

DRAFT REVENUE BUDGET & CAPITAL PROGRAMME 2007/08

PORTFOLIO RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

22ND FEBRUARY, 2007

Wards Affected

County-wide

Purpose

To receive the Corporate Management Board's (CMB's) suggested revenue budget and capital programme for 2007/08.

Key Decision

This is not a Key Decision. Council will take the final decision on Council Tax levels for 2007/08 on 9th March, 2007.

Recommendations

THAT

- (a) the views of the Strategic Monitoring Committee on the draft revenue budget and capital programme for 2007/08 be noted;
- (b) the Medium Term Financial Management Strategy (MTFMS) for 2007/08 to 2010/11 as amended following Cabinet on 8th February and Strategic Monitoring Committee be approved;
- (c) in approving the MTFMS the Cabinet also approves the:
 - a. Medium-Term Financial Resource Model for 2007/08 to 2010/11;
 - b. Directorate revenue base budgets for 2007/08;
 - c. Invest to Save / Invest to Mitigate proposals for 2007/08;
 - d. Medium-Term Capital Plan for 2007/08 to 2010/11;
 - e. Capital Programme for 2007/08;
 - f. Efficiency Strategy for 2007/08 to 2010/2011
 - g. Treasury Management Strategy for 2007/08 and the Prudential Indicators for 2007/08 to 2009/2010;
 - h. Corporate Risk Register as at February 2007; and

Further information on the subject of this report is available from
Sonia Rees on (01432) 383519 or David Powell on (01432) 383173

i. Financial Risk Assessment as at February 2007.

- (d) the revenue and capital budget proposals for 2007/08 outlined in the MTFMS be recommended to Council for Council Tax setting purposes on 9th March, 2007;**
- (e) a corporate strategy on fees and charges is developed as an integral part of the MTFMS when it is updated prior to the start of the next Performance Improvement Cycle;**
- (f) the delivery of the benefits resulting from the Invest to Save / Invest to Mitigate proposals is managed using the benefits realisation process developed for Herefordshire Connects; and**
- (g) the Council's responsibilities under Sections 25 – 29 of the Local Government and Finance Act 2003 be noted.**

Reasons

Cabinet needs to make a recommendation on the revenue budget for 2007/08 to Council on 9th March, 2007 when the Council Tax for next financial year will be set. Its recommendations to Council need to be made having taken into account the Council's current financial standing, resource availability and spending pressures for the future.

Considerations

Medium-Term Financial Management Strategy (MTFMS)

1. The Council has adopted a new approach to corporate, service and financial planning called the Improvement Performance Cycle (IPC). The IPC ensures that corporate and service planning is done in the context of the likely level of resources available (as indicated in the MTFMS) and that available resources are allocated in line with priorities.
2. The approach taken for formulating next year's capital and revenue budgets is entirely consistent with the MTFMS that was considered in draft form by Cabinet in July last year, agreed in October and reviewed in January 2007. The MTFMS attached to this report includes the updates agreed by Cabinet last month, including the revision to the proposed Council Tax increase for 2007/08, and seeks to ensure that cash is allocated in line with corporate priorities.
3. The MTFMS covers all aspects of next year's budget proposals for both capital and revenue spending which are as follows:
 - Medium-Term Financial Resource Model for 2007/08 to 2010/11;
 - Directorate revenue base budgets for 2007/08;
 - Invest to Save / Invest to Mitigate proposals for 2007/08;
 - Medium-Term Capital Plan for 2007/08 to 2010/11;
 - Capital Programme for 2007/08;
 - Efficiency Strategy for 2007/08 to 2010/11;

- Treasury Management Strategy for 2007/08;
 - Corporate Risk Register as at February 2007; and
 - Financial Risk Assessment as at February 2007.
4. The local government finance settlement for 2007/08 was in line with the expected 2.4% cash increase included in the MTFMS. At 4.3%, the headline increase in funding per pupil for schools was also in line with expectations. The MTFMS has been updated to ensure that there is financial cover in 2007/08 for the Herefordshire Connects programme until such times as the benefits realisation programme has been established and is delivering cashable efficiency gains. The MTFMS has also been updated to include a 3.8% increase in Council Tax for 2007/08.
 5. Looking to the medium-term, the Government's plans for public service reform remain every bit as ambitious as anticipated and the MTFMS attached to this report has been updated to reflect the latest developments including:
 - Local Government White Paper (October 2006);
 - Queen's Speech (November 2006);
 - Chancellor's pre-budget report 2007 (December 2006);
 - Sir David Varney's public service transformation review (December 2006);
 - Progress with the Lyons' Inquiry; and
 - Progress with the Spending Review 2007 (SR07).
 6. Staying with the medium-term, the assumptions about future increases in general grant support from the Government, cashable efficiency targets, inflation and Council Tax increases in 2008/09 and following years still hold good but they will need to be kept under review as further information becomes available. The MTFMS includes a financial risk assessment identifying the key assumptions and the impact of changes in them.
 7. Much about the medium-term remains uncertain and cannot yet be reflected in terms of assumptions underpinning the MTFMS. A key issue we will need to continue to monitor is the impact that the final outcome of the Lyons Inquiry might have for the reform of the local government funding system.

Budget Calculations – Statutory Duties under the Local Government Act 2003

8. Sections 25 to 29 of Part 2 of the Local Government Act 2003 impose duties on local authorities designed to ensure they make prudent allowance for risk and uncertainties in their budgets and that they regularly monitor their finances during the course of the year.
9. Section 25 of the Act deals with budget calculations and requires the statutory chief finance officer to report on the robustness of estimates and reserves. This duty was introduced because the Council decides on the Council Tax before the financial year begins and Council Tax cannot be increased during a financial year. It therefore needs to consider the risks and uncertainties that might force them to spend more than planned. The Council has a statutory duty to take the chief finance officer's Section 25 report into account when it sets the Council Tax.
10. Whilst local authorities have discretion to make their own judgments on a prudent level of

budget and reserves, Section 26 of the Act contains reserve powers for the government to set a minimum level of reserves. This means that the government has the right to intervene if it thinks a local authority is acting irresponsibly.

11. Section 27 of the Act requires the statutory chief finance officer to report to Council if reserves have dipped below the minimum agreed level when the next budget is set. That report must include suggestions on how to avoid it happening again.
12. Sections 28 and 29 of the Act deal with budget monitoring issues and made budget monitoring a statutory duty. If monitoring established that the budget position has deteriorated, authorities are required to take appropriate action. This might include reducing spending in the rest of the year, increasing income or funding the shortfall from reserves.
13. The Director of Resources will provide her statutory report to Council on 9th March, 2007 when it sets the Council Tax for 2007/08.

Financial Standing and Risk

14. Financial standing is about effectively managing activities and associated budgets to avoid significant under or over spending in the delivery of planned objectives. It is also about setting aside prudent but not excessive levels of reserves in relation to risks. The external auditor has commented positively on the strategy set out in the MTFMS (Section 6 refers) for managing reserves and balances and is particularly pleased to see reserves being earmarked against significant financial risks. Cabinet now receives a regular update on the level of reserves as part of the bi-monthly financial monitoring report included in the Integrated Performance Report.
15. Sound corporate governance also includes consideration of the financial risks facing an organisation. A detailed assessment of the key financial risks affecting the Council's financial management strategy and proposed budgets for 2007/08 is provided in Appendix E of the MTFMS.

Projected Financial Performance for 2006/07

16. Cabinet reviewed the latest Integrated Performance Report (IPR) covering the first 8 months to the end of November on 18th January, 2007. An interim financial monitoring report to the end of December was included as part of the Financial Strategy Update report considered at that same meeting.
17. The interim financial monitoring report to the end of December showed that there is likely to be an under spend on the revenue account at year-end based on the information currently available. It also reported significant slippage on the capital programme for 2006/07 too.
18. The latest forecast is for 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:
 - 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.
19. However, there are two further factors known at the present time that could alter the forecast outturn for the revenue account again in the Month 10 IPR to be presented to Cabinet. As previously reported to Cabinet, 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. The other issue relates to ICT Services. As previously indicated to Cabinet, work to assess the likely outturn for ICT budgets is ongoing and will be complete by the time of the next IPR. Work to date indicates that the gross projected outturn position is likely to be an over spend and that there may be ongoing budget issues to resolve.
 20. Spending is behind profile on capital schemes, particularly for the accommodation strategy and Herefordshire Connects. Potential budget pressures are however emerging on schools schemes where tenders are coming in over budget. Cabinet will be provided with an update in the next IPR.
 21. The outturn for both capital and revenue remains a projection until the accounts are closed but the figures suggest that there will be a significant net under spend on both accounts in 2006/07. This is despite the fact that CMB were anticipating a tough task in managing revenue spending within budget for the year. This position provides some of the capacity needed to cover financial risks for 2007/08 and reinforces the view that there is sufficient capacity within the base budget to manage without inflation on non-pay budgets next year.

Draft Revenue Budget 2007/08

22. Cabinet approved updates to the MTFMS have been reflected in the proposed revenue budget for next financial year. For convenience, the key changes are summarised in the following paragraphs.
23. The 'hotspots' now included in the MTFMS are as follows:
 - Reduction in proposed Council Tax increase for 2007/08 only (approximately £600k in 2007/08 and subsequent years);
 - Providing temporary cover until the benefits realisation programme for Herefordshire Connects has been established and is delivering cashable efficiency gains for reinvestment in priority services (£5.8m in 2007/08);
 - Reduction in the assumed rate of growth in the Council Tax base (£500k in 2007/08 and subsequent years);
 - Adjusting the base budget to reflect the initial investment needed to implement the Customer Services Strategy (£500k in 2007/08 and 2008/09 only); and
 - Addressing capacity issues in the corporate Directorates (£400k in 2007/08 and subsequent years).
24. Additional financial capacity now included in the MTFMS arises from:
 - Use of existing Herefordshire Connects reserve (£1.5m);
 - Use of Budget Management Reserve (£1.1m);

- Use of excess Social Care Contingency (£1.3m);
- LABGI grant increase (£1m in 2006/07 and 2007/08);
- Financing Transactions (£950k); and
- Procurement & efficiency savings (£250k).

25. Directorate revenue base budgets for 2007/08 have been increased by amounts previously agreed by Cabinet in order to correct more minor anomalies in the existing base budget. The list of agreed changes is repeated below:

- **Queenswood Park** - £25k to restore the base budget;
- **Procurement & Efficiency Review** - £55k increase in the staffing budget to generate procurement savings and an enhance level of West Mercia Supplies (WMS) dividend;
- **Herefordshire Matters** - £50k to correct a base budget omission;
- **Chief Executive's Development Fund** - £150k to pay for corporate subscriptions and corporate organisational development initiatives;
- **Housing Benefit & Council Tax Benefit (HB/CTN) Administration Subsidy** - £150k reduction in expected grant income from the Department of Work and Pensions (DWP);
- **Service Level Agreements** - £100k a year in the event a planned review reveals budget pressures;
- **Edgar Street Grid (Herefordshire) Ltd** – increase in base budget provision of £225k for the period 2007/08 to 2009/10.

26. The above base budget changes total £755k for 2007/08 and subsequent years.

27. The base budget for 2007/08 also includes provision for inflation on income and expenditure budgets in line with the MTFMS as follows:

Budget Heading	Inflation Assumption
Employees	2%
Employers' pension contributions	0.6%
Income budgets (see below)	2.5%
Other expenditure	0%

28. The total for pay inflation allowed for in the draft budget for 2007/08 is £1.196m. After allowing for income inflation of £578k, the net increase is £618k. The figure for income inflation is lower than reported to Cabinet on 18th January, 2007 as the calculation has been updated to exclude some elements of the adult social care income budget that is reducing. In line with the MTFMS, inflation has not applied to the income budgets for

services such as car parking or planning because there are no plans to increase the fees and charges. The budgets are however regularly reviewed to reflect changes in demand.

29. The following table summarises the draft base budget position for 2007/08 after taking into account previously agreed changes and inflation provision:

	Base Budget 2006/07 £000	Base Budget 2007/08 £000
Adult & Community Services	44,404	44,710
Children & Young Peoples	22,030	22,694
Corporate & Customer Services	7,546	7,688
Environment	24,361	25,021
Human Resources	1,379	1,401
Resources	5,712	6,122
Sub Total Directorate Budgets	105,432	107,636
Plus:		
Financing Transactions	8,530	10,242
Social Care Contingency	1,302	1,302
Central Services	3,021	3,191
Total Base Budget	118,285	122,371

30. 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 26th October, 2006 confirming that the 2007/08 budget would be framed within the context of these three-year strategic decisions.

31. 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.

32. The 2007/08 figures allow 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.

33. 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. A summary of the proposals is included in the MTFMS. 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.
34. The draft net budget for 2007/08 excluding schools funding is £122.371m. The Dedicated Schools Grant (DSG) will be £78.151m. The following table details the funding sources for non-school services:

	£000	%
Draft net budget for 2007/08	122,371	
Funded by:		
Central government grant	47,648	38.9
Collection Fund Surplus	256	0.2
Council Tax	74,467	60.9

35. The above is based on a Council Tax base of 68,730, representing a 0.7% rise in the equivalent figure for the current financial year. It assumes an increase in Council Tax of 3.8%, increasing the Band D Council Tax by £39.64 a year from £1,043.80 to £1,083.44.

Draft Capital Programme 2007/08

36. The capital programme proposals for 2007/08 are 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 from 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;

- **Ledbury Library & Info Centre** – match funding requirement for a Big Lottery bid;
- **Integrated Community Equipment Store** – funding required for capital works to improve the service.

37. 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.

38. Summary of the draft capital programme for 2007/08 is included in the MTFMS.

Conclusions

39. The national context remains one in which much more will be expected of local government at a time when growth in public spending will slow significantly and a greater proportion is spent on sectors other than local government. An already difficult scenario could be made even more challenging if a new local government funding system and changes in the Dedicated Schools Grant formulae alters 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, they could make matters worse for both non-school and school services. The provisional 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.

40. The renewed commitment to using resources more corporately makes sure the Council is best positioned to tackle the significant service and financial challenges that lie ahead. The MTFMS provides a mechanism for making best use of available resources to pump-prime a transformation programme that will deliver cashable efficiency gains that can be recycled for investment in corporate priorities such as protecting the vulnerable in our communities.

41. The MTFMS provides the financial context for corporate and service planning and ensures that resources are allocated efficiently in line with the agreed strategy. The Council needs to continue to closely monitor service and financial performance alongside one another, embedding the recent developments in the quality of our Integrated Performance Reports. The benefits realisation programme for Herefordshire Connects and other Invest to Save initiatives will also need to be closely monitored to ensure that the benefits are released by Directorates to support investment in corporate priorities.

Alternative Options

Alternative options have been considered at each stage of the Performance Improvement Cycle.

Risk Management

The Medium-Term Financial Management Strategy identifies and proposes mitigating action for the key corporate financial risks. It includes a detailed description of each of the key variables in the Medium-Term Financial Resource Model and assesses the impact of a change in each of them assuming the others remain constant (sensitivity analysis).

Consultees

The public via the October 2006 Community Forum meetings, business rate payers via consultation meeting, Strategic Monitoring Committee, Unison, Corporate Management Board, Senior Management Team, Leadership Forum and members via a seminar.

Background Papers

Held within the Resources Directorate.