehensive Spending Review 2007
DCSF	Department for Children, Schools & Families
DEFRA	Department for Environment, Food & Rural Affairs
DEL	Departmental Expenditure Limits
DfT	Department for Transport
DH	Department of Health
DSG	Dedicated Schools Grant
FRM	Financial Review Model
GDP	Gross Domestic Product
HCA	Homes and Communities Agency
HCS	Herefordshire Community Strategy
HO	Home Office
HPS	Herefordshire Public Services
IPR	Integrated Performance Report
LAA	Local Area Agreement
LABGI	Local Area Business Growth Incentive Grant
LINKs	Local Involvement Networks

Medium Term Financial Management Strategy (MTFMS)

LOBO	Lender Option Borrower Option
LPSA2	Local Public Service Agreement
LSP	Local Strategic Partnership
MAA	Multi Area Agreements
MPC	Monetary Policy Committee
MTFMS	Medium Term Financial Management Strategy
NNDR	National Non-Domestic Rates
PIC	Performance Improvement Cycle
PCT	Primary Care Trust
PFI	Public Finance Initiative
PSA	Public Service Agreements
PWLB	Public Works Loan Board
RDA	Regional Development Agency
RSG	Revenue Support Grant
SEN	Special Educational Needs
SWG	Settlement Working Group
TMS	Treasury Management Strategy
VfM	Value for Money

DRAFT CAPITAL PROGRAMME 2008/09**Report By: Head of Financial Services****Wards Affected**

County-wide

Purpose

1. To seek the Strategic Monitoring Committee's views on the draft capital programme for 2008/09. The Committee's views will be considered by the Cabinet on 21st February 2008 when it finalises its recommendations to Council on 7th March 2008 on the budget and Council Tax for 2008/09 as well as the financial strategy for 2008 – 2011 and capital programme.

Financial Implications

2. As outlined in the draft capital programme appended to this report

Background

3. Cabinet received a report from the Head of Financial Services on 24th January 2008 that set out the recommendations for the capital programme. A copy of that report is attached for ease of reference.
4. Following detailed consideration of the report, Cabinet resolved to approve CMB's recommendations subject to:
 - a) Inclusion of the scheme likely to be funded by developers' contributions.
 - b) A comment on scheme not put forward in 2008/09.
5. The draft Medium Term Financial Management Strategy 2008 – 2011 takes into account the updated capital position.
6. The Financial Resource Model included in the financial strategy document includes the repayment of an additional £1m of prudential borrowing for each of the three years in the draft Medium Term Financial Management Strategy.

RECOMMENDATION

THAT the Strategic Monitoring Committee examines the draft capital programme 2008/09 attached as an appendix to this report and formulates a response to Cabinet.

APPENDICES

- The Head of Financial Services report for Cabinet dated 24th January 2008 entitled "Draft Capital Programme 2008/09".

Further information on the subject of this report is available from
David Powell, Head of Financial Services Tel: 01432 383173

DRAFT CAPITAL PROGRAMME 2008/09

PORTFOLIO RESPONSIBILITY: RESOURCES

CABINET

21ST FEBRUARY 2008

Wards Affected

County-wide

Purpose

To propose the draft capital programme for 2008/09.

Key Decision

This is a Key Decision. Cabinet will confirm its capital budget recommendations to Council on 7th March 2008 at its meeting on 21st February 2008.

Recommendation(s)

- THAT (a) the funding available be noted;
- (b) the funding allocations to capital bids be endorsed;
- (c) the impact of capital spend on the replacement Social Care system (Core Logic) in 2008/09 be noted; and
- (d) the position on the capital receipts reserve be noted.

Reasons

To bring the Council's capital spending plans up to date, noting the available funding and capital bid funding recommendations.

Considerations

OVERALL

1. The Council has received funding notifications from central government for 2008/09 and subsequent years. A table showing the anticipated position for the next three years (taking into account 2007/08 slippage as reported in the November IPR) is detailed in **Appendix 1**. These indicative budgets include corporate accommodation forecasts as included in the Financial Resource Model (FRM) of £3.25m in 2008/09, £2.89m in 2009/10 and £8.6m in 2010/11.

2. Supported Capital Expenditure (Revenue) allocations for 2008/09 receiving Revenue Support Grant (RSG) support total £12.75m, split £2.373m towards children's services (compared to an indicative allocation of £1.5m for provisional budget setting processes) and £10.377m towards environmental services (compared to an indicative allocation of £8.023m for provisional budget setting processes).
3. The Council faces a number of uncertainties around future capital projects with the precise likely financial commitment being unknown. These areas include the Schools Review, office accommodation, the Master's House at Ledbury as well as Edgar Street Grid and the Livestock Market. It is for this reason that the Council needs to exercise caution when releasing funding for the capital programme. An additional area of uncertainty is the Council's claim under the Bellwin Scheme for the July floods. If any unfunded repair work is not supported by central government the Council will need to look at possible use of capital funding.

CAPITAL BIDS

4. Prudential borrowing commitments already allocated in previous years following the submission of successful capital bids totals £9.01m in 2008/09. The financing costs of existing allocations, including allocations previously committed to for future years, are included in the FRM along with a capacity for additional financing costs of £1m per annum. Capacity is also generated each year through slippage in capital schemes but this cannot be relied upon.
5. The current Financial Resources Model includes funding for the Core Logic capital programme of £508k in 2008/09. The overall capital requirement is £1.452m.
6. The total capital bids received are noted in **Appendix 2**. A total of 27 bids for £8.793m was received. Of these bids £665k is recommended to be funded through the capital receipt reserve and £1.015m through prudential borrowing. The prudential borrowing funded bids have future year commitments of £414k in 2009/10, £354k in 2010/11 and £354k in 2011/12. Bids of £839k are recommended to be funded through prudential borrowing from anticipated revenue savings and base budget. This leaves bids totalling £6.274m not recommended for funding at this stage.
7. Schemes recommended for funding by Prudential Borrowing are as follows:
 - a) Strangford landfill site
There is a legal requirement to assess the impact of the landfill site on groundwater. The scheme will provide groundwater monitoring boreholes.
 - b) Holmer School Flood alleviation
This will fund remedial works to the school to prevent a re-occurrence of the flooding problems experienced in July 2007.
 - c) Legionella prevention work
This scheme upgrades hot water installations to meet code of practice requirements in council owned buildings across the county.
 - d) Prospect Wall repairs
Part of the existing retaining wall between The Prospect in Ross-on-Wye and the adjacent graveyard has collapsed. A large section of the wall needs to be rebuilt.

- e) Sustrans Lottery Match Funding
This covers the estimated match funding needed for a walking and cycling route exploiting an existing bridge over the River Wye by the Welsh Water treatment works. The current scheme includes extending the route along the disused Hereford to Ross railway line between Rotherwas and Holme Lacy. There is a requirement to get clarity from Sustrans about the timing of funding and the £300k represents an estimate of the 2008/09 requirement.
8. Schemes recommended for funding through Right to Buy Capital Receipts Reserve are as follows:
- a) Disabled Facilities Grant
This is to fund adaptations to clients' homes in order to facilitate independent living. There is a direct link with the independent living agenda and helps reduce pressure on the adult social care budget. The funding contributes towards matched grant funding.
- b) Empty Property Scheme
This will bring empty properties back into use and tackles homelessness and reduces the use of B & B accommodation for homeless families. The funding assists the Registered Social Landlord (RSL) (together with their own funding) to bring a property up to a lettable standard.
- c) Sold/Own Home
This scheme assists people with mental health and learning disabilities to purchase their own homes through shared ownership. The scheme is operated through an RSL partner.
9. Directorates have been encouraged to bring forward schemes that can be funded by revenue savings or budget to make the prudential borrowing repayments. The following fall into this category:
- a) Development of Specialised AWLD Day opportunities
A scheme funded by £40k annual savings. Savings need to be signed off, but once this is confirmed the scheme could proceed.
- b) Development of Community Support Centres
A scheme funded by £65k annual savings. Scheme rises to £100k in 2009/10. Savings need to be signed off, but once confirmed the scheme could proceed.
- c) Server virtualisation
This scheme can be funded by the additional resources for the ICT Strategy built in to the financial model. The scheme is one of the 'top 10' projects identified by ICT.
- d) Salix funded Schemes
The Council has been awarded £100k towards carbon reduction works. This grant is based on match funding of £100k from the Council. The £200k is then 'lent' to the relevant properties and paid back. The ability to fund repayments needs to be signed off.

10. A capital bid was submitted for the Ledbury Centre at Masters House however due to the uncertainty surrounding any external funding available and the requirement to fund other options this bid has not been recommended at this stage.
11. The funding of the temporary Bailey Bridge at Colwall has been secured using £450k of the Council's Local Transport Plan allocation. The benefit of using this source is that it gives funding certainty. However, it is clear that the use of this source will mean less funds being available for maintenance of bridges across the county. A capital bid to backfill the use of the £450k was not agreed because other projects did not have access to any alternative funding sources and in some cases match funding was needed.
12. Other bids were brought forward at this stage including improvements to High Town. It was not possible to put this forward at this stage because of affordability in 2008/09 and a need to assess consistency of the scheme in the context of the Edgar Street Grid.
13. The council has or will have access to developers' contributions for schemes over the coming year. This includes the provision of youth facilities in Leominster for which £250k will be available if the relevant "trigger" point is reached. There is also £250k for a replacement playing pitch at Aylestone Park that is likely to be available in 2008/09.

CAPITAL RECEIPTS RESERVE POSITION

14. The capital receipts reserve totalled £22.426m as at 1st April, 2007. Receipts of £1.8m have been received to date in 2007/08 and expected capital receipt reserve spending in 2007/08 totals £7.104m leaving a balance of £17.122m to be carried forward into 2008/09. This may change if additional receipts arise before 31st March.
15. Capital receipts reserve funding of £10.108m has been committed to fund the 2008/09 capital programme however additional capital receipts from the sale of smallholdings and the old Whitecross High School site are expected.

Risk Management

The risks associated with proceeding or not with each bid need to be considered on an individual basis.

The risk of committing funding needs to be considered as part of the FRM and revised Prudential Indicators. These can be mitigated through careful financial management and monitoring of the programme's funding against the relevant Prudential Indicators.

Appendices

- Appendix 1 Medium Term Capital Plan
- Appendix 2 Summary of 2008/09 Prudential Borrowing bids

Background Papers

- Medium term Financial Management Strategy
- Capital strategy

Consultees

None identified

APPENDIX 1

MEDIUM-TERM CAPITAL PLAN

	2007/08	2008/09	2009/10	2010/11
	Budget	Budget	Budget	Budget
	£'000	£'000	£'000	£'000
Children and Young People's Services	12,235	15,380	30,120	26,354
Resources	1,966	4,436	2,890	8,600
Corporate and Customer Services	322	669	-	-
Adult and Community Services	10,135	15,794	3,005	844
Environment Services	27,566	16,369	12,847	13,266
Herefordshire Connects	944	508	-	-
	53,168	53,156	48,862	49,064
Funded by:				
Supported Capital Expenditure (Revenue)	9,963	12,750	12,695	13,814
Prudential Code Borrowing	9,296	10,866	3,354	8,640
Capital Receipts Reserve	7,104	10,108	1,858	300
Revenue Contribution	161	170	-	-
Government Grants & Contributions	26,644	19,262	30,955	26,310
	53,168	53,156	48,862	49,064

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £

Recommended to be funded by Prudential Borrowing

Strangford Landfill Site	65,000				10	2,925	9,133	8,840	8,548	51,643
The provision and monitoring of these boreholes will provide additional information which will help to better define the groundwater regime in the vicinity of the landfill & enable a more reliable assessment of any potential pollution from the wastes in the landfill site. There are revenue implications.										
Holmer School Flood Alleviation	190,000				25	8,550	15,808	15,466	15,124	246,202
Remedial works to school site to prevent recurrence of the flooding problems experienced in July. It will include remodelling the contours, pumps barriers and the access doors and improve drainage. There will be revenue implications of servicing the pumps										

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
every year.										
Legionella Upgrade Works	80,000				15	3,600	8,693	8,453	8,213	79,840
Upgrading of hot water installations to meet Code of Practice requirements are being undertaken in council owned buildings and across the county. A number of poor installations have been identified which could result in a Legionella problem.										
The Prospect Wall, Ross on Wye	380,000	20,000			25	17,100	32,516	32,596	31,876	519,912
Part of the existing retaining wall between The Prospect and the adjacent graveyard has collapsed. A survey by a structural engineer has identified the need to rebuild a large section of the wall.										
Sustran Lottery Match Funding	300,000	393,550	353,550	353,550	25	13,500	42,670	74,873	106,368	2,109,485

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
A walking & cycling route with radial links exploiting an existing bridge over the River Wye by the Welsh Water treatment works & the disused Hereford – Ross line between Rotherwas & Holme Lacy. It is supported by the Rotherwas Travel plan and envisaged in the UDP. There are revenue implications.	1,015,000	413,550	353,550	353,550		45,675	108,820	140,228	170,129	3,007,082

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £

Recommended to be funded by RTB capital receipts reserve funding

Disabled Facilities Grant	215,000				1	N/A				
DFG adaptations within client homes are made in order to facilitate independent living & assist in early hospital discharge. The funding contributes towards 40% of the grants paid with the other 60% funding from the DCLG. Implications will result in a loss of grant funding. Any shortcomings will increase the waiting list which will impact on social care & health services. There are revenue implications.										
Empty Property Scheme	150,000				1	N/A				
In partnership with RSL, the scheme is to bring back empty properties into use, primarily through leasing the property from the owner										

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
for 6 years. If not agreed there will be an increase in revenue due to using B&B										
Sold/Own Home	300,000				1	N/A				
Sold and own home assists people with mental health & learning disabilities to purchase their own homes through Shared Ownership providing independence & security. The Scheme is operated through Advance (RSL partner). Key priority with Housing Strategy & Supporting People Strategy.										
	665,000									

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £

Recommended to be funded by revenue savings

Development of Specialised AWLD Day Opportunities	296,000				25	13,320	24,627	24,094	23,562	383,557
Provide & improve appropriate workforce training & skills development. Help to improve the quality of health & social care for vulnerable adults. There are revenue implications.										
Development of Community Support Centres	30,000	100,000	100,000	100,000	1	30,000	100,000	100,000	100,000	-
To provide a wide range of re-ablement, therapy & social facilities, it is an integral part of the Target Operating Model for Adult Social Care. In turn this is a key component of the overall Hfds Connects Transformation Programme. There will be revenue implications.										
Server Virtualisation	412,862				5	18,579	97,435	93,720	90,004	168,861

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
Most of the Council's servers are over 5 years old and are difficult to replace and expensive to maintain. Server virtualisation allows virtual servers to be run on a pool of physical computer servers with no loss of functionality or speed. There will be revenue implications.										
Salix Funding	100,000				5	4,500	23,600	22,700	21,800	40,900
The council has been awarded £100,000 towards reduction works. This grant is based upon £100,000 coming from the council. The £200,000 is then lent to properties and paid back over a 5-year period.										
	838,862	100,000	100,000	100,000		66,399	245,662	240,514	235,366	593,318

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £

Not recommended at this stage

Ledbury Centre	900,000	1,100,000			25	40,500	124,380	164,780	161,180	2,679,160
The scheme is to create a multi-use & combined centre in Ledbury, bringing together services as reflected in the Corporate Customer Services Strategy. The current library is not DDA compliant. It is likely that a cultural service priority will be included in the new LAA and this project once completed will contribute to an upturn in performance.										
Replacement Talis Servers	37,184				5	1,673	8,775	8,441	8,106	15,208
Capital to purchase new self-service PC booking & print management system for libraries & info shops. The new system will provide management information – not provided at the moment.										

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
Self Service PC Booking System	34,000				5	1,530	8,024	7,718	7,412	13,906
The purchase of new self-service PC booking system for libraries & info shops. Will reduce the amount of paper used in printing and so contribute to a sustainable service. Current system requires excessive amount of ICT support. No traceable booking in info shops. No GEM benefits.										
Networking of Old House & Ross Heritage Centre	11,876				5	534	2,803	2,696	2,589	4,857
A number of Heritage Services sites remain remote from the council network, Old House, Ledbury Heritage Centre & Ross Heritage Centre, the lack of network access is becoming a problem. There will be revenue support costs.										
Transfer of TICs to	40,000	63,000			25	1,800	6,163	8,498	8,312	138,482

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
Alternative Sites										
To support & facilitate the transfer of tourist information centres to alternative sites to maximise resources & create a "shared service model" with reduced service in the market towns with Hereford TIC acting as a central hub. There are revenue implications.										
Transport Asset Mgt Planning/Network Mgt Inventory Overhaul	190,000	300,000	315,000		5	8,550	58,340	128,105	183,860	534,820
The Council has set out its commitments to TAMP in its Local Transport Plan. It is also developing its Network Mgt Plan as needed to meet its Network Management duty under the Traffic Mgt Act 2004. Both must be supported by systems. This scheme will overhaul the inventory to ensure that it is a true representation of the Adopted Highway, the Council's transport assets which extends										

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
over £200k has an estimated gross replacement value of £2.5 billion. There are revenue implications.										
Colwall Railway Bridge – Temporary Bailey Bridge	500,000				3	2,250	181,667	174,167	166,667	-
The bridge is beyond normal maintenance requirements & now requires full reconstruction. The community is split in ½ and their businesses. Paddles Lane has become dangerous and cannot be left in this state. There are revenue implications.										
Elmhurst	1,200,000				1	1,200,000				
Redevelopment of Elmhurst to provide affordable housing to meet the needs of vulnerable households which could include potentially those with learning disabilities or mental health problems. If not proceeded with alternative funding will										

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
be needed to ensure the property does not stay empty.										
LCHO	2,220,000	2,560,000	2,780,000		1	2,220,000	2,560,000	2,780,000		
Scheme includes DIY Ownership, Festival Property Purchase and Mortgage Rescue all schemes assisting those with housing needs to either gain a foot on the housing ladder or retain their existing accommodation. DIYSO and FFP provide grant funding through a RSL partner. Those assisted are registered with Home Point as being in Housing needs and are unable to access the open market without grant assistance. The 3 schemes together could potentially assist 29 households.										
Building Energy Management Out Stations	288,000				15	12,960	31,296	30,432	29,568	287,424

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
Leominster Broad St Car Park	265,000				25	11,925	22,048	21,571	21,094	343,387
New petrol interceptor and drainage layout to protect river. This is the second phase of the scheme.										
Butter Market	150,000				25	6,750	12,480	12,210	11,940	194,370
Upgrading Works Phase 1 Butter Market. Essential maintenance works and improvements to the section of the Butter Market at the rear of the properties in Widemarsh Street. Work includes re-surfacing and fire precaution improvements to ensure safe means of access.										
Small Holdings Capital Work	300,000	600,000	1,000,000		25	13,500	51,960	119,340	155,920	2,630,780
This is essential maintenance and some improvements works to the houses and farm buildings within the council's smallholdings										

2008/09 PRUDENTIAL BORROWING BIDS

BID	AMOUNT				LIFE	ESTIMATED CAPITAL FINANCING COSTS				
	2008/09 £	2009/10 £	2010/11 £	2011/12 £		2008/09 £	2009/10 £	2010/11 £	2011/12 £	FUTURE YEARS £
estate. The work includes electrical re-wiring, re-roofing, replacement windows and heating.										
Hereford Art Gallery	8,000				N/A					N/A
Creation of a small exhibition space within the Art Gallery at Hereford Museum & Art Gallery to display the works of Brian Hatton, the reputation of the gallery is at risk without the possibility of loans of major works.										
Broad St Library	130,000				N/A					N/A
Essential maintenance works to a Grade II listed building involving repairs to coping stones, corbel brickwork and lead valley areas.										
Total of Bids not Recommended	6,274,060	4,623,000	4,095,000	0		3,821,972	3,367,936	3,757,958	756,648	6,842,394
TOTAL BIDS RECEIVED	8,792,922	5,136,550	4,548,550	453,550		3,934,046	3,722,418	4,138,700	1,162,143	10,442,794

REVIEW OF FINANCIAL PROCEDURE RULES AND CONTRACT PROCEDURE RULES

Report By: Director of Resources

Wards Affected

County-wide

Purpose

1. To seek the Strategic Monitoring Committee's views on proposed revisions to the Council's Financial Procedure Rules and Contract Procedure Rules made in the light of the Section 151 Officer report and Crookall Review last year (the appendices to this report refer entitled: Appendix 4 and Appendix 5).

Financial Implications

2. There are no budgetary implications arising as a direct result of this report. The Council's Financial Procedure Rules and Contract Procedure Rules promote excellence in financial management and the use of resources.

Background

3. Cabinet approved the recommendation to review the financial governance elements of the Council's Constitution contained in the Director of Resources' special report of 20th September 2007 to ensure that officer accountabilities are clearly set out and defined. The Crookall Review supported this action as one of the keys to being able to establish an effective performance management culture.
4. The relevant elements of the Council's Constitution were reviewed and presented to Council on 2nd November 2007 in line with the timetable agreed by Cabinet. The Head of Paid Services and Monitoring Officer were consulted on the proposed revisions and their comments were incorporated into the draft documents. Council determined that the draft revisions should be reviewed by the Audit & Corporate Governance Committee and the Standards Committee.
5. The Audit & Corporate Governance Committee received the draft revisions to the Constitution at its meeting on 16th November 2007 and decided to establish a small task and finish group from amongst its membership to consider the documents in detail. The Audit & Corporate Governance Committee considered and endorsed the changes proposed by the task and finish group on 21st December 2007.
6. The Standards Committee considered the draft documents on 18th January 2008 and endorsed the approach.
7. The Constitutional Review Working Group met to consider the proposed revisions to the Financial Procedure Rules and Contract Procedure Rules amongst other issues relating to the Constitution on 7th January, 23rd January and 11th February 2008.

Further information on the subject of this report is available from
Mrs Sonia Rees, Director of Resources Tel: 01432 383519

8. The Constitutional Review Working Group has discussed the approach officers took to reviewing the Financial Procedure Rules and Contract Procedure Rules. It wanted to ensure that they were robust but that they also provided officers with sufficient flexibility to manage their services effectively.
9. Herefordshire's existing financial regulations and contract standing orders were taken as the starting point for the review. They have been supplemented with best practice identified in four benchmark authorities: Shropshire County Council, Kent County Council, East Riding of Yorkshire Council and St Helens Council. These councils were selected as benchmarks because they had the very best Use of Resources scores in 2007 for upper tier authorities.
10. There is a remarkable degree of variation in the benchmark authorities' financial and contract procedure documents. They range from being centralist and prescriptive at one end of the spectrum to being devolved and less prescriptive at the other.
11. The Head of Legal & Democratic Services is of the view that the draft revisions to Herefordshire's Financial Procedure Rules and Contract Procedure Rules are balanced and address the issues identified in the Section 151 Officer report and Crookall Review in a proportionate manner.
12. The draft Financial Procedure Rules and draft Contract Procedure Rules attached to this report do not in any way change councillors' accountabilities: other elements of the Council's Constitution deal with this issue. The documents do more clearly define officers' accountabilities and the only change to these reflects:
 - a) The transfer of asset management & property services from the Environment Directorate to the Resources Directorate in 2005.
 - b) The arrival of a head of profession for asset management & property services in 2007.
 - c) The need for the Head of Legal & Democratic Services to oversee certain aspects of the Council's Contract Procedure Rules such as approving exemptions and opening tenders.
13. The Director of Resources and Head of Legal & Democratic Services met on 30th January 2008 along with relevant members of their teams to carry out a further detailed review of the draft Financial Procedure Rules and Contract Procedure Rules. Amendments agreed by the Audit & Corporate Governance Committee and comments made by the Constitutional Review Working Group and new Chief Executive were taken into account. A further series of small amendments resulted that taken together improved the quality and clarity of the draft documents even further.
14. The Strategic Monitoring Committee is asked to note that revision of the Financial Procedure Rules and Contract Procedure Rules will necessitate an update of other elements of the Council's Constitution. The Head of Legal & Democratic Services will need to review Part 12 of the Constitution on Officers' Responsibilities to ensure that the formal delegations to officers support the draft Financial Procedure Rules and Contract Procedure Rules.

15. 'Mini guides' to the asset management, financial management and procurement framework supporting the draft Financial Procedure Rules and Contract Procedure Rules have been produced and will be circulated to members of the Committee. Member awareness sessions can also be arranged as required.

RECOMMENDATION

THAT the Strategic Monitoring Committee considers the Financial Procedure Rules and Contract Procedure Rules attached to this report and determine whether it has any further suggestions to make to Cabinet / Council.

BACKGROUND PAPERS

The latest revision to the draft Financial Procedure Rules and Contract Procedure Rules are attached to this report.

FINANCIAL PROCEDURE RULES

1. INTRODUCTION

- 1.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Director of Resources.
- 1.2 Authority is delegated to the Head of Financial Services to act on behalf of the Director of Resources in all respects in his/her absence or if requested by the Director to do so.

Background

- 1.3 The Financial Procedure Rules control the way the Council manages its finances and safeguards its assets. They form part of the Council's Constitution and are to be read in conjunction with other sections of the Constitution in particular:
- a) Parts 6–9 inclusive – the delegations to Cabinet, Committees and Sub-Committees.
 - b) Part 12 – the delegations to officers.
 - c) Appendix 3 – the Budget and Policy Framework Procedure Rules.
 - d) Appendix 5 – the Contract Procedure Rules.
- 1.4 The Financial Procedure Rules apply to every Member and officer of the Council and anyone acting on its behalf except where separate arrangements are made under the scheme for the Local Management of Schools.
- 1.5 The Council encourages innovation providing this is within the framework laid down by the Financial Procedure Rules and that the necessary risk management arrangements and approvals are in place.
- 1.6 Every report to Members shall contain a statement setting out the financial implications of the recommendation(s) proposed that has been approved by the Director of Resources.

General Responsibilities

- 1.7 Members and officers have a general responsibility for taking reasonable action to provide for the security of assets under their control and for ensuring that the use of these resources is legal, properly authorised, provides value for money and achieves best value.
- 1.8 Members, officers and others acting on behalf of the Council are required to have proper regard to the advice and guidance issued by the Director of Resources on the Financial Procedure Rules.

Cabinet Responsibilities

- 1.9 Cabinet is responsible for regulating and controlling the Council's finances and ensuring that sound financial management policies are in place and are adhered to.
- 1.10 The Cabinet should maintain a written record where decision-making has been delegated.
- 1.11 Each Cabinet Member shall be responsible for the observance of the Council's Financial Procedure Rules for those functions within their terms of reference.

Director of Resources' Responsibilities

- 1.12 The Director of Resources has been appointed under Section 151 of the Local Government Act 1972 as the officer with responsibility for the proper administration of the Council's financial affairs.
- 1.13 Reference in these Financial Procedure Rules to the Director of Resources shall be taken to include any officer nominated by the Director of Resources to act on his/her behalf.
- 1.14 The Director of Resources shall be entitled to attend a meeting of any body on which Members are represented where matters affecting the financial affairs of the Council are being discussed.
- 1.15 The Director of Resources, under the general direction of Cabinet, is responsible for determining the basis for all accounting procedures and financial records for the Council and for exercising a check over all financial matters.
- 1.16 The Director of Resources is responsible for maintaining a continuous review of the Financial Procedure Rules and advising the Council of any additions or changes necessary.
- 1.17 The Director of Resources is responsible for reporting, where appropriate, breaches of the Financial Procedure Rules or any other element of the Constitution that relates to the proper administration of the Council's financial affairs to the Council and / or Cabinet.
- 1.18 The Director of Resources is responsible for issuing advice and guidance to underpin the Financial Procedure Rules.

Corporate Management Board Responsibilities

- 1.19 Members of the Corporate Management Board should maintain a written record where decision-making has been delegated.
- 1.20 Members of the Corporate Management Board are responsible for ensuring that all employees are aware of the content of the Financial Procedure Rules and other internal regulatory documents and that they are complied with.
- 1.21 Members of the Corporate Management Board are responsible for consulting with the Director of Resources on any matter within their area of responsibility that is liable to materially affect the finances of the Council before any provisional or other commitment is incurred or before reporting the matter to a Cabinet Member.
- 1.22 Members of the Corporate Management Board are responsible for supplying the Director of Resources with all information necessary for the proper administration of the Council's affairs.
- 1.23 Members of the Corporate Management Board shall allow the Director of Resources and their authorised representatives access to all documents and records they keep on demand.
- 1.24 Members of the Corporate Management Board shall observe the following division of duties in the allocation of financial responsibilities to employees:
 - a) The duty to provide information regarding money due to or from the Council, including calculating, checking and recording, shall be separated from the duty of collecting or disbursing such money.

- b) The duty of examining and checking the accounts of each transaction shall be separated from the duty of making those transactions.

2. PREVENTING FINANCIAL IRREGULARITIES

- 2.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Director of Resources.
- 2.2 The Council shall not tolerate fraud or corruption of any form or degree in the administration of its responsibilities whether from inside or outside the Council.
- 2.3 The Council's expectation of propriety and accountability is that Members and staff at all levels shall lead by example in ensuring adherence to financial and legal requirements, rules, procedures and practices.
- 2.4 The Council also expects that individuals and organisations (e.g. suppliers, contractors, service providers) that it comes into contact with, shall act towards the Council with integrity and without thought or actions involving fraud or corruption.
- 2.5 The key controls regarding the prevention of financial irregularities are that:
 - (a) The culture and tone of the Council is one of honesty and opposition to fraud and corruption.
 - (b) All Members and staff act with integrity, and lead by example.
 - (c) All individuals and organisations associated in any way with the Council shall act with integrity.
 - (d) Managers with employee management responsibilities are required to deal swiftly and firmly with those who defraud the Council or seek to do so or who are corrupt.

Responsibilities of the Director of Resources

- 2.6 The Director of Resources is responsible for:
 - (a) Maintaining adequate and effective audit arrangements for the Council.
 - (b) Ensuring that financial irregularities are reported to the Head of Paid Service, Cabinet and the Audit and Corporate Governance Committee.
 - (c) Determining, in conjunction with the Chief Internal Auditor, the scope of any internal enquiries or investigations, subject to consultation with the relevant member of the Corporate Management Board as appropriate.
 - (d) Deciding, in consultation with the relevant member of the Corporate Management Board as appropriate, whether any matter under investigation should be referred for police investigation and take recovery action as appropriate on such matters.
 - (e) Keeping the Head of Paid Service and Monitoring Officer informed if a suspected irregularity occurs involving staff who are the responsibility of the Director of Resources.
 - (f) Ensuring, in conjunction with the relevant member of the Corporate Management Board, that the Council's disciplinary procedures are followed where the outcome of an audit or other investigation indicates fraud or irregularity.

- (g) Ensuring that any case of fraud or loss or financial irregularity or bribery or corruption discovered or suspected to exist which involves the Council's interest shall be dealt with in accordance with the Council's Anti-Fraud and Anti-Corruption policy.
- (h) Appointing senior officers to be the Council's Money Laundering Reporting Officer and deputy to the Council's Money Laundering Reporting Officer.

Responsibilities of Directors, Heads of Service and Officers

2.7 Directors, Heads of Service and officers are responsible for:

- (a) Ensuring that all suspected irregularities are reported to the Director of Resources and Chief Internal Auditor.
- (b) Instigating the Council's disciplinary procedures where the outcome of an audit investigation indicates improper behaviour.
- (c) Being aware of the Council's policies for the prevention of money laundering and other financial irregularities.

Responsibilities of the Money Laundering Reporting Officer

- 2.8 The Director of Resources shall appoint a Money Laundering Reporting Officer (MLRO). This officer shall ensure that all staff likely to receive payments from the public, businesses or professions are aware of the Authority's responsibilities under the Proceeds of Crime Act 2002, the Money Laundering Regulations 2003 and any other relevant acts and regulations, such as the anti-terrorism acts.
- 2.9 The MLRO, or the Deputy MLRO in the MLRO's absence, shall receive reports from staff about suspicious payments of any value for any purpose and payments in cash in excess of £10,000 or €15,000.
- 2.10 The MLRO shall report any instance of suspected money laundering to the Serious Organised Crime Agency.

3. ASSET MANAGEMENT**Introduction**

- 3.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Asset Management and Property Services.
- 3.2 The Asset Management section of the Council's Financial Procedure Rules provides a framework of principles, minimum requirements, levels of authority and delegations to ensure that Herefordshire Council property is managed effectively to achieve maximum value for money.

Overarching principles

- 3.3 A set of overarching principles govern the operation of this section of the Council's Financial Procedure Rules. These are:
 - (a) All property owned or leased by Herefordshire Council is held corporately (including Herefordshire Council-owned schools).

- (b) The Director of Resources is responsible for ensuring that the occupation of all Herefordshire Council property by Directorates is in accordance with best management practice and in the interests of the Council as a whole.
- (c) Directorates have discretion to manage the property they occupy in order to promote effective service delivery. However, this discretion operates subject to the corporate responsibilities of the Director of Resources who has the authority to intervene in property matters to protect Herefordshire Council's overall interests.
- (d) Resolution of disputes on property matters is through the Head of Paid Services.
- (e) All property transactions should be referred to the Director of Resources who shall seek the comments of all interested parties, including relevant Cabinet Members, Directorates and local Members, before the decision is taken to proceed. All decisions must be taken in accordance with the delegations set out in this section of the Council's Financial Procedure Rules and the decision making procedures set out in the Council's Constitution.

Acquisitions

- 3.4 Land and property requirements are to be appropriately identified and appraised and all acquisitions are to have the necessary prior authority and funding, including an assessment of the impact on revenue of funding from borrowing.
- 3.5 All acquisitions (freehold and leasehold) must be authorised by the Director of Resources following consultation with the relevant Cabinet Members, the Head of Financial Services, the Head of Legal & Democratic Services, Directorates and local Members) either in accordance with the delegations set out in paragraphs 3.6 to 3.13 below or the decision making procedures set out in the Council's Constitution.

Non-Highways Acquisitions

- 3.6 For all non-highways acquisitions, the relevant Directorate shall provide the Director of Resources with:
 - (a) A definition of the service requirement giving rise to the proposed acquisition.
 - (b) A full financial appraisal of options (including the 'do nothing' option) for meeting service delivery requirements (developed as appropriate with support from the Corporate Asset Strategy Group) for all proposals likely to cost more than £140,000.
 - (c) An evaluation of the potential (if any) for joint use.
- 3.7 The Cabinet Member for Resources shall be consulted on all proposed acquisitions and kept informed of their progress.
- 3.8 Property acquisitions shall be dealt with in accordance with the appropriate provisions of this section of the Council's Financial Procedure Rules and decision making procedures set out in the Council's Scheme of Delegation.
- 3.9 The use of compulsory powers for acquisitions must be agreed by Cabinet.

Highways Acquisitions

- 3.10 The Director for Environment shall, in the case of all acquisitions for highway purposes, seek local Member views as part of the consultation process for highways and traffic schemes.

- 3.11 The Cabinet Member for Highways & Transportation and the Director for Environment (or officer authorised by him/her) shall approve highway scheme designs and budgets (including land acquisition costs) after considering the views of the Corporate Asset Strategy Group (CASG).
- 3.12 The Director of Resources may authorise acquisitions for highway purposes in consultation with the Cabinet Member for Resources provided the scheme is in an approved programme or the property concerned has as a consequence been blighted.
- 3.13 The Director of Resources shall ensure that acquisitions for highways purposes that are part of a scheme that is not in an approved programme is referred for formal decision in accordance with the Council's Constitution and Financial Procedure Rules.

Management and Use

- 3.14 Property is to be used efficiently, effectively and economically with due regard to legislative requirements. When any property is no longer required for operational purposes it is to be formally declared surplus, at which point its management reverts to the Director of Resources. The budgetary implications of this are to be identified and reported to the Cabinet Member for Resources.
- 3.15 The occupation and use of property by a Directorate is subject to the Director of Resources responsibility for approving all material changes to property, including change of use, appropriations, granting/taking of interests, alterations or additions. Such changes must be reported to the Head of Financial Services for correct accounting treatment and apportionment of charges.

Premises Management

- 3.16 The Director of Resources has the authority to undertake reviews of the property portfolio, or parts of it, to determine if it is optimised in terms of its utilisation, cost and value and within this to challenge the retention or use of existing properties occupied by Directorates.

Building works

- 3.17 Major capital works for properties (schemes likely to cost in excess of £140,000) should be subject to a formal project appraisal and should be consistent with existing financial approval and procurement processes.

Health & Safety

- 3.18 Employees are required to ensure that, in respect of all property matters, all obligations under health and safety legislation and Herefordshire Council's health and safety policies are met.

Disposals

- 3.19 Land and property which is surplus to operational need is either to be reallocated to meet alternative needs or disposed of in line with statutory requirements and/or Herefordshire Council policy.
- 3.20 Directorates shall notify the Director of Resources of:
- (a) Any property (or part) that is:
 - Vacant.

- Held against a future operational need.
 - Not used for the principal purpose for which it is held.
 - Likely to be surplus to requirements (with estimated time-scale).
- (b) Any operational issues associated with such property (e.g. longer term requirements).
- (c) Any statutory/process issues relevant to its disposal (e.g. prescribed consultation processes, reference to the Secretary of State, etc.).
- (d) Any other issues which need to be considered prior to disposal.
- 3.21 The Director of Resources may identify any property (or part) that is considered, or could be made, surplus to operational requirements.
- 3.22 The Director of Resources shall consult with the Cabinet Member for Resources on all disposals and inform him/her of the comments of local Members.

Treatment of Capital Receipts

- 3.23 Capital receipts from disposals are deemed to be a corporate capital resource available for allocation in line with corporate priorities.
- 3.24 All receipts are agreed through the Capital Strategy & Monitoring Group (CSMG) with no assumption on application to particular schemes.
- 3.25 Use of capital receipts are subject to the following rules:
- (a) Overspending on schemes dependent on receipts must be contained within the budget allocated to the directorate concerned.
 - (b) Capital schemes dependent on receipts are included in the Capital Programme only after full vetting and valuation by CSMG and ultimate approval by Cabinet or Council as appropriate.
 - (c) All dependencies, assumptions and risks to be clearly identified by the project sponsor leading to prudent valuation adopted in project sign-off.
 - (d) Scheme assumptions about the quantum, timing and phasing of receipts to be explicit and receipts cannot generally be “counted” until the sale is complete.
 - (e) Monitoring shall be undertaken by CSMG with Asset Management & Property Services using a traffic light system to assess the level of risk around the receipts.
- 3.26 The process for planning for the realisation of capital receipts shall take a medium term approach (3 years minimum) to allow:
- (a) Asset Management & Property Services to be able to work on projects in good time prior to consideration by CSMG. Larger, complex schemes can need 12-24 months lead-in.
 - (b) Asset Management & Property Services to agree the strategy for disposal including timescale, planning, marketing, viewing arrangements, temporary occupation,

minimising holding costs, surplus declarations etc. as core components of project justification to CSMG.

- (c) Directorates must deliver vacant possession when required by project plan.
- (d) Risk analysis to be included as part of project plan.

Urgent Decisions

- 3.27 In exceptional circumstances, where an urgent decision is required on property matters, this shall be taken by the Director of Resources in accordance with the provisions of this section of the Council's Financial Procedure Rules and only after consultation with the Cabinet Member for Resources, the Head of Financial Services and the Head of Legal and Democratic Services. If the matter is outside the delegations set out in paragraph 3.30 below then the matter can only be authorised by the Cabinet Member for Resources in accordance with the procedures for the taking of urgent decisions set out in the Council's Constitution.
- 3.28 Any decisions made under the 'Urgent Decision' arrangements shall be reported to the relevant Director, Cabinet Members and Local Members.

Financial Procedure Rules

- 3.29 All of the protocols set out in the Council's Financial Procedure Rules and Schemes of Delegation must be adhered to. No transaction should be approved unless specific budgetary provision is identified, except where the purchase is approved under the authority given in paragraph 3.27 above.

Delegation to Officers

- 3.30 Subject to the consultation and approval provisions set out in this section of the Council's Financial Procedure Rules, the Director of Resources is authorised to:
- Determine and settle the acquisition or disposal of any land or property, or an interest in land or property.
 - Determine and settle the terms of a lease (taken or granted) for any land or property.
- 3.31 As provided by arrangements made in the Constitution for the Leader to discharge executive functions, the Chief Executive may exercise any power delegated under this section of the Council's Financial Procedure Rules to the Director of Resources. The Director of Resources may delegate his/her powers in writing to other officers.

Supporting Mechanisms

- 3.32 Whilst having no Constitutional or decision-making status, the management of assets and property shall be exercised through a variety of mechanisms which amplify and support this section of the Council's Financial Procedure Rules. The key mechanisms and their purpose are summarised below:
- The **Corporate Asset Strategy Group** chaired by the Director of Resources provides a forum to discuss and agree the strategic direction for asset management and key property related initiatives. It provides a mechanism to assess whether this protocol is working in practice and to identify and resolve issues with regard to corporate and service responsibilities.
 - The **Capital Strategy and Monitoring Group (CSMG)** considers capital projects and significant changes to capital projects and ensures that proper planning and processes have been followed and risk assessments undertaken in line with the

Council's Constitution, the project appraisal handbook and associated financial procedures. It makes recommendations to the Cabinet for schemes to be included in Herefordshire Council's capital programme.

- The **Asset Management and Property Services Annual Service Delivery Plan**, prepared in accordance with Herefordshire Council's planning guidelines, identifies the main priorities of the Asset Management & Property Services division and includes as an annex a schedule of properties for disposal as agreed by Cabinet in the Asset Management Plan.
- The **Strategic Asset Review Group** assesses the corporate need for land and property to support service delivery. It assists Services and Directorates to achieve a sustainable property asset base which is both sufficient and suitable for service delivery. It considers the opportunities for co-location and shared working with partners in the public sector.
- The **Medium Term Financial Management Strategy** sets out Herefordshire Council's spending priorities and/or financial allocations over the medium term. All capital schemes are subject to the appraisal and decision making processes around the Capital Programme and the Medium Term Financial Management Strategy.

Information to the Council and Scrutiny

- 3.34 Transactions proposed to be authorised by the Cabinet Member for Resources are subject to the normal processes of publication and scrutiny for Cabinet Member decisions.

4. AUDIT

- 4.1 Further advice on this section of the Financial Procedure Rules can be obtained from the Director of Resources or Chief Internal Auditor.

Responsibilities of the Director of Resources

- 4.2 The Director of Resources has delegated responsibility for maintaining an adequate and effective internal audit service.
- 4.3 Where an appropriate response to audit recommendations has not been made within the agreed period, the Director of Resources shall refer the matter to the Head of Paid Service and/or the Audit and Corporate Governance Committee.
- 4.4 The Director of Resources is responsible for ensuring that the Chief Internal Auditor submits an annual report to the Audit and Corporate Governance Committee detailing internal audit activity for the previous year and reporting significant findings and areas of concern.
- 4.5 The Director of Resources is responsible for producing an annual Statement on Internal Control for inclusion with the annual Statement of Accounts based on assurances provided by the Chief Internal Auditor.
- 4.6 The Director of Resources is responsible for ensuring that Audit Services complies with the Chartered Institute of Public Accountancy's Code of Practice for Internal Audit.
- 4.7 The Director of Resources is responsible for maintaining strategic and annual audit plans that take account of the relative risks of the activities involved. He/she shall liaise with the Corporate Management Board on the audit strategy and plan. In addition to the statutory requirement, this takes into account the need to seek added value, effective use of resources, improved performance and cost-effective controls.

- 4.8 The Director of Resources is to investigate promptly any apparent, suspected or reported irregularity or fraud he/she becomes aware of. He/she shall report his/her findings to the Head of Paid Service to discuss and agree appropriate legal proceedings and disciplinary action, consulting with the relevant member(s) of the Corporate Management Board as appropriate.

Responsibilities of Directors and Heads of Service

- 4.9 Officers are responsible for ensuring that internal and external auditors have:
- (a) Access at reasonable times to premises or land used by the Council.
 - (b) Access at reasonable times to any employee or employees.
 - (c) Access to all assets, records, documents, correspondence and control systems relating to any matter or business of the Council.
 - (d) Any information and explanation considered necessary concerning any matter under examination.
- 4.10 Officers are responsible for requiring any employee of the Council to account for cash, stores or any other Council property under their control and produce such items for inspection if required by Audit Services.
- 4.11 Officers are responsible for considering and responding within two weeks to recommendations in audit reports.
- 4.12 Officers are responsible for ensuring that any agreed actions arising from audit recommendations are carried out in a timely and efficient manner.
- 4.13 Officers are responsible for ensuring that new systems for maintaining financial records, or records of assets, or changes to such systems are discussed and agreed with the Chief Finance Officer prior to implementation.
- 4.14 Officers are responsible for notifying the Director of Resources or Chief Internal Auditor immediately in writing/electronic medium of any suspected or alleged fraud, theft, irregularity, improper use or misappropriation of Council property or resources. Pending investigation, all necessary steps should be taken to prevent further loss and secure records and documents against removal, destruction or alterations.
- 4.15 Officers are responsible for ensuring that all paperwork and systems are up to date, kept securely and are made available for inspection by internal or external audit.
- 4.16 Officers are responsible for ensuring all fundamental systems as defined by the Chief Internal Auditor and other financial systems are reconciled on a monthly basis and that records are up to date and available for internal or external audit inspection when required.

Responsibilities of the Head of Financial Services

- 4.17 The Head of Financial Services is responsible for drawing up the timetable and issuing guidance for final accounts purposes and to advise employees and the external auditors accordingly.

5. IMPREST ACCOUNTS

- 5.1 Further advice on this section of the Financial Procedure Rules can be obtained from the Head of Financial Services.

Responsibilities of the Head of Financial Services

- 5.2 To consider requests from Heads of Service and Head Teachers to provide a cash or bank imprest account to meet minor expenditure on behalf of the Council.
- 5.3 To prescribe rules for operating imprest accounts.
- 5.4 To maintain a record of all advances made and reconcile to the Council's main financial system.

Responsibility of the Head of Benefit and Exchequer Services

- 5.5 To reimburse imprest holders as often as necessary to restore the imprest balance.

Responsibilities of Heads of Service and Head Teachers

- 5.6 To ensure that all officers operating an imprest account comply with the following procedures:
- (a) Obtain and retain vouchers to support each payment from the imprest account including official VAT receipts where appropriate.
 - (b) Make adequate arrangements in their office for the safe custody of the account including vouchers and any other supporting documentation.
 - (c) Produce upon demand by the Director of Resources cash and all vouchers to the total value of the imprest account.
 - (d) Record transactions promptly.
 - (e) Reconcile and balance the account at least monthly with reconciliation sheets to be signed and retained by the imprest holder.
 - (f) Provide the Head of Financial Services with a certificate of the value of the account held at 31st March by 31st May each year.
 - (g) Ensure that the imprest is never used to cash personal cheques or to make personal loans.
 - (h) Ensure that the only payments into the account are the reimbursement payments and any notes/coinage relating to purchases made by a cash advance from the imprest account.
 - (i) Ensure income due to the Council is collected and banked as provided in Section 6 of the Council's Financial Procedure Rules and not through an imprest account.
 - (j) On leaving the Council's employment or otherwise ceasing to be entitled to hold an imprest advance, account to the Head of Service or Head Teacher for the amount advanced to them.
 - (k) Do not allow any bank imprest account to become overdrawn.

- (l) Ensure that payments are limited to minor items of permitted expenditure with a maximum transaction value set by the Director of Resources from time to time (set at £50 in February 2008).
- (m) Submit a claim for reimbursement at least monthly.
- (n) Notify the Head of Financial Services of any new signatories.

6. INCOME

6.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Benefit & Exchequer Services.

6.2 The Director of Resources has overall responsibility for the Council's income and collection functions and has sub-delegated this to the Head of Benefit and Exchequer Services who is required to ensure the effective collection and recording of all monies due to the Council.

6.3 The Director of Resources shall agree arrangements for the collection of all income and approve procedures and systems. In order to achieve this, the following controls must be followed:

- (a) All income due to the Council is identified, charged correctly and billed promptly.
- (b) All money received by an employee on behalf of the Council is paid without delay to the Director of Resources or to a nominated officer or into the Council's specified bank account and is properly recorded.
- (c) All receipts given for money should be on an official receipt form.
- (d) All income is collected from the correct person, at the right time using the correct procedures and appropriate stationery and effective recovery action to pursue outstanding sums is taken within defined timescales.
- (e) A formal approval process for write-offs of uncollectable debts using the criteria detailed below.
- (f) Personal cheques shall not be cashed out of money held on behalf of the Council.
- (g) All income received shall be receipted immediately.
- (h) Officers shall bank all cash received immediately; its use for either personal or official purposes is strictly forbidden.
- (i) All paying in records shall be retained securely in line with the Council's policies on the retention of documents.

6.4 The Director of Resources has determined the following authorisations for writing off uncollectable debt:

- Under £150 – individual Service Managers.
- Between £150 and £500 – Revenues Manager.
- Between £500 and £1,000 – Head of Benefit and Exchequer Services.
- Between £1,000 and £20,000 – Director of Resources.

- 6.5 For write offs of amounts exceeding £20,000 the Director of Resources shall seek agreement from the relevant Cabinet Member and Cabinet Member (Resources).
- 6.6 The Director of Resources shall report details of amounts over £1,000 written off to Cabinet twice a year for information purposes.
- 6.7 Write off of amounts relating to other Directorates require the recommendation of the relevant Director.

7. PAYMENTS

- 7.1 Further information on this section of the Council's Financial Procedure Rules can be obtained from the Head of Benefit and Exchequer Services.
- 7.2 The Director of Resources has overall responsibility for making payments on behalf of the Council and has sub-delegated this to the Head of Benefit and Exchequer Services.
- 7.3 Individual Directors shall ensure that payments are authorised by appropriate officers who can certify that goods and services have been received and that price, quantity and quality are in accordance with the initial order, where appropriate.
- 7.4 Directors shall provide the Director of Resources with a list of authorised officers showing their signing levels with specimen signatures. This list should be reviewed at intervals to ensure is up to date and accurate and any changes being reported promptly.
- 7.5 Unless specifically authorised otherwise by the Director of Resources:
 - (a) Directors must authorise all payments in excess of £250,000 (excluding VAT).
 - (b) Heads of Service may authorise payments up to £250,000 (excluding VAT).
 - (c) Managers who report to Heads of Service may authorise payments up to £100,000 (excluding VAT).
 - (d) Other officers as authorised by the Director up to £5,000 (excluding VAT).
- 7.6 Once certified, all accounts paid through the centralised payment system must be passed to the payments section who shall ensure that the required payment is made to the correct person by the agreed method of payment and that all expenditure including VAT is accurately recorded against the correct budget.
- 7.7 Requests for payment shall be rejected by the Payments Manager unless certified by an officer using their full signature who has the appropriate level of authority.
- 7.8 All accounts should be paid promptly, normally within 30 days unless in dispute, having due regard to the Late Payment of Commercial Debts (Interest) Act 1998 and to maximise performance. All accounts received must be date stamped with the day of receipt.
- 7.9 The Director of Resources shall ensure that all appropriate payment documentation is retained for the required period of time in accordance with the 'Guidelines on the Destruction of Financial records'.

8. SALARIES, WAGES, PENSIONS, TRAVEL AND SUBSISTENCE

- 8.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Benefit & Exchequer Services.

- 8.2 The Director of Resources is responsible for making payments to employees, former employees and Members on behalf of the Council and has sub-delegated this responsibility to the Head of the Benefit & Exchequer Services.
- 8.3 Directors shall provide the Director of Resources with a list of officers authorised to sign claims and other payroll documents showing their signing limits with specimen signatures. This list should be updated and reported promptly to reflect staff changes.
- 8.4 Directors and Heads of Service shall ensure that:
- (a) Appointments are made in accordance with Council policies and approved staffing list and grades and that there is adequate budget provision for the length of the appointment.
 - (b) The following information is notified to Human Resources within the required timescales as set out in corporate Human Resources policies:
 - Starters and leavers.
 - Absence.
 - Variations to remuneration, other than annual increments and pay awards.
- 8.5 Directors are responsible for ensuring a record of annual leave entitlement due and the actual leave taken by each employee is maintained for their Directorate in a form recommended by the Head of Human Resources.
- 8.6 All claims for payment of allowances, subsistence, travelling and expenses must be submitted within one month of the period they relate to on the approved form, duly certified in a form approved by the Director of Resources with all required supporting evidence including VAT receipts for fuel and other expenses where appropriate. Any exceptions shall require individual certification by both the Director and the Head of Service.
- 8.7 The certification of claims by or on behalf of a Director or Head of Service shall be taken to mean that the certifying officer is satisfied that the journeys and the expenses incurred were necessary and authorised as being in line with the Council's policies on travel and subsistence claims.
- 8.8 The Director of Resources shall ensure that all appropriate payroll documents are retained for the required period of time in accordance with the 'Guidelines on the Destruction of Financial records'.

9. REVENUE BUDGET MANAGEMENT

- 9.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.
- 9.2 The Cabinet shall recommend an annual budget to Council that includes the following:
- (a) Annual capital and revenue budget.
 - (b) Proposed contingencies, general reserves and specific reserves.
 - (c) Statutory Council tax calculations;
 - (d) Treasury management policy and borrowing limits.
 - (e) The Chief Finance Officer's statutory declaration on budget setting.
 - (f) Virement limits.

(g) Scale of fees and charges.

- 9.3 Budget management ensures that resources allocated by Members are used for their intended purposes and that these resources are properly accounted for. Budgetary control is a continual process enabling the Council to review and adjust its budget targets during the financial year. It also provides the mechanism to call to account managers responsible for defined elements of the budget.
- 9.4 By identifying and explaining variances against budgetary targets, the Council can identify changes in trends and resource requirements at the earliest opportunity. The Council itself operates within an annual cash limit, approved in setting the overall budget. To ensure that the Council in total does not overspend, each service is required to manage its own expenditure within the cash limited budget allocated to it.
- 9.5 Directors are expected to exercise their discretion in managing their budgets responsibly and prudently. For example, they should not support recurring expenditure from one-off sources of savings or additional income.
- 9.6 The structure and format of the revenue budget should be sufficient to permit effective financial management. The structure and format of the revenue budget shapes how the rules around virement operate, the operation of cash limits and sets the level at which funds may be reallocated within budgets.
- 9.7 The key controls for the budget format are that it:
- (a) Complies with all legal requirements.
 - (b) Complies with CIPFA's "Best Value Accounting – Code of Practice".
 - (c) Reflects management accountability for service delivery.
- 9.8 The Director of Resources shall advise the Cabinet on the format of the budget that is approved by the full Council.

10. CAPITAL BUDGET MANAGEMENT

- 10.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.
- 10.2 The Cabinet shall, following the submission of proposals by Cabinet Members, recommend to Council:
- (a) A capital programme for each financial year.
 - (b) A future indication of a capital programme over a three-year period.
 - (c) The recommended funding method for each capital project (including the use of Prudential Borrowing, capital receipts, revenue or other financing methods).
- 10.3 All capital spending proposals including ICT should be subject to approval through the Council's capital planning processes.
- 10.4 Following the approval of a capital programme, and subject to any conditions specified in that programme, or specified by the relevant Cabinet Member, the relevant Director shall take all appropriate action to carry into effect the approved schemes, within the budget and

timescale agreed in the capital programme. Any material variation in cost or timescale shall be reported to the Cabinet.

- 10.5 Any report for a project or policy of a capital nature shall include details of:
- (a) The estimated cost of the proposal.
 - (b) Any phasing of the capital expenditure.
 - (c) The proposed method of financing, whether by loan, revenue or otherwise.
 - (d) The effect on the revenue estimates in the first and subsequent years.
 - (e) The additional staff and grades required both initially and ultimately.
 - (f) An assessment and measurement of the need for the scheme and the benefits it will produce.
 - (g) A technical and financial appraisal of the alternative approaches to meeting the need.
- 10.6 In-year decisions on new capital spending requirements not in the approved budget should be dealt with via the Council's Scheme of Delegation.

11. BUDGETARY CONTROL

- 11.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

General

- 11.2 Directors shall be responsible for budgetary control of the estimates relevant to their Directorate and, after consultation with the Director of Resources, shall keep the relevant Cabinet Member informed of any significant variations.
- 11.3 It shall be the duty of every Cabinet Member to monitor the revenue and capital budget throughout each year and to ensure that those budgets are not exceeded.
- 11.4 Inclusion within an approved revenue budget provides authority for expenditure on those approved items, subject to any limitation expressed in the Constitution, the budget or by the relevant Cabinet Member.
- 11.5 Any new proposal or variation which would materially affect the finances of the Council shall require approval by the Cabinet.
- 11.6 Each Director shall be responsible for monitoring the revenue and any capital budget relevant to his/her Directorate to ensure that such budgets are properly spent and not exceeded.
- 11.7 If it appears to a Director that his/her overall cash limited budget may be exceeded, he/she shall report the details as soon as practicable to the Chief Executive, the Director of Resources and to the Cabinet Member. The relevant Cabinet Member shall then report on the matter to the Cabinet.
- 11.8 The Council may permit Directorates to carry forward managed under spends into the following financial year provided that all other budget targets have been met. The first call on any underspendings shall be to offset any Directorate overspends.

- 11.9 Managed underspends carried forward shall be part of the Directorate budget plan for the next financial year and must be used to fund one-off expenditure only. Carrying forward underspendings in order to ensure external funding is received is also allowed.
- 11.10 Windfall reductions in spend and any unbudgeted income shall be ring-fenced and transferred into the Council's General Reserves at the end of the financial year.
- 11.11 Action plans must be put in place by each Directorate at an early stage in the financial year in order to manage potential overspendings (e.g. due to additional spending or below target income). Where appropriate the additional spending or below target income should be met by virements from other elements of the Directorate budgets. All Directors are required to manage expenditure within the agreed budget for their areas of responsibility.
- 11.12 Underspendings where any savings should not accrue to the Council (e.g. schools standards fund, schools sickness absence scheme) can be carried forward.
- 11.13 The Director of Resources shall furnish each Director with periodic statements of income and expenditure under each head of approved estimate along with other relevant information.
- 11.14 It is the duty of Directors to ensure that responsibility for budgetary control is allocated to appropriate officers in their Directorates.
- 11.15 Directors shall monitor spend and income against budgets monthly and ensure, so far as practicable, that expenditure in excess of their net approved budgets is not incurred without prior approval. If actual income is expected to be below budget, this must also be actively managed.
- 11.16 Directors are required to put in place recovery plans for any overspend in excess of their net approved budget in consultation with the Director of Resources.
- 11.17 A budget shall normally be the planned income and expenditure for a service area or cost centre. However, budgetary control may take place at a more detailed level if this is required.
- 11.18 The key controls for managing and controlling the revenue budget are:
- (a) Budget Managers should be responsible only for income and expenditure that they can influence.
 - (b) There is a nominated Budget Manager for each cost centre heading.
 - (c) Budget Managers accept accountability for their budgets and the level of service to be delivered and understand their financial responsibilities.
 - (d) Budget Managers follow an approved certification process for all expenditure.
 - (e) Income and expenditure are properly recorded and accounted for.
 - (f) Performance levels/levels of service are monitored in conjunction with the budget and necessary action is taken to align service outputs and budget.
 - (g) The gross expenditure budget position is monitored and controlled.
- 11.19 The Director of Resources shall establish an appropriate framework of budgetary control that ensures that:

- (a) Budgetary control is exercised within annual cash limits unless the full Council agrees otherwise.
- (b) Each Director has available timely information on receipts and payments on each budget which is sufficiently detailed to enable managers to fulfil their budgetary responsibilities.
- (c) Expenditure is committed only against an approved budget head.
- (d) All officers responsible for committing expenditure comply with relevant guidance and the Financial Procedure Rules.
- (e) Each cost centre has a single named manager, determined by the relevant Director. As a general principle budget responsibility should be aligned as closely as possible to the decision-making processes that commits expenditure.
- (f) Significant variances from approved budgets are investigated and reported by budget managers regularly.

11.20 The Head of Financial Services shall provide financial management training courses that all budget managers must attend in order to obtain a 'licence to practice' as a Budget Manager in Herefordshire Council. Refresher training must also be undertaken every two years or the licence to practice shall be removed.

Virement

11.21 The Council operates a scheme of virement intended to enable budget holders to manage budgets with a degree of flexibility within the overall policy framework determined by the Council and therefore optimise the use of resources.

11.22 Directors have authority to vire expenditure between individual budget heads in accordance with the virement policy.

11.23 Key controls for the scheme of virement are:

- (a) That it is administered by the Director of Resources within guidelines set by Council. Any variation from this scheme requires the approval of Council.
- (b) That the overall budget is agreed by Cabinet and approved by Council. Directors and budget holders are therefore authorised to incur expenditure in accordance with those estimates. The rules below cover virement, that is switching resources between budget heads. For the purposes of these Rules a budget head is considered to be a line in the Council's budget book which, as a minimum, is at an equivalent level to the standard service sub-division as defined by CIPFA. The scheme applies equally to a reduction in income as to an increase in expenditure.

11.24 All virements below £140,000 must be approved by the Head of Financial Services. All virements above £140,000 must be approved by the Director of Resources. All virements of above £140,000 shall be reported in the budget monitoring report provided to Cabinet.

11.25 The prior approval of the Cabinet is required to any virement of £25,000 or more where it is proposed to:

- (a) Vire between budgets of different portfolio Cabinet Members.

(b) Vire between budgets managed by different Corporate Directors.

11.26 Virement which is likely to impact on the level of service activity of another Director should be implemented only after consultation with the relevant Director.

12. FINANCIAL PLANNING

12.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

12.2 The Head of Financial Services shall prepare and review annually a three-year financial plan and strategy to provide an estimate of resources available to the Council and identify budget pressures.

12.3 Proposed budgets over periods of one year or longer shall be prepared by Directors, in consultation with the Director of Resources, for submission through the Cabinet to the Council.

12.4 Directors shall evaluate the financial implications of any new policy option, initiative or major project in conjunction with the Director of Resources and Head of Financial Services prior to a report to the Cabinet and/or Council.

13. BORROWING APPROVALS

13.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

13.2 The Director of Resources shall report to Cabinet, on an annual basis, with recommendations to Council to determine the limits for the borrowing of monies.

14. EMERGENCIES

14.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

14.2 Nothing in these standing orders shall prevent expenditure required to meet immediate needs caused by a sudden emergency to which Section 138 of the Local Government Act 1972 applies, provided that such expenditure shall be reported as soon as possible to the appropriate Cabinet Member and the Cabinet.

15. BANKING ARRANGEMENTS & CORPORATE CREDIT CARDS

15.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

15.2 All arrangements with the Council's bank concerning the Council's bank accounts and for the ordering and issue of cheques shall be made by, or under arrangements approved by, the Director of Resources. The Director of Resources shall be authorised to open and operate such banking accounts, as he or she may consider necessary. This authority shall include the power to give the necessary directions to the bank as to signatures for withdrawals. The Director of Resources shall report periodically to the Cabinet or Audit & Corporate Governance Committee as to the opening or closing of such accounts.

15.3 All cheques and cheque stationery shall be ordered only on the authority of the Director of Resources who shall be satisfied that proper arrangements are in place for their safe custody. Where the signature is printed on the cheque by a Council system, the signature shall be that of the Director of Resources.

15.4 The Director of Resources shall be responsible for authorising the issue of corporate credit cards and determining spending limits. Cardholders are required to comply with the guidance issued by the Director of Resources regulating the use of corporate credit cards. This guidance will include the requirement for cardholders to provide the Payments Manager with a receipt and coding slip for each item purchased using a credit card within 14 days of the monthly card statement being received.

16. INSURANCE AND RISK MANAGEMENT

16.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services or the Risk & Insurance Manager.

16.2 All organisations, whether they are in the private or public sector, face risks to people, property and continued operations. Risk is defined as the chance or possibility of loss, damage or injury caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk.

16.3 Insurance has been the traditional means of protecting against loss, but this cannot be seen as the complete answer. By reducing or even preventing the incidence of losses (whether they result from crime or accident), the Council shall benefit from reduced costs of providing insurance cover and shall also avoid the disruption and wasted time caused by losses and insurance claims.

16.4 It is the overall responsibility of the Cabinet to approve the authority's Risk Management Strategy and to promote a culture of risk management awareness through the Council. Monitoring of and reporting on the effectiveness of the Strategy is an essential part of the process.

16.5 The key controls for risk management and insurance are:

- (a) Robust systems are in place to identify, assess, prevent or contain significant operational risks on an integrated basis and these systems are promoted throughout the organisation.
- (b) Acceptable levels of retained risk are identified and evaluated and arrangements are in place for their funding, either by internal provision or external insurance as appropriate.
- (c) Managers know that they are responsible for managing relevant risks and are provided with appropriate and timely information on claims experience and risk management initiatives relating to their areas of responsibility.
- (d) Procedures are in place to investigate and process claims within required timescales.
- (e) A monitoring process is in place to review regularly the effectiveness of risk reduction strategies and the operation of these controls. The risk management process should be conducted on a continuing basis.

16.6 The Director of Resources shall effect all insurance cover and negotiate all claims in consultation with the relevant Director and Head of Legal & Democratic Services where appropriate.

16.7 Directors shall give prompt notification to the Director of Resources of all new risks, properties, vehicles and other assets that are required to be insured or any alterations affecting existing insurances.

16.8 Directors shall promptly notify the Director of Resources in writing of any actual or potential loss, liability or damage or any event likely to lead to an insurance claim by or against the Council.

16.9 The Head of Financial Services shall oversee and ensure the preparation of the Council's Risk Management and promote the Strategy throughout the Authority.

17. LOANS, LEASING AND INVESTMENTS

17.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

17.2 The Director of Resources shall borrow as necessary to finance the approved capital programme and deal with all matters in connection with the raising or repayment of loans and is authorised to borrow for meeting expenses pending the receipt of revenues.

17.3 All investments and all borrowing shall be made in the name of the Council or the appropriate trust when the Council is acting as trustee and the security shall be lodged with the Director of Resources, Head of Legal & Democratic Services or the Council's banker as deemed most appropriate by the Director of Resources.

17.4 Directors shall not enter into financial leasing arrangements except with the consent of the Director of Resources.

17.5 The Director of Resources shall arrange the borrowing and investment activities of the Council in such a manner as to comply with the CIPFA Code of Practice on Treasury Management and the Authority's Treasury Policy Statement.

17.6 The Director of Resources shall prepare an Annual Treasury Strategy for the forthcoming financial year for approval by Council prior to the start of that financial year including the determination of statutory financing limits in accordance with Section 45 of the Local Government and Housing Act 1989 and report annually to Cabinet on the implementation and effectiveness of the Treasury Strategy.

17.7 The Council has the discretion to provide loan facilities to staff and members that help individuals fulfil their duties. These include car loan facilities, corporate loan facilities and bicycle loan facilities. From time to time government initiatives may bring forward other proposals that shall be investigated for suitability.

17.8 Each loan facility shall be supported by a written policy developed by the Head of Financial Services and agreed by Corporate Management Board. Variations to the facilities is delegated to the Head of Financial Services in consultation with the Director of Resources.

18. TRUST FUNDS

18.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services.

18.2 The Director of Resources shall:

- (a) Arrange for all trust funds to be held wherever possible in the name of the Authority. All officers acting as trustees by virtue of their official position shall deposit securities, etc relating to the trust with the Director of Resources unless the deed otherwise provides.

- (b) Arrange where funds are held on behalf of third parties for their secure administration approved by the Director of Resources and to maintain written records of all transactions.
- (c) Ensure that trust funds are operated within any relevant legislation and the specific requirement for each trust.

19. INVENTORIES AND STOCKS AND STORES

19.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Chief Internal Auditor.

19.2 The Director of Resources shall:

- (a) Advise on the form, layout and content of inventory records to be maintained by the Council.
- (b) Advise on the arrangements for the care and custody of stocks and stores in Directorates.

19.3 Directors shall:

- (a) Maintain inventories in a form approved by the Director of Resources to adequately record and describe all furniture, fittings and equipment, plant and machinery under their control.
- (b) Carry out an annual check of all items on the inventory in order to verify location, review condition and to take action in relation to surpluses or deficiencies, annotating the inventory accordingly.
- (c) Ensure attractive and portable items, such as computers, cameras and video recorders are identified with security markings as belonging to the Council and appropriately controlled and secured.
- (d) Make sure that property is only used in the course of the Council's business unless the Director concerned has given permission otherwise.
- (e) Directors have discretion to write off redundant equipment up to the value of £5,000, but must seek Cabinet Member approval for write-offs in excess of £5,000. Directors shall seek independent quotations where it is not immediately obvious what the market value of the redundant item is.
- (f) Make arrangements for the care, custody and recording of stocks and stores in Directorates.
- (g) Ensure that assets are identified, their location recorded and that they are appropriately marked and insured.
- (h) Ensure stocks are maintained at reasonable levels and subject to a regular independent physical check. All discrepancies should be investigated and pursued to a satisfactory conclusion.
- (i) Write-off discrepancies of up to £5,000 and seek advice from Internal Audit on discrepancies above this limit.

- (j) Authorise write-off and disposal of redundant stocks and equipment by competitive quotations or auction unless, following consultation with the Director of Resources, it is decided otherwise in a particular case.
- (k) Seek approval from the Director of Resources and Cabinet Member to the write-off of redundant stocks and stores valued in excess of £5,000.
- (l) Record the reasons for the chosen method of disposing of redundant stocks and equipment if not by competitive quotation or auction.

20. ORDERS FOR GOODS, WORKS AND SERVICES

- 20.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services or the Strategic Procurement Manager.
- 20.2 Orders shall not be issued for goods, work or services unless the cost is covered by an approved budget.
- 20.3 All orders given on behalf of the Council shall be in a written or electronic form approved by the Director of Resources. All orders are to be authorised by officers nominated by the appropriate Director who shall be responsible for official orders issued from his or her Directorate. Orders given verbally shall be confirmed by paper or electronic order as appropriate as soon as possible.
- 20.4 All works, goods or services supplied to the Council are to be subject to formal prior authorisation, in writing and/or electronic medium, as to need and budget cover. Written or electronic orders are to be issued for all work, goods or services to be supplied to the Council unless a written contract is required. An order or contract is not required for public utility services, periodical payments such as rent or rates, for petty cash purchases or for such other expenditure as the Director of Resources may approve. All orders and contracts are to be managed in compliance with the Council's Contract Procedure Rules and Financial Procedure Rules.
- 20.5 Each order shall conform to the directions of the Council with respect to central purchasing and the standardisation of supplies and materials and with respect to Contract Procedure Rules.
- 20.6 Written orders shall be marked with invoice details when relevant accounts are passed for payment. When an electronic procurement system is in use an appropriate entry shall be made in that system when a payment is authorised.
- 20.7 The key controls for ordering and paying for work, goods and services are:
 - (a) All works, goods and services are ordered only by appropriate persons and recorded.
 - (b) All works, goods and services shall be ordered in accordance with the Council's Procurement Strategy and Contract Procedure Rules unless they are purchased from internal sources within the Council.
 - (c) Works, goods and services received are checked to ensure they are in accordance with the order.
 - (d) Payments are authorised by officers who can certify that goods have been received to price, quantity and quality.

- (e) All payments are made to the correct person, for the correct amount and are properly recorded, regardless of the payment method.
- (f) All appropriate payment documents are retained and stored for the defined period in accordance with the Council's 'Guidelines on the Destruction of Financial Records'.
- (g) All expenditure including VAT, is accurately recorded against the right budget and any exceptions corrected.
- (h) That processes are in place to maintain the security and integrity of data for transacting business electronically.

21. WORKING FOR THIRD PARTIES

21.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Financial Services and Head of Legal & Democratic Services.

General

- 21.2 Current legislation enables the Council to provide a range of services to certain other bodies. Such work may enable the unit to maintain economies of scale and existing expertise. Arrangements must be in place to ensure that any risk associated with this work is minimised.
- 21.3 All proposals to work for a third party shall be properly costed in accordance with guidance provided by the Director of Resources.
- 21.4 All decisions to work for a third party shall be made in accordance with the Council's formal decision making processes as set out in the Scheme of Delegation.
- 21.5 All contracts for providing work for a third party shall be drawn up using guidance provided by the Head of Legal & Democratic Services.

Responsibilities of Directors, Heads of Service and Officers

- 21.6 Officers shall ensure that:
 - (a) Legal advice is obtained from the Head of Legal & Democratic Services on the implications of providing the proposed service to the proposed third party.
 - (b) Financial advice is obtained from the Head of Financial Services on the cost of providing the service.
 - (c) Formal approval in line with the Council's Scheme of Delegation is obtained before any negotiations to work for third parties are concluded.
 - (d) A register of all contracts entered into with third parties is maintained in accordance with procedures specified by the Head of Legal & Democratic Services.
 - (e) Appropriate identity checks on the third party are carried out in accordance with the Council's anti money laundering policy and guidance.

- (f) Appropriate insurance arrangements are in place for the third party work.
- (g) The Council is not put at any risk of bad debts as a result of any third party work (see 21.2 above).
- (h) The Council is not subsidising any contracts for the provision of third party work.
- (i) Wherever possible, payment is received in advance of the delivery of the service under a third party contract.
- (j) The Directorate has the appropriate expertise to undertake the contract.
- (k) The contract does not adversely impact on the services provided for the Council.
- (l) All contracts are properly documented.
- (m) The Director of Resources is provided with the information he/she needs to make an appropriate note to the annual statement of accounts in respect of the Council's work for third parties.

CONTRACT PROCEDURE RULES

1. INTRODUCTION

- 1.1 The primary objective of the Council's Contract Procedure Rules is to ensure that all contracts for works, goods and services are entered into in a manner that secures value for money and is demonstrably free from impropriety.
- 1.2 The Council's Contract Procedure Rules also ensure that:
- a) Contract selection and award procedures are conducted fairly, in a properly regularised manner and in accordance with relevant legal requirements.
 - b) Strategic service delivery and supply partners are used wherever possible to ensure value for money is obtained and the cost to procure is minimised.
 - c) Local firms are employed whenever they offer as good value for money as other firms and their selection is in accordance with the Council's legal obligations, for example in relation to European procurement rules.
 - d) The Council's strategic policies are taken into account, for example in promoting the economic development of Herefordshire and in relation to protecting the environment.
 - e) Alternative methods of procurement compatible with the objectives of the Contract Procedure Rules have been considered.
 - f) Procurement procedures are kept under review in order to ensure continuous improvements to services and provide Best Value to the community of Herefordshire.
 - g) Procurement of ICT equipment is achieved using the Council's on-line procurement system.
- 1.3 The Director of Resources has overall responsibility for the preparation of the Council's Contract Procedure Rules. The Head of Financial Services has delegated responsibility for implementing the Council's Contract Procedure Rules. The Strategic Procurement Manager assists the Head of Financial Services in this task.
- 1.4 The Head of Financial Services and Strategic Procurement Manager work very closely with the Head of Legal & Democratic Services due to the significant legal issues involved in contracting and procurement activity.
- 1.5 It should be noted that the Council's Contract Procedure Rules should be read in conjunction with the Council's Standing Orders, Scheme of Delegation, Budget & Policy Framework Rules and Financial Procedure Rules.
- 1.6 **It should also be noted that failure to observe the Council's Contract Procedure Rules could lead to disciplinary action.**
- 1.7 Please note that all financial limits outlined in this document exclude Value Added Tax (VAT).

2. STANDARDS OF CONDUCT

2.1 Declarations of Interest

2.1.1 Members and officers must ensure that they comply with the provisions of Standing Order 2.8 (Members) on the declaration of interests and Appendix 14 of the Constitution (officers) regarding the declaration of interests.

2.2 Gifts and Hospitality

2.2.1 Any offer of gift, favour or hospitality made by any person or firm doing or seeking to do business with the Council must be treated with extreme caution.

2.2.2 Any such offers must be noted on the appropriate form and reported to the Head of Legal & Democratic Services who shall maintain and make available to the Council's internal and external auditors a register of such matters.

2.2.3 Acceptance of gifts and hospitality must be in accordance with the Council's policies on such matters.

2.3 Honesty

2.3.1 All Members must follow the Members' Code of Conduct.

2.3.2 All employees must follow the Employee Code of Conduct (as set out in the Council's Employee Induction Handbook and available from Human Resources).

2.3.3 All officers must make sure that employees involved in an in-house tender for a contract do not take part in the preparation of tender documentation or the decision on the award of such a contract.

3. OFFICER RESPONSIBILITIES

3.1 Chief Executive's Responsibilities

3.1.1 The Chief Executive is responsible for resolving issues concerning the operation of the Council's Contract Procedure Rules seeking advice as necessary from the Director of Resources **and** the Head of Legal & Democratic Services.

3.2 Directors' Responsibilities

3.2.1 All Directors are responsible for:

- a) Monitoring compliance with the Council's Contract Procedure Rules in relation to contracts funded by their Directorate budget.
- b) Appointing Contract Monitoring Officers (see 3.4 below) and ensuring they support them in their role and obtain regular briefings from them.
- c) Appointing a senior member of staff to the Corporate Procurement Group (see 3.5 below).

- d) Establishing, maintaining and utilising Approved Contractors Registers for their Directorate in accordance with section 4 of the Council's Contract Procedure Rules.
- e) Bringing the provisions of the Council's Contract Procedure Rules to the attention of their staff.
- f) Ensuring that the contracts within their Directorate are legal, comply with Contract Procedure Rules and Financial Procedure Rules and protect the Council's interests fully.
- g) Ensuring that the Council's Criminal Records Bureau policies and procedures are followed.

3.2.2 The Director of Resources has overall responsibility for the preparation and review of the Council's Contract Procedure Rules but must do so in agreement with the Head of Legal & Democratic Services.

3.3 Head of Service Responsibilities

3.3.1 The Head of Legal & Democratic Services is responsible for:

- a) Providing legal advice and guidance to Members and officers on the operation of the Council's Contract Procedure Rules and all contracting and procurement activity.
- b) Working with the Director of Resources on the preparation and review of the Contract Procedure Rules.
- c) Assisting the Chief Executive with the resolution of questions regarding the interpretation of the Council's Contract Procedure Rules.
- d) Advising on the preparation of contract documentation.
- e) Maintaining a central Procedures Exemption Register.
- f) Informing relevant officers of any information received that calls into question the suitability of a contractor, consultant, agency or any other person carrying out work for the Council.

3.3.2 The Head of Financial Services is responsible for providing the professional lead on all the non-legal aspects of contracting and procurement relating to works, goods and services. The Head of Financial Services is also responsible for supervising the Corporate Procurement Group's activities (see 3.5 below) and maintaining a Contracts Register.

3.3.3 All Heads of Service are responsible for providing the Head of Financial Services with the information s/he requires to maintain a Contracts Register. This will include all contracts for purchases in total valued £10,001 and above and the name of the Contract Monitoring Officer or responsible officer.

3.4 Contract Monitoring Officers' Responsibilities

3.4.1 Directors shall appoint one or more Contract Monitoring Officer(s) to take responsibility for contracts with an estimated total value (excluding VAT) in excess of £10,001. Directors shall nominate a Contract Monitoring Officer for each contract and nominate one of their Contract Monitoring Officers to be responsible for the overall reporting and maintenance of contract records within the Directorate. A responsible officer shall be appointed for all contracts below £10,000.

- 3.4.2 Contract Monitoring Officers are responsible for liaising fully with Financial Services and Legal Services on all matters relating to contracting and procurement.
- 3.4.3 Contract Monitoring Officers are responsible for agreeing exemptions from the formal tendering procedures with the Head of Financial Services or the Strategic Procurement Manager **and** the Head of Legal & Democratic Services. All exemptions are to be approved in writing and reported in line with the requirements of Section 10 of the Council's Contract Procedure Rules.
- 3.4.4 Contract Monitoring Officers are responsible for liaising with officers administering contracts regarding any reports concerning failures by contractors to comply with contractual obligations or otherwise satisfactorily complete work.
- 3.4.5 Contract Monitoring Officers are responsible for posting any information they receive concerning the suitability of a contractor to carry out work for the Council on the Contracts Watch sub-folder of the Procurement/Contract Management public folder on the Council's Intranet. The message should advise any officer who has employed or is considering employing the contractor to contact the Head of Legal & Democratic Services for further information as the message should not state the reason for concern. The Contract Monitoring Officer should inform the Head of Legal & Democratic Services in writing of the reasons for the alert.
- 3.4.6 Contract Monitoring Officers are responsible for emailing copies of their Approved Contractor Registers to the central Approved Contractor Register sub-folder of the Procurement/Contract Management public folder on the Council's Intranet. They are responsible for keeping their Approved Contractor Registers updated with any additions, suspensions or removals (section 4 of the Council's Contract Procedure Rules refers). A hard copy shall be provided to the Strategic Procurement Manager.
- 3.4.7 Contract Monitoring Officers are responsible for emailing copies of their Suspended and Removed Contractors Lists to the central Suspended and Removed Contractors List sub-folder of the Procurement/Contract Management public folder on the Council's Intranet. A hard copy shall be provided to the Strategic Procurement Manager.
- 3.4.8 Contract Monitoring Officers are responsible for maintaining records of the:
- a) Contractors included in their Approved Contractor Registers.
 - b) Contracts awarded including the nature and value of contracts and the names of successful tenderers.
 - c) Total value of contracts awarded to each successful tenderer during each financial year.
 - d) Names of unsuccessful tenderers and reasons why their tenders were not accepted if the reason is other than price.
 - e) Details of any failure by a tenderer to comply with instructions to tenderers.
 - f) Details of the reasons for any tenders being withdrawn.
 - g) Details of failures by contractors to submit tenders after having requested and been invited to do so.

- h) Contractors' performance.
- i) Reasons for opening late tenders (see section 5 of the Council's Contract Procedure Rules).
- j) Reasons for exceptions to tendering procedures (see section 10 of the Council's Contract Procedure Rules).

3.4.9 The lead Contract Monitoring Officer appointed by the Director is responsible for keeping their Director briefed on contract and procurement issues within the Directorate.

3.5 Strategic Procurement Manager's Responsibilities

3.5.1 Working to the Head of Financial Services, the Strategic Procurement Manager is responsible for providing advice on all aspects of the Council's Contract Procedure Rules save for the legal issues. The responsibility for the legal aspects of the Council's Contract Procedure Rules rests with the Head of Legal & Democratic Services.

3.5.2 The Strategic Procurement Manager is responsible for chairing the Council's Corporate Procurement Group. Each Director shall appoint a senior officer to be a member of the Corporate Procurement Group and the membership shall include the Head of Legal & Democratic Services or their nominated representative.

3.5.3 The Council's Corporate Procurement Group will meet at least quarterly in order to fulfil the following responsibilities:

- a) Continually reviewing the Council's Procurement Strategy and making recommendations on appropriate enhancements to the Head of Financial Services to take forward in consultation with the Head of Legal & Democratic Services for approval in line with the Council's arrangements for decision making as set out in the Constitution.
- b) Maintaining a register of current contracts.
- c) Monitoring compliance with the Council's Contract Procedure Rules and reporting non-compliance to the Head of Financial Services and Head of Legal & Democratic Services for appropriate action.
- d) Preparing an annual report on the operation of and compliance with the Council's Contract Procedure Rules as a basis for the Head of Financial Services, in consultation with the Head of Legal & Democratic Services, to report to the Audit & Corporate Governance Committee.
- e) Continually reviewing the Council's Contract Procedure Rules to ensure they keep pace with developing best practice and advising amendments as necessary.
- f) Prescribing the information needed from Contract Monitoring Officers and maintaining a central record of the information notified by Contract Monitoring Officers.
- g) Reviewing the Contract Procedure Rules Exemption Register and preparing an annual report on the exemptions recorded for the Head of Legal & Democratic Services.
- h) Providing training and support for employees involved in procurement activities.

3.6 Responsibilities of all Officers

3.6.1 All officers are responsible for:

- a) Following the Council's Contract Procedure Rules and any codes of practice, guidance or instructions provided by the Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services.
- b) Following all relevant English and European procurement laws.
- c) Seeking advice from the Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services in the case of any uncertainty.
- d) Ensuring that any departure from these Contract Procedure Rules is agreed with the Head of Financial Services or Strategic Procurement Manager **and** the Head of Legal & Democratic Services.
- e) Following the Council's Employee Code of Conduct (a copy is included in the Employee Induction Handbook and can be obtained from Human Resources).
- f) Following the Council's Financial Procedure Rules and the systems and procedures that are in place to control budgets properly.
- g) Declaring any interest that could influence their judgement in contracting matters to their Director and the Head of Legal & Democratic Services.
- h) Not taking part in **any** decisions relating to the procurement of work, goods or services if they are part of a formal in-house bid for that work.
- i) Reporting any suspected fraudulent, corrupt or other irregularity to the Chief Internal Auditor.
- j) Ensuring that value for money is evidenced through the procurement process.

4. APPROVED CONTRACTOR REGISTERS

4.1 Introduction

- 4.1.1 Approved Contractor Registers are very useful for some types of works, goods or services contracts and can be an efficient way of identifying suppliers.
- 4.1.2 **Contractors on an Approved Contractor Register must not be approached either formally or informally until after publication of the appropriate European contract notice for contracts governed by the European procurement rules.**
- 4.1.3 If an Approved Contractor Register exists and it is appropriate to use it then the register should be used.
- 4.1.4 If an Approved Contractor Register is to be used, a method for selecting the suppliers on it that will be invited to tender must be determined. The method chosen must ensure that all the

suppliers on the relevant Approved Contractor Register have the same opportunity over time to tender for work (subject to suitability for particular work and financial limits under 4.2.6).

- 4.1.5 Officers may use Government-backed Approved Contractor Registers or other registers approved by the Corporate Procurement Group to select those to be invited to bid for a contract.

4.2 Managing an Approved Contractor Register

- 4.2.1 Contract Monitoring Officers must advertise and invite applications from potential suppliers to be added to an Approved Contractor Register for any given type of contract for works, goods or services.

- 4.2.2 Advertisements inviting applications from potential suppliers to be included in an Approved Contractor Register should be placed in the relevant local and trade press and, if necessary, the EC Journal.

- 4.2.3 The information needed from potential suppliers in order to assess whether they are suitable for inclusion on an Approved Contractor Register should be gathered using the same method for all suppliers seeking inclusion on the Register.

- 4.2.4 When considering whether to include a contractor on an Approved Contractor Register, officers must look at each contractor's:

- a) Past performance on similar contracts (quality and costs).
- b) Technical capacity.
- c) Specialist experience in the type of products and services being procured.
- d) Financial situation.
- e) Public and employer's liability insurance arrangements.
- f) Health & safety arrangements.
- g) Equalities policy.
- h) Written references on the contractor's reputation.

- 4.2.5 Officers may add other criteria to help them select suppliers for inclusion on an Approved Contractor Register providing the additional criteria are relevant, do not prevent fair competition and do not illegally discriminate between suppliers. The Contract Monitoring Officer must establish the minimum standard required for each criterion before inviting applications for inclusion on the Approved Contractor Register.

- 4.2.6 An Approved Contractor Register must state the value of work that can be placed with each supplier at any one time.

- 4.2.7 An Approved Contractor Register should normally contain at least five suppliers. Advice and guidance must be sought from the Head of Financial Services/Strategic Procurement Manager where fewer than five suppliers qualify for inclusion as this might indicate that an Approved Contractor Register is not the most suitable route for the works, goods or services in question.

- 4.2.8 Officers must review their Approved Contractor Registers at least every two years using the criteria set out in 4.2.4 and 4.2.5 to assess whether a supplier should remain on the Register. The review should also consider whether the value of work that can be placed with each supplier at any one time should be revised.
- 4.2.9 Officers should consider suspending or removing suppliers from an Approved Contractor Register as a result of such a review or at other times if there are grounds to do so such as poor performance, disputes or poor financial standing. See 4.3 below for guidance on how to suspend or remove a supplier from an Approved Contractor Register.
- 4.2.10 Officers must advertise to compile subsequent Approved Contractor Registers at least every five years or earlier if fewer than five suppliers remain on the Register.
- 4.2.11 All contracts let using an Approved Contractor Register must comply with the Council's Contract Procedure Rules in every respect. The Head of Financial Services or Strategic Procurement Manager or Head of Legal & Democratic Services are able to advise on any aspect of the Council's Contract Procedure Rules.

4.3 Suspending or Removing a Supplier from an Approved Contractor Register

- 4.3.1 If an officer receives a materially adverse report concerning a contractor's performance or compliance with tendering procedures that suggests they should no longer be on an Approved Contractor Register, the officer must seek advice from the Head of Financial Services or Strategic Procurement Manager who will, in consultation with the Head of Legal & Democratic Services, advise what further action is necessary.
- 4.3.2 If the Head of Financial Services or Strategic Procurement Manager determines after consultation with the Head of Legal & Democratic Services that the supplier should be suspended or removed from an Approved Contractor Register, the officer shall follow this advice and amend the Register accordingly. The officer shall also include the contractor in a List of Suspended and Removed Contractors and notify the contractor accordingly.
- 4.3.3 An officer must seek approval as outlined in 4.3.1 and 4.3.2 to lift a suspension on a supplier or re-admit a supplier to an Approved Contractor Register.
- 4.3.4 If an officer concludes as a result of a routine review of an Approved Contractor Register that a supplier should be removed from that Register, then they must seek advice as outlined in 4.3.1 and 4.3.2.

5. FORMAL QUOTATION AND TENDERING PROCEDURES

5.1 Introduction

- 5.1.1 West Mercia Supplies (WMS) must be used for all purchases of office supplies and consumables, furniture, photocopiers, janitorial supplies and personal protective equipment.
- 5.1.2 Proposals to use an alternative supplier for such goods must be approved prior to an order being placed using a form prepared by the Strategic Procurement and Efficiency Review Manager.
- 5.1.3 Requests to use an alternative supplier to WMS will be approved or otherwise by the Head of Financial Services.

- 5.1.4 Failure to comply with the Council's policy on the use of WMS will lead to a corresponding budget reduction equivalent to the total price of the supply.
- 5.1.5 Officers must also use Council approved strategic service delivery partners (such as Amey Wye Valley Limited and Owen Williams) if the work required is within the scope of the Council's strategic service delivery contracts.
- 5.1.6 Procurement of ICT equipment must be achieved using the Council's online procurement system.
- 5.1.7 The following procedures must be followed for all other types of procurement:
- a) **Purchases in total valued up to £1,000** – no requirement for formal quotations or tenders but officers must be able to demonstrate value for money has been obtained and that all other relevant aspects of the Council's Contract Procedure Rules have been followed.
 - b) **Purchases in total valued between £1,001 and £10,000** – two formal quotations must be obtained (see 5.2 below).
 - c) **Purchases in total valued between £10,001 and £50,000** – three formal quotations must be obtained (see 5.2 below).
 - d) **Purchases in total valued between £50,001 and up to relevant EU limit** – formal tendering arrangements must be followed (see 5.3 below).
 - e) **Purchases in total valued in excess of relevant EU limit** – European procurement rules must be followed (see section 6 of the Council's Contract Procedure Rules).
- 5.1.8 It is important to respect confidentiality in quotation and tendering processes. Officers must not therefore disclose any information they have about potential suppliers to other persons/suppliers potentially competing for the same contract.
- 5.1.9 Official orders should be raised for works, goods and services in line with the Council's Financial Procedure Rules.

5.2 Formal Quotation Procedure

- 5.2.1 The requisite number of formal quotations must be obtained for all purchases (other than those with WMS or within the scope of a strategic service delivery contract) where between £1,001 and £10,000 in total (see 5.1.7).
- 5.2.2 A quotation is a written estimate of the cost to execute works or supply goods, materials or services.
- 5.2.3 Officers must produce a description of the goods or specification of the services required before seeking quotations. This will enable a fair comparison of prices. The level of detail in the description or specification will depend on the value and type of goods or services being purchased. Advice can be obtained from the Strategic Procurement Manager
- 5.2.4 Formal quotations should contain as a minimum the following information:
- a) Date and reference number.

- b) Supplier company details.
- c) Council officer/department name.
- d) Item/part number.
- e) Description specification.
- f) Quantity required.
- g) Unit/service cost.
- h) Total cost.
- i) Delivery information.
- j) Payment details.
- k) Any special requirements.
- l) Details of any discounts/rebates.

5.2.5 An appropriate Approved Contractor Register should be used if available to select the suppliers that will be asked to provide a quotation.

5.2.6 Every person or firm who makes a quotation must be treated fairly. Selection of the preferred supplier from the quotations received must be done in accordance with the principles set out in the formal tendering procedures (5.3 refers).

5.2.7 Any departures from the formal quotation procedures must be discussed with the Head of Financial Services or Strategic Procurement Manager who will agree or otherwise any exception in consultation with the Head of Legal & Democratic Services. A record must be kept of the reasons for and approval given for departing from the formal quotation procedure.

5.2.8 Formal quotations for contracts up to £50,000 should be kept for a minimum of two years after the contract has been awarded.

5.3 Formal Tendering Procedure

Introduction

5.3.1 Formal tendering procedures apply to all contracts with a total value between £50,001 and the prevailing European procurement limit for supplies and services (currently £140,000) except for those with WMS or a Council approved strategic service delivery contract. To ensure that European procurement rules are properly applied, Contract Monitoring Officers should liaise with the Strategic Procurement Manager for all contracts with an estimated value in excess of £50,000.

5.3.2 It is important to respect confidentiality during all stages of the formal tendering process. Officers must not therefore disclose any information they have about potential suppliers to others persons/suppliers potentially competing for the same contract.

5.3.3 Advice and guidance on how to describe the works, goods or services required for formal tendering purposes can be obtained from the Strategic Procurement Manager.

Selecting Potential Tenderers

5.3.4 An Approved Contractor Register should be used wherever possible for selecting potential tenderers for a contract. Officers must record the names of the persons/suppliers invited to tender from an Approved Contractor Register.

5.3.5 If an Approved Contractor Register does not exist or is unsuitable for selecting potential tenderers, officers will either need to advertise for potential tenderers or approach selected ones in cases where specialist works, goods or services are required.

5.3.6 If an Approved Contract Register is available but considered unsuitable for a specific contract, the Contract Monitoring Officer should discuss the reason with the Head of Financial Services or Strategic Procurement Manager. The Head of Financial Services or Strategic Procurement Manager should then consult with the Head of Legal & Democratic Services. The Director and Contract Monitoring Officer shall be informed of the decision of the Head of Financial Services or Strategic Procurement Manager and Head of Legal & Democratic Services.

5.3.7 Officers must also seek guidance as outlined in 5.3.6 above if they propose to approach selected persons or firms as potential tenderers.

5.3.8 Contract Monitoring Officers must keep a written record of the reasons for departing from the usual practice of selecting potential tenderers from an existing Approved Contractor Register and the approval given. They must also record the reasons for approaching selected tenderers and the approval given.

5.3.9 Advertisements for potential tenderers may be placed in relevant trade or professional journals, local and national newspapers, the Council's website and the EC Journal.

5.3.10 The method for collecting the information needed from potential suppliers to assess whether to invite them to submit a formal tender and the method of assessment must be agreed before the selection process begins.

5.3.11 A standard business questionnaire may be used to collect information from the potential suppliers but the same questionnaire must be used for all potential suppliers. Alternatively, information may be gathered by inviting potential suppliers to express an interest in writing covering the specifics identified by the officer in the advertisement or letter of invitation. Further advice can be obtained from the Strategic Procurement Manager.

5.3.12 The method for selecting tenderers must:

- a) Treat all tenderers in the same way.
- b) Keep the process clear and simple.
- c) Record all the selection decisions.

5.3.13 Officers must consider the following when selecting suppliers to be invited to tender for a particular contract:

- a) Past performance on similar contracts (quality and costs).

- b) Technical capacity.
- c) Specialist experience in the type of products and services being procured.
- d) Financial situation.
- e) Public and employer's liability insurance arrangements.
- f) Health & safety arrangements.
- g) Equalities policy.
- h) Written references on the contractors' reputation.
- i) Environmental policies.

5.3.14 Officers may also use information from referees and from company searches to assess which persons or firms to invite to submit a tender.

5.3.15 At least three suitable suppliers should be invited to tender. If there are only three suitable suppliers (e.g. due to the number of suppliers responding to an advertisement) they must all be invited to tender.

5.3.16 If there are only one or two suppliers indicating they wish to be considered then an exemption from the Contract Procedure Rules **must** be sought from the Head of Financial Services or Strategic Procurement Manager and Head of Legal & Democratic Services and their approval given before proceeding. The names or details of suppliers must not be passed on to anyone at any time during the tendering process.

Inviting Tenders

5.3.17 Each potential supplier should be sent an invitation to tender, the contract documents, a tender form and a return label bearing the name of the contract and the word 'Tender' together with instructions on when and how the tenders should be returned. They must be instructed to return their tender in a plain envelope addressed to the Head of Legal & Democratic Services. There should be no marks or writing on the envelope, other than the address and the return label. Tenderers must be advised not to use a franking machine if they propose posting their tender.

5.3.18 A copy the Council's standard contract terms should also be included so that the tenderer is aware of the terms and conditions that will form part of the final contract. When an industry standard contract is used advice should be sought from the Head of Legal & Democratic Services on which of the standard clauses to incorporate.

5.3.19 Tenderers must be told that tenders sent by fax or e-mail will not be accepted.

5.3.20 Tenders can be returned by hand or by post to the Head of Legal & Democratic Services, Brockington, 35 Hafod Road, Hereford, HR1 1SH. Tenderers should be advised to use postal services that provide them with proof of postage and the time of sending.

5.3.21 Tenderers should be advised that tenders will be opened at the same time and no advantage is secured by seeking to delay submission until the last moment.

- 5.3.22 The invitation to tender **must** state that the Council does not bind itself to accepting the lowest or any tender.
- 5.3.23 The invitation to tender needs to explain how the Council will deal with any mistakes it identifies in the tender documentation submitted (see Assessing Tenders below).
- 5.3.24 The invitation to tender **must** set out the criteria that will be used to select the preferred supplier. The assessment criteria must not prevent fair competition or discriminate between tenderers in any way. They must also comply with relevant legislation.
- 5.3.25 The tender assessment criteria should include:
- a) Price.
 - b) Technical standard.
 - c) Experience and skills.
 - d) Financial proposals.
 - e) Financial standing.
 - f) Contract management arrangements.
 - g) Quality management proposals.
 - h) Delivery proposals.
 - i) Employment practices.
 - j) Environmental considerations.
 - k) Diversity issues.
- 5.3.26 If an officer wants to know whether the supplier has received an invitation to tender, they must enclose a 'Tender Received Confirmation Form' with the invitation to tender documentation. They must not contact the potential supplier to check they have received the documentation.
- 5.3.27 During the period allowed for preparing tenders, all communications with tenderers must be recorded. All communications should go through the Contract Monitoring Officer who can obtain the information requested from others if necessary. If a tenderer raises a query during this period, it must be passed on to all other tenderers, together with the reply. The identity of the tenderer who has raised the query **must not** be revealed.

Receiving Tenders

- 5.3.28 The original tender return date should be fixed and unchanged except in appropriate and necessary circumstances. Any extension should not provide either advantage or disadvantage to any of the tenderers. Any proposal to extend the closing date must be agreed by the Head of Legal & Democratic Services.
- 5.3.29 Should it be necessary to extend the time limit for the submission of tenders all potential tenderers should be informed of the new date in good time before the original submission date.

APPENDIX 5

- 5.3.30 Tenders should be recorded in a register that shows the time, date and name of the contract as they are received. Tenders delivered by hand should be acknowledged with a written receipt and the time, date and name of the contract similarly recorded in the register. All tender envelopes must be date stamped on receipt with the time of receipt written on the envelope and countersigned by the receiving officer.
- 5.3.31 Tenders must not be opened until the final deadline for receiving them. Tenders must be stored securely until it is time for them to be opened. The storage used should be locked and access to it available only to those officers in Legal & Democratic Services responsible for handling tenders and they must ensure that keys are secure at all times.
- 5.3.32 A Legal & Democratic Services officer shall be responsible for opening the tenders for a contract in the company of the Contract Monitoring Officer and the Strategic Procurement Manager or his/her representative. The Legal & Democratic Services officer must ensure the number of tender envelopes to be opened tallies with the number recorded in the tender register and shall sign the register to indicate that this is the case.
- 5.3.33 If a tender is opened by mistake before the deadline, a record of how this has happened should be attached to the packaging. The tender should be re-sealed immediately and its contents kept confidential.
- 5.3.34 If fewer tenders are received than expected, do not contact tenderers to ask whether they have sent one in.
- 5.3.35 In exceptional circumstances, Legal & Democratic Services, in consultation with the Head of Legal & Democratic Services, can accept a late tender (see below).

Opening & Recording Tenders

- 5.3.36 The Head of Legal & Democratic Services must make sure that the procedures for opening tenders are followed and that the correct records and documents are completed.
- 5.3.37 All tenders relating to a contract must be opened at the same session and opened one at a time. Each officer present must sign, date and write on the tender form the time that the tender was opened.
- 5.3.38 The key documents submitted by each tenderer must be recorded on a tender return form along with value. Each officer must check, sign and date the form.
- 5.3.39 The Contract Monitoring Officer must sign each page of the tender document unless it is very long. In this case, they may only sign the pages that include pricing information.
- 5.3.40 Once the tenders have been opened, they should be held in a secure place by the Contract Monitoring Officer.

Late Tenders

- 5.3.41 The Head of Legal & Democratic Services must reject tenders that are received after the deadline unless none of the tenders submitted on time have been opened or there is proof that the tender was posted in enough time to meet the deadline (for example, the postmark date is the day before the deadline for a first class delivery or is three days before the deadline for a second class delivery).

5.3.42 If the Head of Legal & Democratic Services decides to accept a late tender, they must treat that tender in the same way as all other tenders. The full details of the decision to accept the late tender must be recorded.

5.3.43 If the late tender is rejected, it should be returned unopened to the tenderer and a record of posting kept on file for two years. The tenderer should be informed in writing of the date and time the tender was received.

Assessing Tenders

5.3.44 The Contract Monitoring Officer will ensure the tenders are assessed in accordance with the advice provided by the Head of Financial Services or Strategic Procurement Manager.

5.3.45 Before assessing the tenders, the Contract Monitoring Officer needs to check that each part of them meets the requirements of the specification. The responsible officer also needs to make sure that there are no mistakes and that nothing is missing

5.3.46 If there are substantial omissions of data or documentation that make it impossible to assess the tender, this should be fully recorded and the tender rejected.

5.3.47 The accuracy of the figures in each tender must be checked. If mistakes are found that do not affect the overall price of the goods or services, the tenderer must be contacted and asked to confirm the correct figures in writing.

5.3.48 A record of all mistakes must be kept and attached to the tender documents together with any corrections agreed with the tenderer.

5.3.49 The correct tenders can then be assessed in accordance with the assessment criteria that have previously been agreed in accordance with these formal tendering procedures.

5.3.50 The assessment criteria used for the tender evaluation must be the same in all respects as the criteria advised to prospective suppliers at the beginning of the process.

5.3.51 Assessment details are strictly confidential and must not be passed on to anyone else. During the course of the assessment, tender documentation must be kept secure and confidentiality preserved. If, in a major tendering exercise, the documentation is going to be copied or divided to aid the assessment process, a record should be maintained to identify to whom such documents have been issued and the date returned.

5.3.52 The Contract Monitoring Officer shall retain a complete set of documents in a secure place in case any parts of the documentation go missing.

5.3.53 Once the assessment has been completed the responsible officer should produce a report showing:

- a) The result of the assessment of each tender.
- b) A comparison of assessment results.
- c) The recommendation on which tenderer should be offered the contract.

Accepting and Rejecting Tenders

5.3.54 The Contract Monitoring Officer should accept the tender that is:

- a) The lowest tender that meets the evaluation criteria.

Or

- b) The tender that will be of most economic benefit to the Council. Where this is not the lowest tender, the Contract Monitoring Officer should explain in writing giving objective reasons why that tender is preferred and seek approval from the Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services to proceed to appoint. A note should be placed on file to show that the Head of Financial Services or Strategic Procurement Manager and Head of Legal & Democratic Services has reviewed the evaluation process and agreed with the outcome.

5.3.55 The Contract Monitoring Officer should always consider whether their recommendation for awarding the contract should be put before a Cabinet Member, the Cabinet or Council for formal approval **before** contacting the successful tenderer. The Scheme of Delegation (Part 12 of the Constitution) sets out the Council's procedures for making decisions. If in doubt, seek advice and approval from the Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services. Tenderers should be told at the outset if Cabinet or Council approval will be needed.

5.3.56 The officer should write to inform the successful tenderers of the decision as soon as possible **after all necessary approvals have been received**.

5.3.57 Care should be taken when issuing letters informing the tenderer that they have been successful as an unqualified acceptance of the tender may create a binding contract before the formal documentation has been completed and signed by the appropriate authorised signatories.

5.3.58 Unsuccessful tenderers should be informed after the successful tenderer has been told. If unsuccessful tenderers ask why their tender was not successful then general feedback should be given on the areas of their tender that scored poorly. The Contract Monitoring Officer should not become involved in detailed arguments or discussions in order to justify their decision. If the tenderer requires more detailed information the officer should advise them to put their request in writing and seek appropriate advice before responding in writing.

Negotiating

5.3.59 The Contract Monitoring Officer must comply with the following conditions when negotiating on price with tenderers:

- a) Guidance must be sought from the Head of Financial Services or Strategic Procurement Manager who will consult with the Head of Legal & Democratic Services as appropriate before advising on the appropriate course of action.
- b) The Contract Monitoring Officer must be accompanied by another officer during negotiations with tenderers and a full written record of all discussions should be made and signed by both officers. The results of the negotiation process must be shared with the Head of Financial Services or Strategic Procurement Manager.
- c) All negotiations must be carried out at the Council's offices.
- d) Officers must not discuss one tenderer's detailed prices, conditions or terms with another tenderer.

- e) Officers must respect the confidentiality of information provided by tenderers.
- f) If negotiations lead to a material change in the description of the work, goods or services or other terms, the officer must invite everyone who has provided a tender to re-tender on the basis of the revised contract. If this is the case, the whole process should start again.

5.3.60 If there is an in-house tender for a contract, negotiations must not take place without permission from the Head of Financial Services or Strategic Procurement Manager as outlined in 5.3.59 a) above.

Awarding a Contract

5.3.61 Before awarding any contract, the Contract Monitoring Officer must first obtain the approval of their Director or their authorised representative with confirmation of:

- a) The competency of the proposed contractor and the adequacy of any necessary insurance.
- b) The prices quoted by the proposed contractor.
- c) The consistency of the proposed action with the objectives and requirements of the Council's Contract Procedure Rules.
- d) The financial stability of the proposed contractor.
- e) A satisfactory credit check if the Council has not dealt with that contractor for more than two years for contracts in excess of £50,000. A credit check should be carried out on all short listed tenderers for contracts in excess of the European procurement limit for supplies and services (currently £140,000). Advice on credit checks should be sought from Audit Services.

5.3.62 Once this approval has been granted, the officer needs to complete the contractual arrangements. The documents should clearly set out the name of the supplier, what the contract is for, and the terms and conditions of the contract. They should also show that there is suitable insurance to protect the Council's interests. Advice on insurance matters is available from the Council's Insurance and Risk Manager. Where an official order is used and where it makes reference to the Council's General Terms and Conditions for Services, Supplies and Works those terms will apply to the contract. If in any doubt with the contract documentation, advice should be sought from the Head of Legal & Democratic Services.

5.3.63 All contracts must be signed by the Head of Legal & Democratic Services. The Head of Legal & Democratic Services will only sign contracts if the Director has given written authority for him to do so and written assurance that the Council's Contract Procedure Rules have been complied with in all respects. A Director must also sign all contracts where European procurement rules apply.

5.3.64 Officers are responsible for seeking advice from Legal & Democratic Services if they are not clear about the form of contract to be used or changes are needed to the standard form of contract used by the Council.

5.3.65 The Contract Monitoring Officer must inform the Head of Financial Services or Strategic Procurement Manager of the contract and must record the details of all contracts in the Contracts Register.

5.3.66 Officers must keep written records of each contract, including all the quotes and letters they have received and notes of telephone calls and meetings about selecting suppliers. These records must be made available to internal or external audit as required by them.

Publication of Contract Details

5.3.67 Officers must not give tenderers or suppliers any information about the bids or affairs of any other tenderer or contractor unless the law requires it. All information relating to tendering and contracting procedures is confidential.

5.3.68 The only information officers should make public is the name of the successful tenderer. However, this information must not be released until the contract has been awarded and signed.

5.3.69 If information is published on the amounts of the other bids received, the names of the unsuccessful tenderers must not be disclosed. Officers should ensure that all tenderers are aware that this information will or may be published when they are invited to tender and that the Council will need to meet its obligations under the Freedom of Information Act.

6. EUROPEAN PROCUREMENT RULES

6.1 Introduction

6.1.1 Whilst European procurement rules prevail, officers are expected to follow the principles set out in the Council’s Contract Procedure Rules.

6.1.2 The European procurement rules are complex with significant penalties if the legislative requirements are not strictly adhered to. All officers are therefore responsible for seeking advice and guidance at all stages of the process from the Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services.

6.2 European Limits

6.2.1 The following table sets out the public sector thresholds for 1st January, 2008 to 31st December, 2009:

	Supplies	Services	Works
Public Sector Contracting Authorities	£139,893	£139,893	£3,497,313
Indicative Notices	£509,317	£509,317	£3,497,313

6.2.2 The figures are revised every two years on 1st January and officers should check with the Head of Legal & Democratic Services for the latest values.

6.2.3 If a contract for supplying goods or services will be worth more than the limits set out in the table above, the contract is likely to be governed by EC Directives and English Regulations.

6.2.4 The value limits apply to individual contracts and groups of contracts with similar characteristics that are to be agreed in the same year. Contracts with similar characteristics have to be added together to see whether they have reached the value limits. This is to prevent organisations packaging similar contracts into small units to avoid the rules.

6.2.5 Individual contract values are calculated as follows:

- a) If the contract is part of a series or is renewable, its value will be:
- The value given in the previous financial year (over a 12-month period).
- Or
- The estimated value over the next 12 months from the date the goods, work or service is first provided.
- b) If the contract is for a fixed term of less than four years, the value will be the total value of the contract.
- c) If the contract has no end date or is for a fixed term of more than four years, the value will be the monthly value of the contract multiplied by 48.

6.2.6 If more than one of the above applies, the method that gives the highest value must be used. Again this is to prevent organisations by-passing the rules by choosing a calculation that puts a contract or group of contracts below the value limit.

6.2.7 Once the value of each contract has been calculated, it must be added to the value of other contracts with similar characteristics. If the value of a contract or group of contracts with similar characteristics is greater than the value limit, European procurement rules must be followed. To ensure that the aggregation rules are properly applied, Contract Monitoring Officers should liaise with the Strategic Procurement Manager for all contracts in excess of £50,000.

6.2.8 **Before going any further with a European procurement process, officers must discuss the next steps with the Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services.**

6.3 Awarding Contracts Subject to European Procurement Rules

6.3.1 Before issuing an award notification, or if contact is made by an unsuccessful tenderer at any time during the standstill period, contact the Head of Financial Services or Strategic Procurement Manager or your external procurement consultants for advice.

6.3.2 To ensure compliance with European procurement rules there must be a **minimum** standstill period of 10 calendar days between advising all tenderers of the award decision and the actual award of the contract. This 10-day standstill period incorporates other specific deadlines that can result in the standstill period being extended.

6.3.3 The standstill period is to allow unsuccessful tenderers an opportunity to challenge any award decision. Where a legal challenge is made within the 10-day standstill period, the contract cannot be awarded until the outcome of the application to court is known. **It is imperative that any correspondence amounting to an acceptance letter is not issued during this period.**

6.3.4 The written notification to the unsuccessful tenderers which triggers the standstill period **must** contain:

- a) The award criteria.
- b) The tenderer's score (where appropriate).

c) The winning tenderer's score (where appropriate).

d) The name of the winning tenderer.

6.3.5 The European procurement rules require tender results to be published in the Official Journal within 48 days of the date a contract is awarded. This must be done in consultation with the Head of Legal & Democratic Services.

6.3.6 The Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services must be consulted on all EU procurements.

7. FRAMEWORK CONTRACTING

7.1.1 Framework contracting involves selecting a contractor from a list of contractors on an approved "Framework" for given works, goods or services. The contractors are included on the Framework following a tendering exercise to establish capability, quality and value. The tendering procedures will have had to comply with any relevant English or European law.

7.1.2 Purchasers can enter into subsequent 'call-off' contracts from a Framework. Framework contracting is becoming increasingly prevalent in an attempt to avoid bureaucracy and achieve best values via economies of scale.

7.1.3 Frameworks can be externally formed (e.g. by Government) or internally formed (e.g. by the Council). The number of approved contractors on a Framework can vary but the minimum number should be three. Frameworks should not be confused with internal Approved Contractor Registers.

7.1.4 When an external Framework is formed general terms and conditions are agreed between the Framework contractors and the Framework organiser. These pre-agreed terms and conditions will form a major part of any purchasers' 'call-off' contract and contractors are not obliged to agree to any amendments to them.

7.1.5 From the 1st January 2006, **EU Procurement Directive 2004/18/EC** has governed the process under which contracts under Frameworks are to be awarded and in the interests of competition has placed a maximum duration of 4 years on any Framework (unless special justification can be made for a longer period).

7.1.6 Officers must take the following steps to ensure compliance with EU Procurement Directive 2004/18/EC when using a Framework contract created since the 1st January 2006:

a) All the contractors on a Framework that are capable of meeting the purchaser's specification must be allowed to submit a bid against that specification.

b) The reasons for selecting a smaller number of contractors on a Framework must be clearly evidenced.

c) Award of contract must be on the basis of the criteria for the Framework as set out in the Framework agreement itself, that is, within the original tender documentation setting up the Framework.

7.1.7 The Head of Financial Services or Strategic Procurement Manager and the Head of Legal & Democratic Services must be consulted on all Framework contract procurements.

8. OTHER PROCUREMENT PROCEDURES

- 8.1 There are a number of other procurement procedures that may be available in particular circumstances:
- a) Design contests, particularly in the fields of planning, architecture, civil engineering and information technology.
 - b) Public housing schemes where the size and complexity of schemes necessitate the close collaboration between the Council and Contractors.
 - c) Concession contracts where contractors derive income from the completed work, for example a toll bridge.
- 8.2 The Head of Financial Services or Strategic Procurement Manager and Head of Legal & Democratic Services must be consulted regarding any proposals to follow any such procedures.

9. CONTRACTS UNDER SEAL

- 9.1 All contracts for building, engineering (excluding highway maintenance), property repairs and property maintenance works with an estimated value in excess of the European procurement limit for supplies and services (currently £140,000) shall be sent to the Head of Legal & Democratic Services for execution under the Council's seal.

10. EXEMPTIONS FROM THE COUNCIL'S CONTRACT PROCEDURE RULES

- 10.1 Exemptions from the Council's Contract Procedure Rules are only allowed in exceptional circumstances such as there being insufficient suppliers for the goods, works or services being procured. Permission must be obtained for any exemption from the Head of Financial Services or Strategic Procurement Manager **and** Head of Legal & Democratic Services. Major contracts may be subject to the European procurement rules and the Head of Legal & Democratic Services cannot provide an exemption from those requirements.
- 10.2 A written application for an exemption from the Council's Contract Procedure Rules must be made to the Head of Legal & Democratic Services setting out the reasons for the application. The Head of Legal & Democratic Services must respond within 21 days. If agreed by the Head of Legal & Democratic Services, the exemption must be approved in accordance with the Council's Constitution.
- 10.3 Tenders need not be invited in accordance with the provisions of section 5 of the Council's Contract Procedure Rules if an urgent decision is required, for example for the protection of life or property or to maintain the functioning of a public service. Wherever possible though, at least two quotations must be obtained and the provisions within the Council's Financial Procedure Rules for making urgent decisions must be followed.

WORK PROGRAMME

Report By: Director of Corporate and Customer Services

Wards Affected

County-wide

Purpose

1. To consider the Committee's work programme.

Background

2. A report on the Scrutiny Committees' current work programmes will be made to this Scrutiny Committee quarterly. A copy of this Committee's own work programme will be made to each of its scheduled meetings. A copy of this Committee's current work programme is therefore attached for this meeting.
3. Should Members become aware of any issues they consider may be added to the scrutiny programme they should contact the Chairman to log the issue so that it may be taken into consideration when planning future agendas or when revising the work programme.
4. The Committee's attention is drawn to the following two requests from the Audit and Corporate Governance Committee:
 - (16 November 2007) – "that the Strategic Monitoring Committee be requested to revisit the review that had been carried out in respect of ICT"
 - (30 November 2007) – " that Strategic Monitoring Committee be requested to review the control of asset management processes and procedures and actions which are taken against officers who do not adhere to these rules"

RECOMMENDATION

THAT the current Work Programme serves as a basis for further development, subject to any comment the Committee wishes to make.

BACKGROUND PAPERS

- None

Strategic Monitoring Committee – work programme 2007/08

February 2008	
	<ul style="list-style-type: none"> • Revenue budget consideration • Capital Programme • Work Programme
10 March 2008	
	<ul style="list-style-type: none"> • Corporate Plan • Confirmation of Comprehensive Performance Assessment and Direction of Travel Assessment Scores for 2007. • Managing Performance Management Progress Report • Integrated Performance Report • Draft Community Strategy Action Plan • Smallholdings Policy • Review of Constitution • Comprehensive Area Assessment Programme • The findings of the Annual Satisfaction Survey • Work Programme
	TBC
	<ul style="list-style-type: none"> • Accommodation Strategy • ICT Services Executive Action Plan – progress report /cross reference with request from Audit and Corporate Governance Committee • Pay and Workforce Development Strategy monitoring (inc Staff Opinion Survey) • Comprehensive Equality Policy • Review of Constitution • Scrutiny Development Plan • Analysis of Complaints to the Ombudsman – Planning • Work Programme
28 April 2008	
	<ul style="list-style-type: none"> • Integrated Performance Report • Community Strategy Action Plan Monitoring • Annual Efficiency Statement • Service Plan Monitoring/Proposals • Progress Report on Strategic Service Delivery Partnership • Work programmes

Other issues

- Review of Provision of School places
- User Satisfaction Surveys.
- Review of the Constitution.
- Gender Equality Scheme Monitoring (reported March 2007 6 month/annual).
- Comprehensive Equality Scheme Action Plan monitoring.
- Scrutiny of Police/Crime and Disorder Reduction Partnership.
- Electoral Registration issues - polling station reviews
- Elections Action Plan - Monitoring
- Scrutiny Process (suggestion from member of the public)
- Definition of Senior Citizens (Request from member of the public)
- Communications Strategy Monitoring

(Items referred by Audit and Corporate Governance Committee – see covering report)

Further additions to the work programme will be made as required