Foreword by the Leader & Cabinet Member (Resources)

Herefordshire Council is determined to provide a sound basis for sustainable improvements in services and a better quality of life for the people of Herefordshire. Excellence in financial planning and management is vital to achieving this.

The world of local government finance is complex and changes at an ever-increasing pace. Recent events include the:

- introduction of three-year revenue and capital grant settlements;
- introduction of a new grant distribution system;
- introduction of Dedicated Schools Grant;
- postponement of domestic property revaluation;
- change to the terms of reference and timetable for the Lyons Inquiry;
- postponement of the 2006 Spending Review to be replaced by a second Comprehensive Spending Review in 2007;
- radical proposals for changes in the housing benefit system; and
- CPA Harder Test including the Use of Resources assessment.

The wider context for local government is also likely to change rapidly too as the publication of the Local Government White Paper in October of last year sets out proposals to strengthen local leadership, enhance the role of frontline councillors, reduce the number of national targets, streamline inspection and broaden the scope of local area agreements.

In setting our longer-term strategic objectives for meeting the needs of our community, we need to be mindful of the impact these changes might have for us locally. Our service improvement aspirations have to be realistic in terms of the challenges ahead and the financial resources likely to be available.

This version of the Medium Term Financial Management Strategy (MTFMS) has been updated in the light of consultation feedback since Cabinet approved the document in July 2006. It aims to pull the strands together, many of which we have discussed in recent months as we have considered and approved the Herefordshire Community Strategy, the Council's Corporate Plan 2007 – 2010, its Annual Operating Plan for 2007/08 and the budget for 2007/08.

Our MTFMS will provide the financial context for making sure our service improvement aspirations are affordable and sustainable into the future. It will also provide a framework for making sure our cash resources follow corporate priorities as reflected in our medium-term financial plans. We hope it provides a comprehensive view of the proposed way forward for Herefordshire Council's strategic financial management.

Cllr Roger Phillips
Leader of the Council

Cllr Mike Wilson
Cabinet Member (Resources)

Foreword by the Chief Executive & Director of Resources

The Leader and Cabinet Member (Resources) have described a rapidly changing and increasingly complex context for local government at a time when public spending is under pressure, the Government is seeking a step change in the pace of public service reform and customer expectations are rising.

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

The introduction of 3-year financial settlements for local government means we now have the best ever opportunity to make realistic long-term budget plans that link directly to corporate and service priorities. The Medium-Term Financial Management Strategy (MTFMS) will form an important part of our financial governance and leadership arrangements. It will set out our approach to strategic financial management, concentrating on longer-term financial planning in support of longer-term corporate and service priorities.

The MTFMS will also help embed the change in Herefordshire's financial management culture that the Director of Resources has instigated. Whilst the Director is responsible and accountable for leading and advising on financial issues, all managers have a collective responsibility for financial management, including efficiency review and Value for Money, and treating cash as a corporate resource. The 'non-negotiables' in the job descriptions of all our Heads of Service underline this responsibility at Director and Senior Management Team level.

Financial management isn't something that just accountants do. Quite simply, it is part of everyone's job and is a critical success factor for the Council as we prepare for a period of significantly reduced growth in public spending.

Neil Pringle
Chief Executive

Sonia Rees
Director of Resources

Contents

1. Executive Summary

Herefordshire Council's Medium-Term Financial Management Strategy (MTFMS) sets out how it intends to maintain financial stability, support investment in priority services, allocate resources, deliver improved Value for Money and manage risk as we face up to very challenging times for local government.

The strategy supports the Council's financial management culture where everyone strives for a greater shared understanding of the pressures the Council is working to address. Financial objectives and policies are no longer something that is only of interest to accountants but to all colleagues concerned with service delivery and improvement.

Public service reform is high on the government's agenda, with local providers required to work together more closely than ever before to achieve efficiencies, ensure social justice and remove social divisions. Local government will be expected to lead their communities, encouraging citizens to have a greater say in how services are delivered. There may be significant changes to local government funding systems, but there will be no more cash.

Herefordshire is an under-resourced council, stretched to deliver services throughout a large, sparsely populated area. Our government funding is 20% lower per head of population than the average for similar authorities and we have a lower than average Council Tax too. Capital resources are also limited. Despite this, the Audit Commission has judged Herefordshire to be a 3-star authority that provides good services at good value. Our financial performance, administration, management and systems are also judged to be good, and we have a healthy level of reserves and a strong balance sheet.

Sound financial governance will be vital as we enter the most challenging period the Council has faced since it came into being. Our key financial objectives for improving our service and financial performance are to continue to ensure that budget plans are realistic and support corporate priorities, to maintain an affordable Council Tax, to protect the vulnerable, to deliver services within budget and to ensure an integrated approach to service and financial planning in full consultation with key stakeholders.

The MTFMS encompasses revenue spending, capital investment, efficiency improvement and treasury management in order to achieve these objectives, ensuring complete transparency about what is and what is not resourced. The factors that will underpin the Council's ability to maintain its current financial standing into the future and achieve its service improvement aspirations are strong corporate working supported by open book accounting, good financial management systems and the successful delivery of the business transformation programme. The MTFMS shows how important the Herefordshire Connects programme will be to both service and financial stability over the medium-term.

2. Introduction

2.1 Background

2.1.1 This is a comprehensive Medium-Term Financial Management Strategy (MTFMS) for Herefordshire covering the financial years 2007/08 to 2010/11.

2.1.2 The MTFMS sets out Herefordshire's key financial aims and objectives and how it intends to manage its financial affairs in order to maintain financial stability over what is expected to be a very challenging period for local government.

2.1.3 The development of the MTFMS forms part of Herefordshire's integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities.

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

2.2 Aim

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

2.3 Purpose

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

- Herefordshire Community Strategy;
- Local Area Agreement (LAA),
- Local Public Service Agreement (LPSA2);
- Corporate Plan;
- Overall Performance Improvement Plan; and
- Annual Operating Plan.

2.4 Objectives

2.4.1 The objectives of the MTFMS are to:

- define the financial context for future service improvement decisions;

- set a baseline for reviewing resource availability & financial performance;
- establish and maintain a balanced budget;
- ensure corporate priorities drive the allocation of cash resources;
- promote strong financial governance at all levels within the Council;
- manage risks by keeping reserve funding and debt at appropriate levels;
- plan for Council Tax increases in line with national guidance; and
- provide a focus on delivering improving efficiency & Value for Money.

2.5 Coverage

2.5.1 The MTFMS contains:

- an overview of the financial outlook for local government and how we expect that to impact on Herefordshire;
- a revenue budget strategy that sets out how we will achieve improving efficiency and Value for Money;
- a medium-term financial plan for the revenue account;
- a capital strategy incorporating proposals to establish a corporate landlord role & corporate prioritisation of investment decisions including ICT;
- a medium-term capital investment plan;
- a treasury management strategy setting out our view of likely interest rate movements, timing of investment and borrowing decisions, how we will deal with risk in our treasury management activities & our view on affordable debt limits; and
- a detailed financial risk assessment that shows the major areas of financial uncertainty, their likelihood of occurrence, their potential impact & how we propose to mitigate those risks.

2.6 Summary

2.6.1 Herefordshire has made significant progress in embedding a new financial management culture. The top-level management board now takes a much more corporate approach to financial management.

2.6.2 Our accountants and service managers need to have a high-level understanding of the overall policy and financial context within which Herefordshire works. This sets the scene for the MTFMS and the resulting medium-term financial plans that they will have to work within. Greater shared understanding of the pressures the Council as a whole faces underpins achievement of corporate service improvement and financial objectives.

3. National Policy Context

3.1 Introduction

3.1.1 Change in the public sector has been extensive in recent years and this trend is set to continue for the foreseeable future. It is important to set the MTFMS in the context of the changing policy context at national level so we have the financial capacity and flexibility to deal with the change as it happens.

3.1.2 Five key documents on the future direction of local government and public services have been published in recent months that could have corporate implications for Herefordshire. These are:

- National Prosperity, Local Choice and Civic Engagement (Lyons Inquiry);
- Closer to People and Places – a New Vision for Local Government (Local Government Association);
- The UK Government's Approach to Public Service Reform (Prime Minister's Strategy Unit); and
- Local Government White Paper – Strong and Prosperous Communities.

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

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

3.2 National Prosperity, Local Choice and Civic Engagement

3.2.1 Sir Michael Lyons published his latest thinking on the future role and function of local government on 8th May 2006.

3.2.2 In his report, Sir Michael argues for a system of local government for the 21st century that can manage increasing pressures on public expenditure, increase satisfaction and build more prosperous communities. Greater local choice and not more central control is needed to achieve this.

3.2.3 He also argues that local government should be given greater freedom to place-shape – where local government takes responsibility for the well being of an area and the people who live there, promoting their interests and their future.

3.2.4 Sir Michael sets out a challenge for central government to clear the space for effective place shaping by setting fewer and better-focused targets and reducing supervision of local government by central government. It should also clarify the roles of central and local government, based on a realistic assessment of who is best placed to do what, and allow greater local influence over public services.

3.2.5 In addition he challenges local government to further raise its game, building on recent improvements to tackle the challenges of promoting effective local choice and energetic place shaping. This requires stronger leadership, closer engagement with local residents, effective partnership working with other services and the business community, and a consistent commitment to efficiency and cost effectiveness.

3.2.6 Sir Michael concludes his report by saying that a programme of reform is needed to achieve the benefits of devolution he sets out in his paper and to enable local authorities to undertake their role as place-shapers. The roles and responsibilities of central and local government must be clarified, local accountability must be improved and local government must build its confidence and capability, including developing its skills, leadership and self-confidence.

3.2.7 Sir Michael continued to work on both the function and funding elements of his Inquiry during 2006 looking specifically at.

- the extent to which there may need to be a greater flexibility in funding – including charging for services - in order for place-shaping to happen effectively, and the different options which might be available to deliver such flexibility;
- the extent to which local accountability might be enhanced by a clearer link between function and funding – and the constraints on such an approach;
- the fairness of the funding system and the relationship between equalisation of resources and the incentives facing local authorities; and
- the role and future of Council Tax.

3.2.8 Sir Michael planned to publish his final report in December 2006 but instead the Government announced it had given him a short extension to allow him time to consider the implications for local government of:

- the Eddington transport study;
- the Barker review of land use planning; and
- the Leitch review of skills.

3.2.9 Sir Michael plans to publish his final report in March 2007, around the time of the Budget 2007. This will allow time for his report to influence SR07, which is not expected to conclude until the late summer 2007.

3.3 Closer to People and Places – a New Vision for Local Government

3.3.1 Launched in May 2006, this Local Government Association (LGA) publication sets out a radical new vision for how power should be removed from Whitehall and put into the hands of local people, voluntary organisations and local councils.

3.3.2 The report calls for a series of sweeping changes to local government and wants a 'clamour for change' by local people to help make this happen.

3.3.3 The LGA sets out 3 objectives to:
- secure more fundamental improvements in public services and make better use of public money;
- improve the quality of life and economic performance of cities, towns and villages; and
- give people greater power and influence over their lives, their services and the future of the places where they live.

3.3.4 The LGA argues that these objectives are shared with government and that they will only be achieved through a new system of government that offers local people more power and influence in public decisions, greater choice and a stronger voice in service delivery.

3.3.5 The LGA paper describes a new governance system that:
- enhances councils' place-making role;
- joins together the totality of public services in an area;
- designs services around users;
- realises the economic potential of our cities, towns and villages;
- provides more visible, accountable and democratic leadership with strong local performance management and accountability;
- ensures greater Value for Money and efficiency; and
- reforms the balance of funding.

3.3.6 The LGA puts forward the following proposals to support their new vision for local government:
- streamlining the plethora of targets, specific grants and financial bid systems with an agreed list of some thirty national outcomes which local government will take responsibility for delivering with its Local Area Agreement (LAA) partners;
- replacing the 'power' for economic, social and environmental well-being with a 'duty';
- developing the next generation of LAAs, backed by a 'duty' for partners to co-operate, to join together the totality of public services and resources in an area to deliver improved outcomes, better access to services and efficiency savings;
- developing Metropolitan Area Agreements, City Area Agreements and Shire Area Agreements alongside the next generation of LAAs;
- strengthening neighbourhoods through devolution from local authorities, together with an enhanced role for local council members; and
- a clear commitment to and timetable for the re-balancing of local government funding.

3.3.7 In summary, the LGA supports the government's ambition to modernise public services. It is arguing strongly for the freedom and flexibility to do this, recognising that local government needs to respond by being more innovative, enterprising and efficient.

3.4 The UK Government's Approach to Public Service Reform

3.4.1 The Prime Minister's Strategy Unit published a discussion paper in June 2006 describing the government's proposed approach to public service reform. The paper is not, it says, intended to be the government's final word but to help improve understanding of the bigger picture on reform and stimulate further discussion.

3.4.2 The government recognises that public services in the UK, in common with many other countries, face major challenges from social, economic and technological changes and from major changes in public attitudes and expectations. It notes that other countries in Europe and elsewhere are pressing ahead with reform to deal with these challenges.

3.4.3 The discussion paper says that the government has substantially increased investment in public services since 1997, giving examples of improvements in education, health, crime reduction and other areas alongside an ambitious programme of reform.

3.4.4 But, the discussion paper goes on to explain, increased spending on its own is not enough to ensure improvements. The government believes that reform is needed to ensure that existing resources are used effectively and to ensure increased investment results in better services and improved outcomes.

3.4.5 The paper describes the government's vision as being one in which public services are:

- citizen-centred and responsive;
- universal and accessible to all and (in the case of core public services such as schools and healthcare) free at the point of use;
- efficient and effective, offering value for money for the tax-payer;
- equitable, helping to reduce social exclusion and improve the life changes of the disadvantaged;
- excellent (high quality); and
- empowering and involving citizens.

3.4.6 The discussion paper then sets out how the government intends to approach the reform of public services. The reform will be driven by a combination of:

- pressure from government (top down performance management);
- greater pressure from citizens (choice and voice);
- greater competition and contestability in the provision of public services; and
- measures to build the capability and capacity of civil and public servants and central and local government.

3.4.7 The government's intention is that these 4 elements will combine to create a self-improving system within which incentives for continuous improvement and innovation are embedded to provide better public services for all.

3.5 Local Government White Paper

3.5.1 The Local Government White Paper (LGWP) published in October 2006 offers significant opportunity and challenge. Cabinet has already received a report on the LGWP and officers have begun to assess the impact it may have for future plans once enacted. A brief summary of the key issues covered in the LGWP is as follows:

- A new performance framework;
- An enhanced role for councils as strategic leaders and place-shapers;
- Development of Local Area Agreements (LAAs);
- Stronger political leadership;
- An invitation to consider alternative structures particularly in two-tier areas;
- A strengthened role for frontline councillors;
- A wider and stronger role for scrutiny;
- Devolution of some powers; and
- Using community strategies to enhance community cohesion.

3.6 Other Government Policy Initiatives

3.6.1 The Queen's Speech in November 2006 included a number of initiatives within the Government's legislative programme for the current session of Parliament with important implications for local government including:

- **Local Government White Paper** – see above;
- **Further Education & Training Bill** – measures to implement the Skills White Paper;
- **Offender Management Bill** – proposals to create a regionally based National Offender Management Service;
- **Criminal Justice Bill** – measures around sentencing, anti-social behaviour and probation service reform;

- **Climate Change Bill** – measures to limit carbon emissions to meet the Government's target of reducing CO_2 emissions by 60% by 2050;

- **Road Transport Bill (draft)** – measures to reform Passenger Transport Authority governance, to provide councils with increased powers over bus provision and measures on road pricing; and

- **Other proposals** impacting on local government including:

    - Concessionary Bus Travel Bill;
    - Border and Immigration Bill;
    - Energy White Paper;
    - Planning Reform;
    - Local Better Regulation Office Bill;
    - Mental Health Bill;
    - Statistical Reform Bill; and
    - Welfare Reform Bill.

3.6.2 This remainder of this section of the MTFMS sets out in headline detail only the top 4 or 5 government driven initiatives that will impact on service delivery in each of our Directorates.

Adult & Community Services

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

- **Public Service Trust** - the Council will explore further joint working arrangements between health and social care services in Herefordshire in the context of the recent Primary Care Trust reorganisation and proposals set out in the White Paper - Our Health, Our Care, Our Say;

- **Housing Related Funding** – responding to the government's changed approach to funding for the Supporting People Programme and allocating capital resources for housing renewal to focus resources on affordable housing; and

- **City Region Proposals** – responding to government proposals for the establishment of a City Region for the West Midlands based on the metropolitan areas - the governance and funding arrangements will have implications for the non-metropolitan areas.

Children & Young People

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

- **Every Child Matters Change Programme** – will require extra effort to put reforms in place by 2008;

- **Youth Matters Change Programme** – will require strengthened links to Youth Council and new service approaches;

- **Education & Inspections Bill** – will require new relationships with schools;

- **Dedicated Schools Grant** – this grant covers both individual schools budgets and support services provided for schools such as SEN support services. DSG gives schools much greater choice on how to procure such services. Over spends on DSG are carried forward to count against the following year's grant allocation. Under spends are returned to the Department for Education & Skills (DfES). Efficiency gains within DSG whether through procurement savings, the Herefordshire Connects programme etc. can be kept within DSG and will be essential to help offset reductions in DSG from falling pupil numbers. DSG distribution will be reviewed for the 3-year period covered by SR07.

- **E-learning, E-admissions, Integrated Children's System and Information Sharing Index** – will require transformation of service arrangements and links directly to the Herefordshire Connects programme; and

- **Safeguarding Guidance & Looked After Children Green Paper** – will require new arrangements and targets to be resourced.

Corporate & Customer Services (including Human Resources)

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

- **Unification Project for Registration Services** – potential for significant changes in existing service delivery arrangements;

- **Further development of the LAA framework** – with potentially both corporate and directorate implications;

- **Support services** – ensuring all support services are adequately resourced to provide the level of service needed to achieve national and local priorities;

- **Adult & Children's Services Workforce Strategies** – the requirement to develop integrated strategies with health;

- **Welfare to Work Reforms** – ongoing requirement including reducing the numbers of people on benefit by providing work;

- **Local Government Pension Scheme** – advising both employer and employee on proposed changes;

- **Changes in employment legislation** – including new age and disability discrimination regulations; and

- **National Skills Agenda** – new frameworks for social work and priority training for minimum skills standards.

Environment

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

- **Landfill Diversion** – targets increasingly more challenging requiring either increased resources and / or radical changes to service delivery;

- **Respect Agenda** – community safety including anti-social behaviour, cleaner neighbourhoods and improvements to the street scene;

- **Transport Innovation** – funding based on innovative proposals to relieve congestion, create better integrated transport provision and in particular better quality bus services and national concessionary travel;

- **Reform of the Planning System** – roll-out of the local development framework and proactive response to further proposals for change from the government; and

- **Improving Road Conditions** – government targets require sustained and increasing investment.

Resources

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

- **Reform of the local government finance system** – will affect billing services;

- **Comprehensive Spending Review 2007** – extra demands on the Resources Directorate to provide leadership in strategic property asset and financial management;

- **Green Paper on Welfare Reform** - Local Housing Allowances will impact on benefit services;

- **Gershon efficiency gains** – increasing pressure on back office services to make significant and demonstrable efficiency gains;

- **National Procurement Strategy for Local Government** – increasing need to deliver key milestones in the Council's procurement strategy; and

- **Use of Resources Assessment** – increasing pressure to demonstrate the effectiveness of the Council's overall governance arrangements.

3.7 Summary

3.7.1 The evidence is that radical public service reform is likely in the medium-term. It is clearly high on the government's agenda and that of the Local Government Association.

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

- the agenda will accelerate the move to greater localism, not just to local authorities but also to the individual neighbourhoods within them;
- integral to this will be an even stronger expectation, amounting to a requirement, that public services in an area will deliver measurable improvements by working together to a common agenda;
- there may be more powers and duties underpinning local government's community leadership and well-being responsibilities;
- greater freedom for local government will have to be matched by more effective systems of performance management;
- achieving quality, efficiency and Value for Money in service provision will be a high priority;
- services will need to be citizen-centred and service users will have a greater say in the design of services;
- more will be done to ensure social justice and close the widening social divisions;
- significant change in the local government finance system is likely with the balance of funding under review and the future of Council Tax in question; and
- greater pooling of resources as LAAs is developed.

3.7.3 The government is determined to set a very challenging agenda for public service improvement and local government will be expected to play its part. We will need to acquire the skills and capacity needed to deliver improvements in outcome that exceed the lower level of new investment we can expect from 2008/09 onwards.

4. National Financial Context

4.1 Introduction

4.1.1 This section of the MTFMS sets out the financial context at national level for local government. It describes what we expect to happen in the build up to the Comprehensive Spending Review 2007 and identifies the national spending pressures for local government.

4.2 National economy

4.2.1 Growth in the UK economy is higher than forecast in the Budget 2006, driven by higher than expected business investment and export growth due to the economic recovery in the euro areas. The UK is currently experiencing its longest unbroken economic expansion on record, with GDP having gown for 57 consecutive quarters. UK inflation has been held within Bank of England parameters for several years now and there are no immediate signs of substantial change. Interest rates have spiked up in recent months in response to changes in the housing market but are likely to remain stable. There is currently no reason to assume a substantial change, although the risk is to the upside.

4.2.2 The global economy is in the midst of radical transformation with far reaching and fundamental changes in technology, production and trading patterns. Rapid technological change continues to impact on how individuals, business and communities interact with each other and how they expect to interact with the state. Global security is being reshaped as the international community responds to the ongoing threat of international terrorism, conflict and the challenges of ending world poverty. The pressures that economic and population growth are placing on the earth's natural resources and climate are increasingly apparent.

4.2.3 With volatility in the UK economy at historically low levels, it is well placed to respond to the global economic challenges of the next decade. Having taken global and domestic economic factors into account, this MTFMS assumes that the UK economy will continue to grow in line with trend.

4.3 Comprehensive Spending Review 2007

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

4.3.2 A decade on from the first CSR, CSR07 will represent a long-term and fundamental review of government expenditure. It will cover departmental allocations for 2008/09, 2009/10 and 2010/11, with allocations for 2007/08 held to the figures included in the 2004 Spending Review.

4.3.3 The Chancellor of the Exchequer's budget paper for 2006 set out how the government planned to prepare for the CSR07. The programme will include:

- an examination of the key long-term trends and challenges that the UK faces including:
    - demographic and socio-economic change;
    - globalisation;
    - climate and environmental change;
    - global uncertainty; and
    - technological change.
- plans for a national debate about how public services should respond to the long-term challenges facing the UK;
- a series of reviews that will inform the CSR in the areas where cross-departmental collaboration and innovative solutions are required to meet these challenges;
- further details of the next phase of the government's Value for Money programme including a progress report on asset disposals and a review of opportunities for transforming service delivery; and
- early spending settlements for the Department for Work and Pensions, HM Revenue & Customs, Cabinet Office and HM Treasury Group which will see their department Expenditure Limits fall by 5% per year in real terms over the CSR period, releasing over £1.8bn in total for re-investment in front-line public services.

4.3.4 HM Treasury published a paper in late July 2006 entitled "Releasing the Resources to meet the challenges ahead: Value for Money in the 2007 Comprehensive Spending Review. This paper set out the scope of the "cross-cutting" themes that will be used to inform CSR07:

- Supporting housing growth;
- Supporting sub-national growth;
- Increasing fairness and social justice;
- Strengthening security; and
- Working with the third sector.

4.3.5 The government has set some of its own departments very challenging cash limits ahead of CSR07 as part of its preparations for the spending review. This demonstrates the resolve at national level to extract more public service output and improved outcomes from fewer resources.

4.3.6 The level of efficiency savings that local government has achieved will be a significant issue for CSR07 too. There is some concern that local government may be penalised for the success of delivering their efficiency savings targets in the current SR period a year early. Local government is likely to have limited success in resisting increases in these targets given this background. The HM Treasury's 'Releasing the

Resources' document (paragraph 4.3.4 refers) talks in terms of potential savings of at least 2.5% being achievable.

4.3.7 There are clear messages in the preparatory material for CSR07 for local government as fiscal constraints at national level tighten. Real terms growth in public spending has averaged around 5% a year for the last 10 years and it cannot continue. On top of that, as we shall see below, the government's public spending priorities are in areas of the public sector other than local government, and local government has spending pressures of its own to deal with.

4.4 National Spending Priorities & Pressures

4.4.1 The Chancellor's budget for 2006 gave a clear indication of the government's public service spending priorities in dealing with the challenges ahead it has identified for the UK (paragraph 4.3.3 refers).

4.4.2 On top of big real terms increases already promised for the National Health Service, the 2006 budget redirected resources to government priorities in the following key areas:

- additional revenue and capital resources were found for schools;
- extra money was found to speed up the programme to recruit more community support officers;
- the Home Office was given assurance that it would have its resource base protected throughout the period covered by CSR07;
- a commitment was made to find new cash from within existing public spending plans to give our athletes the best chance of success in the British Olympics in 2012; and
- a significant sum of money was set aside to help meet the cost of international commitments.

4.4.3 Meanwhile, at national level, local government is experiencing a range of spending pressures. The latest spending pressures survey published by the LGA in November 2005 identified a £2.2bn 'black hole' in local government finances due to:

- new legislative and government policy demands that are either unfunded or only partially funded;
- growth in demand for older people and adult services generally as our population ages;
- rising costs in a range of services including:
    - children's services;
    - waste management and street cleansing;
    - anti-social behaviour;
    - housing;
    - pensions; and
    - transport.

4.4.4 The government is expected to assume 2% pay inflation per year for the period of CSR07. It is concerned about the increases in pay costs over the last 3 years revealed by the statutory expenditure returns the public sector is required to make each year. This is being investigated. Much of it can be explained by inaccurate completion of the returns, increases in pension costs, changes in the rules for accounting for pensions, cost of living awards and investment in new staff. However, a significant amount is unexplained and the inference is that the government's additional investment in public services has been spent on enhancing salaries. This is an area of spending the government is likely to keep under close scrutiny.

4.4.5 The government set some of its departments spending plans for 2008/09 to 2010/11 ahead of CSR07 (paragraph 4.3.3 refers). This included the Department for Work & Pensions (DWP). The DWP has already announced that their budget for providing Housing Benefit and Council Tax Benefit administration subsidy to local authorities be reduced by 5% in real terms over the period of the CSR07, mirroring the reduction in their Departmental Expenditure Limit imposed by the government.

4.4.6 The government has promised further change for Concessionary Fares with a new national scheme from 2008. It has promised to set aside £250m nationally in 2008/09 to pay for the new scheme. At present it is not certain how this funding will be allocated to local authorities or whether it will be sufficient to meet set-up costs. It is not clear how the ongoing costs of the new scheme will be funded either.

4.4.7 Local government also needs to consider how it maintains service improvement initiatives that the government currently supports by specific grant. Examples include Implementing E-government Grant (IEG) and Planning Delivery Grant (PDG) but there are many others including services already under pressure such as social care (e.g. transfer of Preserved Rights Grant into mainstream formula grant). This is an increasing problem as the percentage of funding that arrives as a specified rather than a general grant has grown to around 60% of the total following the introduction of Dedicated Schools Grant in April 2006.

4.4.8 The Chancellor's pre-budget 2007 report in December 2006 noted the progress already made in achieving the Government's efficiency targets for the 3-year period to 2007/08. Building on this success, the Government's baseline savings ambition for the 2008/09 to 2010/11 period covered by SR07 will be at least 3% per year across central and local government with a focus on net cashable savings to free-up resources to meet the challenges ahead.

4.4.9 The Government's latest assumptions on future efficiency gains rely on Sir David Varney's findings in his review entitled *'Service Transformation: a Better Service for Citizens and Businesses, a better Deal for Taxpayers'*. The Chancellor commissioned this review as part of his budget 2006 and it was published alongside December's pre-budget report for 2007.

4.4.10 Sir David's review set out to examine the potential for transforming public services through:

- increasing use of electronic service delivery;
- raising the quality of service provided by call centres;
- identify opportunities for "one-stop shops"; and
- improve processes for handling identity.

4.4.11 In his final report, Sir David identifies major opportunities for strengthening public service delivery, making it more accessible, convenient and efficient in meeting changing citizen and business expectations. The report recommends:

- Developing a change of circumstances service starting with bereavement, birth and change of address by 2010, so that citizens don't have to notify multiple public services;

- Providing citizens and businesses with single information and transactional websites through Directgov and Businesslink.gov;

- Improving public sector contact centre performance including reducing operating costs by 25% to release £400 million; and

- Developing a cross-government identity management system to enable greater personalisation of services and to reduce duplication across Government.

4.5 Summary

4.5.1 Nothing has emerged since Cabinet approved the original MTFMS for consultation in July 2006 to suggest an easing of future financial pressures for local government. If anything, an already difficult scenario could be made even more challenging if new local government funding and Dedicated Schools Grant (DSG) systems alter the current pattern of grant distribution. Whilst these changes could have a positive impact for Herefordshire and help improve the council's relative funding position, it could make matters worse for both non-school and school services.

4.5.2 The provision local government finance and DSG settlement announcements that will follow on from SR07 in November this year will set out the level of funding we can expect for non-school and school services respectively for 2008/09 to 2010/11. The announcements are likely to generate a lot of debate and last minute changes to budget strategies.

5. Herefordshire's Policy Context

5.1 Introduction

5.1.1 This section of the MTFMS describes the local policy context for Herefordshire. Our priorities are closely aligned with the government's priorities for public services as described in section 3. We consult widely with our residents and other stakeholders to ensure we deliver national policy objectives in a way that best meets local need.

5.1.2 The vision for Herefordshire and how it will be achieved are set out in the *Herefordshire Community Strategy (HCS) 2006 – 2020*. This has been developed, and is being delivered, by *The Herefordshire Partnership*, which comprises the Council and its major partner organisations across the public, private and voluntary and community sectors.

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

5.2 Herefordshire Community Strategy

5.2.1 The Herefordshire Community Strategy – A Sustainable Future for the County is the culmination of a major review in 2005 of the Herefordshire Plan. The Herefordshire Plan was first produced in 1999 with local groups, organisations and residents identifying their priorities for Herefordshire. It was reviewed and refreshed in 2000 and 2003.

5.2.2 The HCS sets our aspirations for the County by 2020 and how they might be achieved. Each local authority must produce a sustainable community strategy based on issues and priorities for local services, and reflecting the views of local people, businesses and organisations. Where appropriate, it should fit with regional and national priorities. Sustainable communities have been described as 'places where people want to live and work, now and in the future. They meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life, they are safe, inclusive, well-planned, built and run, and offer equality of opportunity and good services for all'.

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

5.2.4 The HCS is also Herefordshire's Local Agenda 21 Plan and Regeneration Strategy and is closely integrated with the emerging Local Development Framework for the County. It has also been the basis for developing Herefordshire's Local Area Agreement.

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

- Chamber of Commerce Herefordshire and Worcestershire, and Business Link West Mercia;
- Herefordshire Association of Local Councils;
- Herefordshire Council;
- Herefordshire Primary Care Trust;
- Learning & Skills Council, Herefordshire and Worcestershire;
- Voluntary Organisations; and
- West Mercia Constabulary.

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

5.2.7 The HCS consists of:

- **One vision** – Herefordshire will be a place where people, organisations and businesses, working together within an outstanding natural environment, will bring about sustainable prosperity and well-being for all;
- **Five guiding principles** – to:
    - realise the potential of Herefordshire, its people and communities;
    - integrate sustainability into all our actions;
    - ensure an equal and inclusive society;
    - build on achievements of partnerships working and ensure continual improvement; and
    - protect and improve Herefordshire's distinctive environment.

- **Outcomes covering the 4 themes** – which are:
  - economic development and enterprise;
  - healthier communities and older people;
  - children and young people; and
  - safer and stronger communities.
- **Performance indicators** – to measure progress towards the outcomes; and
- **A single action plan** – a plan of activities that will deliver the vision.

5.2.8 The HCS is being implemented through many organisations, networks, sectors and groups, working together to co-ordinate their activity, reduce duplication and provide joined up services. This is happening through the Herefordshire Partnership and a single 3-year detailed action plan that is updated each financial year and reflected in the ruling Local Area Agreement.

5.3 Herefordshire Corporate Plan & Annual Operating Plan

5.3.1 Herefordshire's Corporate Plan for 2007 – 2010 sets out the Council's objectives for the next 3 years in support of the Herefordshire Community Strategy.

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

- to maximise the health, safety, economic well-being, achievements and contribution of every child, with special emphasis on sound arrangements for safeguarding vulnerable children and sustained improvements in educational attainment;
- to reshape adult social care, enabling vulnerable adults to live independently and, in particular, enabling many more older people to continue to live in their own homes;
- to secure the essential infrastructure for a successful economy; and
- to streamline its processes, assets and structures, and secure significant efficiency savings, particularly by delivering the *Herefordshire Connects* programme.

5.3.3 The Council's other priorities are:

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

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

- to ensure that its essential assets, including schools, other buildings, roads and ICT, are in the right condition for the long-term cost-effective delivery of services, and ensure business continuity in the face of emergencies;
- better to understand the needs and preferences of service users and Council Tax-payers, and to tailor services accordingly;
- to recruit, retain and motivate high quality staff, ensuring that they are trained and developed so as to maximise their ability and performance; and
- to embed corporate planning, performance management and project management systems so as to continue to drive up service standards and efficiency.

5.3.5 Each year, Herefordshire Council adopts an Annual Operating Plan that sets out what it is going to do in the year ahead to achieve the objectives set out in the Corporate Plan. This provides the basis for in-year performance monitoring, reporting and management.

5.4 The Performance Challenge

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

5.4.2 For the second year running, the Council has been adjudged in 2006 to be improving adequately and, overall, to have maintained services at the same level as in the previous year. This is notwithstanding the lower scores under this tougher regime awarded to Benefits and Environment. We maintained our Use of Resources score. The improvement of the Culture score to 3; the considerable achievement of moving from an assessment in 2005 that safeguarding arrangement for children were inadequate to their now being assessed as good overall: and the improvement of Adult Social Care from 0 stars to 1 star. The Council is determined to move rapidly to a position where it is improving well, and improving strongly over the medium term.

5.4.3 These improvements have been driven by an Overall Performance Improvement Plan and a new Performance Improvement Cycle that fully integrates corporate, service and financial planning, coupled with strengthened performance management arrangements.

5.4.4 Further significant improvements in performance management are planned in the light of the Audit Commission report of Autumn 2006 about the operation of the Council's arrangements. An action plan is in place. This takes account of the challenges of the local government White Paper of October 2006 "Strong and prosperous communities". It has as its core objective having in place, by April 2008, the closest possible integration of planning and performance management arrangements between the Council, its key partners and the Herefordshire Partnership generally.

5.4.5 The earliest priority is the development of these arrangements for the creation of the Public Service Trust, which will bring together in one organisation the executive of the Council and the commissioning arm of the PCT.

5.5 Herefordshire's Business Transformation Programme

5.5.1 Building on the foundations of the Overall Performance Improvement Plan, the big challenges and opportunities for the Council are being brought forward as part of its massive and ambitious transformation programme to improve services and deliver the financial capacity needed to invest in key priorities for the future.

5.5.2 The overall change programme is managed by a Business Transformation Board led by the Chief Executive and including the Director of Corporate & Customer Services, the Director of Environment, the Director of Resources and the Change Manager. This Board is responsible for delivering the overall change programme within budget and on time, and for ensuring benefits are maximised and achieved.

5.5.3 The business transformation programme is complex and currently consists of 4 main inter-linking programmes, each managed by its own board arrangements in line with Prince 2 project management methodology. These 6 main programmes are the:

- ‘Herefordshire Connects’ programme;
- Customer Services Strategy;
- Children & Young People programme;
- Adult & Community Services programme;
- Pay & Workforce programme; and
- ‘The Big Move’ – our office accommodation strategy.

5.5.4 ‘Herefordshire Connects’ is the Council’s strategic transformation programme. Approved in April 2006 and now in the advanced stages of procurement, it will address the service improvements (including those required by central government) recognising future financial constraints. It will involve substantial investment in staff and support systems in order to revolutionise the delivery of Council services to improve quality, efficiency and value for money.

5.5.5 The vision is for every local citizen to have considerably improved access to services and information, at a time and a location that is convenient to them, by a means that most suits them, so they can communicate with a single point of contact, who is trained and empowered to respond effectively to their request across the full range of Council services. The programme will transform the Council’s performance, helping us all to work more closely together, supporting service areas to focus on delivery and developing customer-facing staff and services.

5.5.6 The Herefordshire Connects programme is an integrated programme of change across the Council, with three key workstreams:

- **Integrated Customer Services** – a simple, multi-channel way of interacting with citizens, using an electronic records and document management system to ensure that the right information is immediately available;

- **Integrated Support Services** – an integrated capability covering finance, procurement, HR and asset management; ensuring data is only entered into the system once and the timely availability of accurate information; and

- **Corporate Performance Management** – a cross-Council corporate performance management framework linking the planning of budgets, other resources and activities to the achievement of specified outputs and outcomes including performance indicators for different levels of the authority; and rolled out to deliver the closest possible integration with the Council’s key partners and the Herefordshire Partnership generally.

5.5.7 The outline financial appraisal for the programme is promising with the likelihood that significant revenue benefits will accrue from 2007/08 onwards (paragraph 7.4.6 refers). This is, however, a significant financial risk which has been covered by reserves pending agreement of the benefits realisation plan.

5.5.8 The Herefordshire Connects programme is a bold, inventive plan that will need to be well-managed and delivered quickly for success. Making sure the benefits of the programme are realised and re-directed towards the Council's key priorities will also be essential for success.

5.5.9 As mentioned in paragraph 5.5.3, there are other Council projects running alongside and implementing to, the Herefordshire Connects programme.

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

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

5.5.12 The Council originally approved an Accommodation Strategy in May 2005. It approved an updated business case in May 2006 and put both the revenue and capital budget in place to implement the strategy. It became clear at the end of September 2006 that the full 2-phase plan for occupying Plough Lane with the option to extend the building was no longer available as the landlord had revised its plans for the site.

5.6 Summary

5.6.1 This section of the MTFMS shows how the Council's objectives and targets cascade down the organisation to ensure we work as one organisation: with all parts pulling in the same direction; and with the maximum possible integration with our key partners and the Herefordshire Partnership generally.

5.6.2 Herefordshire Connects is crucial to the Council's future success. It is an ambitious plan to:

- make a step change in the improvement of services in terms of quality, efficiency and value for money; and
- create the financial capacity to be able to continue to invest in services, given the gloomy financial outlook for local government from April 2008.

5.6.3 Herefordshire has entered perhaps the most challenging period it has faced since it came into being in 1998, with demands all round for improvement at a time when cash resources are likely to reduce in real terms. Sound financial governance will be essential to ensure the Council's continued financial health.

The next section of this MTFMS sets out the financial context at the local level before moving on in the following section to describe the Council's approach to strategic financial management during this difficult period.

6. Herefordshire's Financial Context

6.1 Introduction

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

6.2 Relative Funding Position

6.2.1 As our inspectors have acknowledged, government funding per head of population in Herefordshire is significantly below the average for all-purpose authorities. The inspectors noted that our funding per head of population was 8% below the average in our last Corporate Assessment report.

6.2.2 Updating the position for the 2007/08 settlement figures reveals that the gap in funding has widened. The figures for this year are as follows:

- Formula Grant per head of population is £264 – 22% below the unitary authority average of £340;

- Indicative Dedicated Schools Grant per head of population is £454 – 19% below the unitary authority average of £560.

- Formula Grant plus indicative Dedicated Schools Grant per head of population is £718 – 20% below the unitary authority average of £900; and

6.3 Reserves

Revenue Reserves

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

6.3.2 The following table shows the balance on the General Fund and the level of Specific Reserves at the end of the last 3 financial years plus an indicative forecast of the 31/3/2007 position:

(All figures £000k)

Balance as at:	General Fund	Specific Reserves		Total
		Schools	Other	
31st March 2004	9,847	6,845	2,562	19,254
31st March 2005	14,491	8,919	2,325	25,735
31st March 2006	14,525	8,739	5,203	28,467
31st March 2007	4,930	5,500	10,168	20,598

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

- a significant proportion of the Specific Reserves belong to our schools and cannot be used to help pay for non-schools services;
- the General Fund balance at 31st March 2006 includes £2.8m of budgets carried forward into the current financial year leaving £11.7m that is uncommitted; and
- the large increase in Other Specific Reserves as at 31st March 2006 is due to the creation of a specific reserve of £1.928m for the Herefordshire Connects programme.

6.3.4 Section 7.3 of the MTFMS gives further consideration to an appropriate policy on general and specific reserves to ensure revenue cash resources are used effectively in support of corporate objectives.

Capital Reserves

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

(All figures in £000k)

Financial Year	Balance at start of year	Income from sale of assets (capital receipts)	Capital receipts used to pay for capital spending	Balance at end of year
2003/04	18,908	5,301	4,245	19,964
2004/05	19,964	2,654	4,327	18,291
2005/06	18,291	3,876	2,097	20,070
2006/07	20,070	9,215	7,585	21,700

6.3.6 Important point to note is that £15.9m of the £20m of Useable Capital Receipts at the end of 2005/06 have been committed to help pay for approved capital projects leaving just £4.1m as yet unallocated.

6.3.7 The Council agreed a strategy for disposing of surplus assets as part of the Accommodation Strategy. Capital receipts will be generated over the medium-term as these assets are vacated and sold but they will be used to reduce the potential borrowing requirement for the project to rationalise office accommodation.

6.3.8 The Council has set the Smallholdings Estate an annual target of realising £1m capital receipts. This policy ensures a steady but modest stream of new capital receipts each year.

6.3.9 The Council adopted a policy of sharing capital receipts equally between the corporate pot of capital receipts and the Directorate that 'owned' the assets sold in 1998. This was designed as an incentive to Directorates to rationalise their asset holdings as they shed the direct revenue cost of running the property and gained additional capital resources.

6.3.10 Section 7.3 of the MTFMS gives further consideration to an appropriate policy on the allocation of capital receipts to ensure capital cash resources are used effectively in support of corporate priorities.

6.4 Trends in Outturn

Revenue Overview

6.4.1 The table below compares the actual use of General Fund balances compared to planned use for the last 3 financial years.

(All figures in £000k.)

Financial Year	Planned use of General Fund balances [1]	Actual use of General Fund balances [2]	Improvement in financial performance [3]
31st March 2004	(2,942)	3,479	+6,421
31st March 2005	(3,176)	4,644	+7,820
31st March 2006	(4,063)	34	+4,097

Notes

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

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

3 - a plus sign means actual financial performance was better than planned.

6.4.2 The table in the preceding paragraph show that there is potentially some – albeit reducing – latent financial capacity in our base budgets for revenue spending. This suggests that we still have more work to do to encourage service managers to behave more corporately and treat their cash allocations as a corporate rather than service resource. It also suggests that services can manage within existing resources despite the lengthy 'wish lists' that develop when asked to identify service pressures.

Directorate Revenue Outturns

6.4.3 The overview shows that the Council's income exceeded its spending in each of the last 3 financial years. Overall financial performance has therefore been good but this masks the fact that a small number of key budgets have not performed so well.

6.4.4 Service area under spends in 2005/06 amounted to £3.72m. Every Directorate except Adult & Community Services was able to identify under spends compared to budget that more than matched their over spends.

6.4.5 The Adult & Community Services Directorate over spent by some £1.6m due to pressures in Adult Social Care services (Learning Disabilities, Mental Health & Physical Disabilities) and Homelessness services. Part of the over spend for the year was due to the budget deficit carried forward from 2004/05 being written off.

6.4.6 Whilst in overall terms the other Directorates were under spent compared to budget at the end of the financial year, their outturn position was a mix of under and over spends. There appears to be little pattern to the areas under spending from year to year as a basis for considering redirection of resources. Directorate budget management plans need to ensure budget is allocated accurately each year to avoid repeated under and over spends being reported simply because the budget isn't in the right place.

6.4.7 Cabinet reviewed the latest Integrated Performance Report (IPR) covering the first 8 months to the end of November on 18th January 2007. The report included information detailing the projected outturn for the current financial year. It is now possible to revise the outturn projection based on financial information to the end of December 2006.

6.4.8 The following table compares the latest outturn forecast with that to the end of Month 8 included in the last IPR:

	December 2006 Net over (+) or under (-) spend £000	November 2006 Net over (+) or under (-) spend £000
Adult & Community Services	+1,039	+1,424
Children & Young People's	+214	+214
Customer & Corporate Services	+1	+1
Environment	-459	+25
Resources	+19	+19
Gross projected outturn	**+814**	**+1,683**
Less:		
Local Authority Business Growth Incentive Scheme Grant (LABGI)	-1,000	-
Social Care Contingency	-1,302	-1,302
Financing Transactions surplus	-1,000	-750
Net projected outturn	**-2,488**	**-369**

6.4.9 The above table indicates that there is likely to be an under spend in the region of £2.5m in overall terms on the revenue account based on the financial information available at the end of December. The improved financial position is due to changes indicated to Cabinet on 18th January, 2007 in the IPR and Financial Strategy Update reports as follows:

- A further reduction in the over spend forecast for adult social care services;
- An under spend on waste collection services;
- An increase in the surplus on Financing Transaction due mainly to further slippage in the capital programme; and

- Inclusion of £1m LABGI grant.

6.4.10 However, there are two further factors known at the present time that could alter the forecast outturn again in the Month 10 IPR that will be presented to Cabinet in March 2007. The Government will not be announcing LABGI grant figures for each council until February 2007. Herefordshire's grant is not expected to be less than £1m but could be more based on the information currently available.

6.4.11 The outturn remains a projection until the accounts are closed but the figures suggest that there will be a significant net under spend on the revenue account in 2006/07. It reinforces the view that there is sufficient capacity within the base budget to manage without inflation on non-pay budgets for at least 2007/08.

6.4.12 The projected outturn for 2006/07 is an underspend of £2.488m on the revenue account. This is consistent with the position outlined at 6.4.1 showing that in the previous 3 financial years the final accounts closed with a surplus on the revenue account. The pattern of persistent underspending on the overall revenue account has informed the policy decision agreed by Council that the 2007/08 budget guidelines do not provide non-pay inflation. The assessment that has been agreed is that for 2007/08 the position is manageable.

6.4.13 The recent review of ICT budgets indicates pressure on some Corporate ICT areas following the ending of external funding during 2006/07. The principal activities affected are web services and e-gateway work. Discussion with the external funding body to try and extend the funding have been unsuccessful and the overspend will be an area of concern in 2007/08 unless an exit strategy or funding changes are in place.

Capital Outturn

6.4.14 The Council maintains as a minimum a full 3-year rolling capital programme that is fundamentally linked to the Council's strategic plans and estimated sources of capital funding.

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

(All figures in £000k)

Financial Year	Original capital budget	Capital outturn	Over / (under) spend for year
2003/04	32,839	31,866	(973)
2004/05	40,100	33,198	(6,902)
2005/06	37,131	31,845	(5,286)
2006/07	58,977	44,083	(14,894)

6.4.16 Slippage in the Council's capital spending programme is managed to ensure that conditional funding resources have not been lost and that the use of available resources has been maximised.

6.4.17 A delay in incurring capital spending and taking up planned new borrowing due to slippage in the capital has a direct impact on the revenue account. Extra investment income may be earned as cash sits longer than anticipated in the Council's bank account and interest payments may not be incurred as early as anticipated. The overall effect is therefore positive and often helps explain better performance on the revenue account.

6.5 Local Spending Pressures

6.5.1 The outturn position for 2005/06 provides evidence of Herefordshire's spending pressures for the future, many of which reflect the national trends identified in section 4.4 of the MTFMS.

6.5.2 The key concern is the Adult Social Care service budgets. The base budget funding position for these services in 2006/07 was enhanced with real terms growth for at least the 3rd successive year in a row. However, we recognise there is more we need to do. The forecast at month 8 of the 2006/07 financial year is that this budget will over spend by some £1.41m this year if the status quo in terms of service delivery arrangements is maintained.

6.5.3 The Children's Social Care budgets are of concern too. They were less over spent than anticipated in 2005/06 but were forecast to over spend by £214k at month 8.

6.5.4 Herefordshire's Adult Social Care services have been facing increasing financial pressures, against a background of continuously increasing user demand. In order to understand the demographic pressures facing the County and the way the pressures might translate into service needs to vulnerable adults the Council, jointly with the Primary Care Trust (PCT), agreed to commission a detailed needs analysis looking at the demographic pressures and how these might translate into service needs. A small project team led by the Council's Corporate Policy and Research Manager and involving the PCT, Adult Social Care and Finance staff has undertaken the needs analysis work. This work has been independently validated and has been benchmarked with high-performing authorities elsewhere in the country. The work sets out a strategy for the future based on a significant shift to a more preventative model of services, which will require a much greater contribution from the voluntary sector. This new model of service would require some additional investment but not as much as would the current model of service. It would also enable the Council to improve significantly the quality of services available to the residents of Herefordshire. Following consideration by Adult Social Care and Strategic Housing Scrutiny Committee, the report was agreed by Cabinet at its meeting on 14th December, 2006.

6.5.5 The 2006/07 projected outturn for Social Care across both Adults Services and Children's Services Directorates is an overspend of £1.2m before use of the £1.3m centrally held contingency. There remains a risk that financial year 2007/08 will face similar pressure and for this reason the contingency remains in the FRM. It is considered prudent to keep the contingency in place and also appropriate that it is not in Social Care base budgets. The approach allows the outcome of the modernisation programme for Adult Services to be assessed before committing the funding to specific Directorates.

6.5.6 The Homelessness budget has been in crisis but the position – both in terms of service and financial performance - is steadily improving since the service was taken back in-house from Herefordshire Housing. Although early days in the financial year, the current forecast is that this budget will not over spend this year and that it will manage with planned base budget reductions into the future.

6.5.7 Other budgets that showed signs of strain in 2005/06 included:

- street cleansing;
- public toilets;
- winter road maintenance; and
- administrative buildings.

6.5.8 Other spending pressures that need consideration include:

- waste disposal – the Specific Reserve for this issue stands at £1.366m but needs review as the date for agreeing changes to the original PFI contract continues to slip and waste tonnages continue to grow;
- contingent liabilities – there is no provision for these items of expenditure which could cost up to £620k if the liability was confirmed (the Statement of Accounts for 2005/06 refers).

6.6 Summary

6.6.1 Herefordshire is not a well-resourced council but despite this it has been judged as providing services that represent good value. Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in a sparsely populated area but do not do enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the area. Many sparsely populated councils – such as Cornwall, Devon or Cumbria – have great tracts of land that people just do not live in.

6.6.2 Despite the challenges to date, financial performance has been good in overall terms providing a healthy level of reserves. There are however some problem areas – notably social care – that need attention.

6.6.3 The MTFMS thus far has set out the national and local policy and financial context for Herefordshire. Having set the scene, it is now possible to consider in section 7 the detail of a proposed high-level, medium-term financial management strategy to ensure that we preserve our financial health through a period in which we plan significant service improvements whilst financial support from the government reduces in real terms.

7. Financial Management Strategy

7.1 Introduction

7.1.1 Herefordshire's MTFMS supports all of Herefordshire's other resource management and service delivery strategies. The detailed financial implications of all those strategies are dealt with in the supporting papers and decisions for those strategies. The intention is not to repeat that information in this document, but to focus on an overall financial strategy for the Council in terms of setting clear corporate financial objectives and establishing a universal set of 'ground rules' for developing future service delivery proposals over a 3-year period that will also demonstrate progress on cross-cutting themes.

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

- Revenue spending;
- Capital investment;
- Efficiency review and improving Value for Money; and
- Treasury management.

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

7.2 Corporate Financial Objectives

7.2.1 Herefordshire's corporate financial management objectives are to:

- ensure budget plans are realistic, balanced and support corporate priorities – especially those that protect the vulnerable in our communities;

- continue to develop centres of excellence for financial administration and management – in line with the principles supporting the future shape of the Resources Directorate;

- maintain an affordable Council Tax – the Medium Term Financial Resource Model (MTFRM) assumes a sub-5% increase in line with that for 2006/07;

- manage spending within budgets – Directorates are required as a 'non-negotiable' to manage outturn expenditure for each financial year within a 1% margin of their base budget;

- ensure sustainable balances, reserves and provisions – within a reasonable limit consistent with the corporate financial risks without tying up public resources unnecessarily;

- create the financial capacity for strategic priorities for service improvement through the Herefordshire Connects programme;

- support a prudent level of capital investment to meet the Council's strategic requirements;

- maintain a strong balance sheet position;

- deliver year on year efficiency and Value for Money improvements;

- ensure an integrated approach to corporate, service and financial planning in full consultation with key stakeholders;

- ensure a whole-life costing approach is taken to both revenue and capital spending decisions;

- maintain the current Use of Resources score in the 2007 inspection advancing to excellent by 2010; and

- develop the 3-year Medium Term Financial Resource Model into 3-year indicative cash limits for Directorates by March 2007 (the cash limits will be subject to continual review to take into account the changing financial context and in particular the latest financial appraisals for the Herefordshire Connects programme).

7.3 Financial Management Strategy for the Revenue Account

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

Managing the General Fund Balance & Specific Reserves

7.3.2 Herefordshire's General Fund balance at the start of 2006/07 was £14.5m with £11.7m available to spend. This is significantly in excess of the Council's policy to maintain a minimum balance of £3m providing earmarked reserves are set aside to cover specific significant financial risks. Given this criteria has been met, it is not expected that the General Fund balance would need to exceed £6m. It is essential to set out the reasons for holding this money in order to achieve the corporate financial objectives for having reserves outlined in paragraph 7.2.1.

7.3.3 Herefordshire's financial management strategy is to maintain Specific Reserves to deal with the key corporate financial risks reducing the need for a higher level of General Fund balances. This strategy will ensure there is complete transparency about what is and what is not resourced for corporate financial risks that, if realised, would affect the Council's financial standing. It represents an 'open-book' approach to accounting.

7.3.4 With this end in mind, some new Specific Reserves were created in 2006/07 and existing ones enhanced to deal with the key financial risks faced by the Authority. The changes are as follows:

- to increase the social care contingency by £1.7m, topping it up to £3m given the current forecast for outturn for 2006/07 is for a £3.4m over spend;
- to increase the winter road maintenance Specific Reserve by £392k, topping it up to £500k;
- to increase the waste disposal Specific Reserve by £634k, topping it up to £2m;
- to incorporate the Initiatives Fund (£433k) in the Invest to Save Specific Reserve and top up by a further £639k so there is a total of £3m available for Invest to Save initiatives - £1.928m of which has already been earmarked for the Herefordshire Connects programme (see paragraphs 7.3.37 – 7.3.38);
- to create a Specific Reserve of £300k so there is some provision in event the contingent liabilities identified in the Statement of Accounts for 2005/06 are realised;
- to create a Specific Reserve of £200k to separate the remainder of the £250k reserve set up for the Children's Services Change Team from the General Fund balance; and
- to create a budget management Specific Reserve of £1.1m so that there is money set aside in the event that Directorate budgets (excluding schools and social care) are 1% over spent at outturn compared to their base budget.

7.3.5 Directorates will be expected to manage budget pressures within their overall requirement to deliver an outturn no more than 1% higher than budget. It is recognised that this target will not be achieved in the short-term for social care services – particularly adult services. A contingency fund has been set up to deal with this situation for 2006/07 whilst an assessment of the ongoing level of base budget investment is carried out. The budget management Specific Reserve will only be used in exceptional circumstances when Directorates are able to demonstrate they did all they could reasonably have been expected to do to manage the position.

7.3.6 The need for the range and level of Specific Reserves and the policy for minimum General Fund balances will be continually reviewed as part of the financial planning, monitoring and outturn processes. The strategy described here provides cover for the key corporate financial risks.

Managing a balanced budget

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

7.3.8 There are a number of more minor base budget issues that have been addressed in the FRM in order to achieve strategic priorities:

- **Queenswood Park** – restore £25k base budget reduction in anticipation of a Cabinet decision to reverse its policy to introduce charges for parking: the shortfall will be met from balances in 2006/07 but will be included in the Medium-Term Financial Resource Model from 2007/08 onwards (reducing the General Fund balance for the year by a corresponding amount);

- **Procurement & Efficiency Review** – increase the staffing budget by £55k a year starting from 2007/08 to reflect the full-year cost of this new Key Manager post: the shortfall will be met from balances in 2006/07;

- **Herefordshire Matters** – correct base budget omission by adding £50k to base budget from 2007/08 onwards to support future publications: the shortfall in 2006/07 will be met from balances;

- **Chief Executive's Development Fund** – add £150k to base budget from 2007/08 onwards: the shortfall in 2006/07 will be met from balances;

- **Housing Benefit & Council Tax Benefit (HB / CTB) Administration Subsidy** – reduce anticipated grant income by £150k a year starting 2007/08 to reflect the 5% real terms reduction announced by the DWP;

- **Service Level Agreements** – set aside £100k from 2007/08 onwards for allocation in the event the proposed review of support services to check we have sufficient capacity in key priority areas such as performance management and to improve recharging mechanisms leads to base budget pressures: any pressure in 2006/07 will be met from balances;

- **Whitecross PFI Scheme** – shortfall on amount included in Financial Resource Model for 2006/07 of £380k to be met from balances; and

- **ESG (Herefordshire) Ltd** – increase base budget provision by £225k a year from 2007/08 for 3 years to take total up to £350k so funding is in place for Herefordshire to contribute 50% of the running costs to support the approved business plan.

7.3.9 The strategy for managing General Fund balances, Specific Reserves and for ensuring a balanced budget will increase the level of Specific Reserves held by £4.965m. There will be approximately £4.93m left in General Fund balances at the end of the 2006/07 financial year after allowing for budget carry forwards already approved and the measures proposed for delivering a better balanced budget. This represents a satisfactory level of General Fund balances, providing some headroom above the £3m minimum to provide cash flow cover and for unforeseen contingencies.

7.3.10 The impact on General Fund balances in 2006/07 is illustrated in the following table:

	£000	£000
General Fund balance on 1st April 2006		14,525
Less items in paragraph 7.3.4 – managing the General Fund balance and Specific Reserves		
Social care contingency	1,700	
Winter roads maintenance	392	
Waste disposal	634	
Invest to save	639	
Contingent liabilities	300	
Children's Services Change Team	200	
Budget management	1,100	
Sub Total		-4,965
Less items in paragraph 7.3.8 – managing a balanced budget		
Queenswood Park	25	
Procurement & Efficiency Review Manager	55	
Herefordshire Matters	50	
Chief Executive's Development Fund	150	
HB / CTB Administration Subsidy	150	
Service Level Agreements (up to)	100	
Whitecross PFI Scheme	380	
Sub Total		-910
Less other items		
Carry forward budgets from 2005/06	3,720	-3,720
Sub Total		
General Fund Balance on 31st March 2007		4,930

7.3.11 The position for 2007/08 will see some of these specific resources act as ‘cover’ for Herefordshire Connects. The two affected reserves are:

- Budget Management Reserve where £1.1m will be used if required following a review of outturn trends that suggests the emerging position for 2006/07 will be a further underspend.
- Social Care Contingency. The total stands at £3m but an assessment of risk in 2007/08 means that £1.3m can be drawn on for Herefordshire Connects ‘cover’.

Managing financial performance

7.3.12 Maintaining strong financial control is a prerequisite to achieving the Council’s corporate priorities and the integrity of the MTFMS. Good systems and procedures are in place for reporting on financial performance as part of the Integrated Performance Reporting framework.

7.3.13 Non-financial information was incorporated into the routine bi-monthly financial performance reports that form part of the Integrated Performance Report in month 4 of 2006/07. This will help us track Value for Money improvements and also help highlight areas that are performing to the standard required and have spare financial capacity that could be reinvested in another corporate priority.

7.3.14 Routine budget monitoring reports will also be reviewed to ensure each Directorate can monitor both the ‘controllable’ elements of their budget as well as overall financial performance. The latter is important for external benchmarking activities to demonstrate Value for Money is being achieved.

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

Managing budget carry forwards

7.3.16 The Council’s Standing Orders have recently been amended to ensure the cash resource redeployed through the year-end budget carry forward arrangements is allocated in line with corporate priorities whilst maintaining as much flexibility as possible for Directorates.

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

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

Managing Directorate base budgets

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

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

Managing growth and inflationary pressures

7.3.21 The government is planning on 2% pay inflation over the medium-term. This will be reflected in Herefordshire's MTFRM. Salary budgets and budgets linked to salary payments have been uplifted by this amount. The budgets for employers' superannuation contributions will be uplifted by the planned percentage increase for each year based on the latest actuarial advice. Indirect employee costs will not be uplifted for inflation.

7.3.22 The Medium-Term Financial Resource Model (MTFRM) at Appendix A shows the inflation on staff costs and income budget heads identified by the service accountants for the next 4 financial years. These figures are included in Directorate's base budgets in the table below:

DIRECTORATE BASE BUDGETS	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Adult & Community Services	44,710	46,658	46,713	46,773
Children's Services	22,694	22,913	23,123	23,351
Environment	25,021	25,584	26,192	26,585
Corporate & Customer Services	7,688	7,782	7,872	7,970
Resources	6,122	6,230	6,333	6,445
Human Resources	1,401	1,424	1,446	1,470
Central Services	3,191	3,212	3,232	3,253
Sub-Total	**110,827**	**113,803**	**114,911**	**115,847**
Total financing adjustments and net additional pressures	**11,544**	**12,892**	**16,309**	**20,158**
Total budget	**122,371**	**126,695**	**131,220**	**136,005**

7.3.23 Resources available are not sufficient to provide for growth and inflationary pressures in addition to those detailed above. However, as outlined in paragraph 6.4.1, the Council has consistently performed significantly better in financial terms than the budget plan, demonstrating there is financial capacity to deal with such pressures. The financial strategy for managing non-pay growth and inflation is for the Corporate Management Team to manage this pressure within existing resources. This is a tough but achievable challenge for CMB given past financial performance that is included in the 3-year planning guidance.

Managing income

7.3.24 Setting challenging but attainable income targets is an essential element of Herefordshire's MTFMS. To achieve corporate financial objectives, income targets included in approved budget plans need to be realistic. The current approach of assuming all fees and charges income will increase by the rate of inflation each year is not sustainable into the future for planning fees, car parking charges and investment property income.

7.3.25 Income budgets for these services will not be inflated (other than to reflect anticipated increases in demand for the service) if the Council has no plans to review the charges or there is no legal requirement to do so. Similarly, these income budgets will be revised downwards where there is clear non-financial information to evidence a decline in demand for the service.

7.3.26 The corollary to this new approach is that any surplus on the planning and car park income budgets will be treated as a corporate resource. Any under achievement, providing the Directorate has taken appropriate mitigating action, will be a corporate rather than a Directorate problem.

7.3.27 All other budgets will be increased by inflation and Directors will be expected to review all their fees & charges annually as part of the business planning cycle to ensure they comply with relevant corporate priorities and policies (e.g. diversity and social inclusion).

7.3.28 Government funding to support Herefordshire is effectively fixed for the medium-term given the advent of multi-year settlements. Scope to increase Council Tax is likely to remain limited by government capping rules. One way to achieve the corporate financial objective to create additional financial capacity is to maximise potential income and generate income from new sources.

7.3.29 The MTFMS for income generation is therefore to:

- ensure income budgets reside with the client service where the service is responsible for determining service strategy;

- adopt an entrepreneurial approach to generating income from investment properties, commercial properties and trading activities with risks being managed in line with the Council's risk management procedures;

- focus on debt collection by setting targets for improvement;

- consider the scope for higher levels of charging for services especially where there is clear evidence that Herefordshire attracts much lower levels of income than comparator authorities; and

- investigate new freedoms to charge for services.

Managing partnership resources

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

- the financial viability of partners before committing to an agreement;

- there is clarity of respective responsibilities and liabilities;

- the accounting arrangements are established in advance of operation;

- the implications of terms and conditions on any associated funding are considered in advance of operation.

Managing staffing budgets

7.3.31 It is vital that the council has employees with the right skills, knowledge and abilities. The MTFMS makes the link between investing in people and improves services to the community. Improvements to workforce planning and establishment control will help to ensure that we have a much more reliable source of information as a basis for agreeing employee and training budgets. In addition, capacity will be built and value added by working with key partners.

Managing external funding

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

- match funding requirements are considered in advance;
- they support corporate priorities;
- they do not conflict or distract from corporate priorities;
- they have no ongoing commitment that cannot be met by base budget savings; and
- they do not put undue pressure on existing resources.

Managing Developer Contributions

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

7.3.34 The MTFMS is to maximise the potential for increasing financial capacity and / or managing growth in volumes through s106 agreements. This will involve a much more commercial and co-ordinated approach to such opportunities. The Interim Head of Asset Management & Property Services will be tasked to review and improve current arrangements as a short-term priority.

Managing increases in demand / volumes

7.3.35 The policy context sections of this MTFMS describe the pressures of increasing demand in certain key services such as social care, homelessness and benefits. With finite resources available, it is not possible to keep adding to the base budget as demand grows. Volumes are increasing in some services too – e.g. maintenance of public open spaces.

7.3.36 Herefordshire will seek to discharge all its statutory responsibilities to service users. To achieve the corporate financial objectives that underpin the achievement of corporate priorities, service managers will actively seek to contain increases in demand or volume to mitigate the financial consequences.

Managing Invest to Save initiatives

7.3.37 This financial management strategy makes proposals for turning the Initiatives Fund into Invest to Save money, and topping the latter up to £3m so there is just over £1m available for Invest to Save initiatives outside of the Herefordshire Connects programme. This money will be allocated to projects that support the Council's corporate priorities and complement projects within the business transformation programme.

7.3.38 Invest to Save projects may deliver base budget savings to improve Value for Money in the bidding service area. In such cases, there will be a requirement for the service area to make a permanent base budget reduction. Invest to Save projects may also be used to manage increasing demand or volumes so as to minimise the impact on the base budget. In these cases, the bidding service area will be required to show how existing performance standards will be at least maintained or even improved.

Managing Value Added Tax (VAT)

7.3.39 To preserve financial capacity, Herefordshire will continue to actively manage business activity that is classed as 'exempt' under current VAT legislation to ensure that the partial exemption limit is not breached. We are allowed to reclaim the VAT on exempt business activities providing it does not exceed 5% of our total VAT liability. If we breach the 5% limit, HM Customs & Revenues will expect us to hand over the VAT on exempt activity too – approximately £750k a year.

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

7.4 Medium-Term Financial Resource Model (MTFRM)

7.4.1 The MTFRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. This sets the financial context for the corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2007/08 to 2010/11 – the final year of the current 2-year settlement and the following 3-year period that will be covered by CSR07.

7.4.2 The original MTFMS assured Council Tax increases at a level of 4.7% per annum. Cabinet has now changed previous planning assumptions for the proposed Council Tax increase for 2007/08 and proposes an increase of 3.8%. This will inevitably lead to a reduction in income from Council Tax to support the Council's 2007-2010 Corporate Plan. The reduction amounts to £560k per annum over the next 3 years and this will be difficult to replace as the MTFMS assumes a 4.7% annual increase in Council Tax. A lower than originally planned Council Tax increase in 2007/08 may have implications for overall funding if, as current indications suggest, the Comprehensive Spending Reviews (CSR07) three-year settlement is 'tight'. The year-on-year reduction in income from Council Tax may impact on the Council's ability to meet future as yet.

7.4.3 The Collection Fund (the account of the total sum of Council Tax received and transferred into the Council's revenue account to fund the Councils activities) is part of the Council tax setting process. Each year the level of Council tax is set on the prudent assumption that a certain amount will not be received. However it is usually the case that a surplus is received over the budgeted amount and this sum is used to reduce the subsequent years Council Tax demand. For 2007/08 an expectation was that a surplus of £500,000 would be achieved which is in line with historical trends. However an analysis of actual levels of Council tax paid have revealed that this level was optimistic. The actual surplus now projected for 2007/08 is £254,000 and the FRM base budget has to reduce by £246,000 to compensate for this.

7.4.4 Council Tax is calculated on the basis of an expected number of Band D equivalent properties which would generate a certain yield of Council Tax. This taxbase grows each year as new property developments progress. An expected increase of 1% was used for the 2007/08 FRM projections in line with historical trends, however this has now been reduced to 0.7%. The effect of this is a reduction in expected Council Tax yield of £224,000.

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

- **Herefordshire Connects** – the MTFRM reflects the outline financial appraisal approved by Cabinet in April 2006 and will need to be updated as the programme develops and the financial appraisal is refined;

- **Accommodation Strategy** – the MTFRM reflects the latest financial assessment approved by Cabinet in May 2006;

- **Customer Services Strategy** – the MTFRM assumes a cost neutral position in line with the strategy agreed in August 2005;

- **Capital Investment** – the MTFRM reflects the revenue implications (cost of prudential borrowing) of the capital programme approved by Council in March 2006 plus slippage from 2005/06 approved by Cabinet in June 2006;

- **Whitecross PFI Scheme** – the MTFRM includes an additional £451k in 2007/08 only to meet the initial costs of this project;

- **Formula Grant** – the MTFRM reflects known transfers in or out of Formula Grant (e.g. Preserved Rights Grant being transferred in to Formula Grant without a corresponding increase), the indicative 2.4% increase for 2007/08 and a cash standstill in following years given the pessimistic view on the CSR07 for local government;

- **Dedicated Schools Grant** – the MTFRM reflects the indicative 4.3% increase for 2007/08 and assumes a 2% increase in following years;

- **Second Local Public Service Agreement (LPSA2**) – the MTFRM reflects the investment in LPSA2 approved by Cabinet and assumes receipt of 75% of the potential Reward Grant (i.e. £3.292m, 50% of which will be revenue and will be received in 2 equal instalments in 2008/09 and 2009/10);

- **Employers' superannuation costs** – the MTFRM includes increases in employers' contributions rates in line with latest actuarial advice. This does not allow for the fact that the 'Rule of 85' arrangements for deciding whether someone retiring before their 65th birthday should have their pension benefits reduced will not be removed until 31st March 2008 (previous expectation was that it would be removed on 1st October 2006). This change will delay the improvement in the pension funding position and may lead to further actuarial adjustment to recover the shortfall if significant;

- **Interest Rates** – the MTFRM reflects interest rate assumptions for investment income and new borrowing costs in line with the Treasury Management Strategy approved by Council in March 2006;

- **National Taxation** – the MTFRM assumes there will be no significant change to national taxation systems;

- **Local government finance system** – the MTFRM assumes the status quo with no change to the grant distribution system, Council Tax or National Non-Domestic Rates;

- **Housing Benefit / Council Tax Benefit Administration Subsidy** – the MTFRM reflects the implications of a 5% real terms cut in this subsidy each year starting from 2007/08;

- **Local Authority Business Growth Incentive Grant** – the MTFRM makes an assumptions about future grant income. It is assumed that for 2006/07 and 2007/08 £1m per annum will be received.

- **Council Tax Income** – the MTFRM assumes 1% a year growth in the Council Tax base. For 2007/08 a 3.8% increase is included but this is assumed to be 4.7% thereafter. The surplus on collection is estimated at £300k from 2007/08.

- **Public Service Trust** – no allowance has been made for potential one-off costs associated with setting this organisation up or the cashable efficiency gains it will deliver as no Cabinet decisions have yet been taken.

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

(All figures in £'000s)

	2007/08	**2008/09**	**2009/10**	**2010/11**
Potential revenue capacity	6,524	2,431	4,698	3,786
Base Budget –		8,955	13,653	17,439
Cumulative capacity –				
Herefordshire Connects benefit realisation target:				
Base Budget –	5,800	4,800	800	350
Cumulative benefit -		10,600	11,400	11,750

7.4.7 The above table shows quite clearly that the Herefordshire Connects programme will have a major role to play in releasing cash from business processes to reinvest in service and capital investment priorities. The emerging priorities identified by Directors in developing their 3-year service proposals (in no particular order) are as follows:

- Children & Young People;
- Schools;
- Adult Services;
- Homelessness;
- Edgar Street Grid;
- Rotherwas Futures;
- Accommodation Strategy;
- Waste & recycling;
- Herefordshire Connects; and
- Corporate capacity.

7.4.8 The above table also demonstrates that we can afford to add approximately £6.524m to the base budget in 2007/08 given current planning assumptions, but that there will be a pinch-point in 2008/09 with only approximately £2.431m additional financial capacity likely to be available. Any additional growth will have to be managed within the overall resources available. There will also be a £1m Invest to Save pot available as outlined in paragraph 7.3.4. The model indicates there will be an improved position in 2009/10 and 2010/11 (up to an additional £4.698m and up to £3.786m respectively).

7.4.9 The MTFMS seeks to maximise the opportunity a higher level of financial capacity for one-off additions to the budget in 2007/08 presents to do two things:

- ensure there is some capacity for budget additions in 2008/09 where currently there is none; and
- cover the risk that the cashable benefits resulting from the Herefordshire Connects programme start to flow later than indicated by the outline financial appraisal for the programme agreed by Cabinet in April 2006.

7.4.10 The MTFMS assumes that the financial capacity of £6.524m indicated by the MTFRM in 2007/08 will be deployed as follows:

- £1.5m to provide additional financial capacity in 2008/09;
- £1.5m to cover delays in the Herefordshire Connects benefits realisation programme; leaving
- £3.52m to provide financial capacity for base budget additions in 2007/08.

7.4.11 It is important to note that the minimum cashable savings anticipated from the Herefordshire Connects programme remains a minimum of £11.75m – benchmarking suggest this figure may prove over-conservative. The £1.5m set aside is intended only for smoothing timing differences over financial year-end. This cash will be released for investment in services when no longer required to provide cash flow cover for the Herefordshire Connects programme.

7.4.12 To summarise, the MTFRM looks at the totality of the revenue account and identifies indicative cash limits at the corporate level. As the new Performance Improvement Cycle beds in it will be possible to develop indicative medium-term cash limits for Directorates. These will be in place for March 2006/07 covering 2007/08 to 2010/11 and will be updated to reflect known changes in the financial environment – particularly as the financial appraisal for the business transformation programme develops.

Invest to Save/Invest to Mitigate Proposals

7.4.13 An integral part of the 2007/08 budget process has been the emphasis on three-year strategic investment proposals to support the draft Corporate Plan 2007 – 10. Cabinet received a report on 26 October, 2006 confirming that the 2007/08 budget would be framed within the context of these three-year strategic decisions.

7.4.14 The updated MTFRM indicates capacity for increased spending over the period covered by the draft Corporate Plan as follows:

- 2007/08 - £3.5m
- 2008/09 - £3.9m; and
- 2009/10 - £4.7m.

7.4.15 The 2007/08 figures allows for setting aside £1.5m to enhance financial capacity in 2008/09 to the level indicated above and £1.5m to cover delays in the Herefordshire Connects benefits realisation programme.

7.4.16 The Cabinet has approved Invest to Save/Invest to Mitigate proposals requiring £3.447m of investment in corporate priorities using current charging policies for social care services. For ease of reference, a summary of the proposals is provided in Appendix G to this report. The level of investment required using current charging policies can be accommodated in 2007/08. However, charging policies for social care and other services will need to be reviewed as an integral part of the MTFMS update at the start of the next Performance Improvement Cycle given the financial outlook for 2008/09 and beyond. The cashable benefits of each investment proposal need to be managed using the benefits realisation process that has been developed for the Herefordshire Connects programme.

7.5 Financial Management Strategy for Capital Investment

7.5.1 Capital resources for the future are also likely to be very constrained.

7.5.2 Herefordshire only has £4.1m of unallocated useable capital receipts. There are only modest expectations for new capital receipts that haven't already been earmarked for approved capital investment plans. If we are successful in securing 75% of the potential Performance Reward Grant for LPSA2, then a further £1.646m of as yet unallocated capital grant will be available – half due in 2008/09 with the rest due in 2009/10.

7.5.3 The MTFRM for the revenue account reflects the new borrowing requirement implied by the Treasury Management Strategy (see section 7.8) to support the capital programme. It also reflects the new borrowing requirement identified in the outline financial appraisal for the Herefordshire Connects programme and the latest financial appraisal for the Accommodation Strategy.

7.5.4 Potential capacity in the revenue account to absorb the revenue implications of yet more borrowing is limited as can be seen from the table in paragraph 7.4.6. The problem is compounded by the fact that revenue cost of government infrastructure capital spending allocations (e.g. LTP) is no longer supported in full through Formula Grant. This funding used to be protected from the floors and ceilings arrangement within the grant distribution system but this is no longer the case with the distribution system introduced for 2006/07.

7.5.5 This leaves limited capacity in the revenue account to accommodate new projects unless ongoing efficiency savings can match the additional borrowing costs. This is a problem because there are a number of projects that are likely to be a high priority for the Council such as:

- Edgar Street Grid;
- the Rotherwas Futures;
- the Ross Flood Alleviation Scheme;
- repairs, maintenance and enhancement of corporate assets such as property assets and ICT;
- investment in property assets needed to deliver the changes needed in adult social care; and
- ICT Strategy to support the Business Transformation programme.

7.5.6 The Council has an Asset Management Plan and Capital Strategy that has been given top marks by the Government Office for the West Midlands. These documents need fine-tuning to help address the impact of there being a scarcity of capital resources.

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

- maximising developers' contributions as outlined in the financial management strategy for the revenue account;
- effective project management of capital schemes to ensure they stay within budget;
- creating the capacity to implement the property review arrangements set out in the Asset Management Plan to see what further opportunities there are for rationalising property assets and releasing resources (capital and revenue);
- maintaining our successful track record for innovative capital investment schemes – e.g. the Whitecross PFI project and the Edgar Street Grid redevelopment project; and
- attracting external funding such as the recent £25m grant allocation under the government's Building Schools for the Future programme.

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

- treat property assets as a corporate resource and move to a corporate landlord arrangement to provide greater flexibility in matching property assets to service needs;
- remove the Financial Regulation that allows services to take a 50% share of the sale proceeds of any assets in their ownership;
- ensure that corporate assets (including property assets and ICT infrastructure) are not neglected;
- develop a corporate approach to maintaining and developing corporate asset;
- reallocate existing resources in Directorate base budgets used for this purpose to boost the corporate maintenance fund;
- allocate the corporate asset development and maintenance using the existing Scheme Selection & Prioritisation Process.

Draft Capital Programme 2007/08

7.5.9 Capital programme proposals for 2007/08 were less in number than in previous years. This was mainly due to concerns about the capacity of the revenue account to absorb the financial implications arising form prudential borrowing. Cabinet has approved the following schemes for inclusion in next year's capital programme:

- **Stretton Sugwas Closed Landfill Site** – replacing gas wells and gas extraction system pipe work;
- **Stretton Sugwas Closed Landfill Site** – new gas flare to meet environmental and legal requirements;
- **Strangford Closed Landfill Site** – installation of leachate wells and gas monitoring boreholes to detect and monitor any adverse environmental effects;
- **Hereford CCTV** – new links to provide high quality images, potentially part funded by West Mercia constabulary;
- **Hereford Library & Info Centre** – feasibility work on a replacement library (this would have to be charged back to revenue if the project failed to proceed);
- **Ross Library & Info Centre** – outline budget to extend the existing library so the Info facility in Swan House can be relocated.

7.5.10 The draft capital programme includes the sum required as a contribution towards a bid for lottery funding of £2m for the Ledbury Library & Info Centre (a report elsewhere on this agenda refers).

7.5.11 The draft capital programme also includes a spending proposal relating to the Integrated Community Equipment Service approved by Cabinet at its meeting on 14th December, 2006.

7.5.12 The estimated capital financing costs for the above schemes totals £61k in 2007/08, £168k in 2008/09 and £175k in 2009/10 with annual reductions in repayments thereafter.

7.5.13 The Council is involved in either facilitating or delivering a number of capital schemes funded from external sources. In some cases these schemes have cash flow implications that may have an impact in 2007/08. The opportunity cost to the Council of temporarily funding £1m of capital expenditure for 1 year pending receipt of the anticipated external funding contribution is approximately £50k in terms of lost investment income. This potential cost has been built into the MTFRM. Schemes where this may apply are as follows:

- Rotherwas Futures;
- Edgar Street Grid; and
- Grant funded schemes such as the Ross Flood Alleviation Scheme and the Building Schools for the Future programme.

7.5.14 Summary of the draft capital programme for 2007/08 is provided in an appendix to this report.

7.6 Medium-Term Capital Plan

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

7.6.2 The following table summarises the capital investment programme for 2006/07 approved by Council in March 2006 updated for slippage from 2005/06 and subsequent Cabinet decisions on the Accommodation Strategy and the Herefordshire Connects programme. The table sets out the updated position as reported in the 31 July 2006 capital monitoring statement.

Directorate	Total Budget	Funded by:				
		Direct Revenue Financing	Supported Capital Expenditure	Prudential Borrowing	Capital Receipts Reserve	Grants & Other
	£000	£000	£000	£000	£000	£000
A & CS	13,865	1	217	3,222	3,701	6,724
C & YP	11,042		2,460	2,000	2,520	4,062
C & CS	3,742			3,472		270
Environment	12,301		10,475	798	37	991
Resources	3,133	30		201	1,327	1,575
Total	**44,083**	**31**	**13,152**	**9,693**	**7,585**	**13,622**

7.6.3 A number of budget pressures are being faced by existing capital schemes as follows;

- **Sutton St Nicholas School**
  The authority is receiving advanced funding of £6m from DfES. This will be repaid at a rate of £2m per annum from capital allocations over the next three years. The project is currently facing a potential overspend.

- **Riverside College**
  This project is also facing an overspend and currently advanced funding is being used so the impact will fall on 2008/09.

- **Children's Centres**
  Current projection also indicate an overspend in future years with the impact affecting 2008/09 because of the use of advanced funding in the short-term.

All the above schemes are under review but the sale of potential difficulties means that these are areas of potential risk.

7.6.4 Part of the medium term capital process is to gather information on potential future capital projects. One such area is the requirement to finish improvement works in Hereford High Town in order to complement the Edgar Street Grid project. This is not included in the current capital programme but may be brought forward in future plans for expenditure.

7.7 Efficiency Review & Value for Money

Efficiency Review

7.7.1 Herefordshire's strategy for securing efficiency gains is to seek continual improvement in the productivity of all our resources – people, land & property, ICT and cash. To us this means getting more from the same amount of resource or achieving the same results with less and targeting the capacity released at our highest priorities.

7.7.2 Our strategy is **not** to cut services but to keep improving those that matter most to our community. Our corporate plan for 2006 – 2009 sets some ambitious targets for service improvement that can only be achieved with a robust MTFMS and MTFRM in place.

7.7.3 We use the following mechanisms for identifying and delivering efficiency gains:

- the MTFMS and MTFRM supports our corporate priorities and included ongoing efficiency savings that will be delivered through the business transformation programme;

- whenever there is staff turnover the opportunity is taken to review the provision of that service – this may include not replacing the member of staff, reallocating the duties or changing the way the service is provided;

- service managers can transfer certain amounts and types of budget between items giving them flexibility to react to external changes and improve the delivery of services to their customers;

- our annual Directorate plans set out the service changes that will be made in the coming year to achieve improved performance within budgetary constraints;

- task and finish scrutiny teams carry out best value style review on service areas that the Council wishes to develop; this approach ensures that providing Value for Money is an integral part of every service review;
- proposals to add expenditure to the based budget – revenue or capital – are management through an annual scheme selection and prioritisation process designed to ensure we invest our resources effectively in our highest priorities.

7.7.4 Herefordshire has a good track record for delivering on its 2.5% overall Gershon efficiency gains target as can be evidenced in its Annual Efficiency Statements. Assessment of the current policy and financial landscape at national level as outlined in the earlier sections of this document suggest that the current efficiency gain targets are likely to get more challenging in the near future.

7.7.5 We think this will be coupled by an increased focus on procurement activities. As a result, Herefordshire has recently appointed to the new post of Procurement & Efficiency Review Manager. This post will be located in the Resources Directorate and will have a key role to play in embedding corporate procurement policies across the Council. The post holder will also be working alongside the Herefordshire Connects programme, supporting the procurement elements of the integrated back office work stream. The final aspect of this person's job will be in developing simple systems for reviewing and reporting on the Gershon efficiency agenda.

7.7.6 Given our pessimistic view of funding for local government funding over the period covered by CSR07, and the fact that the government has already moved to increase efficiency targets for some of its own departments, our plans are geared to delivering a significantly higher level of efficiency gain.

7.7.7 Our aim is to demonstrate if required cumulative cashable efficiency savings over the 4-year period covered by the MTFRM of £11.55m – that's 1.25% of the current baseline for the first year and 2.5% of the current baseline for the following 3 years. We will be able to achieve this through the Herefordshire Connects programme. It will deliver at least £11.75m of cashable efficiency gains in that 4-year period based on outline financial appraisal approved by Cabinet in April 2006.

7.7.8 Under the requirement of the annual efficiency process Herefordshire Council needs to identify minimum cumulative savings target of £6.619m by the end of 2006/07 to meet the 'Gershon' savings target. This target will be exceeded by £14,000 and is broken down as follows:

2006/07 Summary	**£000s**
Cashable savings	1.774
Non cashable savings	1.691
Total	3.465
Add 2005/06 Total b/f	3.168
Cumulative Total	6.633
Surplus	0.014

7.7.9 The target for 2007/08 will be an additional £3.31m of which at least half must be cashable. The resulting cumulative target to be achieved by the end of 2007/08 is £9.5m.

7.7.10 The savings target for 2007/08 will be met in part by efficiencies associated with Herefordshire Connects. Other efficiencies are being identified including vehicle purchasing and leasing as well as the use of agency staff. The Forward-Look statement will be submitted by 12 April and will outline our intentions for 2007/08.

Value for Money (VfM)

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

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

- ensuring service managers deliver the outputs and outcomes agreed for their service area within budget – managing within budget is a key responsibility for all budget holders embedded in our staff review and development procedures;
- establishing the corporate Procurement & Efficiency Review Manager post described above;
- integrating corporate, service and financial planning processes;
- planning over the medium-term as well as the short-term;
- developing our routine financial performance monitoring reports for Cabinet to include VfM reviews;
- benchmarking our costs and activities with other authorities;
- through internal and external audit reviews; and
- through scrutiny reviews.

7.7.13 Herefordshire was judged to be offering Council Tax payers good value for money in the 2005 Use of Resource assessment scoring 3 out of 4 on the Value for Money Key Line of Enquiry.

7.7.14 Our overall Comprehensive Performance Assessment rating is good too. We achieve this despite being the most sparsely populated upper tier authority in the country, despite our government funding being 20% lower per head of population from the government than the average for similar authorities, and despite having a lower than average Council Tax compared to similar authorities. The Audit Commission Value for Money profiles show that our spending on services is just above bottom quartile.

7.7.15 We will shortly be submitting our 2006 self-assessment as a basis for our external auditor to make his judgement on our Use of Resources score. We will be concentrating on demonstrating that planned improvements in response to feedback from our auditors on the 2005 assessment have been made and are embedded.

7.7.16 A key development is including non-financial performance information in our routine financial performance monitoring reports as described in paragraph 7.3.12 et al.

7.8 Treasury Management Strategy

7.8.1 The Council is required to approve an annual treasury management strategy each year as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2006/07 complies with the detailed regulations that have to be followed. The 2007/08 strategy and prudential indicators is attached at Appendix C.

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

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

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

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

- peak at 5.5% in quarter 1 2007;
- then fall to 5.25% in Q3 2007;
- then fall to 5% in Q4 2007;
- then fall to 4.75% in Q3 2008;
- then fall to 4.5% in Q1 2009;
- then rise to 4.75% in Q1 2010.

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

7.8.6 The Council is working with its Treasury Management advisors to look at more effective use of the cash resources it holds. The 2007/08 budget includes a target of £250k income from reviewing the balance sheet. The work may centre around using the ability to transfer the balance of Capital Receipts Reserves into the Capital Financing Account. This is a technical exercise which is permitted by legislation (subject to Audit Commission confirmation) following the introduction of the Prudential Code for Capital Finance.

7.8.7 The effect of this will be temporarily to reduce the Council's Capital Financing Requirement and thus reduce the minimum debt repayment (MRP) required from the revenue account. This adjustment would have a 'one-off' benefit as the debt repayment requirement would return to the current position as the unused capital receipts become physically spent. Such a transfer would have to made before the year end for the Minimum Revenue Provision change to have an effect in the subsequent year.

7.8.8 The MRP is usually 4% of the Capital financing requirement. Therefore a reduction of £10 million would result in a reduction in MRP of £250,000.

7.9 Key Corporate & Financial Risks

7.9.1 Herefordshire sees risk management as an essential element of the corporate governance framework. We have done much in recent months to promote our corporate Risk Management Strategy with our Audit Committee, councillors, Corporate Management Board, Directorate Management Team and our Senior Management Team.

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

7.9.3 Corporate Management Board and Directorate Management Teams can demonstrate that their risk registers are regularly reviewed. Risks are regularly discussed in performance review meetings at all levels although at lower levels they might not be recognised as such.

7.9.4 The most recent update of the Corporate Risk Register (reviewed by Corporate Management Board in June 2006) is provided for information at Appendix D.

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

7.9.6 Council considered a full financial risk assessment of its budget plans for 2006/07 before setting its budgets and Council Tax for the year in March. Many of the financial risks identified at that time have been addressed through the outturn process for 2005/06 or are addressed by the financial management strategies proposed in this paper, demonstrating risk management in practice. The financial risk assessment will continue to be reviewed as part of routine performance reporting arrangements and as part of the budget planning process.

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

- An increase or decrease of 0.5% in the Council Tax Base impacts the budget by £390k
- 1% increase in council tax impacts the budget by £750k, or
- £100k increase in budget increases council tax by 0.13%
- An increase of 1% in base rates would have a marginal impact. Existing debt is at fixed rates. Investments would generate a greater return - £10,000 on every £1m invested for a year. Similarly new borrowing rate increase by 1%. Increases in base rates have little impact upon long term (50 year) borrowing rates from the PWLB, therefore an increase in base rates means the net effect is we generate greater investment income.

7.10 Summary

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

- strong corporate working supported by open book accounting;
- strong financial management; and
- successful and timely delivery of the business transformation programme.

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

8. Decision Making, Consultation, Diversity & Review

8.1 Introduction

8.1.1 This section of the MTFMS describes the decision making and scrutiny process supporting the Council's integrated corporate service and financial planning process (known as the Performance Improvement Cycle), sets out how we plan to consult on the proposals, considers the support it provides to cross-cutting themes and finishes by setting out how the MTFMS will be reviewed and improved for the future

8.2 Decision Making & Scrutiny Process

8.2.1 Cabinet launched a draft version of the MTFMS in July 2006 as a consultation document. It was used to inform the 'ground rules' that Directors were asked to follow in developing their 3-year service delivery proposals that fed into the draft Corporate Plan for 2007 - 2010.

8.2.2 A members' seminar was held to brief all councillors on the MTFMS, the key role it has to play in the new fully integrated performance improvement cycle and the nature of the ground rules being used to develop service delivery proposals.

8.2.3 An updated MTFMS was presented to the Strategic Monitoring Committee on 16th October 2006 so its comments were available to Cabinet when it approved the MTFMS on 26th October 2006. At both Strategic Monitoring Committee and Cabinet, the MTFMS was considered alongside the emerging 3-year service proposals that underpin the Corporate Plan for 2007 – 10.

8.2.4 Cabinet will consider the draft Annual Operating Plan for 2007/08, with budgets, in January 2007, with a view to approving them in February, subject to the budget and Council Tax for 2007/08 set by Council in March 2007. The Strategic Monitoring Committee was consulted at each stage of the process.

8.2.5 The above timetable ensures maximum opportunity for every councillor to be fully briefed on the policy and financial context to the Council's improvement planning process. It is hoped it will allow members to offer both formal and informal opportunities to comment and influence the developing corporate, service and financial management strategies and plans – whether or not they have executive, scrutiny or corporate governance responsibilities.

8.3 Consultation & Communication

8.3.1 The Head of Communications developed a communication strategy (Appendix F refers) for the MTFMS to ensure our staff and our partners understand the national policy context for local government and how that impacts on our approach to strategic financial management.

8.3.2 The communications strategy also ensures two-way dialogue so the Cabinet is able to take the views of our customers, strategic partners, colleagues and trade unions (Unison) into account.

8.3.3 Consultation on the Council's MTFMS will be linked to wider consultation on the Council's priorities as allocation of cash through the MTFMS follows agreed priorities. It is the latter that should be the main focus of consultation with our communities and partners.

8.4 Diversity & Equality

8.4.1 A key target in the Annual Operating Plan for 2006/07 is to achieve Level 2 of the Local Authority Equality Standard by the end of the year. Integral to this is the completion of our initial 3-year programme of equality impact assessments by September 2006.

8.4.2 The MTFMS is designed to support key corporate priorities and indirectly supports diversity and equality work in other service areas. An impact assessment of the MTFMS was completed by August 2006 in line with the corporate requirement.

8.5 Reviewing the MTFMS

8.5.1 This MTFMS sets the financial context for corporate and service planning and then the detailed budget work prior to setting the Council Tax. It is a living document as the detail of the strategic financial context within which we operate is subject to constant change.

8.5.2 The MTFMS will be formally reviewed and updated at least once a year. This will timed so as to integrate with corporate and service planning and to deliver the Council's budget and Council Tax report on time. The next review will be in June/July 2007 at which point a better analysis of the implications on financial strategy of the proposed Herefordshire Public Services Trust and Herefordshire Connects programme should be possible.

8.5.3 Updates to the MTFMS may be approved at other times of the year as a result of routine financial performance monitoring reports or as significant changes to any of the key assumptions underpinning the MTFRM are identified.

8.5.4 The new Performance Improvement Cycle has led to a more streamlined budget setting process for 2007/08, with considerable officer and councillor time saved by ensuring developing corporate and service plans are affordable and that the budgets are allocated in line with agreed priorities. The Audit Commission has commented on the improvements in corporate planning processes that have been achieved in the last 12 months.

8.6 Summary

8.6.1 The MTFMS will be one of Herefordshire's key policy statements and as such will need to be formally approved by Council. Council will consider the Executive's recommendations following full consultation with the Scrutiny function and input from a wide range of stakeholders.

8.6.2 The MTFMS sets the financial context for corporate and service planning and then detailed budget work prior to setting the Council Tax. It describes how the Council will allocate its cash resources in support of corporate, service and organisational priorities, including crosscutting themes.

9. Conclusions

9.1 Robust financial management is the essential underpinning for the Council's determined drive for sustainable excellence in the delivery of services and, with its partners, securing a successful future for the county and a better quality of life.

9.2 This MTFMS is designed to achieve this in a much more demanding environment than any the Council has faced: one that combines unprecedented demands from service users and government, within equally unprecedented financial constraints. Meeting these twin challenges has required a fundamental change in the Council's approach to financial management.

9.3 But the change will be more extensive than this. Fundamental cultural change will be needed. Accountants and service managers will need training and development support so they are equipped to make financial management work within the authority. Service managers will need reassurance that the new approach isn't a one-way street if they operate within the financial management framework now being established, and that there is still room for innovation.

9.4 With the increasing pressure to do more for less that is clearly set out in the early sections of this document, we have little choice but to accept the new way of working that the Herefordshire Connects programme will bring. The future is both exciting and challenging. The plan for change is ambitious and it will be fast but, working as one, this way forward gives us much greater control over our destiny as, if achieved, we will avoid the need for potentially painful cuts in service provision.

9.5 A final note: no document like this would be complete without the Treasurer's health warning! The MTFMS, and its supporting MTFRM, has been developed using the best available information as a basis for forecasting the future policy and financial context for the Council. A key corporate financial risk is that these assumptions, whilst appropriate at the current point in time, might need review as the future actually unfolds. The Corporate & Customer Services and Resources Directorates will continue to scan the policy and financial horizons, working together to update members and advise on policy changes as necessary.

Medium Term Financial Management Strategy (MTFMS)

Appendix A
Financial Resource Model

	2007/2008 Budget £'000	2008/2009 Budget £'000	2009/2010 Budget £'000	2010/2011 Budget £'000
Base Budget	**118,285**	**122,371**	**126,695**	**131,220**
Inflation	618	635	608	661
	118,903	**123,006**	**127,303**	**131,881**
Other Items				
- Waste management - PFI Contract (net of £2m reserve)*	550	450	500	500
**additional £850k required in 2011/12 to restore net budget*				
- Whitecross PFI requirement (net of schools contribution)	451	0	0	0
- Part transfer of Preserved Rights grant into FSS	0	1,891	0	0
MTFMS changes per para 7.3.8				
- Queenswood Park	25	0	0	0
- Procurement & Efficiency Staff	55	0	0	0
- Herefordshire Matters	50	0	0	0
- Chief Executives Development Fund	150	0	0	0
- HB & CT Benefit Administration	150	0	0	0
- Support Services Review	100	0	0	0
- ESG	225	0	0	(225)
MTFMS changes per para 7.4.2				
- Herefordshire Connects - Revenue Costs	0	1,866	(566)	(280)
- Herefordshire Connects - Revenue Savings	(5,800)	(4,800)	(800)	(350)
- Accommodation Strategy	0	0	0	0
- LPSA 2 Reward grant - 75% of Revenue element	0	(823)	0	823
Capital Financing Costs				
- Herefordshire Connects	460	2,111	(82)	(82)
- Accommodation Strategy	0	146	254	492
- Repayment of LGR SCA	0	(453)	(334)	(230)
- Rotherwas Futures	0	0	0	0
- Existing SCE(R) & Prudential Borrowing	210	(192)	638	(422)
- New Prudential Borrowing Bids	68	162	109	112
- Cash flow implications of externally funded projects	500	0	0	0
Funding Sources				
- Use of existing Herefordshire Connects Reserve	(1,500)	1,500	0	0
- Transfer of Part of Social Care Contingency Reserve	(1,300)	1,300	0	0
- Transfer of Budget Management Reserve	(1,100)	1,100	0	0
- LABGI Grant	(2,000)	2,000	0	0
- Increased Cash Transactions Income	(500)	500	0	0
- Accommodation Capital Financing Cost	0	0	0	0
- Balance Sheet Review	(300)	300	0	0
- Procurement & Efficiency	(250)	0	0	0
Emerging Pressures				
- Cover for Herefordshire Connects Savings	5,800	(5,800)	0	0
- Reduced level of Council Tax Income	0	0	0	0
- Customer Services Division	500	0	(500)	0
- Corporate Capacity	400	0	0	0
Capacity to achieve desired Tax increase	**6,524**	**2,431**	**4,698**	**3,786**

Medium Term Financial Management Strategy (MTFMS)

TOTAL BUDGET	**122,371**	**126,695**	**131,220**	**136,005**
Council Tax increase	3.80%	4.70%	4.70%	4.70%
Dedicated Schools Grant b/fwd	78,151	81,511	83,142	84,805
Increase	3,360	1,630	1,663	1,696
Dedicated Schools Grant	**81,511**	**83,142**	**84,805**	**86,501**
DSG % increase	4.3%	2.0%	2.0%	2.0%

APPENDIX B

MEDIUM-TERM CAPITAL PLAN

	2006/07 Budget £'000	2007/08 Budget £'000	2008/09 Budget £'000	2009/10 Budget £'000
Children and Young People's Services	11,042	14,324	14,077	5,949
Resources	12,301	19,206	15,038	11,133
Corporate and Customer Services	3,742	20,406	1,500	-
Adult and Community Services	3,133	774	2,800	-
Environment Services	13,865	12,128	5,165	2,485
	44,083	**66,838**	**38,580**	**19,567**
Funded by:				
Supported Capital Expenditure (Revenue)	7,585	5,569	8,529	2,585
Prudential Code Borrowing	13,622	22,879	25,221	15,442
Unfunded	13,152	9,964	1,500	1,500
Capital Receipts Reserve	31	170	-	-
Revenue Contribution	9,693	26,498	3,240	-
Government Grants & Contributions	-	1,758	90	40
	44,083	**66,838**	**38,580**	**19,567**

Detailed above is the medium term initial capital programme. This is continuously updated as part of the capital monitoring process.

Major schemes include:

- Weobley High sports hall, Sutton Primary replacement school and Hunderton Junior and Infants school amalgamation (£8m scheme)
- Corporate Accommodation costs of £3.8m in 2006-07
- Herefordshire Connects ICT capital scheme costs of £8.5m in 2006-07 and £10.9m in 2007-08, plus additional ICT corporate voice and data network work of £2m in 2006-07
- Friar Street museum resource and learning centre Phase 3 works and High Town and High Street Hereford capital works
- Extra Care Housing development (£5.28m in 2006-07) and affordable housing grants capital schemes

APPENDIX C

HEREFORDSHIRE COUNCIL

TREASURY MANAGEMENT STRATEGY 2007/08

1. INTRODUCTION

1.1 The Financial Policy Team is responsible for the day-to-day management of the Council's treasury management activities. The Treasury Management Strategy for borrowing and Annual Investment Strategy for 2007/08 covers the team's activity over the coming year and has been produced in accordance with the Council's approved Treasury Management Policy Statement.

1.2 The 2003 Prudential Code for Capital Finance in Local Authorities introduced new requirements for capital spending plans to be considered and approved, as well as the development of this integrated Treasury Management Strategy.

1.3 The Treasury Management Strategy covers the:

- current treasury portfolio position;
- treasury limits for 2007/08;
- prudential indicators for 2007/08 – 2009/10;
- prospects for the economy and interest rates;
- borrowing strategy;
- debt rescheduling opportunities;
- specified and non-specified investments;
- investment objectives;
- security of capital: the use of credit ratings;
- investment strategy;
- externally managed funds; and
- end of year report.

2. CURRENT TREASURY PORTFOLIO POSITION

2.1 The Council's treasury portfolio position as at 31st January 2007 is as follows: -

DEBT POSITION	**Principal (£)**	**Borrowing Rate (%)**
Public Works Loan Board	82,028,668	4.50
Market Debt *	12,000,000	4.50
Total Debt	**94,028,668**	**4.50**

Estimated Borrowing Requirement 2007/08 – supported borrowing approvals of approximately £9,963,196, plus the potential for an additional £27,061,000 unsupported borrowing under the Prudential Code (which includes slippage from previous year). In addition refinancing of maturing debt of £464,180 in the year will be required, plus there is the potential for the market debt of £12,000,000 to be recalled and require refinancing.

INVESTMENT POSITION	**Principal (£)**	**Rate of Return (%)**
Internally managed funds	42,596,471	4.84
Externally managed funds	7,711,374	3.83
Total Investments	**50,307,845**	**4.71**

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

3. TREASURY LIMITS FOR 2007/08

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 is termed the "Affordable Borrowing Limit". The authorised limit represents the legislative limit specified in Section 3 of the Local Government Act 2003.

3.2 The Council must have regard to the Prudential Code when setting the 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 has to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4. PRUDENTIAL INDICATORS FOR 2007/08 – 2009/10

4.1 The following prudential indicators are relevant for the purposes of setting an integrated Treasury Management Strategy and must be included in the strategy.

PRUDENTIAL INDICATOR	**2006/07**	**2007/08**	**2008/09**	**2009/10**
(1). Budget Setting Indicators				
	£'000	**£'000**	**£'000**	**£'000**
Capital Expenditure	44,083	66,838	38,580	19,567
Ratio of financing costs to net revenue stream				
Net Revenue Stream	118,285	122,371	126,695	131,220
Financing Costs	8,875	9,571	11,138	11,468
Ratio of financing costs to net revenue stream	7.50%	7.82%	8.79%	8.74%

		2007/08	2008/09	2009/10
Incremental effect of Prudential Borrowing		**£ p**	**£ p**	**£ p**
Existing Prudential Borrowing allocations		28.61	77.09	78.25
New Prudential Borrowing bids		0.47	1.83	1.97
Total		**29.08**	**78.92**	**80.22**
Revenue & Reserves contributions towards capital financing costs (includes use of Herefordshire Connects Invest to Save reserve of £1,059,000 and £500,000 pa revenue contribution toward the Corporate Voice and Data Network capital projects)		(10.17)	(21.74)	(8.15)
Net Band D Impact		**18.91**	**57.18**	**72.07**
Capital Financing Requirement (as at 31/3)	**£'000**	**£'000**	**£'000**	**£'000**
Total	128,810	158,562	154,373	147,248

PRUDENTIAL INDICATOR

(2). Treasury Management Prudential Indicators	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Authorised Limit for External Debt	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	147,000	166,000	203,000	206,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	**150,000**	**169,000**	**206,000**	**209,000**
Operational Boundary	**£'000**	**£'000**	**£'000**	**£'000**
Borrowing	108,500	130,500	157,500	152,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	**110,000**	**129,000**	**159,000**	**154,000**
Upper Limit for Fixed Interest Rate Exposure	**£ or %**	**£ or %**	**£ or %**	**£ or %**
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure	**£ or %**	**£ or %**	**£ or %**	**£ or %**
Net principal re variable rate borrowing / investments	50%	50%	50%	50%

Maturity Structure of new fixed rate borrowing during 2007/08	**Upper Limit**	**Lower Limit**
Under 12 Months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Upper Limit for total principal sums invested for over 364 days	**2006/07 £'000**	**2007/08 £'000**	**2008/09 £'000**	**2009/10 £'000**
	10,000	10,000	10,000	10,000

5. PROSPECTS FOR THE ECONOMY & INTEREST RATES

5.1 The Council currently uses Sector Treasury Services Limited for treasury advice. Part of their service is to assist the Council to form 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 Sector.

Economic Background

- Gross Domestic Product (GDP): the UK's economy is generally improving from a low point reached in June 2005. Growth is expected to continue for a little longer but a modest "cooling" is expected in 2007 (2006 2.7%, 2007 2.2%) and to continue at below the trend rate of 2.5% thereafter.
- The housing market has proved more robust than expected; house price inflation over 8% per annum.
- The Monetary Policy Committee (MPC) decision to raise Bank Rate in November 2006 and January 2007 is aimed at bringing Consumer Price Inflation (CPI) down to the 2% target level.
- Household income growth is expected to recover in 2007 as inflation falls and pay rises.
- Once inflation is back under control, Bank Rate will switch to a falling trend in late 2007.

Interest rate forecast

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

- peak at 5.50% in Q1 2007 ;
- fall to 5.25% in Q3 2007 and then to 5.00% in Q4 2007;
- fall to 4.75% in Q3 2008 and then to 4.50% in Q1 2009 before rising back to 4.75% in Q1 2010.

Long Term Rates:

- The 50-year PWLB rate is expected to remain flat at 4.25%.
- The 25-30 year PWLB rate is expected to stay at 4.50% for the foreseeable future.
- The 10-year PWLB rate will fall from 5.00% to 4.75% in late 2007 and then fall again to 4.50% in early 2008 and remain at that rate for the foreseeable future.
- 5 year PWLB rate will fall from 5.50% to 5.25% in early 2007 and continue falling until reaching 4.50% in early 2008 when it will remain at that rate for the foreseeable future.

Interest Rates

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

Sector Treasury - Interest Rate Forecast

(This table represents the view of the Council's Treasury advisor as at January 2007)

%	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
Base Rate	5.50	5.50	5.25	5.00	5.00
10 Year PWLB	5.00	5.00	4.75	4.75	4.50
25 Year PWLB	4.50	4.50	4.50	4.50	4.50
50 Year PWLB	4.25	4.25	4.25	4.25	4.25

6. BORROWING STRATEGY

6.1 Based upon the prospects for interest rates outlined above, the forecast indicates that the Council's borrowing strategy for 2007/08 should be set to take very long dated borrowing at any time in the financial year. Variable rate borrowing for five years may be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking long term borrowing.

6.2 In order to minimise debt interest costs, the main strategy is therefore as follows:

- With 50 year PWLB rate at 4.25%, borrowing should be made in this area of the market at any time in the financial year. This rate will be lower than the forecast rates for shorter maturities in the 5 year and 10 year area. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 4.25%.
- Money Market debt will also be considered where opportunities are available to minimise borrowing costs in the short term. The interest rates available will be carefully monitored and advice sought from the Treasury Management Consultants over the timing of any new borrowing.

6.3 Against this background caution will be adopted with the 2007/08 treasury operations.

6.4 **Sensitivity of the forecast** - The main sensitivities of the forecast are likely to be the two scenarios below. The Council officers, in conjunction with the treasury advisers, will continually monitor interest rates and market forecasts, adopting the following responses to a change of view:

- ***A significant risk of a sharp rise in long and short term rates***, perhaps arising from a greater than expected increase in world economic activity. The portfolio position would be re-appraised with the likely action that fixed rate funding will be used whilst interest rates were still relatively cheap.
- ***A significant risk of a sharp fall in long and short term rates,*** perhaps due to growth rates weakening. If this happened, then long term borrowings will be postponed, and any rescheduling from fixed rate funding into variable or short rate funding will be considered.

7. DEBT RESCHEDULING OPPORTUNITIES

7.1 As the first fall in Bank Rate is expected in Autumn 2007, there may be a sharp difference between higher shorter term rates and cheaper long term rates in quarters 2 to 3 of 2007. Later on in 2007/08, this advantage will diminish once Bank Rate, and short term rates generally, start falling. There will therefore be opportunity during quarters 2 to 3 of 2007 to restructure the Council's shorter term debt into long term in order to achieve the savings in the financial year 2007/08. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 6 above. This approach is consistent with achieving the savings in cash management outlined in the draft 2007/08 budget.

7.2 In addition, the Council will seek to take advantage of small movements in PWLB rates to reduce the cost of existing debt by reborrowing at lower rates without making significant changes to the type of debt or maturity periods.

7.3 The reasons for any rescheduling to take place will include:

- the generation of cash savings at minimum risk;
- help fulfil the borrowing strategy outlined above; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

7.4 CIPFA issued a draft accounting standards document SORP 2007) on 18 October 2006, and a final draft in November 2006 which includes major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premia and discounts arising from debt rescheduling. There will be a three month consultation period before proposals are finalised. It is also expected that these proposals, once finalised, may make necessary the issue of legislation by the Government to take effect from 1st April 2007. The Authority's treasury management strategy will be reviewed once the final decisions in this area are known to see whether any changes will be required in borrowing, investment or debt rescheduling strategies.

8. SPECIFIED AND NON-SPECIFIED INVESTMENTS

8.1 Under CIPFA's Treasury Management Code of Practice and the DCLG's Guidance on Local Government Investments issued in March 2004 the Council is required to have an investment strategy.

8.2 This Annual Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year under the headings of **Specified Investments** and **Non-Specified Investments**. These are included at the end of the report.

8.3 This Annex sets out:

- The procedures for determining the use of each category of investment (advantages and associated risk), particularly if the investment falls under the category of "non-specified investments."
- The maximum periods for which funds may be prudently committed in each category.
- Whether the investment instrument is to be used by the Council's in-house officers and/or by the Council's appointed external fund

managers (Investec Asset Management); and, if non-specified investments are to be used in-house, whether prior professional advice is to be sought from the Council's treasury advisors (Sector Treasury Services Ltd).

9. INVESTMENT OBJECTIVES

9.1 All investments will be in sterling. The general policy objective for Herefordshire Council is the prudent investment of its treasury balances, in other words it can include monies borrowed for the purpose of expenditure in the reasonably near future. The Council's investment priorities are:

(a) the **security** of capital; and
(b) **liquidity** of its investments.

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

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

10. SECURITY OF CAPITAL: THE USE OF CREDIT RATINGS

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

10.2 **Monitoring of credit ratings:**

- All credit ratings will be monitored monthly: The Council has access to Fitch and Moody's Investors Service credit ratings and is alerted to changes from its Treasury Management advisor.
- If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty/investment scheme as a new investment will be withdrawn immediately. Any intra-month credit rating downgrade, which the Council has identified, that affects the Council's pre-set criteria will also be similarly dealt with. The Council will also immediately inform its external fund manager of the withdrawal of the same.

11. INVESTMENT STRATEGY

11.1 As the Section 151 Officer, the Director of Resources manages the Council's investment portfolio. Investments managed by the in-house team are generally temporary in nature and short-term. All decisions are made in the light of the Council's forecast cash flow requirements.

11.2 Sector is forecasting Bank Rate to peak at 5.50% in Q1 2007 before falling to 5.25% in Q3 2007, to 5.00% in Q4 2007 and to 4.75% in Q3 2008. The lowest level is anticipated to be 4.50% in Q1 2009, remaining at that level before rising again back to 4.75% in Q1 2010. Councils should, therefore, seek longer period investments at higher rates before this fall starts for some element of their investment portfolio which represents their core balances. Sector believes that for 2007/08, clients should budget for an investment return of 5.00%

12. EXTERNALLY MANAGED FUNDS

12.1 A cash fund of £7,711,374 (as at 31st January 2007) is currently managed by Investec Asset Management on a discretionary basis. The fund has not been performing as well as expected recently so the Council, in conjunction with the Council's Treasury Management adviser, is reviewing the external fund manager's performance for 2006/07, and may call the funds back to be managed internally.

12.2 The fund management agreement between the Council and Investec Asset Management formally documents the instruments it can use within pre-agreed limits.

13. END OF YEAR REPORT

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

HEREFORDSHIRE COUNCIL
PRUDENTIAL INDICATORS 2007/08

1. INTRODUCTION

The Prudential Code sets out a number of recommended performance indicators and these form an important part in the assessment of capacity to borrow.

2. ACTUAL AND ESTIMATED CAPITAL EXPENDITURE

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

It is important to note that certain allocations of Government capital funding are not expected until March or April 2007. Such allocations of funding will be added to the Capital Programme and reported as part of the Capital Monitoring process. Supported Capital Expenditure (Revenue) allocations are expected to be largely replace by direct capital grants from 2008/09 but this is to be confirmed by Government as part of CSR2007.

	Forecast Outturn 2006/07	Estimated 2007/08	Estimated 2008/09	Estimated 2009/10
Capital Programme Area: -	**£'000**	**£'000**	**£'000**	**£'000**
Children and Young Peoples Services	11,042	14,324	14,077	5,949
Environment Services	12,301	19,206	15,038	11,133
Corporate and Customer Services	3,742	20,406	1,500	-
Resources	3,133	774	2,800	-
Adult and Community Services	13,865	12,128	5,165	2,485
	44,083	**66,838**	**38,580**	**19,567**
By funding				
Capital Receipts Reserve	7,585	5,569	8,529	2,585
Grants and Contributions	13,622	22,879	25,221	15,442
Supported Capital Expenditure (Revenue)	13,152	9,964	1,500	1,500
Revenue Contribution	31	170	-	-
Prudential Borrowing – Existing allocations	9,693	26,498	3,240	-
Prudential Borrowing – New bids	-	1,758	90	40
	44,083	**66,838**	**38,580**	**19,567**

3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

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

	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Net Revenue Stream	118,285	122,371	126,695	131,220
Capital Financing Costs (less contributions)	8,875	9,571	11,138	11,468
Ratio of financing costs to net revenue stream	7.50%	7.82%	8.79%	8.74%

4. CAPITAL FINANCING REQUIREMENT

This indicator represents the underlying need to borrow for a capital purpose. The potential change from SCE(R) funding to direct capital grant funding, combined with anticipated capital receipts means future debt levels should begin to reduce as debt is repaid.

	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Capital Financing Requirement (as at 31/3)	127,465	158,412	154,223	147,099

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.

	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Borrowing	147,000	166,000	203,000	206,000
Other Long Term Liabilities	3,000	3,000	3,000	3,000
Total	**150,000**	**169,000**	**206,000**	**209,000**

6. OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

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

	2006/07	2007/08	2008/09	2009/10
	£'000	£'000	£'000	£'000
Borrowing	108,500	130,500	157,500	152,500
Other Long Term Liabilities	1,500	1,500	1,500	1,500
Total	**110,000**	**129,000**	**159,000**	**154,000**

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

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

Increase in council tax (Band D, per annum) for the Capital Financing costs of the following:	**2007/08**	**2008/09**	**2009/10**
	£ p	**£ p**	**£ p**
Existing Prudential Borrowing allocations	28.61	77.09	78.25
New Prudential Borrowing bids	0.47	1.83	1.97
Total	**29.08**	**78.92**	**80.22**
Revenue & Reserves contributions towards capital financing costs (includes use of Herefordshire Connects Invest to Save reserve of £1,059,000 and £500,000 pa revenue contribution toward the Corporate Voice and Data Network capital projects)	(10.17)	(21.74)	(8.15)
Net Band D Impact	**18.91**	**57.18**	**72.07**

8. TREASURY MANAGEMENT INDICATORS

These are specific indicators which relate to the management of the Treasury Management process covering both how we borrow funding and invest existing resources.

	2006/07	2007/08	2008/09	2009/10
Upper Limit for Fixed Interest Rate Exposure				
Net principal re fixed rate borrowing / investments	100%	100%	100%	100%
Upper Limit for Variable Interest Rate Exposure				
Net principal re variable rate borrowing / investments	50%	50%	50%	50%

Maturity Structure of new fixed rate borrowing during 2006/07	**Upper Limit**	**Lower Limit**
Under 12 Months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Upper Limit for total principal sums invested for over 364 days	**2006/07**	**2007/08**	**2008/09**	**2009/10**
	£'000	**£'000**	**£'000**	**£'000**
(per maturity date)	10,000	10,000	10,000	10,000

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated

Investment	Security / Credit Rating	Circumstance of use
Debt Management Agency Deposit Facility (DMADF)	Govt-backed	In-house
Term deposits with the UK government or with UK local authorities *(i.e. deposits with local authorities as defined under Section 23 of the 2003 Act)*	High security although LAs not credit rated.	In-house and by external fund manager
Term deposits with credit-rated deposit takers *(i.e. deposits with banks and building societies, (including callable deposits),* with maturities up to 1 year	Yes-varied *Minimum rating "A" Long-term and "F1" Short-term (or equivalent)*	In-house and by external fund manager
Certificates of Deposit issued by credit-rated deposit takers *(i.e. a certificate issued for deposits made with a bank or building society, who agree to pay a fixed rate of interest for the specified period of time and repay the principal at maturity)* up to 1 year. *Custodial arrangement required prior to purchase*	Yes-varied *Minimum rating "F1+" Short-term (or equivalent)*	External fund manager
Gilts: up to 1 year *(a fixed interest security issued or secured by the British Government)* *Custodial arrangement required prior to purchase*	Govt-backed	(1) Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them
Reverse Gilt Repos: maturities up to 1 year *(a transaction where gilts are bought with a commitment (as part of the same transaction) to sell equivalent gilts on a specified date, or at call, at a specified price)*	Govt-backed	External fund manager only subject to the guidelines and parameters agreed with them
Money Market Funds *(a AAA credit rated collective investment scheme such as a mutual fund or a unit trust, as defined in Statutory Instrument 2004 No. 534, that invests exclusively in money market securities)*	Yes-varied *Minimum AAA credit rated*	In-house and by external fund manager subject to the guidelines and parameters agreed with them
Forward deals with credit rated banks and building societies < 1 year *(i.e. a deal negotiated before the deposit is paid, with the negotiated deal period plus period of deposit < 1 year)*	Yes-varied *Minimum rating "A" Long-term and "F1" Short-term (or equivalent)*	In-house
Commercial paper *[Short-term obligations (generally with a*	Yes-varied *Minimum rating "F1+"*	External fund manager only subject to the

maximum life of 9 months) which are issued by banks, corporations and other issuers] *Custodial arrangement required prior to purchase*	*Short-term (or equivalent)*	guidelines and parameters agreed with them
Gilt Funds and other Bond Funds***. *[These are open-end mutual funds investing predominantly in UK govt gilts and corporate bonds. These funds do not have any maturity date. These funds hold highly liquid instruments and the Council's investments in these funds can be sold at any time.]*	Yes *Minimum rating "AA-"*	External fund manager only subject to the guidelines and parameters agreed with them (NB: In the selection of a fund the manager will ensure that the fund is not a body corporate by virtue of its set up structure).

Investment	Security / Credit Rating	Circumstance of use
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	Govt-backed	In-house and external fund manager subject to the guidelines and parameters agreed with them
Bonds issued by a financial institution that is guaranteed by the UK Government *[As defined by Statutory Instrument 2004 No. 534, with maturities under 12 months].* *Custodial arrangement required prior to purchase*	Govt-backed	1) Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them
Bonds issued by a multilateral development bank *[As defined by Statutory Instrument 2004 No. 534, with maturities under 12 months].* *Custodial arrangement required prior to purchase*	AAA	1) Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them

***Open-ended funds continually create new units (or shares) to accommodate new monies as they flow into the funds and trade at net asset value. (NAV).

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	External Fund Manager. In-house	50% 20%	5 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	YES-varied *Minimum rating "AA" Long-term and "F1+"*	External fund manager. In-house after consultation with Treasury	50% 20%	5 years

Custodial arrangement required prior to purchase	*Short-term (or equivalent)*	Management advisor		
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	External Fund Manager. In-house after consultation with Treasury Management advisor	50% 20%	5 years in aggregate

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
UK government gilts with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	Govt backed	(1) Buy and hold to maturity: in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them	20% 50%	10 years (but also including the 10 year benchmark gilt)
Sovereign issues ex UK govt gilts: any maturity *Custodial arrangement required prior to purchase*	AAA	(1) Buy and hold to maturity in-house after consultation from Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines & parameters agreed with them	20% 50%	10 years
Forward deposits with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit)	Yes-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	External Fund Manager In-house after consultation with Treasury Management advisor	50% 20%	5 years
Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantee from HMG or credit-rated parent institution: any maturity	Not rated in their own right, but parent must be rated. *Minimum rating for parent "AA-" Long-term*	In-house	20%	1 year

	and "F1" Short-term (or equivalent) Support 1,2 or equivalent			

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in Statutory Instrument 2004 No. 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	AAA / Govt guaranteed	(1) Buy and hold to maturity: in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them	20% 50%	10 years
Bonds issued by multilateral development banks (as defined in Statutory Instrument 2004 No. 534) with maturities in excess of 1 year *Custodial arrangement required prior to purchase*	AAA / Govt guaranteed	(1) Buy and hold to maturity: in-house after consultation with Treasury Management advisor (2) For trading: by external fund manager only subject to the guidelines and parameters agreed with them	20% 50%	10 years

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

Policy Objectives

3. Herefordshire Council regards the successful identification, monitoring and control of risk 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 & Reporting

5. Herefordshire Council retains responsibility for approving the Council's Treasury Management Policy and will consider amendments to it on the advice of Cabinet.

6. Herefordshire Council delegates responsibility for approving an annual Treasury Management Strategy to Cabinet as the mechanism for implementing the Treasury Management Policy.

7. Herefordshire Council delegates responsibility for monitoring that treasury management activity is in accordance with the approved policies, strategies and practices to Cabinet.

8. Herefordshire Council delegates responsibility for the development and maintenance of suitable Treasury Management Practice Statements to the Director of Resources.

9. Herefordshire Council delegates responsibility for the administration of treasury management decisions to the Director of Resources who will act in accordance with the approved Treasury Management Policy Statement, Treasury Management Strategy and Treasury Management Practice Statements. If the Director of Resources is a member of CIPFA, he/she shall also comply with CIPFA's Standard of Professional Practice on Treasury Management.

10. Herefordshire Council will receive reports from the Director of Resources on its treasury management policies, strategy, practices and activities, including, as a minimum, an annual strategy in advance of the year and an annual report after its close, in the form prescribed in the Council's Treasury Management Practice Statements.

APPENDIX D

Stage One					Stage Two				
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)		
Identified	Risk Reference Number	Impact (Severity)	Likelihood (Probability)	Priority Rating	Risk Controls Measures	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
Ensuring the Council secures the completion of the formal engagement with DFES on Children and Young People's outcomes and project and performance management.	CR1					SF			
Corporate spending pressures outweigh the level of resources available to meet them. Particular pressures prevalent in Adult Social Care.	CR2	4	4	High	Medium Term Financial Strategy now adopted by Cabinet and highlights the need for corporate capacity to be created to meet future spending pressures. Social Care overspend has been highlighted at Cabinet and at Scrutiny Cttee. Budget Plan adopted to minimise pressures and needs analysis identifying future patterns of service with costed options. This will be reported by the end of August.	ALL/SR	4	3	High
Herefordshire Connects: Programme does not go through robust investment appraisal and subsequent savings not being realised leading to service cuts.	CR3	4	4	High	Robust appraisals are carried out based on hard data, comparative and sensitivity analyses and deliverability. Strong corporate governance arrangements are in place. Change Manager appointed. Business Transformation Board created and the new governance arrangements approved. Procurement approach agreed. Benefits realisation framework to be developed. The MTFS highlights both the investment required for Herefordshire	NP	4	3	High

Stage One					Stage Two				
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)		
Identified	Risk Reference Number	Impact (Severity)	Likelihood (Probability)	Priority Rating	Risk Controls Measures	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
					Connects and the expected savings both in the short and long term. A key risk will continue to be the timing and identification of savings flowing from the programme whilst minimising the risk of service cuts needing to be made to balance the budget.				
Failure to maintain CPA "3 star" rating and move from improving adequately to improving strongly.	CR4	4	3	High	Capacity created at a senior level and adherence to the Overall Improvement Plan agreed in March. Board to monitor progress set up under Director of Corporate & Customer Services. It requires effective implementation of the corporate planning and performance frameworks, including the full integration of financial planning. Use of Resources Improvement Plan being implemented included VfM self assessment in August. Considerable work has taken place in embedding a strong performance management framework including structured meetings between Chief Executive and Directors. Improvement Manager posts have been approved for all Directorates and, where necessary, posts will be advertised in early September.	ALL/NP SR NP/JJ	3	3	Medium
Business continuity management	CR5	3	4	High	Substantial capital investment made in ICT network and disaster recovery	ALL/NP	3	3	Medium

Stage One					Stage Two				
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)		
Identified	Risk Reference Number	Impact (Severity)	Likelihood (Probability)	Priority Rating	Risk Controls Measures	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
					arrangements. Workshops held for all directorates and service continuity plans have been prepared and due for testing during the year in business critical systems and services. Monthly checks made to ensure amendments are made to all plans. Annual update of Community Risk Register to inform the review process of Council emergency response plans in support of the emergency services and the Council's arrangements to assist recovery and return to normality of the community & environment following an emergency. Bi-annual exercising of the Emergency Response Team. Annual exercising of emergency response plans.				
Continuity of Herefordshire Jarvis Services and successful partnering arrangements.	CR6	4	3	High	Regular consultation held between senior management from both sides of the partnership.	GD	3	3	Medium
Corporate Capacity to deliver a range of changes the Council has embarked upon.	CR7	4	3	High	Programme Management, Clear Leadership and Senior Management Restructuring. Capacity issues identified within CPA inspection and will be part of Improvement Plan. A minimum of 20% of corporate directors' time will be spent on corporate issues.	NP	4	2	Medium
Achievement of LPSA 2 targets and hence the Performance Reward Grant (PRG). Failure to manage	CR8	3	3	Medium	LPSA. Partnership Manager and the Head of Policy & Performance now meet regularly with the assigned project manager and have agreed	SF/GH/GD	3	3	Medium

Stage One					Stage Two				
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)		
Identified	Risk Reference Number	Impact (Severity)	Likelihood (Probability)	Priority Rating	Risk Controls Measures	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
future PRG will have a significant and detrimental impact on the Council's ability to invest in future performance gains in services.					responsibilities for chasing progress and ensuring action. In addition performance indicators are received every 2 months, in line with the Council's performance management arrangements, enabling proactive management through this management group.				
Delivery of Local Area Agreement	CR9	3	2	Medium	LAA - Partnership team and Policy & Performance have agreed a joint approach to including the LAA review issues and LAA refresh mandatory indicators in the preparations for the Corporate Plan thus ensuring that there is only one process and no confusion about targets.	JJ	3	2	Medium
Recruitment and retention of staff where there are national skills shortages and including the impact of Job Evaluation. Ensuring consistent treatment of Equal Pay Claims.	CR11	3	3	Medium	Succession planning as part of management development provision	ALL/DJ	2	2	Medium
					Utilise SRDs / implement career development posts and conclude job evaluation. 93% SRDs completed by the end of May. Further work being carried out on identifying gaps. HR to support Directorates to deliver identified training needs, to work to Investor in People standard.				
		4	4	High	Focused recruitment activity to support identified shortages e.g.				

Stage One					Stage Two				
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)		
Identified	Risk Reference Number	Impact (Severity)	Likelihood (Probability)	Priority Rating	Risk Controls Measures	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
					Social Work (Childrens), plus development of a workforce plan, and work to implement national data sets. Work to set an establishment for the Council has begun. Promote professional development support through training agreements and payment of professional fees. Develop secondment opportunities internally and with partners. · Improving leadership and management through a review of management development Pride in Herefordshire approach to be implemented. Implement software to review new pay structure to ensure that it is equality proofed.				
Approach to Diversity: Risk of not achieving level and not improving Standard	CR12	3	2	Medium	Long term development plan produced. EIA action plans to be incorporated into Service Plans and monitored through the performance management process.	JJ	3	2	Medium
Successful implementation of Accommodation Strategy.	CR13	4	4	High	Issues concerning the acquisition of the property following a meeting with Scottish & Newcastle where Council were notified of a property review of all production sites. Initial moves within property to continue.	SR	3	2	Medium

Stage One					Stage Two				
Identified	Risk Reference Number	Assessment of Risk (Assume NO controls in place) using risk matrix			Risk Controls Measures	Responsible Directors	Assessment of Residual Risk (With control measures implemented)		
		Impact (Severity)	Likelihood (Probability)	Priority Rating			Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
					An emerging risk is the move towards flexible working. Homework place assessments will need to be carried out for all staff formally working from home.	DJ/JH			
Herefordshire Connects: Management capacity and capabilities not sufficiently developed to plan in advance, and deliver, the service changes required for realisation of efficiency savings.	CR14	4	4	High		NP	4	3	High
Development of a Public Services Trust for Herefordshire	CR15	3	2	Medium	External assistance for the first phase of development has been secured.	GH	3	2	Medium
Failure of Waste Management Contract leading to failure to meet diversion targets and the potential for the Authority to be paying £150 per tonne extra on our missed target tonnages. Failure of the contract would also lead to the loss of PFI credits.	CR16	4	2	Medium	Ongoing commitment from Herefordshire and Worcestershire to retain the existing contract. The incorporation of subcontractors into the existing contract as a variation should enable adequate waste to be diverted to ensure the authority does not become subject to penalties under the Landfill Allowance Trading Scheme (LATS). Herefordshire and Worcestershire have an agreement to Trade LATS between the two authorities at "no cost" to offset risks - this risk needs to be formalised.	GD	4	1	Low
Use of Resources Judgement	CR17	4	2	Medium	Managers have been allocated elements of the Key Lines of Enquiry so that all required actions have been	SR	3	2	Medium

Stage One					Stage Two				
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)		
Identified	Risk Reference Number	Impact (Severity)	Likelihood (Probability)	Priority Rating	Risk Controls Measures	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
					completed. However audit commission's inspection has been completed and the formal feedback not yet received. Any action plan produced by the audit commission will be given priority.				
BFI Inspection	CR18	2	2	Low	BFI report on interventions has made a number of recommendations and an action plan has been drawn up to deal with these. Monthly monitoring is in place by the Head of Service to ensure we deliver this plan which will enable us to meet both the performance measures and enablers aspects of the benefit performance standards.	SR	2	2	Low

Signed: ____ Position: ____

Date: ____

APPENDIX E

FINANCIAL RISK ASSESSMENT FOR THE 2007/08 BUDGET

Council Tax

The Financial Resources Model allows for an increase of 3.8 % in Council Tax for 2007/08 which is the firm proposal at this stage. An indicative figure of 4.7% is used for 2008/09 and beyond. A 3.8% increase in Council Tax for 2007/08 is within the 5% guideline suggested by the Government. Capping criteria for next financial year will not, however, be published until all councils have set their budget for the year.

The Financial Resources Model allows for a 0.7% growth in the Council Tax base for 2007/08 as determined by the Council and a 1.0% increase for 2008/09 and future years. The level of growth for 2008/09 and future years may be more or less than indicated, but is a prudent indicator for current purposes based on expected trends. The Council Tax base included in the Financial Resources Model takes into account Herefordshire's policy on Council Tax discounts for second and long-term empty homes.

The Collection Fund achieved a surplus of £256,000 for 2006/07 which was used to reduce the 2007/08 Council Tax requirement. The Collection Fund is forecast to achieve a surplus of £300,000 for 2007/08 and future years and this is reflected in the Financial Resource Model. Changes in the Council Tax base are regularly monitored and although there are many factors that could affect the outturn for each financial year, in practice the actual position on the Collection Fund at each year-end is that a surplus is achieved.. A surplus is clearly more desirable than a deficit and the impact of a deficit in both financial and reputational terms depends on its size.

A proposed increase in Council tax of 3.8% is now included compared with a planning assumption of 4.7%. Whilst not inconsistent with the emerging national picture, it will lead to a reduction in income from Council Tax to support the Council's corporate plan for 2007-2010 of approximately £600k over the next 3 years, a sum that will be difficult to replace given planned Council Tax increases for subsequent years of 4.7% are close to the 5% capping limit expected to remain in force. With schools funding now ring-fenced via Dedicated schools Grant, Council tax income now represents approximately 60% of the Council's budget requirement.

The national context suggests a lower than originally planned Council Tax increase will have implications for the future if the three-year settlement for 2008/09 to 2010/11 is as difficult as current indications suggest. It would impact on the Council's ability to meet the future challenges.

Formula Grant and Dedicated Schools Grant

The final figures announced by the Government on 18th January, 2007 confirm the second year of the two-year Formula Grant settlement as follows. The 2007/08 Dedicated Schools Grant is indicative as it will not be finally confirmed until the new year.

	2006/07		2007/08	
	£m	%	£m	%
Formula Grant	46.542	2.4	47.648	2.4
Dedicated Schools Grant (2007/08 indicative)	78.151	4.3	81.892	4.8
TOTAL	124.693	6.4	129.540	3.9

Medium Term Financial Management Strategy (MTFMS)

It is difficult to forecast the level of increases for 2008/09 and beyond at this point in time. The Government will begin its triennial review of its public spending plans shortly – this will be know as Spending Review 2007 (SR07) and will impact on local authority spending plans for 2008/09 and the following two financial years. The prognosis for local government is not good given anticipated national priorities. We will continue to ensure local spending pressures are understood at regional and national levels. We will also continue to scan the financial horizon to ensure our spending plans for the future are sustainable.

Inflation

Pay inflation has been included at 2.0% in 2007/08 and for each year thereafter for all staff.

Pensions inflation has been included at 0.6% in 2007/08 and 2008/09. This reduces to 0.5% for 2009/10 then rises back to 0.6% for 2010/11. This represents the stepped increase in the employer's contribution rate assessed at the last actuarial review of the pension fund.

The Financial Resource Model assumes a 2.5% increase in fees and charges income each year other than for Planning, Car Parking and Investment Property income.

No increase in other costs have been allowed. This will be a challenging target in some areas.

Investment Income and Financing Costs

The level of investment income received and debt financing costs paid clearly depends on economic conditions and overall spending plans for revenue and capital. Our projections on the Financial Transactions budget are based on estimated cash flow taking into account capital and revenue spending plans. Significant slippage in the capital programme in particular can lead to a better than budgeted position. Based on advice from our treasury management consultants, we anticipate that interest rates will remain below 6% with no dramatic change either up or down.

Staffing Budgets

These budgets are not fully funded on the basis that savings arise each year as staff leave the Council. Directors will need to continue to exercise close control over vacancy management to ensure staffing costs are within budget and to generate efficiency savings wherever possible without detriment to service provision.

Partnership Working

Herefordshire will continue to explore the potential for partnership working and procurement on an active basis. The shared services agenda could potentially deliver cost and service improvements over the longer-term. No assumptions on the level of savings and when they are likely to occur are included in the Financial Resources Model at this stage.

Changes in the Base Budget

The Financial Resource Model has been prepared on the assumption that tight financial control at Directorate level will be maintained for the future. Growth items of significant size will clearly impact on the resource forecast. The Government has promised to ensure that new burdens will be properly resourced for the future. It is hoped this will ease pressure in the years to come.

Organisational Development

Herefordshire is going through a period of structural change. This needs to be achieved within the existing base budget although it is recognised that some one-off costs may be incurred as preparations for service improvements are made.

Medium Term Financial Management Strategy (MTFMS)

Concessionary Fares

Spending on the Concessionary Fares scheme is notoriously difficult to predict. Introduction of the new statutory scheme in 2006/07 has stimulated demand. This budget will need to be closely monitored.

Social Care

2005/06 saw significant levels of overspending particularly in adult services and this pattern has continued. The base budget was adjusted for 2006/07 and a contingency of £1.3 million established in the event of further overspend. Further measures are also being taken to manage this risk. An independent assessment of the cost drivers in this area of service provision is underway to help to help establish a realistic base budget.

Homelessness

This is another area of risk that produced a significant overspend in 2005/06. Effective action has been taken in 2006/07 by Housing Services but risks still remain.

Waste Management

An earmarked reserve has been established to help pay for future costs arising from the Waste PFI project. The Financial Resource Model includes a further contribution of £550k to this reserve in 2007/08. A figure of £450k has been included in 2007/08 and £500k thereafter. This will need to be closely monitored in the event it proves insufficient and the resource assumption needs to be changed.

Unforeseen Contingencies

The recommended minimum level of revenue reserves and balances is £3.67m (3% of total net budget). The General Reserves balance is expected to be £4.9m at the end of 2007/08 if all goes according to plan. This is considered sufficient to deal with any other unforeseen events and is in line with Prudential Code requirements.

Changes in Taxation

The revenue spending plan assumes that the current national system of taxation remains the same. The Chancellor of the Exchequer could change employer National Insurance contribution rates, Climate Change levy and VAT rates and exemptions.

Changes in the Local Government Finance System

The balance of funding review is still underway – indeed Sir Michael Lyons' remit has been extended to include consideration of the respective role and responsibilities of central and local government. The Government is in the process of reorganising other elements of the public sector and a white paper on local government organisation in England is expected this summer. Meanwhile, an increasing number of funding streams are being allocated at regional level. All these factors could have significant implications for future service and financial planning.

Gershon Efficiency Targets

The Financial Resource Model assumes a target for cashable savings of £5.8m a year. This target needs to be reviewed as final spending figures for each year are available. The Annual Efficiency Statement for 2007/08 setting out how cashable and non-cashable efficiency savings will be delivered has to be prepared by mid-April. The Herefordshire Connects programme is expected to make a significant contribution to the efficiency target requirements.

Medium Term Financial Management Strategy (MTFMS)

Edgar Street Grid Project

Herefordshire's spending plans recognise the resource implications in 2007/08 for the Council of this project.

APPENDIX F

COMMUNICATION PLAN

Audience	Messages	Channel
Citizens	The council has strong financial management But like every other council, needs to take prudent steps ahead of significant pressures on funding Herefordshire is not a well-resourced council and is stretched to deliver services throughout a large, sparsely populated area. The council is committed to keeping council tax as low as possible while protecting the vulnerable The council will be entrepreneurial in generating income from property, assets and trading activities.	July 2006 Press release – promoting the medium term financial management strategy as it is endorsed by cabinet August 2005 Herefordshire Matters – report on budget out turn for 2005/06 and reinforce messages on financial management and challenge (allied to adult services pressures) Web site – the strategy posted on the council's web site All subsequent communications – refer to key messages (avoid the media using the term 'cash strapped' or 'financially troubled'). September 2006 Annual Review and Accounts (Summary) – promote financial stability but need to plan to address increasing demands October 2006 Community forums – financial strategy as an item November 2006 Herefordshire Matters – overview of the challenges the council needs to plan for financially – plus innovations for generating income March 2007 Council Tax Leaflet – outline pressures faced by the council

Medium Term Financial Management Strategy (MTFMS)

Managers	The council is entering its most challenging period and good financial governance, systems and practice is vital. Sound financial management is a non-negotiable for every manager, in every part of the council. The new financial culture is for everyone to strive to understand and support the council in facing up to new budgetary pressures.	<u>July 2006</u> Leadership Forum – the financial non-negotiable to be presented and discussed by managers (as part of the eight non-negotiables) <u>August 2006</u> Senior Management Team – presentation on the new medium term financial strategy and workshop to determine how to engage managers effectively <u>September 2006</u> Intranet – financial guidance for managers to be produced and structured – promoted through First Press Online <u>October 2006</u> Leadership Forum – to take managers through the new strategy and promote the new financial management culture for the authority – key managers to be given a high level understanding of the strategy and the financial challenges the council faces - link the strategy to the business transformation project
Employees	The council, like every other council, faces serious financial challenges for the future but does so from a position of strength and a track record of sound financial management. Service improvement aspirations have to be realistic	<u>August 2006</u> First Press – key messages on the council's finances to go to every employee through the news leaflet in payslips and more details in the electronic version <u>September 2006</u> First Press – more detailed overview of financial challenges facing local government and the pressures on Herefordshire and how the strategy will address them Subsequent communications – the key messages about good financial management to be reinforced

Medium Term Financial Management Strategy (MTFMS)

Members	The council has strong financial management but like every other council, needs to take prudent steps ahead of significant pressures on funding The council is committed to keeping council tax as low as possible while protecting the vulnerable	July 2006 Cabinet – paper launched as discussion document Service update – overview of strategy to be included
Partners	The authority offers good value for money and manages its finances well. Financial planning is done in full consultation with key stakeholders. Its financial performance, administration, management and systems are sound. It has a healthy level of reserves and its balance sheet is strong. The council will verify that partner organisations are financially stable, that responsibilities and liabilities are clear and that accounting arrangements are established in advance of operation.	September 2006 Herefordshire Partnership – item on next board meeting Summary – overview of the strategy sent to all partner organisations with covering letter Workshop for partner organisations – outlining the wider economic environment, the challenges faced by the county and the council, and how the strategy addresses our ambitions for service improvement. New policies for working with partner organisations to be produced. Children and young people newsletter – article on the medium term financial strategy to be included Schools forum – item on financial management and how schools affected

APPENDIX G

i) Spend to Save Proposals

Proposals under this section are those that require non-recurrent budget provision. Proposals that came forward aim to improve services for vulnerable children and older people.

- **Safeguarding and assessment – commissioning professional foster support for children.**

To purchase professional foster care within Herefordshire to halve the number of children, from 14 to 17, in 2008/09 who will be placed in independent foster care outside the county.

Expenditure Required			Expected Income/Benefits		
2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
135	100	50	Cashable 0 Non cash 682	Cashable 200 Non cash 426	Cashable 200 Non cash 0

- **Community Development Workers for adult social care [This was to be subsumed in the overall programme of improvements to adult social care – and now should be, since those were approved by Cabinet in December]**

Population projections indicate an increase in numbers and in the proportion of older people in the population as a whole. A needs analysis carried out in 2006, indicates that, by 2011, there will be a 42.9% increase in the number of people aged 85 and over in Herefordshire. These significant demographic changes will place increasing pressure on health and social care to develop new models of care. The Community Development Workers will work within the community with local organisations to develop and promote and range of low-level support services. The workers will explore opportunities for the use of community facilities such as libraries, clubs, pubs, leisure facilities. These services would reduce the need for admission to hospital and residential care and intensive domiciliary packages.

Expenditure Required			Expected Income/Benefits		
2007/08 £000	**2008/9 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
45	46	47	109	127	182

- **Independent Living Fund (ILF) worker (Adult Social Care)**

The ILF is a Government funded charity, which provides funding to severely disabled people to enable them to live independently.

Individuals have to be in receipt of high rate Disability Living Allowance and receive care services from the LA of a weekly value of over £210. Any amount provided by ILF reduces the LA financial commitment by the equivalent amount. The maximum provided by ILF is £475 per week. Currently not all eligible service users are accessing ILF and alterations in care arrangements are not routinely reported to ILF. Employment of a specialist worker would maximise income against ILF by:

- increasing the number of people applying for and receiving ILF contribution;
- ensuring that any increases in care packages are shared by ILF;
- ensuring notification to ILF of decreases in care packages is timely.

Expenditure Required			**Expected Income/Benefits**		
2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
25	25	25	35	35	35

ii) Spend to Mitigate Proposals

Proposals under this section will need recurrent budget provision. As with the previous proposals these are to improve services for vulnerable children and older people. The most significant and largest programme to ensure the Council can meet unavoidable future demand from older people and adults with learning difficulties.

- **Modernised, high performing social care and community services for older people**

Following a major review of older people's future social care needs in Herefordshire it has been confirmed that needs are increasing because of year-on-year increases in numbers of older people. Without changes being made it would cost nearly twice as much extra a year to provide relatively poor services than it would to provide high-quality, more efficient services to the larger number of people who will need them. The proposal also identifies the need for parallel investment to increase voluntary sector led community services. The investment in the overall proposal will substantially reduce the level of increased funding required if current patterns of service delivery continue. The proposal is also linked to a review leading to increased charges for those who can afford to pay. The following indicates two levels of investment required, one has an increase in charges and the other (higher) one assumes current charging policies remain.

	Expenditure Required

Cost to the Council:	2007/08 £000	2008/09 £000	2009/10 £000
Additional costs if no increases in charges	2,040	1,894	1,894
Cumulative position	2,040	3,934	5,828
Additional costs with increase in charges	1,189	(245)	1,769
Cumulative position	1,189	944	2,713
Cumulative net cost of not increasing charges	851	2,990	3,115

- **Modernised, high performing social care and community services for adults with learning difficulties (AWLD)**

A major review of AWLD's future social care needs has been undertaken. With increasing life expectancy there has been an effect on the level of needs to be met. If no changes are made to the current approach and levels of charges to those who can afford to pay it would cost over five times as much extra a year to provide relatively poor services than it would to provide high-quality, more efficient services. As with the previous proposal a parallel investment is needed, but this time in general community services. The following information indicates two levels of investment required, one has an increase in charges and the other (higher) one assumes current charging policies remain.

	Expenditure Required		
Cost to the Council:	2007/08 £000	2008/09 £000	2009/10 £000
Additional costs if no increases in charges	601	576	576
Cumulative position	601	1,177	1,753
Additional costs with increase in charges	469	125	562
Cumulative position	469	594	1,156
Cumulative net cost of not increasing charges	132	583	597

- **Integrated services and inclusion for young people**

This proposal intends to enable better outcomes for young people with disabilities who are leaving school and require ongoing support. The JAR said that present arrangements were deficient: this is therefore part of the JAR Improvement Plan. It provides for co-coordinating resources and creates more options for those young people thus reducing their support needs. The proposal requires the following investment and produces some non cashable benefits:

Expenditure Required			Expected Income/Benefits		
2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
18	20	20	Cashable 0 Non cash 15	Cashable 0 Non cash 10	Cashable 0 Non cash 5

- **Commissioning and Improvement in services for Children and Young People**

This investment is required to establish a Data & Performance Unit within the directorate, as a prerequisite to gaining improved service and higher standards, including through more effective scrutiny.

Expenditure Required			Expected Income/Benefits		
2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
100	0	0	Cashable 0 Non cash 0	Cashable 0 Non cash 1,190	Cashable 0 Non cash 238

- **Safeguarding and Assessment for children**

To fund additional social workers to bring provision in line with recommended standards, thereby ensuring improvements in quality of provision and reducing reputational risk. Number of assessments to be increased from 220 per 10,000 to 350 per 10,000 leading to a reduction of children on looked after register. Cashable saving from reduced need to use agency staff to carry out assessments.

Expenditure Required			Expected Income/Benefits		
2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
300	300	0	Cashable 0 Non cash 408	Cashable 375 Non cash 408	Cashable 185 Non cash 0

- **Integrated services and inclusion – increasing family support**

Increased family support to address issues at an early stage before they escalate into crises which require expensive intervention. 10% reduction in number of children having to be looked after. Additionally, proposal would help looked after children to lose fewer days' schooling, as well as achieving a 2% increase in the proportion of those gaining 1 or more GCSEs.

Medium Term Financial Management Strategy (MTFMS)

Expenditure Required			Expected Income/Benefits		
2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2007/08 £000**	**2008/09 £000**	**2009/10 £000**
228	0	0	Cashable 0 Non cash 187	Cashable 117.5 Non cash 277	Cashable 59 Non cash 0