

MINUTES of the meeting of Strategic Monitoring Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Monday, 16th October, 2006 at 10.00 a.m.

Present: Councillor T.M. James (Chairman)
Councillor Mrs. P.A. Andrews (Vice-Chairman)

Councillors: B.F. Ashton, W.L.S. Bowen, H. Bramer, A.C.R. Chappell, J.H.R. Goodwin, Mrs. M.D. Lloyd-Hayes, J.P. Thomas and W.J.S. Thomas

In attendance: Councillors Mrs. J.P. French, R.I. Matthews, R.J. Phillips, D.B. Wilcox and R.M. Wilson

24. APOLOGIES FOR ABSENCE

There were no apologies for absence.

25. DECLARATIONS OF INTEREST

There were no declarations of interest.

26. MINUTES

RESOLVED: that the Minutes of the meeting held on 15th September, 2006 be confirmed as a correct record and signed by the Chairman.

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

There were no suggestions from members of the Public.

28. CALL-IN OF CABINET DECISION ON THE ROTHERWAS FUTURES PROJECT

The Committee considered Cabinet's decision to enter into a co-operation agreement with Advantage West Midlands in order to progress the Rotherwas Futures Project, which had been called in by three Members of the Committee: Councillors W.L.S Bowen, A.C.R. Chappell, and Mrs M.D. LLoyd-Hayes.

The stated reasons for the call in were: lack of information on the funding shortfall and how this would be met; lack of detail of what Phase 1 and Phase 2 of the Rotherwas Scheme involved; and lack of information on what precautions had been taken in respect of inflation.

The report to Cabinet on 28th September, 2006 together with the decision notice was appended to the report.

The Chairman opened the discussion by emphasising that the purpose of the meeting was not to discuss the principle of the Rotherwas Access Road which had been determined by Council, or the allocation of housing which was being

considered under the Unitary Development Plan (UDP) process. The intention was to focus on the financial aspects of the project.

He reported that a number of questions had been received from members of the public and a response would be given to these as part of the Executive's response. He then invited the Leader of the Council to comment on behalf of the Executive.

The Leader said that the Rotherwas Futures project was a key priority for the Council and its Capital Programme. He emphasised the importance of the Rotherwas Industrial Estate to the Council's economy. He noted that whilst many of the businesses had decided to maintain their investment in the estate despite the infrastructure constraints it had to be recognised that others had felt that they had to move their investment elsewhere.

The Rotherwas Access Road was the first and vital component of the development and had been requested by the businesses at Rotherwas.

The funding of the £17.5 million project was a key issue. He welcomed the tremendous support from Advantage West Midlands (AWM) with whom, through hard work over successive administrations, the Council had built up a good relationship.

Herefordshire had the lowest wages, the poorest infrastructure and the weakest economy in the Region. It had to be recognised, however, that in setting priorities for the Region, as it was currently doing, the Government would be likely to steer resources to Birmingham and the metropolitan authorities. The proposed redevelopment of New Street Station, Birmingham, for example, would represent a huge drain on resources.

Funding from AWM was essential if the Rotherwas Futures Project were to proceed. This meant that the current opportunity to secure funding from AWM had to be seized.

Whilst there was huge potential to increase the number of jobs at Rotherwas it was also essential to preserve the existing jobs. All could be put at risk if the Rotherwas Futures project did not proceed. It also had to be recognised that the Council received revenue income of over £1 million from the Rotherwas Industrial Estate. This would be difficult to sustain without investment in the estate.

If the project did proceed the initial funding of £9.5 million would be provided by AWM. The Council intended to fund the balance of £8 million in future years through prudential borrowing and a contribution from a developer.

He added that all currently committed capital programme works would proceed.

The Director of Adult and Community Services reported that the detail of phases 1 and 2 of the Rotherwas Futures project had been set out in the report to Cabinet on 7th September. In essence Phase 1 of the development on Rotherwas consisted of a series of development plots amounting to 8.73 hectares. The majority of these plots were along the Straight Mile and offered the potential to create high quality development along this frontage acting as a key entrance to the Estate and combining with some of the better quality buildings on the Estate.

Phase 2 of the development involved the development of 5.58 hectares on the 'Southern Magazine Site' to be accessed from an extension to an internal estate road. Two former bunkers required as mitigation measures for the access road would be retained. All other bunkers would be removed. Phases 3 and 4 envisaged

further development and capital sums had been set aside by AWM for that development.

The Cabinet Member (Highways and Transportation) commented that, as reported to Cabinet on 7th September, it was planned to complete the Rotherwas Access Road within a short timescale, reducing the inflation risk. All the land compensation issues had now been identified. This had increased the projected cost but this was now included in the total estimate. It was planned to commence work in March 2007. Delay would incur a cost of £150,000. He considered that a proper and responsible approach had been taken to risk management in relation to the scheme.

The Director of Adult and Community Services then read out the responses to the written questions which had been received as set out below:

Questions from Mr R Widdowson, Chairman of the Campaign to protect Rural England (Herefordshire)

(Answers are shown in italics)

Q1. The Council considers that a contribution to the cost of the Road is a necessary planning obligation on the part of the developer of the proposed housing allocation at Bullinghope. If so, why is the Cabinet proposing to push ahead with the Road's construction without waiting to secure the developer's contribution? If such an external funding source is in prospect, surely it is irresponsible to make a contractual commitment until the funding is certain?

A. There is currently a window of opportunity to secure significant levels of funding towards the scheme from AWM. The Council is keen to take advantage of this opportunity and is in a position to negotiate with developers and ensure that a contribution is delivered towards the Rotherwas Access Road.

Q 2. If the Council does go ahead with the Road before the developer's contribution is secured, it will have to identify £8 million from the Council's own funds and, moreover, do so on the basis that it may never be recovered through a developer's contribution. The Road is not in the Council's current capital programme, so what other projects are going to be dropped to make way for the £8 million?

A. No projects will need to be cut from the existing approved capital programme. This project will have to take priority given Cabinet decisions to date over other potential capital projects - if Council funding is needed that is.

Q. 3. How confident is the Council that the cost of the Road can be contained within the 15% contingency sum proposed? Civil engineering is notoriously risky: the Government's figures for standard civil engineering projects indicate a bracket for "optimism bias" of 3% to 44%. Are there reserve plans for funding any increase beyond the 15%? What other capital spending would have to be dropped to do so?

A. The Council's consultants have prepared detailed cost estimates in relation to the provision of the Access Road. These have taken into account the likely effect of future inflation and include contingency allowances for both Risk and Optimism Bias. The level of Optimism Bias applied was agreed with the Department for Transport as appropriate for a scheme at this stage of development. In addition, a review of likely risks has been undertaken and allowance made for the likely impact on costs.

Q4. Until the contribution has been negotiated, how does the Council know how big it will be? Government Circular 5/05 states that planning obligations must be “fairly and reasonably related in scale and kind”. The allocation at Bullinghope is for a mere 300 houses and the Inspector of the recent UDP Inquiry has established that only the final tranche of 100 generates the need for a new road. Moreover, mitigating the traffic impact of this housing represents only a small part of the perceived functional benefits of the Road. In these circumstances it seems incredible that a contribution of £8 million - some 64% of the total cost of the Road, or £80,000 per house - could be fair or reasonable.

A. The Council is currently in negotiation with developers and cannot confirm what the final contribution will be at this stage. The Council will be seeking to maximise the developer contributions and on the basis that there is a broader community need for the road we envisage we will be able to negotiate a contribution from all of the houses proposed.

Q5. Alternatively, has the Council already reached some kind of agreement with the Bullinghope developer, Bloor Homes, about a contribution to the Road? If so, what are the details of that agreement, whether formal or informal, firm or provisional?

A. No agreement is yet in place.

Q.6. At this point it is still uncertain whether the Bullinghope housing allocation will itself go ahead. The Council’s proposal to ignore the Inquiry Inspector’s recommendation to delete it from the UDP is currently out to public consultation. Assuming, as propriety requires, that the Council will consider any objections with an open mind, then the Council cannot yet be firmly minded to retain the Bullinghope housing. How can this be reconciled with making an early commitment to the Road on the assumption that there will be a developer contribution from that housing?

A. The Council’s current position was agreed at a named vote at Full Council and is set out in the draft UDP which is out to consultation. Unless there is some material new evidence emerging from the consultation this position will be confirmed by the Council in adopting the final plan.

Q7. Even if the Bullinghope allocation were to be confirmed, it would be many months before a planning application could be processed and a S106 agreement achieved - by which time the Road contract would have been signed and the Road could even be complete. However, can a planning obligation be asserted retrospectively? Common sense suggests that, if an authority has already committed itself to a scheme using its own money, it may be hard to claim subsequently that a developer contribution to it is a necessary obligation. Has the Council obtained legal advice about this?

A. The Council is confident it can negotiate a developer contribution.

Q 8. The Department for Transport has just rejected funding for the Road because it does not consider it gives “sufficient value for money”. We understand this is at least in part because it does not accept the Council’s figures for job creation. The DfT has a national level of expertise at this kind of assessment, so there must be a ‘prima facie’ possibility that the Council’s business case is wrong; if not, there should be an audit trail of sound reasons justifying why the Council can come to different conclusions. (The decision about the Bullinghope housing allocation will also affect

the business case and the benefit-to-cost ratio for the Road.)

A. The announcement from the Department for Transport relates to their assessment of the scheme against the Department's scheme appraisal criteria particularly as it relates to transport. The Council considers that the road does represent value for money and will make a major contribution to economic development within Herefordshire. The scheme has the support of Advantage West Midlands which has consistently recognised the regeneration benefits that will flow from the scheme.

Questions from Mr G. Dawe, Hereford

(Answers are shown in italics)

Q 1. What proportion of the £9.5 million loan from AWM will be directly repayable?

A. This was referred to in paragraph 7 of the report to Cabinet dated 28th September 2006. The Council may have to repay up to 50% or £4.75m - depending on decisions regarding Phase 3 of the project. AWM may decide to reinvest this money in the next stage of the project.

2. How much of the £8m will come from Herefordshire Council's capital expenditure programme?

A. This was referred to in paragraph 6 of the report to Cabinet dated 28th September 2006. The Council is seeking a developers contribution to match the funding gap of £8m.

3. What will be cut from the capital expenditure programme in order to finance the road or repay the loan?

A. Nothing will need to be cut from the existing approved capital programme. This project will have to take priority given Cabinet decisions to date over other potential capital projects - if Council funding is needed that is.

4. How many houses will have to be built at Bullinghope to cover the £8m shortfall?

A. The proposal set out in the draft Unitary Development Plan will be sufficient to negotiate the contribution required.

5. If the loan is to be repaid from rents has an analysis been done on how high rents can go before businesses move elsewhere?

A. Rent levels will always be subject to market conditions. A sensitivity analysis was included in the consultants work. The financing costs will be met from the general revenue account which includes a number of other sources of funding, not just the rent income from Rotherwas.

6. Can Herefordshire Council explain why there is a need to expand Rotherwas industrial estate when we have vacant industrial land elsewhere in the county and unemployment figures are low?

Context: Vacant employment land elsewhere in Herefordshire:

(1) The pre-existing Leominster industrial estate is between a third to half-empty on a

recent visit.

(2) The new Leominster Enterprise Park of 29 ha is entirely vacant, despite a promised investment of £20m by Advantage West Midlands (AWM) together with a connecting road which cost £4m. Some vacant units have been built but as yet, they are unlet.

(3) Credenhill Industrial Estate 84 ha is mostly vacant.

A survey of businesses carried out in Hereford in 2005 for the Edgar Street Grid found that most businesses wanted to be north of the river. (See UDP Inspectors Report).

A. The Unitary Development Plan sets out the reasons for continued allocations of land at Rotherwas. The road is needed to ensure access for the existing businesses as well as to open up land which has been allocated for employment purposes for a number of years. There is continued demand for land at Rotherwas Industrial Estate. Currently, the Council has no readily available, unconstrained land to offer on the estate.

It is acknowledged that unemployment within the County is low, 1.6% in July 2006, however, the major problem for Herefordshire is low wage employment. The average wage for Herefordshire in 2005 was £351.20 per week compared to the West Midlands average of £402.50 per week. Herefordshire has a lower average wage than Shropshire (£375), Worcestershire (£385) and Gloucestershire (£423.10). A priority for the County is the encouragement of more and better paid employment and the investment into Rotherwas Futures will be used to attract those businesses who can help offer this.

In short Rotherwas remains a viable business location and one that will only benefit from the Access Road and Rotherwas Futures investment, although there are other industrial estates within the County with vacancies, these are primarily to the North of the County and are themselves showing increased interest in the land and units on offer.

In respect of Southern Avenue Industrial Estate in Leominster, of the 28.9 acres available five acres have been sold, a further 2.5 acres are under offer and a further six acres have been reserved for future development. It should also be noted that the Leominster Estate is serving the North of the County and that additional employment land allocations are required to serve the rest of the County.

We are not aware of any industrial estate at Credenhill.

Whilst the survey of businesses for Edgar Street Grid concluded that most businesses wanted to be North of the river this survey was a survey of the businesses currently located on the Grid site. It is therefore to be expected that they wish to maintain a position as close to their current position as possible.

Q. 7. Benefit Cost Analysis (BCA): How does the council justify the exaggerated job creation figure for Rotherwas (1,022) when DfT estimated 290 was the realistic figure, on building the Rotherwas Access Road. (the 1022 jobs led to a high and favourable BCA of 13.5)

[Source of data: *Rotherwas Access Road Major Scheme Business Case (RARMSBC), July 2005. Herefordshire Council and Owen Williams consultants.*]

A. A detailed Economic Impact Report was prepared by Ecotec in July 2004 which examined in detail the likely regeneration benefits of providing the Rotherwas Access Road. Based on sound research and analysis, this concluded that the scheme would enable a net increase in employment across Herefordshire of between 690 and 1030 jobs by 2022. Whilst the Department for Transport accepted the overall regeneration benefits for the County, in assessing the scheme against their criteria for funding, the Department focused on the job creation benefits only in areas of multiple deprivation rather than benefits to the County as a whole.

The overall Benefits Cost Ratio specifically relates to the transport benefits of the scheme. The Council's consultants concluded that a Benefit Cost Ratio in the region of 13 is appropriate taking into account the likely transport benefits of the scheme, for example in relation to travel time savings for users.

Q8. Is a 45% business response to a Rotherwas Industrial Estate questionnaire sufficient to calculate the number of jobs and need for an access road?

[Source of data: ECOTEC produced the *Economic Impact Report (EIR)*, part of *Rotherwas Access Road Annex E Submission, July 2004* for Herefordshire Council]

A. The survey of businesses carried out in preparing the Economic Impact Report achieved a response rate of 60% with a total of 80 businesses responding. This represents a statistically valid sample.

Q9. During the Rotherwas Access Road and Bullinghope house building process how will congestion (as happened at Asda, summer 2006) be avoided on the A49?

A. Appropriate traffic management measures will be put in place during the construction of these developments to minimise any disruption.

Q.10. What is the estimated congestion into Hereford City when the Rotherwas Access Road and associated housing of (see question 4. above) 300 to 2000 units?) is built?

A. The Rotherwas Access Road effectively replaces Holme Lacy Road as the main access to the Rotherwas Industrial Estate and should reduce the impact of traffic on this area.

Q.11. Can Herefordshire Council explain the likely impact on its long term capital expenditure programme of cost overruns of 10%, 25% and 50% on the current projected costings of the Rotherwas Access Road?

The Council's consultants have prepared detailed cost estimates in relation to the provision of the Access Road. These have taken into account the likely effect of future inflation and include contingency allowances for both Risk and Optimism Bias.

Risk of inflation needs to be managed/mitigated through the contract arrangements for building the road. If costs overrun by 10%, then there will be approximately £1.2m less capital resource available for other projects (assuming a road cost of £12m). The Council would need to find an additional £3m/£6m if it overran by 25% or 50% respectively.

Mr M. Hubbard, Hereford

Q. Given that most public building projects costs are underestimated, can Herefordshire Council explain the likely impact on its long term capital expenditure programme of cost overruns of 10%, 25% and 50% on the current projected costings

of the RAR? What impact would these cost overruns have on Council Tax levels?

A. The Council's consultants have prepared detailed cost estimates in relation to the provision of the Access Road. These have taken into account the likely effect of future inflation and include contingency allowances for both Risk and Optimism Bias.

Risk of inflation needs to be managed/mitigated through the contract arrangements for building the road. If costs overrun by 10%, then there will be approximately £1.2m less capital resource available for other projects (assuming road cost of £12m). We would need to find an additional £3m / £6m if it overran by 25% or 50% respectively. With regards to the last part of the question, there would be no additional impact on Council Tax. If there were a cost overrun we would have to rephase the Capital Programme.

The principal points made in the ensuing discussion are set out below.

Councillor A.C.R Chappell emphasised that he was wholly in favour of the provision of the Rotherwas Access Road and had pursued this both in his former role as a Cabinet Member and as the Chairman of the South Wye Regeneration Partnership.

His concern related to the reliance being placed on securing funding from developers to meet the funding gap of £8 million. The relevant development was still dependent upon the proposed provision for housing being included in the Unitary Development Plan and planning permission then being obtained.

There had been little indication of what alternatives to raising the finance from the development of housing at Bullinghope had been considered.

He said that when representatives of the South Wye area were considering the Unitary Development Plan in its early stages they had received a presentation from the Chairman of the Rotherwas Access Group in which it had been suggested that businesses did not want housing at Bullinghope. He believed that any rethink was because it was believed that the Council had exhausted every other option.

He reiterated his belief in the importance of the development and the need for it to be achieved swiftly. However, he did require clarification on the other options which had been considered to fund the project and what guarantees there were that funding from developers would be secured to meet the funding gap.

The Leader of the Council commented in reply that the first method of funding the access road, and to which successive administrations had looked, had been from Government through the Local Transport Plan. Whilst not approving funding over the years the Government had never completely ruled it out. However, the Council's latest bid had again been rejected. Part of the problem was that in assessing the value for money of the scheme the Government refused to consider the benefits for the County as a whole. He intended to monitor how consistent the Government was in applying these funding criteria to other schemes.

AWM had been as helpful as it could but as he had previously mentioned the Government was likely soon to direct that investment be concentrated on the development of New Street Station.

The only other option was to realise some of the capital value of the Rotherwas Industrial Estate, noting that the value would increase with the provision of the Road. As he had previously mentioned, however, this would have an implication for the Council's revenue income from the estate.

In these circumstances he believed that businesses recognised that the Council's approach was the correct option.

Councillor Mrs M.D. Lloyd-Hayes expressed concern about the impact of the proposed housing development on the community, density of development in South Wye, the vulnerability to flooding and the implications for sewerage disposal. She also considered that the project represented a destruction of the Countryside and showed a lack of vision. She added that many businesses had said that they did not want to be located South of the River.

She asked for clarification on how AWM was to receive a return on part of its Investment as part of the agreement.

She also remarked that unemployment in the County was below 2% and yet the County also employed some 5,000 migrant workers. She also questioned the significance of the £1 million income of the estate in the context of the Council's budget, noting that some £2 million was generated from car parking.

She believed that development of the Edgar Street Grid was more important than the development of the Relief Road. She did not want to see property sold to fund the Road.

She suggested that there had been a lack of public consultation about the project.

She also questioned how many businesses would actually relocate from Rotherwas if no improvements were made.

She also argued that a proposed housing development of some 2,000 houses would generate 1,500 cars and increase traffic congestion.

She thought that developing land at Moreton on Lugg which had a rail link would be a better project.

She asked what discussions had taken place with a developer and if a contribution had been confirmed. It appeared that the Council had not secured funding to meet the shortfall. Its plans were therefore based on supposition and were not acceptable.

The Leader of the Council called for greater pride in the Rotherwas estate, which provided some 2,000 jobs supported some 125 businesses and had great potential. It should also be remembered that as the estate was owned by the Council the estate's success benefited the Council tax payer.

Whilst the level of unemployment might be low there was a lack of skilled jobs and this made it difficult to offer careers to skilled young people and encourage them to stay in the County.

The Director of Adult and Community Services reported that AWM expected a return on 50% of its investment in phases 1 and 2 of the Rotherwas project. They would not acquire the freehold of any of the estate. He added that there had been consultation as part of the planning application process for the Road.

Councillor W.J.S. Thomas speaking as Ward Member said that the access road combined with flood defence work would bring benefits. He noted the traffic problems faced by Holme Lacy residents and the inability of the surrounding road network to support traffic to the industrial estate. Without improved access to the estate growth would not be possible.

Rotherwas supported companies of national and international importance and the County needed a thriving Rotherwas to generate worthwhile jobs. It was important that the South Wye area received its fair share of opportunities.

It was also important that every effort was made by the Council, the Police and the Highways Agency to minimise traffic problems while the access road was being constructed.

The Council was entitled to seek a proper financial contribution from developers and should ensure that it did so.

In response to a question from Councillor J.H.R Goodwin about the timescale for delivering the project, the Director of Environment said that there was very little room for slippage beyond the March 2007 start date. He also believed that there was a competitive market at the moment. The Director of Adult and Community Services added that AWM had made clear that whilst they were able to offer support at the moment they would be unlikely to be in the same position in 18 months to two years time.

There was discussion of the scale of the proposed development at Bullinghope. A Member suggested this was inappropriate in the context of the housing target for the County as a whole.

Councillor A.C.R Chappell commented that in his view there had been ample consultation in the South Wye area about the road and there was a clear majority in favour of it. He remained concerned, however, as to what contingency plan was in place, if negotiations with the developer failed, noting the many hurdles still to be overcome, including the outcome of the Unitary Development Plan Inquiry if development was to take place.

The Leader of the Council replied that unless the access road was built the estate could not be developed and there were implications for the revenue income to the Council from the estate. It was also clear that there was a limited timeframe within which the Council had the opportunity to act.

Councillor T.M. James endorsed the importance of the Rotherwas estate and expressed the hope that it might provide increased revenue for the Council in future.

Councillor J.P. Thomas also questioned what contingency plans were in place given the risk associated with the project and whether as a last resort the Council would have to dispose of part of the estate. In reply the Leader of the Council acknowledged that this would have to be considered as an option but having regard to the revenue implications. It was possible that the development of phase 1 and 2 would increase scope for prudential borrowing.

In relation to the recent rejection of funding of the Road by the Department of Transport as referred to in question 8 from the CPRE, referred to above, Councillor T.M. James noted that the Government looked for funding from private sources to be provided when assessing the value for money for schemes. AWM's willingness to contribute was not considered relevant.

The Chairman invited comments from Members of the public.

The following principal points were made:

- A member of the public stated that insufficient evidence had been put forward in

the debate to explain how the funding shortfall would be met. The Council was being driven to proceed with the project by the limited timeframe within which it believed funding would be available from AWM.

- It was also suggested that by providing the road before the housing development was approved a developer would be able to argue that it did not have to make a contribution as part of any S106 planning agreement. Even if an agreement were negotiated, given the requirement that 35% of the development would have to comprise social housing it was disputed that the shortfall of £8 million could be met.
- The Chief Executive commented that he could not enter into a public discussion about the Council's negotiating position. The overriding point was that for many years there had been a determination to improve access to the Rotherwas estate. In deciding to proceed with the Rotherwas Futures project there were a number of issues on which Members had to reach a judgment. In deciding whether there was sufficient security he advised that the funding guarantee from AWM was clear. However, he gave the Committee his absolute assurance that this was time limited. The question then was about how the balance, which he believed was appropriately quantified, could be met. There was clearly an element of risk. The question was whether the project was of sufficient priority to make bearing that risk worthwhile. It was a situation where it was simply not possible to assess the risk precisely because this could not be done until all the negotiations with a developer were concluded. However, if the Council were to wait until that position was reached it would lose the funding from AWM.
- Councillor T.M. James observed that if the access road was built the Council would be in a strong negotiating position and the risk to the Council in proceeding was therefore minimal in his view.
- A question was asked about the answer given in reply to question 8 from Mr Dawe, as referred to above, that 60% of businesses at Rotherwas had responded to a Rotherwas Industrial estate questionnaire. In reply it was stated that the overall response to the survey was 60%. The response to one specific question had been 45%. It was further questioned whether this was a sufficient basis on which to proceed with the road. In reply it was stated that the survey was only one of the factors the Council had taken into account.
- A member of the public reported that he had himself conducted a survey of the businesses at Rotherwas on the need for a road. One business had declined to reply but over 120 had signed a petition in support of the road, providing clear evidence of their view. This had been presented to the Council on 28th July. In response to a question he confirmed that the businesses approached included 2-3 just outside the Rotherwas estate itself.
- It was suggested that there was no evidence to support the contention that the Council could fund the shortfall through a contribution from the developer. All the Council had done was to calculate the estimated shortfall.

In reply the Cabinet Member (Environment) reported that during the Unitary Development Plan Inquiry developers had clearly indicated their willingness to provide funding to support development at Bullinghope.

- The Director of Environment said that it was not possible at this stage to be precise as to the level of any shortfall because it depended on the cost of the road and the outcome of negotiations with the developer.

It was moved, but not seconded, that the Rotherwas Futures project should be rejected on the grounds that there was insufficient security to underpin it.

RESOLVED: That the Executive should not be requested to reconsider its decision to proceed with the Rotherwas Futures project but should be advised that the Committee required regular reports on progress with the financial negotiations associated with the project.

(The meeting adjourned between 11.35 and 11.45 am.)

29. MEDIUM TERM FINANCIAL MANAGEMENT STRATEGY

The Committee was invited to comment further on the Medium Term Financial Management Strategy (MTFSM) prior to its consideration by Cabinet.

The report noted that the proposed final version of the Strategy had not changed significantly from the document considered by the Committee at its previous meeting in September.

The Director of Resources updated paragraph 15 of the report, which set out the prognosis for the four year period covered by the MTFMS, to confirm that, rather than the figures given in the report, the capacity for cumulative spending in 2007/08 would be £3.6 million, in 2008/09 £3.9 million, in 2009/10 £4.6 million and 2010-11 £3.8 million.

She then presented the report. She informed the Committee that key assumptions had been made regarding the profiling of the savings to be achieved through the Herefordshire Connects programme and in relation to the accommodation programme. In addition Directors were being required to meet costs including inflation within existing budgets except for allowances for pay increases of 2% per annum and increased pension costs.

She also drew particular attention to the intention to set aside some of the additional spare capacity in 2007/08 to ease the pressure identified in 2008/09 and provide a reserve in the event of slippage compared to the outline, approved financial appraisal for the Herefordshire Connects Programme. She noted also the robust approach to be adopted towards Invest to Save proposals and Invest to Mitigate growth proposals.

In the ensuing discussion the following principal points were made:

- The Director confirmed that the additional £451,000 included in the Medium Term Financial Resource Model for the Whitecross PFI Scheme was a one off sum to meet the project's initial costs.
- Questioned about the assumptions regarding the Herefordshire Connects Programme, the Director replied that the forecast was that savings of £11.75 million would be achieved over the four year life of the MTFMS. It was expected, following benchmarking with other authorities that this level of savings would be achievable. However, it was not possible to be certain about the profiling of these savings, hence the intention to set aside some of the additional spare capacity in 2007/08 to provide a reserve in the event of slippage.
- A question was asked about the potential impact of inflation noting the

requirement that Directors meet costs including inflation within existing budgets except for allowances for pay increases of 2% per annum and increased pension costs. In reply the Director of Resources stated that in the last financial year there had been an underspend of some £4 million and £6 million in the year before that and it should therefore be possible to find ways of managing inflationary pressures.

- In relation to managing VAT expenditure the Director of Resources confirmed that the Council was managing activity to allow it to reclaim VAT on exempt business activities whilst being mindful that this must not exceed 5% of the total VAT liability, in which case the Council would stand to lose the entire sum it had sought to reclaim. She advised that the amount reclaimed currently represented 4.7% of the Council's total VAT liability.
- The Director confirmed that it had not been possible at this stage to incorporate potential expenditure in connection with the Rotherwas Futures project within the MTFMS. The Chief Executive added that Members had been informed that there was potentially a gap between the sum the Council would receive from Advantage West Midlands and might receive from developers and the cost of the road itself. It was simply not possible at this stage to confirm the scale of that gap or indeed that there would ultimately be a gap at all. As he had previously advised during consideration of the report on the Rotherwas Futures project a judgment had to be taken as to whether the potential return justified the risk. It had to be recognised, however, that there was a potential impact on the future Capital Programme.
- A question was asked about how it was intended to address the loss of £250,000 of external funding from Advantage West Midlands to continue website development. The Director of Corporate and Customer Services replied that the Council had benefited in recent years from significant external funding for website development. Work had been commenced to look at how best to proceed now that level of funding was no longer available.
- The Director of Resources was asked about how the projected overspend on both Adult Social Care and Children's Services would be addressed noting that this far exceeded the contingency sum of £1.3 million. The Director answered that it was proposed to increase the contingency sum to £3 million for the current financial year. The review of future needs and services for older people and adults with learning disabilities would then inform Invest to Save and Invest to Mitigate proposals for future years.

RESOLVED: That it be noted that the Committee was generally supportive of the Strategy, whilst recognising that there would always be differences over some points of the detail.

30. THREE-YEAR STRATEGIC PROPOSALS: THE BASIS FOR THE CORPORATE PLAN

The Committee's views were sought on three year service proposals and associated service outputs and outcomes which would form the basis of the Council's Corporate Plan 2007-10, so that these could be taken into account by Cabinet in its recommendations to Council.

The Head of Policy and Performance presented the report. He updated paragraph 4 of the report to indicate that, rather than the figures given in the report, the capacity for cumulative increased spending in 2007-08 would be £3.6 million, and in 2008-09

£3.9 million.

He then drew attention to paragraph 9 of the report. This noted that within the baselines set out in the Financial Resource Model, Directors and the Head of Human Resources had developed core proposals for the next three years with a view to securing specified star ratings as used in the Commission's Comprehensive Performance Assessment, as set out in the report, which, taken together would give the Council an overall 3* rating. Highlights of the core proposals were set out in paragraph 10 of the report, indicating what was considered deliverable within the financial constraints.

He also referred to appendix 1 to the report which set out spend to save proposals over the three year period, appendix 2 which set out spend to mitigate proposals, appendix 3 to the report which summarised proposals not regarded by senior managers as deliverable within the baseline provision in the Financial Resource Model, and appendix 4 which summarised proposals where the financial implications and affordability within the Financial Resource Model baselines were still under consideration.

In the course of discussion the following principal points were made:

- A question was asked about the allocation of capital receipts generated by the sale of properties, 50% of which had to date been returned to the Directorate that had released the asset. This was in the context of proposals to reduce the overspend on learning disabilities in the adult social care budget by disposing of some assets but then reinvesting the receipts into other areas to improve and modernise services and generate efficiencies. The Director of Resources replied that assets were now to be treated as a corporate resource. Any receipts would be held centrally and allocated in line with corporate priorities. Corporate working would help to ensure that the Council's asset base was appropriate across all service areas
- It was noted that the core proposal for adult and community services referred to achieving "some increase in the numbers of vulnerable people helped to live at home". In reply it was noted that a report was in preparation on future needs and services for older people and adults with learning disabilities which would contain detail on the increase envisaged. It was also noted that in part there was an issue over how to report the proposal, recognising that there was a need to work closely with service users and carers in discussing possible changes to service delivery.

The Committee had no further observations to make at this stage and noted the report.

31. UPDATE ON ACTIONS IN RESPONSE TO STRATEGIC MONITORING REVIEW OF THE STRATEGIC SERVICE DELIVERY PARTNERSHIP

(The Committee resolved to exclude the public and press during consideration of part of the discussion of this item on the grounds that there would be disclosure of information relating to the financial or business affairs of any particular person (including the authority holding that information). The following is a complete record of the proceedings.)

The Committee considered an update on the actions taken in response to their review of the Strategic Service Delivery Partnership between Herefordshire Jarvis Services (HJS), Owen Williams and the Council.

The Environment Support Manager presented the report, which set out developments since the matter had been reported to the Committee in June. Mr S Gyford, General Manager of HJS was also present to answer questions.

The Environment Support Manager drew particular attention to action taken to improve working practices, adherence to the business planning process, improved working relationships and a possible name change for HJS. He added that action was considered completed in relation to recommendations on the business planning process, compliance with the shareholders agreement, the understanding of to what HJS's 8% recharge to the Council related, the development of a robust contingency plan and putting arrangements in place to monitor the fee levels of Owen Williams. Progress against each of the recommendations made by the Committee was summarised in the appended action plan.

The report also described progress in response to Cabinet's recommendation that, "consideration should be given to engaging an external consultant to undertake a brief piece of work to verify a number of aspects of the services supplied by the Partnership."

In the course of discussion the following principal points were made:

- In relation to school catering Mr Gyford advised that there was no realistic prospect of HJS seeking to return to that sector.
- In response to a question the Environment Support Manager commented further on the improvements in working practices and in particular to the joint working between HJS and the Council.
- A question was asked about the reference in paragraph 10 of the report to HJS updating its business planning at quarterly intervals and whether HJS had a clear picture of its actual trading position. In reply Mr Gyford provided details on the trading position advising that HJS was on target to achieve the profit target it had set for the year. The level of profit was a significant improvement on the previous year.
- One of the Review's recommendations had advocated challenging the payment charged to the Council by HJS for Management Services to ensure that it represented value for money. The report noted that this was a contractual issue and changes could only be made through negotiation. This was similarly the case with the cumulative liability in respect of the management fee. The report stated that at this point in the negotiations both partners had identified issues which they considered should form part of an overall realignment of the service delivery agreement.

Asked to expand on the possible realignment the Environment Support Manager said that three years into the life of the agreement both partners had identified scope for improvement. One example was routine reactive highway works where there was no productivity incentive in the agreement. He acknowledged that if a reduction in the Management fee were to be agreed by HJS there would be trade-offs in the negotiations. However, this did not mean accepting that HJS would increase costs elsewhere. The focus of the negotiations was on achieving efficiency and productivity gains.

- In relation to work being won by HJS from clients other than the Council Mr Gyford reported that HJS was not being as successful as he would like with such

external work representing less than 10% of turnover. However, following an improvement in the financial reputation of the Jarvis Group, HJS had now been successful in gaining inclusion on a list of contractors upon which a number of authorities drew.

- Asked about HJS's ability to compete particularly for smaller jobs given its overheads Mr Gyford acknowledged that there had been occasions upon which unrealistic prices had been quoted. However, these were exceptions. He had reduced overheads and improved productivity. The intention was to target areas and particular customers not to seek every job whatever the price. In response to a further question about the reputational impact of quoting unrealistic prices he advised that HJS did not intentionally submit an unrealistic price when it did not want a job. In practice when too high a price was quoted this was usually as a result of an error or an ambiguous specification.
- In relation to the recommendation about the need for staff to be familiar with the contract it was reported that work was ongoing to produce a manageable, clear training pack and this should be available before the end of 2006.
- It was reported that consideration of a new name for HJS was still ongoing.
- It was suggested that consideration be given to reconvening the Strategic Partnership Review Group to carry out a short, sharp investigation to confirm that progress in working relationships had been made.
- The Environment Support Manager was asked about progress in engaging a consultant to verify a number of aspects of the services supplied by the Partnership. He reported that three expressions of interest had been received and these were being evaluated. He expected that the piece of work would be completed within three months of engaging the consultant.

RESOLVED: That a further progress report be made to the Committee once the Consultant's findings had been produced.

32. EMPLOYEE OPINION SURVEY 2006

The Committee considered the findings of the Employee Opinion Survey 2006.

The report set out areas where employees were more positive than in either of the last two years, the main areas where levels of disagreement amongst employees had risen, areas where the Council compared well against the average for local government and areas where the Council did not compare so well.

The Head of Human Resources said that at 48% the response rate to the survey was the highest it had been and was in line with the local government average. There were a larger number of responses stating that they firmly agreed or disagreed with propositions in the survey rather than stating that no view could be formed. There had been an increase in firm positive responses and a decrease in negative responses. He commented on each section of the report adding that the findings would be fed into the service and corporate planning process. More detailed analysis of responses within their areas would be provided to Heads of Service to assist them with their planning.

In the ensuing discussion the following principal points were made:

- The Head of Human Resources confirmed that the 48% response rate to the survey was considered by statisticians to be sufficient to allow a meaningful analysis of trends. He added that the survey was only one of several mechanisms used to ascertain staff views.
- It was suggested that it might be helpful if reports showed the numbers of staff being referred to in the report as well as percentages.
- A Member questioned the finding that morale had improved significantly, from 41% up to 55% agreeing that morale was good in their work area. The Head of Human Resources reiterated that the survey was one indicator. The Chief Executive commented that the survey was useful in indicating trends and noted that it did represent views across a range of staff, including groups with whom Members might not necessarily come into contact.
- It was asked whether there was a discrepancy between the finding that the number of staff indicating that they intended to be working for the Council in 12 months time was lower than the local government average, although turnover was significantly below the local government average. The Head of Human Resources replied that the level of staff turnover did vary between areas.
- The increase in dissatisfaction with the working environment from 30% to 35% was questioned. It was suggested in reply that it was possible that as some staff were seen to move to better accommodation others might become more dissatisfied.
- It was questioned why the percentage stating opportunities for flexible working had increased yet so had the percentage of those disagreeing that they had opportunities for flexible working. The Head of Human Resources replied that this was a reflection of the pattern that a larger number of responses had been received stating that they firmly agreed or disagreed with propositions in the survey rather than stating that no view could be formed.

RESOLVED: that the report be noted.

33. PROGRESS ON EQUALITY AND DIVERSITY

The Committee considered an update on progress in delivering the Council's statutory obligations on the equality agenda.

The Director of Corporate and Customer Services reported that the Council was on track to meet the criteria needed to reach level 2 of the Equality Standard by March, 2007. In 2007/08 it was intended to achieve levels 3&4 of the Standard, bringing the Council in line with other authorities.

RESOLVED: that progress in implementing the Comprehensive Equality Policy and on the development of the Disability Equality Scheme and the Race Equality Scheme be noted.

34. OMBUDSMAN AND COMPLAINTS AND COMPLIMENTS MONITORING 2005/06

The Committee considered the Ombudsman Annual Letter 2005/06 and the figures for complaints and compliments recorded, including complaints determined by the Local Government Ombudsman and the Complaints Panel for the year ended 31st March, 2006.

The report noted that the Local Government Ombudsman had decided to issue Annual Letters for all Councils reflecting on complaints received by individual authorities and setting out any recommended action. Aspects of the letter were summarised in the report. A copy of the letter was appended to the report.

The Director of Corporate and Customer Services drew attention to improved recording of complaints, the arrangements for dealing with them within Directorates and the planned link to the Performance Management Framework.

In the course of discussion the following principal points were made.

- The report recorded that the average time the Council took to respond to the Ombudsman's first enquiries on a complaint had improved from 47.9 days to 31.8 days. It was suggested that this still appeared a long time but noted that it compared to the Ombudsman's target of 28 days.
- It was noted that there had been a significant increase in the number of complaints about planning and that the Ombudsman had written that although these had risen slightly countrywide in 2005/6 the Council may wish to consider whether special factors had caused the increase in Herefordshire. Members discussed the sorts of issues which could generate complaints about planning and requested a report to clarify the position.

RESOLVED: That a report analysing the complaints about planning should be made to a future meeting.

35. SCRUTINY ACTIVITY REPORT

The Committee noted the work being undertaken by the Scrutiny Committees.

36. WORK PROGRAMMES

The Committee considered the Scrutiny Committees' work programmes.

RESOLVED: That the Work Programmes be endorsed.

37. SCRUTINY IMPROVEMENT PLAN

The Committee was invited to note progress on the Scrutiny Improvement Plan.

RESOLVED: That progress against the Scrutiny Improvement Plan be noted.

The meeting ended at 1.25 p.m.

CHAIRMAN