

Chief Executive's Office

Chief Executive: N.M. Pringle

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

Your Ref:

Our Ref: NMP/CD

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11th February, 2004

Dear Councillor,

**MEETING OF CABINET
THURSDAY, 19TH FEBRUARY, 2004 AT 2.15 P.M.
COUNCIL CHAMBER, BROCKINGTON, 35 HAFOD ROAD, HEREFORD**

AGENDA (03/23)

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

To receive any declarations of interest by members in respect of items on this agenda.

3. REVENUE BUDGET 2004/05

To formulate Cabinet's recommendations to Council on the budget for 2004/05 and the associated level of Council Tax. *(Pages 1 - 58)*

4. 2004/05 OTHER AREAS CAPITAL PROGRAMME, PRUDENTIAL INDICATORS AND 2004/05 TREASURY MANAGEMENT STRATEGY

To (a) determine the level of unsupported borrowing for capital expenditure for 2004/05 to be recommended to Council; and

(b) endorse the Prudential Indicators, including the projected Capital Programme, and Treasury Management Strategy for 2004/05 for Council approval. *(Pages 59 - 84)*

5. STRATEGIC MONITORING COMMITTEE

To note the report of the Strategic Monitoring Committee to Council. *(Report to follow)*

EXCLUSION OF THE PUBLIC AND PRESS

In the opinion of the Proper Officer, the next item will not be, or is likely not to be, open to the public and press at the time it is considered.

RECOMMENDATION:

That the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Schedule 12(A) of the Act as indicated below.

6. SINGLE STATUS/JOB EVALUATION

To consider arrangements to complete the introduction of Single Status employment. *(Members are asked to refer to the report included with the agenda papers for the meeting of 12th February, 2004, which they should bring to the meeting. Supplementary papers will be circulated as necessary.)*

This item discloses information relating to any consultations or negotiations, or contemplated consultations or negotiations, in connection with any labour relations matters arising between the authority or a Minister of the Crown and employees of, or office-holders under, the authority.

Yours sincerely,



N.M. PRINGLE
CHIEF EXECUTIVE

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

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- 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.
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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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REVENUE BUDGET 2004/05

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

19TH FEBRUARY, 2004

Wards Affected

County-wide.

Purpose

To formulate Cabinet's recommendations to Council on the budget for 2004/05 and the associated level of Council Tax.

Key Decision

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

Recommendation

THAT Revenue Budget proposals for 2004/05 be finalised and decisions taken on the consequent level of Council Tax for recommendation to Council.

Reasons

To agree a recommendation to Council.

Considerations

1. At its meeting on 29 January 2004, Cabinet considered the recommendations of the Budget Panel regarding the parameters for preparation of the Revenue Budget for 2004/05.
2. The following paragraphs detail the information reflected in the report considered by Strategic Monitoring Committee as a basis for commenting on the budget proposals prior to a final recommendation from Cabinet to Council. The recommendations of Strategic Monitoring Committee are contained in paragraph 30.

Medium Term Financial Plan

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

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

4. The priorities for the Medium Term Financial Plan, for the four-year period 2004/05 to 2007/08, agreed by Cabinet following recommendations by the Budget Panel are as follows:
- The underlying principle of the medium-term financial strategy is that the Council would intend to maintain the real purchasing power of current revenue budgets throughout the life of the planned period 2004/2005 to 2007/2008.
 - An acceptance that the Education budget will largely be driven by a national agenda which has driven investment in Education above the level of inflation throughout the life of this Council. The emphasis within that investment is on passporting cash to schools. The Council wishes to support that approach whilst recognising that this can create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics. The Council does, however, believe that spending on Education must be contained within these allocations.
 - There will be a need to continue to strengthen the Social Care budget through the medium-term financial plan period if the Council is to maintain improvement in this key area of its performance. This is particularly true in the area of care for older people where the Council spends significantly below its FSS. The Council will need to quantify its approach to the Business Case presented for the improvement and development of Older People's Services.
 - The Council has been postponing investment in information and communications technology, partly because of its poor and inconsistent inheritance but also because of the difficulty of making judicious investment in those areas based on the occupation of existing accommodation. Investment cannot, however, be further postponed without the Council risking failure in the way it works and delivers services to the public.
 - The Council needs to address its performance in relation to highways, transport, planning and waste. This will require investment but also requires the Council to support significant changes in the pattern of provision.
 - There is a need to continue to resource activity, which is of direct benefit to the community. Recent inspections have led to criticism of levels of investment in adult learning and libraries. The Council needs to maintain resources for these services if it is to continue to offer them. If it is unable to maintain those minimum levels of resources, then it needs to consider in some cases whether to continue to maintain the services at all in some areas.
5. In addition, Cabinet will also need to consider the extent it wishes to resource any additional borrowing required as a consequence of the Prudential Guidelines. Following initial consideration on 29 January, the budget recommendations allow for £5,000,000 of additional borrowing in 2004/05. Broadly speaking, each £1,000,000 of capital investment incurs an ongoing revenue cost of £100,000 per annum. The Medium Term Financial Plan will need to incorporate sums consistent with the Council's aspirations for capital spend within Prudential Guidelines. A provisional sum of £5,000,000 per annum is reflected in the report on the Prudential Indicators elsewhere on the agenda.

6. A critical component in determining local priorities will be the outcomes anticipated from the investment of such sums.

Applying the Medium Term Financial Process to Budget Policy

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

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

Status and Risks

8. Clearly a feature of the budget proposals is the potential impact in terms of Council Tax. However, it is also vital that the Council has regard to the risks faced, both in terms of impact on service delivery and its status and reputation, in determining its Medium Term Financial Plan. The following paragraphs highlight the status and risk issues to be considered.
9. The Council has maintained its position as a "Good" authority as part of the revisit of the Audit Commission's Comprehensive Performance Assessment and has achieved a top score of 4 on the use of resources. The Council has made progress on its service scores for Benefits but has fallen back in its Education score. It needs to continue to apply resources to achieving through its Improvement Plan "Committed to Excellence". The assessment of the Council's financial standing by its external auditors remains satisfactory. They express themselves satisfied that the Council remains in a position to drive forward improvement. The Council has been advised that it is eligible for a corporate assessment in 2004 (with a view to progressing to excellent) although the current steer of the Council, agreed by Cabinet, is to await the next CPA round in 2005. It does, however, need to invest in its medium-term financial planning but also to concentrate on detailed aspects of audit, particularly in relation to Best Value Performance Indicators and information security.
10. The Council does, however, face significant risk in the following areas over the medium term:
 - (a) The Social Care budget, which without ongoing investment would place the Council at risk with a growing prospect of increased expectation, increasing number of clients and increased exposure to challenge.

- (b) The difficulty of estimating the escalating costs of waste disposal and collection. There are a number of facets such as the need to re-negotiate the Waste Disposal PFI contract and the pressure of ever-increasing volumes of waste (above those estimated), coupled with the annual increases in landfill tax. There is also the cost of recycling, particularly in a scattered rural community. The standstill budget reflects the costs associated with anticipated increases in waste volumes and a provisional allowance for increased costs. A figure in the order of £800,000 to £900,000 per annum has been included.
 - (c) There is a need to continue to address issues of levels of performance within Environment and Planning, which contribute to poor inspection scores in these areas.
 - (d) In relation to other service areas, national targets and standards, which are subject to a variety of inspection regimes, do have to be met, both in the short and medium-term. They require either a realistic budget provision or for the Council to formulate a strategy for dealing with the non-achievement of those targets.
 - (e) Regarding the late additional monies in this year's settlement, it is not known at this time whether they will be made available again next year. If not, that would place a further pressure on the Council Tax.
 - (f) The Council is due to receive an actuarial review of the Pension Fund, during 2004, which will review employer contributions, and until such time as this report is received, additional costs could exceed those currently predicted.
11. As reported to Cabinet in December, the Local Government Act 2003 has a number of implications for local authorities. Section 25 requires the County Treasurer to report to the Council when it is determining the budget and council tax each year. The County Treasurer is required to give professional advice on those two elements which are inter-dependant and must be considered together. Decisions on the appropriate level of reserves must be considered in the context of risk and uncertainty, with decisions ultimately guided by advice based on an assessment of all the circumstances considered likely to affect the Council. Paragraphs 13 and 14 below reflect this requirement. Statements of reserves are attached at appendices 1A and 1B.
12. Cabinet is recommending, as part of the overall budget package, that reserves are reinstated in accordance with last year's Council resolution by accumulating that sum over the period of the Medium Term Financial Plan by utilising the additional income raised from second homes (circa £300,000 per annum). Such an approach is fundamentally linked to the additional investment proposed which will help to minimise the risk to the Council's budget over the Plan period given the overall level of reserves currently held by the Council. The position would, of course, require ongoing monitoring and formal review each year as part of the budget process.
13. The County Treasurer, in considering the robustness of the estimates reflected in the budget and the adequacy of general reserves, has taken into account the following factors:
- **Realism of budget provision for:**
 - Pay awards and price increases.

- Income, particularly that of a volatile nature.
 - Demand led services, most notably but not exclusively within Social Care and Waste Management.
 - **Financial management arrangements currently in place including:**
 - Revenue and Capital monitoring and reporting procedures .
 - Treasury Management best practice.
 - Income collection and debt management procedures.
 - Specific provisions and estimated reserves.
 - Financial control procedures and internal audit reviews.
 - Risk management and contingency planning procedures.
 - **External influences**
 - Potential claims against the Council.
 - Economic considerations.
 - Major unforeseen events or emergencies.
14. On balance, and having regard to all relevant factors known to him, the County Treasurer is satisfied that the budgets proposed are realistic and the level of reserves, subject to paragraph 12 above, are adequate. That judgement does, however, rely on the recommendation made in Paragraph 19 of the report to Cabinet on 29th January 2004. That paragraph recognised that the change in administration had impacted on the budget process for 2004/05. It spelt out the process for dealing with these issues for 2005/06 to improve the alignment of financial risks with strategic and service priorities. For 2004/05 a one-off “budget implementation” exercise would be undertaken to ensure that any potential issues arising from the 2004/05 budget are identified early and addressed.

Current Year’s Budget and emerging budget pressures

15. The main features arising from this year’s revenue budget which are relevant to the medium-term financial plan are:
- Demographic demand for older peoples services.
 - Waste management – increasing volumes.
 - Loss of external income – support services
 - ICT support
 - Reducing income:
 - Land Charges.
 - Industrial Estates.
 - Commercial Property.

- Grounds maintenance:

Adopted land etc.

The pressures above have been reflected in earlier presentations to the Budget Panel. A full schedule of the budget pressures considered by the Budget Panel is attached at Appendix 5.

Standstill budget

16. A key component of the Council's budgeting process in recent years, endorsed by Council last year in adopting a set of Financial Framework Principles, has been the maintenance of the real terms purchasing power of current revenue budgets. In essence this is the impact of inflation for pay and prices on current budgets over the life of the planned period.
17. The standstill budget takes account of this anticipated inflation together with unavoidable commitments, either known or anticipated, of a **corporate** i.e. Council wide nature. Account is also taken of changes to the budget required as a result of the transfer of funding between mainstream RSG funding and Specific Grants (e.g. Children's Services Grant). The position reached is the total cost of providing current levels of service before taking into account of service pressures or any other policy decisions. Standstill budgets for 2004/05 to 2007/08 are detailed in Appendix 2 (a-b).
18. Government Funding through the Revenue Support Grant (RSG) Mechanism is then taken into account to arrive at the Council Tax required to meet the approved level of spending.

Revenue Support Grant Settlement

19. The final settlement is reflected in Appendices 3 (a-c). The figures incorporate the Council's share of the further injection nationally of £340 million to mitigate increases in Council Tax, i.e. £1.2 million.
20. As a consequence, Central Government support, incorporating both RSG and redistributed business rates, as a proportion of Formula Spending Share (FSS) increases from 63.6% to 64.3%% compared to 63% in 2003/04.
21. As can be seen from Appendix 3(a), the main increases in FSS are Education, maintaining government plans for annual increases in the order of 5%, Personal Social Services reflecting increasing numbers of older people and Capital Financing costs, reflecting the Council's success in attracting supported borrowing approvals to facilitate capital investment. Data from the Comprehensive Spending Review would indicate that this trend is likely to continue into 2005/06 with little clear indication beyond that point other than the potential for a general downturn as a consequence of the overall economic situation and fiscal policy.

Council Tax Capping

22. An extremely complex position is developing in relation to the prospect of capping for the forthcoming financial year.
23. In 2003/04, authorities rated as Excellent or Good in the Comprehensive Performance Assessment were immune from capping. The current Government has never exercised its power to cap the expenditure of a local authority although it

reserves the right to do so. It has called in Councils (including Herefordshire) to give an explanation for their spending plans but has not so far resorted to capping.

24. The prospect of capping has been re-introduced for all Councils this year as a result of announcements made by the Office of the Deputy Prime Minister faced with what was considered to be unacceptable council tax rises in the current year. The Audit Commission has recently reported on those issues and has concluded that much of the council tax increase in the current year was generated by the change in the Government's support arrangements for local authorities. This is very easily illustrated in Herefordshire by reference to the Government's systems under SSA and FSS. If the Council had spent at SSA in the last year of the SSA system then 32% of its expenditure would have been met by the council taxpayer. If the Council had levied its council tax in 2003/04 at FSS (i.e. 17.3%) then 37% of the Council's expenditure would have been met by the council taxpayer. That is a very stark indication of the Audit Commission's conclusion. Local authorities were not, however, immune from criticism and there were particular comments about the inability/unwillingness of Councils who do not expect to drive down costs in the provision of additional services.
25. Since the Audit Commission's report, as mentioned above, the Office of the Deputy Prime Minister has injected additional monies into local government. Herefordshire has gained from that additional allocation. It is therefore extremely difficult to predict the approach to capping in the forthcoming year. Government will always be reluctant to cap more than a handful of authorities. Costs involved in rebilling all council tax payers (this is because the council tax bills have to go out before the Government can exercise its right under the capping regime) means it is an exercise which is carried out at the expense of the public purse and that is unsustainable if a large number of authorities are capped. We know that there are Councils that are already contemplating figures significantly in excess of that which will be faced by Herefordshire but better information will emerge on those issues in the coming weeks.
26. The initial indication was that the Office of the Deputy Prime Minister was unlikely to cap authorities (in year) but that they might impose a limit in line with the Government guideline for the ensuing financial year. Whilst the announcement from the Office of the Deputy Prime Minister might appear to have changed that stance, given that a General Election may well be held in 2005, technically the capping of authorities' spend for the ensuing year 2005/06 would still appear to be the more likely prospect. The position is, however, much more uncertain than it was immediately post the provisional settlement. This is a judgement for the Council as a whole to make and it can only be effectively made when better information is available about the increases likely to be imposed by other local authorities.
27. Whatever the level of resourcing the Council determines for the medium term financial planning, then the balance of advantage will still seem to lie in raising a significant amount of the total funding in the first year with reducing sums in the subsequent three years. This is a pattern, when coupled with effective communication strategies, that appears to have served other authorities well in creating a constructive approach to their medium-term financial planning.

Initial proposals from Cabinet

28. The initial proposal from Cabinet for further consultation, based on the provisional Revenue Support Grant (RSG) settlement, is a total budget of £176.409m, which implies a Council Tax at Band D of £972.50. After taking account of the final RSG settlement, the revised total is £176.433m, producing a Council Tax at Band D of £972.45, which may be summarised as follows:

	£000	£000
Standstill budget reflected in Appendix 2		174,013
Cabinet Budget proposals		
Correcting current budget under provision	520	
Older Peoples Services	1,000	
ICT infrastructure	700	
Other Services	<u>200</u>	<u>2,420</u>
Total Budget requirement		176,433

29. Supporting schedules detailing the budget for each programme area are attached at Appendix 4.

Recommendations from Strategic Monitoring Committee

30. Cabinet will wish to consider the observations made by Strategic Monitoring committee at its meeting on 9th February, which are to be found in the report from the Committee included at Item 5 on this agenda.

Consultation arrangements

31. The Council has consulted widely on the overall budget position incorporating the following approaches:
- County-wide participation through Herefordshire Matters survey.
 - Council Tax roadshows, in Hereford and all market towns.
 - Town Centre street surveys.
 - Business community consultation meeting.
32. The key points emerging from the consultation meetings are:
- A concern at the recent levels of increase in Council Tax, particularly by those on fixed incomes.
 - A recognition that this is a national issue and not limited to Herefordshire.
 - A concern that rural issues are not fully addressed in government funding of local

authorities.

- An acknowledgement that the continued search for efficiencies would not in itself be sufficient to significantly reduce Council Tax bills.
33. The results of the countrywide consultation are currently being collated and will be presented at the meeting.
 34. Cabinet is invited to formulate its final recommendations to Council on the budget for 2004/05 and the associated level of Council Tax.

Risk Management

Due consideration of budget pressures is required to ensure that financial resources are attached at Appendix 4.

Consultees

Budget Panel, Strategic Monitoring Committee and the general public.

Background Papers

Report to Strategic Monitoring Committee – 9 February 2004.

Report to Cabinet – 29 January 2004.

STATEMENT OF RESERVES AND BALANCES

	£000
General Reserves (estimated March 2003)	
Minimum prudent position	3,000
Additional sum held in excess of above figure (Capital and Revenue)	<u>2,550</u>
	<u>5,550</u>
Other Provisions and Reserves at 31 March 2002	
Schools Delegated Budgets	
Retained at discretion of governing bodies	4,725
Winter Maintenance Reserve (Gritting)	
Retained to even out year on year fluctuations	108
Magistrates' Court PFI Grant	
Grant monies held to fund new courts provision.	465
Insurance	
Set to meet future insurance excesses and uninsured loss (self insurance)	873
Bad debts	
Former Hereford and Worcester debtors.	172
IT Renewals	
Provision to meet planned PC replacements etc.	256
Maintenance of Open Spaces	
Commuted lump sums utilised to meet additional maintenance liabilities	121
Planning	
Section 106 Agreements	106
Engineering Services	
Largely to cover potential bad debts	237
Miscellaneous	
Other minor provisions retaining funds held for specific purposes	233

APPENDIX 1B

STATEMENT OF RESERVES AND BALANCES

	£000
General Reserves (estimated March 2004)	* 3,175
Other Provisions and Reserves at 31 March 2003	
Schools Delegated Budgets	
Retained at discretion of governing bodies	4,704
Winter Maintenance Reserve (Gritting)	
Retained to even out year on year fluctuations	108
Magistrates' Court PFI Grant	
Grant monies held to fund new courts provision.	990
Insurance	
Set to meet future insurance excesses and uninsured loss (self insurance)	962
Schools Balance of Risk	
Internal insurance for schools	128
Bad debts	
Former Hereford and Worcester liabilities	136
Maintenance of Open Spaces	
Commuted lump sums utilised to meet additional maintenance liabilities	162
Planning	
Section 106 Agreements	78
Engineering Services	
To cover bad debts	248
Initiatives Fund	
To fund projects	149
Miscellaneous	
Other minor provisions retaining funds held for specific purposes	524

*** Includes sums committed to J.E. process for 2004/05**

Consideration of the Budget 2004/05**Maintenance of the real term spending power of existing budgets**

As reflected in the medium-term financial framework, budgets are updated each year to take account of inflation and also known commitments of a corporate nature. A number of policy commitments have also been added in line with decisions taken when setting the budget for 2003/04.

	£'000
Pay and Price Increases	
An estimate of likely pay awards is made each year, differentiating where appropriate between groups of employees, e.g. teachers. A general allowance is made for increases in prices usually in line with the appropriate Retail Price Index.	4,533
Education	
The Education budget is reinstated to FSS to meet the DfES requirement to 'passport' to schools.	2,247
Capital Financing Costs	
As the Council makes use of supported borrowing granted, the additional interest and repayments generated are reflected. The Council's FSS is updated annually on a similar basis.	1,711
Precepts and Levies	
With effect from the 1st April 2004 the Fire Authority will become a precepting body and therefore their budget (£5.395 million) will not form part of the Council's budget. Flood Defence and Land Drainage levies anticipated increases are reflected accordingly.	(5,315)
Waste Management Costs	
The Council has accepted the PFI contract as a corporate financial responsibility and costs as a result of increased volumes of waste, landfill tax and other additional costs are reflected.	830
Other Corporate Costs	
Where appropriate, additional costs are reflected for corporate budgets such as insurance, LPSA expenditure (youth offending), Race Equality Steering Group, Job Evaluation costs etc.	732
Exceptional Items	
The next financial year sees a transfer of funding from specific grants to mainstream FSS for Social Care Children's services (£1.131 million). The next financial year sees a transfer of funding to specific grants from mainstream FSS for Council Tax Benefit and Rent Allowances of £1 million	131
One-off budgets in 2003/04	
One-off budgets allocated in 2003/04 that are not required in future years, including the use of £0.4 million from reserves for Social Care and Highways, are removed	(600)
Replenish Reserves	
Following the use of £1.9 million of reserves in 2003/04, a sum of £0.3 million has been set aside to replenish reserves in 2004/05	300

4,569

	2004/2005		2005/2006		2006/2007		2007/2008		
	Total £'000	Education £'000	Other Services £'000	Total £'000	Education £'000	Other Services £'000	Total £'000	Education £'000	Other Services £'000
Base Budget	169,444	79,723	89,721	174,013	84,054	89,959	185,946	89,181	96,765
Inflation	4,533	2,084	2,449	6,136	2,657	3,479	5,097	2,661	2,436
	173,977	81,807	92,170	180,149	86,711	93,438	191,043	91,842	99,201
Other Items									
- Waste management - PFI Contract	530		530	661		661	325		325
- Waste disposal (contract renegotiation)	300		300	250		250	500		500
- Flood Defence & Land Drainage Levies (above inflation)	167		167	127		127	0		0
- LPSA expenditure (Youth Offending)	30		30	0		0	(30)		(30)
- Corporate (Race Equality Steering Group)	50		50	0		0	0		0
- Corporate (Public Liability Insurance)	100		100	0		0	0		0
- Corporate (Other)	92		92	0		0	0		0
- Jarvis (Ongoing Contract Service Deficit)	600		600	0		0	0		0
- Jarvis (Contract Service Benefit)	(600)		(600)	0		0	0		0
- Hereford City Council	60		60	0		0	0		0
- Job Evaluation	400		400	805		805	(100)		(100)
- Hampton Bishop Stank (2003/04 one off expenditure)	(200)		(200)	0		0	0		0
- Use of Reserves re: Social Care & Highways (2003/04 one off ex)	(400)		(400)	0		0	0		0
- Changes in Capital Financing Costs	1,501		1,501	1,484		1,484	1,429		1,429
- Repayment of LGR SCA	210		210	0		0	0		0
- Council Tax Benefit & Rent Allowances transfer	(1,000)		(1,000)	0		0	0		0
- Whitecross School - PFI Contract	0		0	700		700	0		0
- Social Care Children Services	1,131		1,131	0		0	0		0
- Reduction in Flood Defence (direct funding of Env Agency)	(87)		(87)	0		0	0		0
- Replenish Reserves	300		300	0		0	0		0
- Fire Authority - Precepting Authority	(5,395)		(5,395)	0		0	0		0
	(2,211)	0	(2,211)	4,027	700	3,327	2,124	0	2,124
	171,766	81,807	89,959	184,176	87,411	96,765	193,167	91,842	101,325
Reinstated Education budget at FSS	2,247	2,247	0	1,770	1,770	0	906	906	0
TOTAL STANDSTILL BUDGET	174,013	84,054	89,959	185,946	89,181	96,765	194,073	92,748	101,325

Assumed FSS (Excluding Fire)

173,103

184,781

192,172

199,859

Assumptions

Assumed Pay and Price Increase

Employees - 3%
Teachers - 2.5%Employees - 3%
Teachers - 2.95%Employees - 3%
Teachers - 3%Employees - 3%
Teachers - 3%

Assumed FSS increase (as per Consultation/Spending Review)

2.4% cash increase
5.9% 'real' increase
7.0%Other Expenditure - 2.5%
Income - 2.5%Other Expenditure - 2.5%
Income - 2.5%Other Expenditure - 2.5%
Income - 2.5%Assumed Net Aggregate External Finance increase (as per
Consultation/Spending Review)2.4% cash increase
5.9% 'real' increase
7.0%Other Expenditure - 2.5%
Income - 2.5%Other Expenditure - 2.5%
Income - 2.5%Other Expenditure - 2.5%
Income - 2.5%

Assumed Collection Fund Surplus

£0.4million

£0.4million

£0.4million

£0.4million

NOTE

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

	2003/2004 (LGFS)	Adjustments	2003/2004 Adjusted Base	2004/2005 (LGFS)	Cash Increase	'Real' Increase
NATIONAL POSITION (£m)						
EDUCATION	25,014	17	25,031	26,402	5.6%	5.5%
PERSONAL SOCIAL SERVICES	11,171	524	11,695	12,427	11.2%	6.3%
FIRE	1,778	(0)	1,778	1,848	3.9%	3.9%
HIGHWAY MAINTENANCE	1,954	0	1,954	2,004	2.6%	2.5%
E P C S	11,570	(729)	10,841	11,152	(3.6%)	2.9%
CAPITAL FINANCING	2,269	0	2,269	2,387	5.2%	5.2%
POLICE	53,756	(187)	53,569	56,220	4.6%	4.9%
TOTAL	4,152	(0)	4,152	4,355	4.9%	4.9%
	57,908		57,721	60,575	4.6%	4.9%
HEREFORDSHIRE POSITION (£000's)						
EDUCATION	79,723	(0)	79,723	84,054	5.4%	5.4%
PERSONAL SOCIAL SERVICES	32,490	1,103	33,594	36,186	11.4%	7.7%
FIRE	5,054	(5,054)	-	-	-	-
HIGHWAY MAINTENANCE	8,412	0	8,412	8,665	3.0%	3.0%
E P C S	36,895	(1,537)	35,358	36,603	(0.8%)	3.5%
CAPITAL FINANCING	6,469	(31)	6,439	7,595	17.4%	18.0%
	169,044	(5,518)	163,526	173,103	2.4%	5.9%
Adjustments, nationally:						
Education	(£22.186m) Academies))
	£28.22m Additional Budget Support Grant (Secondary)) Nil)
	£11.289m London Budget Support Grant))
Social Services	£524.0m Quality Protects Grant (Children))) £1,103k
EPCS (Environmental, Protective & Cultural Services)	£4.201m Enterprise Bill))
	(£2.5m) Animal Feedstuffs))
	(£137.463m) Council Tax Benefit))
	(£13.366m) Non-HRA Rent Rebates)) (£1,537k)
	(£339.9m) Rent Allowances))
	(£232.044m) Environment Agency Levies))
	(£8.364m) National Parks))

HEREFORDSHIRE COUNCIL SETTLEMENT 2004/2005

	2003/2004	2004/2005	
	FSS	FSS	
	£000's	£000's	Increase/Decrease
			%
EDUCATION	79,723	84,054	4,331 5.4%
PERSONAL SOCIAL SERVICES	32,490	36,186	3,696 11.4%
HIGHWAY MAINTENANCE	8,412	8,665	253 3.0%
E P C S	36,895	36,603	(293) (0.8%)
CAPITAL FINANCING	6,469	7,595	1,126 17.4%
	163,990	173,103	9,113 5.6%

FIRE	5,054	-	(5,054) (100.0%)
	169,044	173,103	4,059 2.4%

Average National Increase (as per consultation)			
Increase	2004/2005	Variance	
%	£000's	£000's	
5.6%	84,148	(94)	
11.2%	36,143	43	
2.6%	8,627	38	
(3.6%)	35,563	1,040	
5.2%	6,806	789	
4.6%	171,287	1,816	

N/A - -

The section, above, shows the position as it would be if Herefordshire received the same increases as the national increases.

Average National Increase (as per Spending Review)			
Increase	2004/2005	Variance	
%	£000's	£000's	
5.7%	84,267	(213)	
6.9%	34,732	1,454	
2.5%	8,622	43	
2.8%	37,929	(1,326)	
7.2%	6,935	660	
5.3%	172,486	618	

N/A - -

The section, above, shows the position as it would be if Herefordshire received the increases announced in the Spending Review 2002.

		Settlement 2003/2004 FSS £	Settlement 2004/2005 FSS £	Increase/ (Decrease) £	Increase/ (Decrease) %
Education	<i>Primary</i>	26,795,346	27,571,483	776,137	2.90%
	<i>Secondary</i>	27,087,627	29,456,372	2,368,745	8.74%
	<i>Under 5</i>	7,620,167	7,827,614	207,447	2.72%
	<i>High Cost Pupils</i>	6,247,269	6,842,961	595,692	9.54%
	<i>Youth & Community</i>	1,186,476	1,269,236	82,760	6.98%
	<i>LEA</i>	10,786,238	11,086,221	299,983	2.78%
		79,723,123	84,053,886	4,330,763	5.43%
Personal Social Services	<i>Children</i>	6,411,119	7,842,525	1,431,406	22.33%
	<i>Other</i>	9,246,305	9,594,487	348,182	3.77%
	<i>Elderly (Combined)</i>	16,833,000	18,749,224	1,916,224	11.38%
		32,490,424	36,186,235	3,695,811	11.38%
Fire		5,053,754	-	(5,053,754)	(100.00%)
Highway Maintenance		8,411,935	8,665,290	253,355	3.01%
E P C S	<i>District</i>	22,958,761	23,124,228	165,467	0.72%
	<i>County</i>	11,300,118	11,672,302	372,184	3.29%
	<i>Rent Allow Payments</i>	993,573	-	(993,573)	(100.00%)
	<i>Flood Defence</i>	1,343,017	1,502,802	159,785	11.90%
	<i>Continuing EA Levies</i>	-	3,326	3,326	-
	<i>Fixed Costs</i>	300,000	300,000	0	0.00%
		36,895,469	36,602,657	(292,812)	(0.79%)
Capital Financing		6,469,355	7,595,252	1,125,897	17.40%
Totals		169,044,060	173,103,321	4,059,261	2.40%

SUMMARY

	Settlement 2003/2004 FSS £	Settlement 2004/2005 FSS £	Increase/ (Decrease) £	Increase/ (Decrease) %
EDUCATION	79,723,123	84,053,886	4,330,763	5.43%
PERSONAL SOCIAL SERVICES	32,490,424	36,186,235	3,695,811	11.38%
FIRE	5,053,754	-	(5,053,754)	(100.00%)
HIGHWAY MAINTENANCE	8,411,935	8,665,290	253,355	3.01%
E P C S	36,895,469	36,602,657	(292,812)	(0.79%)
CAPITAL FINANCING	6,469,355	7,595,252	1,125,897	17.40%
	169,044,060	173,103,321	4,059,261	2.40%

SUMMARY BUDGET 2004/2005

	£'000
Education	84,054
Social Care	36,906
Policy & Finance General	12,524
Policy & Finance Property	1,313
Environment - General	18,230
Environment - Regulatory	2,519
Environment - Planning	2,546
Social Development	7,532
Economic Development	2,351
Strategic Housing	1,320
Total Programme Areas	169,295
Financing Adjustments etc.	7,138
Total Budget	176,433
Revenue Support Grant	(62,011)
Redistributed Business Rate Income	(49,297)
Collection Fund Surplus	(400)
Expenditure to be met from Council Tax Payers	64,725
Council Tax Base	66,559
Council Tax at Band D (excluding Special Items)	£ 972.45

<u>EDUCATION</u>		
	£'000	£'000
Base Budget 2003/2004		79,723
<u>Operating Costs</u>		
Inflation (Pay & Prices)	<u>2,084</u>	2,084
<u>Maintaining & Developing Services</u>		
Reinstate Budget to FSS to meet DfES requirement to 'passport' to schools	<u>2,247</u>	2,247
Total		<u><u>84,054</u></u>

<u>SOCIAL CARE</u>		
	£'000	£'000
Base Budget 2003/2004	34,101	
One off Use of Reserves in 2003/2004	(300)	
Children Services Grant Transfer	<u>1,131</u>	
Adjusted starting position 2003/2004		34,932
 <u>Operating Costs</u>		
Inflation (Pay & Prices)	912	
Other Cost Pressures	<u>62</u>	974
 <u>Maintaining & Developing Services</u>		
Older People Services	<u>1,000</u>	1,000
Total		<u><u>36,906</u></u>

POLICY & FINANCE - GENERAL

	£'000	£'000
Base Budget 2003/2004	17,139	
Fire Authority - Precepting Authority	(5,395)	
Reduction in Flood Defence (Direct funding from Env. Agency)	(87)	
Hampton Bishop Stank (2003/04 one-off expenditure)	(200)	
Council Tax Benefit & Rent Allowance Transfer	<u>(1,000)</u>	
Adjusted starting position 2003/2004		10,457
 <u>Operating Costs</u>		
Inflation (Pay & Prices)	413	
Flood Defence & Land Drainage Levies (above inflation)	167	
Other Cost Pressures	<u>687</u>	1,267
 <u>Maintaining & Developing Services</u>		
I.T. Development	700	
Loss of funding etc.	<u>100</u>	800
 Total		 <u><u>12,524</u></u>

POLICY & FINANCE - PROPERTY

	£'000	£'000
Base Budget 2003/2004		958
<u>Operating Costs</u>		
Inflation (Pay & Prices)	56	
Other Cost Pressures	<u>49</u>	105
<u>Maintaining & Developing Services</u>		
Property Rental Reviews	<u>250</u>	250
Total		<u><u>1,313</u></u>

<u>ENVIRONMENT - GENERAL</u>		
	£'000	£'000
Base Budget 2003/2004	16,959	
One off Use of Reserves in 2003/2004	<u>(100)</u>	
Adjusted starting position 2003/2004		16,859
 <u>Operating Costs</u>		
Inflation (Pay & Prices)	432	
Other Cost Pressures	<u>9</u>	441
 <u>Maintaining & Developing Services</u>		
Waste Management	830	
New Responsibilities	<u>100</u>	930
 Total		 <u><u>18,230</u></u>

<u>ENVIRONMENT - REGULATORY</u>		
	£'000	£'000
Base Budget 2003/2004		2,448
<u>Operating Costs</u>		
Inflation (Pay & Prices)	66	
Other Cost Pressures	<u>5</u>	71
Total		<u><u>2,519</u></u>

<u>ENVIRONMENT - PLANNING</u>		
	£'000	£'000
Base Budget 2003/2004		2,471
<u>Operating Costs</u>		
Inflation (Pay & Prices)	68	
Other Cost Pressures	<u>7</u>	75
Total		<u><u>2,546</u></u>

<u>SOCIAL DEVELOPMENT</u>		
	£'000	£'000
Base Budget 2003/2004		7,154
<u>Operating Costs</u>		
Inflation (Pay & Prices)	209	
Other Cost Pressures	<u>169</u>	378
Total		<u><u>7,532</u></u>

<u>ECONOMIC DEVELOPMENT</u>		
	£'000	£'000
Base Budget 2003/2004		2,289
<u>Operating Costs</u>		
Inflation (Pay & Prices)	58	
Other Cost Pressures	<u>4</u>	62
Total		<u><u>2,351</u></u>

<u>STRATEGIC HOUSING</u>		
	£'000	£'000
Base Budget 2003/2004		1,275
<u>Operating Costs</u>		
Inflation (Pay & Prices)	35	
Other Cost Pressures	<u>10</u>	45
Total		<u><u>1,320</u></u>

<u>FINANCING ADJUSTMENTS</u>		
	£'000	£'000
Base Budget 2003/2004		4,927
<u>Operating Costs</u>		
Inflation (Pay & Prices)	<u>200</u>	200
<u>Maintaining & Developing Services</u>		
Changes in Capital Financing Costs	1,501	
Repayment of LGR SCA	210	
Replenish Reserves	<u>300</u>	2,011
Total		<u><u>7,138</u></u>

Summary of Budget Pressures presented to Budget Panel

APPENDIX 5

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

Social and Economic Development

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

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

POLICY & FINANCE GENERAL BUDGET PRESSURES 2004/05

POLICY & COMMUNITY

	2004-05 £000	2005-06 £000	2006-07 £000	2007-08 £000
<p><i>Tackle poverty and isolation in Herefordshire</i></p> <p><u>INFO in Herefordshire</u> <u>Medium term view</u> The Council's Customer Service Strategy 2003-07 identifies the core elements for delivering a customer focused organisation. This is also underpinned by the IEG statements and the role of technology and information in the next few years. The recent launch in September 2003 of the Council's Customer Services Standards signals a stepchange in our cultural attitude to performance in this area.</p> <p>The CXMT has recently received a full report setting out the business case for service improvement, carried out organisation wide. The report effectively demonstrates the business case for a step change in the way we are organised to achieve service improvement within available resources. This paper highlights the global financial case and is currently awaiting CXMT and cabinet discussion to progress this financial year.</p> <p>The following are identified as core ingredients for the base budget in the period starting from 2004/05.</p> <p><u>INFO - Current business</u> (1) Transaction volumes have risen by 40% in 12 months and staffing has fallen by approx 15% (resignations, maternity, secondments and project work). Staff are covering extra hours, claiming travelling expenses, incurring travelling time and accumulating flexitime. Extremely difficult to continue to guarantee advertised opening hours unless growth is resourced. Permission already granted to fill vacancies but growth element remains.</p>				

<p><u>INFO - continued</u> Alternatives already deployed, moving staff from F/T to P/T creating flexibility and reducing paid break times. Possibility of creating economies of scale by integrating INFO and Library staffing at some sites. Only available in short-term at Bromyard. This has already been factored into shortfall calculation but will incur training costs.</p>	<p>20</p>			
<p>Budget shortfall for staffing - 1 FTE</p>	<p>20</p>			
<p>The funding above is regarded as essential if a level of service is to be achieved in Leominster. The footfall of CAB enquiries which is initially through INFO has increased by 22% since opening. CAB remains an underfunded service and a direct effect of not increasing funding for CAB will impact on INFO.</p>	<p>30</p>			
<p>(2) Work will progress to realise the Wesleyan Chapel as the new location for library and INFO shop at Kington. The initial business assessment indicates the need to uplift the revenue budget. However, Kington INFO Help point which was adopted in January 2002 is currently not meeting standards required. The following is requested: Upgrade of Kington office to meet service standards and risk assessment (single working in a cash office). 1 FTE required plus network links to Council legacy systems and provision of terminals. This will be transferred to the Wesleyan Chapel .</p>	<p>30</p>			
<p>1 TFE (£20,000) plus IT budget (£10,000)</p>	<p>30</p>			
<p><u>INFO - Future developments</u> Detailed costs are not known for 2004-2008. Hereford INFO shop depends on location and work of service improvement project. Kington INFO/Library service has an estimated revenue shortfall of £30,000. Ledbury INFO/Library depends on location. The Service Centre (Contact Centre) is a major decision and is due to be considered in October on how to progress.</p>	<p>10 20</p>		<p>60</p>	
<p><u>INFO - continued</u> Ledbury INFO:development costs/revenue support Hereford INFO shop (assumes 4FTE extra when live)</p>	<p>10 20</p>		<p>60</p>	
<p>Total INFO</p>	<p>80</p>		<p>60</p>	<p>20</p>

<p><u>ICT Services Audit and Inspection</u></p> <p>ICT Services incur substantial costs in supporting audits for other Directorates / Departments and they are increasing in number with e-Modernisation. Risk - the loss of income and rising cost base as staff are diverted to support these activities. The costs are included here to identify the risk, but should be shared across Directorates.</p> <p><u>Research & Development</u></p> <p>Increasing complexity of the business applications and technical environment demand more robust R&D practices to ensure corporate ICT risks are managed and best value achieved. ICT Services need to establish a function to ensure these key pressures are addressed. (2FTE)</p>	<p>30</p> <p>35</p>			
<p>Corporately manage information and ICT sub-total</p>	<p>621</p>	<p>-5</p>		
<p>2. Develop Information and ICT Competencies</p>				
<p><u>Upgrade of ICT Services staff skills and competencies</u></p> <p>In addition to basic skills training, more specialist training is required for ICT Services staff. Owing to ICT Services being within HCS until recently and the commercial model operated, allowance for staff training and development has only been possible in a limited number of cases where the client has been willing to pay. Having looked at industry benchmarks we are asking for a one-off budget of approx. £1800 per head</p>	<p>150</p> <p>40</p>	<p>-150</p>		
<p><u>Corporate Training</u></p> <p>European Computer Driving Licence (ECDL)</p> <p>To provide a corporate budget to enable the take up of this qualification in basic ICT skills, increasing confidence and ability to use IT across the whole Council</p>	<p>100</p>			
<p>Other ICT Training</p> <p>To provide a corporate budget to support the development of skills based on the national ICT skills framework, which identifies 56 skills areas, such as business case development, programme management, benefits realisation, business process redesign and procurement</p> <p>Oracle Trainer</p> <p>To provide Oracle training enabling services to maximise the use of their Oracle systems</p>	<p>55</p>			
<p>Develop Information and ICT Competencies sub-total</p>	<p>345</p>	<p>-150</p>		

<p>3. Manage Knowledge Base No bid is made under this theme as significant investment has already been made in the establishment of a knowledge management function and the development of the e-Gateway</p>			
<p>4. Manage Security and Confidentiality of Information</p> <p><u>Business continuity / disaster recovery</u></p> <p>As the Council modernises the way it works using technology, it becomes increasingly essential that the information systems and network are robust and resilient. Business continuity will minimise the downtime of ICT Services and disaster recovery will ensure that when systems do go down, they can be recovered efficiently and effectively.</p>	<p>200</p> <p>-100</p> <p>-50</p>	<p>228</p> <p>21</p> <p>26</p> <p>6</p>	
<p><u>Smart cards</u></p> <p>Smart cards are seen as a practical token for identification and authentication, to prove a person's identity before allowing them to access confidential information. It will ensure they only get to see the information to which they are entitled and no other confidential information. This will enable the development of electronic services to support single assessment for older people and supporting people where different agencies needs to share confidential client or financial information. It can be used by staff working flexibly allowing themselves to access confidential files from any location or by citizens to allow them to electronically access their own personal information.</p>		<p>65</p> <p>-5</p>	
<p><u>Security post (linked to Best Value Review)</u></p> <p>These costs are in response to the BS7799 security audit highlighting the specific need for an IT information security manager (1FTE). In addition, specialist staff would be required on the helpdesk (1FTE)</p>	<p>493</p> <p>-84</p> <p>-24</p>	<p>6</p>	
<p>Manage Security and Confidentiality of Information sub-total</p>			

<p>5. Develop Corporate Solutions</p> <p>ICT Services Personnel and skills shortage in ICT Services for the following: Oracle support (3FTE); Project management (3FTE); Programme management (2FTE); and annual software recurring revenues (£50k)</p> <p>e-Modernisation A review of Geographical Information Systems was recently commissioned through e-Modernisation to develop a corporate GIS approach and this would fund the recommended GIS strategy</p> <p>The Council needs a corporate approach to document management to meet the needs of a wide range of services such as revenues and benefits and planning as well as support electronic record management to enable the Council to meet its responsibilities under the Freedom of Information Act.</p> <p>With the appointment of a Head of Performance Management, there is a need to invest in a management information system to improve access to key statistics and performance indicators. It is not considered to require significant capital investment but will require some recurring revenue to fund a support post and ongoing system costs</p> <p style="text-align: right;">Develop Corporate Solutions sub-total</p>	303	47	-45	-6	-45
	200	-69	-130		
	670	-290			
	50				
	1,223	-312	-136		-45
<p>6. Ensure Continuity of ICT Services</p> <p>Upgrade ICT Services Customer service function</p> <p>The ICT customer service function is understaffed and lacking system support to provide the service required today. This was highlighted by the Gartner Report commissioned as part of the Best Value Review and this investment is based on their recommendations. Looking forward, with the demands around improvements in service and efficiency savings, lack of funding to upgrade the infrastructure will lead to a reduction in both service levels and efficiencies.</p> <p>ICT Services Extended Support Option 1 - 24/7 support provided by three shifts Option 2 - Extended working from 7 am to 10 pm, provided by two shifts and excluding call out charges</p> <p>ICT support for Flexible working (6FTE)</p> <p style="text-align: right;">Ensure Continuity of ICT Services sub-total (Option 1) Ensure Continuity of ICT Services sub-total (Option 2)</p>	120	-80		155 50	40
	930	-25			
	450				
	200	-55			
	1,250	-160	155	50	40
	770	-135			50
	3,932	-711	-5	1	-39
	3,452	-686	-110		

SUMMARY					
Total INFO	80	60	20		
Total ICT Services (Option 1 for extended working)	2,219	-273	155		40
Total ICT Services (Option 2 for extended working)	1,739	-248	50		0
Total e-Modernisation	1,713	-438	-160		-39
TOTAL POLICY & COMMUNITY with Option 1	4,012	-651	15		1
TOTAL POLICY & COMMUNITY with Option 2	3,532	-626	-90		-39
Capital Monies needed to support revenue bid					
Technical Infrastructure Technical Infrastructure. The current network infrastructure is inadequate. Patching around the edges to keep it operational is taking an increasing amount of time and resources with little or no medium term gain. With all the e-modernisation infrastructure that will be required a major overhaul is required or business continuity cannot be guaranteed.	1,900	1,500	1,500		1,500
Document Management This is a crude estimate of the capital costs needed to put into place a corporate approach to document management	250				
Smart Cards This is the capital cost required to put into place an infrastructure to issue and manage smart cards	395	335	135		135
Total ICT capital bid	2,545	1,835	1,635		1,635

2004/05 OTHER AREAS CAPITAL PROGRAMME, PRUDENTIAL INDICATORS AND 2004/05 TREASURY MANAGEMENT STRATEGY

PROGRAMME AREA RESPONSIBILITY – CORPORATE STRATEGY AND FINANCE

CABINET

19TH FEBRUARY, 2004

Wards Affected

County-wide.

Purpose

To determine the level of unsupported borrowing for capital expenditure for 2004/05 to be recommended to Council; and

To endorse the Prudential Indicators, including the projected Capital Programme, and Treasury Management Strategy for 2004/05 as attached to this report for Council approval.

Key Decision

These are not key decisions. The decisions will not be taken by Cabinet but by Council at its meeting on 5th March, 2004.

Recommendations

- THAT (a) It be recommended to Council that an amount of £5,000,000 be approved by means of unsupported Prudential Borrowing to meet the preferred list of capital projects.**
- (b) The Prudential Indicators detailed in Appendix 1, which include the projected Capital Programme, be endorsed.**
- (c) The Treasury Management Strategy in Appendix 2 be endorsed.**
- (d) It be recommended to Council that the borrowing limits outlined in Appendix 2 be approved.**

Reasons

Cabinet is responsible for recommending to Council the basis for allocating unsupported borrowing in line with the Council's Capital Strategy. The setting of Prudential Indicators and the reporting of the Council's Treasury Management Strategy for the coming financial year is required by the CIPFA Prudential Code for Capital Finance.

Considerations

Other Areas Capital Programme

1. At Cabinet on 29th January, members considered the need to fund the 'Other Areas Capital Programme' from Prudential Borrowing. The cost of such borrowing is not supported through the Revenue Support Grant mechanism and must, therefore, be met from Council Tax.
2. Cabinet provisionally endorsed Prudential Borrowing of up to £5,000,000 for 2004/05 and the financing costs of this are contained within the standstill budget reported as part of agenda item 2. **Appendix 1** summarises the Capital Financing costs of this, together with the ongoing costs, should members consider a similar level of Prudential Borrowing for subsequent years. The costs of subsequent years Prudential Borrowing would need to be built into the medium term financial plan. Further capital expenditure can be funded if the specific ongoing capital financing costs can be met from savings within revenue budgets and that budget can be transferred accordingly.
3. Bids have been sought from all areas of the Council which would require Prudential Borrowing as a source of funding. The established Capital Scheme Selection and Prioritisation (SSP) process has been used to assess these bids in a consistent manner against corporate objectives and other key criteria. The bids have been subject to a rigorous review and the scores attached to the recommended bids represent a weighting based on an appraisal of how each bid meets the strategic objectives of the Council and on the strength of a business case model. However, it must be stressed that the scores are purely indicative of the desirability and reasonableness of the bid. These need to be considered in conjunction with other information, such as the extent of any legal requirement and what external funding leverage might be involved.
4. It is, of course, for Cabinet to determine its priorities in establishing the Capital Programme and it is recognised that bids received thus far may not wholly reflect current priorities.
5. Although the SSP process has attempted to capture all capital requirements, it is inevitable that other requirements may exist. Cabinet Members are, therefore, invited to promote schemes for which no bid was submitted for whatever reason, through the relevant Director. Such schemes would need to be evaluated and subsequently considered for funding accordingly. It is recommended that any such additional schemes are submitted by 19 March 2004. A further report would then be presented to Cabinet to finalise those schemes to be progressed from the £5,000,000 allocation to be recommended to Council.
6. **Appendix 1** sets out a summary table of all SSP bids received net of a small amount of supported borrowing available and a revenue contribution towards the Cemetery bid. The total of these bids is £24,643,000 over the four-year period.
7. The first call on the £5,000,000 now being considered is the funding for the North Herefordshire Swimming Pool, which has already been approved by Cabinet.

Prudential Indicators

8. As Cabinet will recall from previous reports, the Prudential Code applies from 2004/05 onwards. The key objectives of the Code are to ensure that capital investment plans and treasury management decisions are made in a manner that supports prudence, affordability and sustainability.
9. The code requires the Council to set a range of Prudential Indicators (PIs) for 2004/05 and, where appropriate, for at least the subsequent two years, in order to support such local decision-making in a manner that is publicly accountable. The PIs must be set before the beginning of each financial year by Council in line with the budget setting process.
10. Regular in-year monitoring of the PIs will take place and any significant deviations from expectations are to be reported accordingly.
11. The framework of PIs has to cover Capital Expenditure plans and Treasury Management and these are set out on **Appendix 4**. These indicators include:
 - Actual and estimated capital expenditure for the current and future years.
 - Ratio of financing costs to net revenue stream.
 - Capital Financing Requirement.
 - Authorised limit for External Debt.
 - Operational boundary for External Debt.
 - Council Tax implications of the incremental effect of capital decisions.
 - Treasury Management Indicators.

Treasury Management Strategy

12. The Council has adopted and is currently working within CIPFA's Code of Practice on Treasury Management in the Public Services (2001).
13. A Treasury Management Strategy for 2004/05 has been prepared that conforms to the CIPFA Code of Practice 2001. This strategy includes a number of PIs specifically relating to Treasury Management and is set out at **Appendix 5**. The Treasury Management PIs are reproduced from the full list of PIs contained in **Appendix 4**. The Strategy has been prepared in line with the Treasury Management Policy adopted by Council in February 2002, a copy of which is attached for reference at **Appendix 6**.
14. The CIPFA Code of Practice 2001 requires chief financial officers to prepare Treasury Management Practice Statements (TMPs). TMPs outline how the Council's strategic policy objectives for treasury management will be achieved and are supported by schedules that describe the specific procedures to be used by the Council's staff involved in treasury management activities. The County Treasurer has prepared TMPs that conform to the CIPFA Code of Practice 2001.

Risk Management

Proposals put forward for consideration have undertaken a rigorous review process, ensuring consistency with the Council's strategic objectives, together with legal and other relevant considerations.

Risk is managed in accordance with the Treasury Management Policy Statement approved by Cabinet in February 2002. The setting and monitoring of Performance Indicators is designed to be a fundamental process in the management of risk.

Consultees

Treasury Management advisers – Sector Treasury Services Limited.

Background Papers

Reports to Capital Strategy and Asset Management Working Group.

APPENDIX 1

EXEMPLIFICATION OF CAPITAL FINANCING COSTS OF £5,000,000 PRUDENTIAL BORROWING PER YEAR

	2004/05	2005/06	2006/07	2007/08	2008/09
	£'000	£'000	£'000	£'000	£'000
Prudential Borrowing	5,000	5,000	5,000	5,000	
Cumulative Prudential Borrowing	5,000	10,000	15,000	20,000	
Capital Financing Costs to meet Cumulative borrowing					Total FRM Increase
Interest Element @ 5%*	250	500	750	1,000	1,000
MRP Element @ 4% in subsequent year	Nil	200	400	600	800
Total capital financing requirement	250	700	1,150	1,600	1,800
Cumulative Council Tax increase To meet prudential borrowing	0.4%	1.1%	1.7%	2.2%	2.4%
Annual Council Tax increase To meet prudential borrowing	0.4%	0.7%	0.6%	0.5%	0.2%
<i>* full year effect</i>					

TOTAL CAPITAL SCHEME SELECTION AND PRIORITISATION BIDS

	2004/05	2005/06	2006/07	2007/08
	£'000	£'000	£'000	£'000
Approved Scheme – North Herefordshire Swimming Pool	1,800	395	63	
Bids for consideration (as per Appendix 2)	5,417	5,783	2,276	1,435
Provisionally deferred bids	3,371	3,816	414	
Supported Borrowing for Other Areas	(127)			
Total needed to meet all bids (net of Revenue contribution)	10,461	9,994	2,753	1,435
Cumulative bids	10,461	20,455	23,208	24,643

APPENDIX 2

SCHEMES CONSIDERED BY THE SSP PROCESS SUITABLE FOR PROGRESSING IN 2004/05

Ref	Scheme	2004/05 £	2005/06 £	2006/07 £	2007/08 £	Score %
P/Y	Hereford City of Living Crafts (SSP bid approved in previous year)	60,000	60,000			N/a
3	Kington Wesleyan Chapel – INFO shop and Library	550,000				93
16	Friar St Mus Res & Learning Centre phase 2 and 3	140,000	433,000	216,000		87
44	Aylestone Park	100,000				82
46	Ross Creative Learning Centre	116,587				80
19	Disabled Access	200,000	200,000	200,000		78
18	Salt Barn Provision	260,000				77
5	Crematorium Hereford <i>NB capital financing costs supported from revenue budget of £60,000 PA</i>	1,000,000 (600,000)	1,455,000			75
45	ICT The Golden Thread	2,525,000	2,035,000	1,435,000	1,435,000	75
	<i>Consisting of the following elements...</i>					
	<i>Network Enhancement</i>	<i>1,230,000</i>	<i>950,000</i>	<i>950,000</i>	<i>950,000</i>	
	<i>Flexible working</i>	<i>400,000</i>	<i>250,000</i>	<i>250,000</i>	<i>250,000</i>	
	<i>Continuity/disaster Recovery</i>	<i>250,000</i>	<i>500,000</i>	<i>100,000</i>	<i>100,000</i>	
	<i>Smartcard Technology</i>	<i>395,000</i>	<i>335,000</i>	<i>135,000</i>	<i>135,000</i>	
	<i>Corporate Document Management</i>	<i>250,000</i>				
11	Ross-on-Wye Flood Alleviation	350,000	1,300,000	275,000		72
1	Extension to Hereford Cemetery	100,000				69
22	Upcott Pool	45,000				69
17	Energy conservation	100,000				67
7	Travellers Site at Bromyard	100,000				64
20	Clearbrook Farmhouse	25,000				63
36	Rotherwas Business Centre	150,000	150,000			63
9	Leominster Closed Landfill Site Monitoring Infrastructure	45,000				61
10	Public toilets improvements	150,000	150,000	150,000		55
		5,416,587	5,783,000	2,276,000	1,435,000	

This schedule sets out the detail of bids that meet corporate objectives which could proceed in 2004/05. A summary of each bid is set out below.

P/Y The funding for the Hereford City of Living Crafts was approved during the 2003/04 round of SSP. The main aim of the project is to help physically and economically regenerate Hereford City. The scheme is managed by the Hereford City partnership and the details surrounding the scheme and its external funding arrangements are currently under review.

Ref 3 Kington Wesleyan Chapel INFO Shop and Library has already received preliminary Cabinet approval on the basis of significant external funding of up to £950,000. Subsequent to the bid being submitted, some doubt has been thrown on about half this external funding. A separate report is being produced for Cabinet highlighting this issue, but if that funding is not received, then the Council would have to fund the shortfall. Of the bid, £150,000 is the minimum required to meet the legal requirement for disabled access but this level of spend would not generate the expected external funding. If this scheme goes ahead, it will release the existing Kington Library and area office, which should generate a capital receipt of £187,000

in 2005/06. This receipt can then be used to support further development of INFO shops. The extra revenue costs that will be incurred by this project would be in the region of £45,000 per year.

Ref 16 Friar Street Museum and Resources Centre will generate significant external funding of over £1,500,000 over three years. This project requires a commitment for funding for a three-year period in order to obtain the external funding. In order to progress this scheme, £120,000 of lottery funding has already been committed. Should the SSP bid be unsuccessful the scheme could not be completed and the lottery funding would have to be de-committed. This means the £120,000 spent would have to be written off and the funding for it would still have to be found from an alternative source. A legal requirement exists to meet disabled access legislation. The minimum cost to meet the legislation would be £145,000, but this would not attract the external funding. The extra revenue costs that will be incurred by this project would be in the region of £13,000 per year.

A legal requirement exists to meet disabled access legislation. The minimum cost to meet the legislation would be £145,000, but this would not attract the external funding. The extra revenue costs that will be incurred by this project would be in the region of £13,000 per year.

Ref 44 Aylestone Park relates to land purchased under CPO legislation and the £100,000 required is the minimum needed to develop the land to prevent legal action by the previous owners for non-progress. External funding towards this project has been withdrawn meaning the proposed development has had to be greatly reduced.

Ref 46 Ross Creative Learning Centre will provide facilities for young people and the community of Ross. Although there is no legal need for this project, it will attract significant external funding. It is also forecast to generate revenue income that could be used to meet the capital financing charges of the project.

Ref 19 The Disabled Access for public areas programme is required to conform to the Disabled Discrimination Act that comes into force in October 2004. The sum required for 2004/05 is the minimum needed to begin addressing the issue. It is accepted that it will not be possible to fully conform to the legislation before October, so the areas of highest priority will be addressed first.

Ref 18 The provision of a replacement Salt Barn for storage at Rotherwas is required to prevent prosecution for pollution of watercourses. There is also now a specific legal requirement to grit roads and this project is needed to ensure the legislation can be complied with.

Ref 5 The bid for the Crematorium totals £2,455,000 and has already been re-profiled to move some of the funding requirement into the second year of the project. This bid will be supported by income generated from a surcharge on cremations. This surcharge is expected to generate in the region of £60,000 per year thus supporting around £600,000 borrowing which is shown in the table on **Appendix 2**. This bid has a legal requirement under the Environmental Protection Act to ensure harmful chemicals are removed from emissions.

Ref 45 The ICT Golden Thread bid is in an early stage of development. This project has no external funding or legislation issues but does have a strong business case and is needed in order to meet eGovernment targets and other business critical concerns. The bid is a composite including an upgraded corporate network, provision for flexible working, business continuity/disaster recovery, smartcard technology and corporate document management. Investment in the ICT network is likely to be a

priority emerging from the Budget Panel where it has been acknowledged that previous investment in this area has been inadequate. The revenue implication for enhancing the network is a cost of £600,000 for 2004/05, with ongoing costs of £533,333 per year thereafter. These revenue costs will be met from within existing IT budgets.

Ref 11 The Ross-on-Wye flood scheme bid represents 55% of the total cost, with the remainder being funded by grants from Defra. It should be noted that approving this scheme would require a significant commitment for future years. However, if the project is not proceeded with in 2004/05, there is a risk that future grant funding may not be approved by Defra.

Ref 1 Extension to Hereford Cemetery is needed to ensure the continued use of the cemetery for the next ten years, otherwise the space will be exhausted within two years.

Ref 22 Upcott Pool opening will provide a natural wildlife site and facility for informal recreation by the public.

Ref 17 Energy Conservation relates to meeting national energy reduction targets and falls in line with the GEM Initiative. This will result in savings in energy costs, but servicing costs for the new energy management services will be incurred.

Ref 7 The traveller site at Bromyard refurbishment and remodelling work is subject to an external funding bid of £300,000. Should the external funding bid be unsuccessful, the Council funding of £100,000 will not be required.

Ref 20 Clearbrook Farmhouse requires major structural works to ensure that the Grade 1 listed property is structurally sound, wind and watertight.

Ref 36 The Rotherwas Business Centre development will result in incubation units for lease by small and start up businesses. It will include high specification industrial units, conference room and training suite aimed at encouraging growth of hi-tech small and start up businesses. There will be external leverage of up to £1,700,000 generated by this scheme.

Ref 9 The Leominster Landfill monitoring infrastructure is needed to meet the requirements of the Waste Management Licence. The sum required is the minimum necessary to meet this, and should result in reduced annual monitoring costs. The planning permission for the site requires its complete restoration which is expected to cost around £760,000. A bid for this will be submitted for the 2005/06 round of SSP.

Ref 10 Improvements to Public Toilets represents an ongoing programme and £150,000 is the minimum necessary to progress this in 2004/05. The future years sums are indicative figures, representing the minimum need for a continual rolling programme of improvement.

BIDS PROVISIONALLY DEFERRED

Ref	Scheme	Capital Requirement		
		2004/05 £	2005/06 £	2006/07 £
4	Ledbury INFO, St Katherines Houses	75,000	1,500,000	
2	Hereford City One Stop Shop	750,000		
15	INFO Service Centre (Contact Centre)	130,000	50,000	50,000
37	Minibus for Social Care	35,000		
26	Hereford City Christmas Lighting	50,000	10,000	10,000
27	Street Light Column Replacement	250,000	250,000	250,000
28	Additional Street Lighting	30,000	15,000	10,000
8	Access to Library & Info services	59,625	39,000	
33	Sutton Primary School	600,000	1,370,000	59,000
34	Weobley High School - Sports Hall	592,000	582,000	35,000
41	Ross Library	800,000		
		3,371,625	3,816,000	414,000

This schedule sets out the bids that have been provisionally deferred mainly as it is considered that they would be unlikely to proceed in 2004/05. It is anticipated that these will be revised and resubmitted for funding in future years.

Ref 4, 2, 15, 8, 41 The Ledbury Info, Hereford City One Stop Shop, Info Service Centre, Access to Library and Info Services and Ross library are not in a position to proceed in 2004/05. A staged programme for these is to be provided, and phased bids are to be considered in future years.

Ref 37 The minibus for Social Care is to be funded from the Social Care capital receipts reserve once an expected capital receipt is realised.

Ref 26, 27, 28 The Christmas lighting, column replacement and additional lighting capital bids are of a revenue nature. They have no external funding or specific legal issues to be addressed. These schemes are, therefore, provisionally rejected.

Ref 33, 34 Sutton Primary school and Weobley High School bids have been deferred for reconsideration in 2005/06.

A separate bid for overall rationalisation of administration accommodation was submitted but is not shown in the tables. It is intended that this will be self-financing over the medium term through property disposals. Further information is required and it is not considered that the scheme could be ready to proceed in 2004/05. It will be necessary to address the cash flow aspects of deferred disposals within the Capital Programme. It is not possible, however, to realistically forecast the impact at this time.

HEREFORDSHIRE COUNCIL

PRUDENTIAL INDICATORS 2004/05

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. Unless otherwise stated the indicators set out below are based on the assumption of a provisional £5,000,000 Prudential Borrowing per year, which includes the borrowing required for the North Herefordshire Pool. A number of the PIs set out in this report may therefore need to be amended following decisions made by Council.

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. This table will need to be updated depending upon Members decisions on the level and allocation of Prudential Borrowing. The second table shows how this programme would be funded.

	2003/04	2004/05	2005/06	2006/07
Capital Programme Area:-	£'000	£'000	£'000	£'000
Economic Development	4,737	4,092	230	95
Education	8,195	7,014	3,071	2,757
Environment General	-	774	652	-
Highways	10,668	11,072	9,776	12,049
Housing	4,802	5,633	5,415	5,067
Policy & Finance - eModernisation	1,087	127	-	-
Policy & Finance - General	1,021	25	-	-
Policy & Finance – Property	1,773	402	212	-
Social Care	411	132	91	-
Social Development	329	2,467	395	63
Potential Prudential Borrowing to be allocated if approved.	N/a	3,200	4,605	4,937
	33,023	34,938	24,447	24,968
By funding				
Capital Receipts Reserve	4,446	4,870	3,721	2,862
Grants	10,956	9,223	3,034	1,620
Credit approvals / SCE(R)	17,621	15,845	12,692	15,486
Agreed Prudential Borrowing	N/a	1,800	395	63
Prudential Borrowing to be agreed	N/a	3,200	4,605	4,937
	33,023	34,938	24,447	24,968

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). The ratio is the proportion of the budget requirement that relates to the ongoing capital financing costs.

	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
Net Revenue Stream	169,444	188,343	196,470	204,257
Capital Financing Requirement	5,557	7,220	8,877	10,518
Ratio of financing costs to net revenue stream	3.28%	3.83%	4.52%	5.15%

4. CAPITAL FINANCING REQUIREMENT

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

	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
Capital Financing Requirement (as at 31/3)	78,090	94,892	111,063	126,538

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.

	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
Borrowing	105,000	119,000	142,000	163,000
Other Long Term Liabilities	1,500	3,000	3,000	3,000
Total	106,500	122,000	145,000	166,000

6. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

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

	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
Borrowing	63,000	73,500	94,500	115,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	64,500	75,000	96,000	117,000

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

This indicator represents the increases in Council Tax resulting from unsupported Prudential Borrowing. These figures will need to be revised following the decisions taken by Council.

	2003/04	2004/05	2005/06	2006/07
	£ p	£ p	£ p	£ p
Increase in council tax (Band D, per annum):				
Previously agreed Prudential Borrowing re the North Herefordshire Pool.	N/A	1.35	2.73	3.01
Position if £5,000,000 Prudential Borrowing is taken for 2004/05.	N/A	3.75	7.06	7.34
Position if £5,000,000 Prudential Borrowing is taken for 2004/05 and subsequent years.	N/A	3.75	10.52	17.28

8. TREASURY MANAGEMENT INDICATORS

These are specific indicators which relate to the management of the Treasury Management process. The upper limit for variable rate borrowing is recommended to be increased in order to allow more flexibility to react to changes in market conditions.

	2003/04	2004/05	2005/06	2006/07
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	25%	50%	50%	50%
Maturity Structure of new fixed rate borrowing during 2004/05	Upper Limit	Lower Limit		
Under 12 Months	30%	0%		
12 months and within 24 months	60%	0%		
24 months and within 5 years	90%	0%		
5 years and within 10 years	100%	0%		
10 years and above	100%	20%		
Upper Limit for total principal sums invested for over 364 days	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
(per maturity date)	7,000	10,000	10,000	10,000

HEREFORDSHIRE COUNCIL

TREASURY MANAGEMENT STRATEGY 2004/05

1. INTRODUCTION

- 1.1 The Financial Policy Team is responsible, under the direction of the County Treasurer, for the day-to-day management of the Council's treasury management activities. The Treasury Management Strategy for 2004/05 details the expected activities for the team 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 has 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:
- Current treasury portfolio position
 - Treasury limits for 2004/05
 - Prudential indicators for 2004/05 – 2006/07
 - Prospects for the economy and interest rates
 - Borrowing strategy
 - Investment strategy
 - Debt rescheduling opportunities

2. CURRENT TREASURY PORTFOLIO POSITION

- 2.1 The Council's treasury portfolio position as at 31 December 2003 is as follows:

DEBT POSITION	Principal (£)	Average Rate (%)
Public Works Loan Board	53,259,920	5.68
Total Debt	53,259,920	

Estimated Borrowing Requirement for 2004/05 – supported borrowing approvals of approximately £15,800,000, plus the potential for an additional £5,000,000 unsupported borrowing under the Prudential Code, which includes £1,800,000 borrowing already approved by Members.

INVESTMENT POSITION	Principal (£)	Average Rate (%)
Internally managed funds	27,390,000	3.88
Externally managed funds	6,759,307	2.34
Total Investments	34,149,307	

Note:

Total investments will decline sharply in the last three months of the financial year as capital projects near completion.

3. TREASURY LIMITS FOR 2004/05

- 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".
- 3.2 The Council must have regard to the Prudential Code when setting its 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.

4. TREASURY MANAGEMENT PRUDENTIAL INDICATORS FOR 2004/05 – 2006/07

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

	PRUDENTIAL INDICATOR	2003/04	2004/05	2005/06	2006/07
1	Affordable Borrowing Limit	£ p	£ p	£ p	£ p
	Increase in council tax (Band D, per annum)				
	Previously agreed Prudential Borrowing re the North Herefordshire Pool.	N/A	1.35	2.73	3.01
	Position if £5,000,000 Prudential Borrowing is taken for 2004/05.	N/A	3.75	7.06	7.34
	Position if £5,000,000 Prudential Borrowing is taken for 2004/05 and subsequent years.	N/A	3.75	10.52	17.28

PRUDENTIAL INDICATOR	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
2 Capital Financing Requirement (as at 31/3)				
Total	78,090	94,892	111,063	126,538
3 Authorised Limit for External Debt	£'000	£'000	£'000	£'000
Borrowing	105,000	119,000	142,000	163,000
Other Long Term Liabilities	1,500	3,000	3,000	3,000
Total	106,500	122,000	145,000	166,000
4 Operational Boundary	£'000	£'000	£'000	£'000
Borrowing	63,000	73,500	94,500	115,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	64,500	75,000	96,000	117,000
5 Upper Limit for Fixed Interest Rate Exposure	£ or %	£ or %	£ or %	£ or %
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
6 Upper Limit for Variable Interest Rate Exposure	£ or %	£ or %	£ or %	£ or %
Net principal re variable rate borrowing / investments	25%	50%	50%	50%
7 Maturity Structure of new fixed rate borrowing during 2004/05	Upper Limit	Lower Limit		
Under 12 Months	30%	0%		
12 months and within 24 months	60%	0%		
24 months and within 5 years	90%	0%		
5 years and within 10 years	100%	0%		
10 years and above	100%	20%		
8 Upper Limit for total principal sums invested for over 364 days	2003/04	2004/05	2005/06	2006/07
	£'000	£'000	£'000	£'000
(per maturity date)	7,000	10,000	10,000	10,000

5. PROSPECTS FOR THE ECONOMY & INTEREST RATES

- 5.1 The Council retains Sector Treasury Services Limited as its treasury advisers and part of its 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.

The Economy

- 5.2 **Shorter term rates** - Base rate was cut by 0.25% in July 2003, to a new 48-year low of 3.50% owing to hesitant recovery after the Iraq war and a climbing pound. With hindsight, this now appears to have been an over-cautious move as this cut was reversed in November 2003. However, the Chancellor announced a switch of inflation target for the Monetary Policy Committee (MPC) in the Pre Budget Report in December 2003 from plus or minus 1% around 2.5% on RPIX (Retail Prices Index excluding mortgages) to plus or minus 1% around 2% on CPI (consumer prices index). CPI has been running at 1.1–1.6% throughout 2003 and is forecast to average 1.4% in 2003, 1.7% in 2004 and 1.4% in 2005 i.e. below the likely target. In addition, wage inflation and producer price inflation are running at benign levels and oil prices are likely to come down from current high levels.
- 5.3 There is, therefore, likely to be little inflationary pressure to raise base rate. In addition, the potential for base rate to increase is limited by the heightened sensitivity of consumers to interest rate rises owing to the huge increase in personal borrowing in recent years and increase in base rate from 3.5% to 4.5% is an increase of 29% in likely borrowing rates. In view of the likely fragility of consumer demand in 2004 and in the UK, and owing to the likelihood of growth in the US falling back in 2004 to only a modest rate and weak growth expected in the Eurozone in 2004, it is expected that base rate will only rise to 4.25% by the end of 2004 after being at 4.0% for most of the year.
- 5.4 **Longer-term interest rates** – PWLB rates were at low levels during the first half of 2003 owing to investor fears over the Iraq war which depressed share values and gilt yields. Equity values have increased by about 25-30% from the low point to which they plummeted before the Iraq war, on expectations that the surge in economic recovery in the second half of 2003 will last well into 2004 and beyond and so boost corporate earnings.
- 5.5 Gilt prices have consequently fallen, causing increases in gilt yields and long-term PWLB rates which incurred a sharp unexpected increase in October 2003 on a surge in optimism on US economic recovery. This pushed the PWLB 20-25 year lower quota rate up to 5.00%-5.15% and it is forecast that this rate will stabilise around 5.00% for most of 2004/05. A rise in long-term PWLB rates to more normal levels with the 20-25 year lower quota rate returning consistently to the band of 5.00%-5.40% looks likely in 2004/05.

Interest Rates

- 5.6 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 2003)

%	Current	Q1 2004	Q2 2004	Q3 2004	Q4 2004
Base Rate	3.75	4.00	4.00	4.25	4.25
10 Year PWLB	5.00	5.00	5.00	5.00	5.00
25 Year PWLB	4.90	4.75	5.00	5.00	5.00

Table 2 Summary of Independent Forecasts of Base Rate

(This table represents the views of 35 independent forecasters views of base rate as at November 2003)

%	2004 Year end	2005 average	2006 average	2007 average
Average	4.27	4.78	5.05	4.93
Highest	5.00	5.72	5.60	5.60
Lowest	3.14	4.00	3.81	3.84

Table 3 Consensus Forecast on Short-term & 10 year Fixed Interest Rates as at November 2003

(This table represents the views of 25 City institutions)

%		November 2003	February 2004	November 2004
3 Month Interbank	Average	3.88	3.70	4.10
	Highest	3.88	4.00	4.70
	Lowest	3.88	3.50	3.30
10 Year PWLB Rate	Average	5.20	4.85	4.95
	Highest	5.20	5.15	5.55
	Lowest	5.20	4.45	4.25

6. BORROWING STRATEGY

6.1 Based upon the prospects for interest rates outlined above, there are a number of strategy options available. The anticipation is that short-term variable PWLB rates will continue to be cheaper than long-term PWLB fixed rate borrowing during 2004/05. Short term variable rates are expected to rise in line with increases in base rate. Long term rates are not currently expected to move far, but if there were a major fall in share prices (which is not expected given the general expectations for world economic recovery), then long rates would be susceptible to a corresponding fall. These expectations provide a variety of options:

- That short term rates will be good value compared to long term rates, and are likely to remain so for potentially at least the next couple of years. Best value will, therefore, be achieved by borrowing short-term at variable rates in order to minimise borrowing costs in the short-term or to make short-term savings required in order to meet budgetary constraints.
- That Money Market debt will also be considered where opportunities are available to minimise borrowing costs in the short-term. These have recently become more attractive than PWLB rates and, therefore, the County Treasurer will carefully monitor the interest rates available and take advice from the Treasury Management Consultants over the timing of any new borrowing.
- That the risks intrinsic in the shorter term variable rates are such, when compared to historically relatively low long term fixed funding, which may be achievable in 2004/05, that the Council will maintain a stable, longer term portfolio by drawing longer term fixed rate funding at a marginally higher rate than short term rates.

6.2 Against this background, caution will be adopted with the 2004/05 treasury operations. The County Treasurer will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

6.3 **Sensitivity of the forecast** - The main sensitivities of the forecast are likely to be the two scenarios below. Council 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 view:

- ***If it was 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 activity, 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 was felt that there was a significant risk of a sharp fall in long and short term rates***, owing to e.g. growth rates remaining low or weakening, then long term borrowings will be postponed, and any rescheduling from fixed rate funding into variable or short rate funding will be exercised.

7. INVESTMENT STRATEGY

Internally Managed Funds

- 7.1 The County Treasurer manages part of 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.
- 7.2 If, during the course of the year, the County Treasurer detects that the market's expectation for base rates has been too high, the strategy will be to keep investments as long as possible with a view to locking in higher rates of return than may be available at a later stage when market expectations are corrected.
- 7.3 Investment returns are forecast to be less than the cost of new borrowing during most of the year; it may, therefore, be beneficial to finance new capital expenditure by running down cash balances.

Externally Managed Funds

- 7.4 A cash fund of £6,759,307 (as at 31st December 2003) is managed by Investec Asset Management and the Council's treasury adviser assists in monitoring the cash fund manager's performance during the course of the year. Their performance will continue to be monitored in 2004/05.

8. DEBT RESCHEDULING OPPORTUNITIES

- 8.1 With variable rate borrowing and fixed borrowing for short periods (e.g. one year) at rates below 4.50%, opportunities may exist for restructuring long-term debt into short term debt to produce savings. Fixed rates are not expected to rise back up to about 5.25% to 5.50% during 2004/05. Consequently long-term debt rates at or above 4.90% would warrant reviewing the potential for undertaking debt restructuring.
- 8.2 Money market debt will also be considered as part of debt rescheduling, where opportunities exist to replace high rated PWLB loans with lower rated market debt to produce interest savings over the short term (between one and four years). The County Treasurer will carefully monitor interest rates and take advice from the Treasury Management Consultants over the timing of any debt rescheduling.
- 8.3 Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 6 above. The reasons for any rescheduling to take place will include:
- The generation of cash savings at minimum risk
 - The borrowing strategy outlined above
 - A better balance in the maturity profile of the long-term debt portfolio
 - A better balance in the ratio of variable to fixed interest rate loans in the long-term debt portfolio.

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 (2001)* 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 organisation's 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 to 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.

Delegation and Reporting

5. Herefordshire Council retains responsibility for the 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 Practices to the County Treasurer.
9. Herefordshire Council delegates responsibility for the administration of treasury management decisions to the County Treasurer who will act in accordance with the approved Treasury Management Policy Statement, Treasury Management Strategy and Treasury Management Practices. If the County Treasurer 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 County Treasurer 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 Practices.