

**MINUTES of the meeting of Strategic Monitoring Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Monday, 18th February, 2008 at 10.00 a.m.**

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

**Councillors:** PA Andrews, TM James, RI Matthews, AT Oliver,  
SJ Robertson, RH Smith and JK Swinburne

**In attendance:** Councillors H Bramer (Cabinet Member - Resources), ACR Chappell and RJ Phillips (Leader of the Council)

**61. APOLOGIES FOR ABSENCE**

Apologies were received from Councillor KG Grumbley. Councillors JP French and JA Hyde also sent apologies as Cabinet Members.

The Chairman welcomed Councillor AT Oliver who, following his appointment as Vice-Chairman of the Health Scrutiny Committee, had replaced Councillor SPA Daniels on the Strategic Monitoring Committee.

**62. DECLARATIONS OF INTEREST**

Councillor PA Andrews declared a personal interest in agenda item 6: Draft Capital Programme 2008/09 as a local authority appointed school governor.

**63. MINUTES**

In relation to minute number 54: Elections 2007 a Member recorded concerns about aspects of the election process in relation to training of those involved in the count and the level of supervision.

**RESOLVED:**

**That (a) the Minutes of the meeting held on 21 January 2008 be approved as a correct record and signed by the Chairman;**

**and**

**(b) the Minutes of the meeting held on 31 January 2008 be approved as a correct record and signed by the Chairman, subject to adding the words, "In his view" at the start of the second sentence of the penultimate paragraph of page 12 of the Minutes as numbered in the printed agenda.**

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

There were no suggestions from members of the public.

**65. DRAFT FINANCIAL STRATEGY 2008-2011**

The Committee's views were sought on the draft financial strategy for 2008-2011.

The strategy was to be considered by Cabinet on 21 February who would make recommendations for consideration by Council on 7 March 2008.

The report to Cabinet on 24 January was appended to the report together with the Draft Medium Term Financial Management Strategy 2008-2011 (MTFS). The report to Cabinet had contained a number of recommendations from the Corporate Management Board (CMB) to Cabinet. These had in the main been approved by Cabinet, subject to a number of specific considerations

The Financial Resource Model, as set out in an appendix to the Cabinet report, had been updated to reflect a number of developments, including the final local government finance settlement figures and Cabinet's recommendation to plan for a Council tax increase of 4.4% in 2008/09.

The Director of Resources presented the report focusing on the recommendations of CMB as approved by Cabinet. She highlighted the following points:

- The month 10 financial monitoring report showed a reduction in the projected overspend on the revenue budget from about £1 million to about £700,000.
- A change in approach to the treatment of the social care contingency and modernisation funding for adult social care and children's social care, transferring them from the corporate base budget to the relevant directorate base budgets for the reasons set out in the report.
- A change to the current policy requiring core services to manage within a 1% tolerance of net budget to a requirement that spending should be within the agreed budget.
- Continuation of the policy that there should be no provision for inflation on non-pay budgets, so building in efficiency gains at Directorate level.
- Corporate efficiency gains to be secured through improved procurement.
- The projected figures for financial capacity for 2008-2011, noting that the capacity for 2008/09 was proposed to be allocated to a reserve to be called "Modernisation Plans" to be released as such plans were formally approved. She added that it was also proposed that some of the financial capacity for the following two years would be released for modernisation, as priorities, such as accommodation needs and changes to business processes and services, were established and plans agreed.
- The intention to create a Bellwin threshold reserve to deal with flooding or other eligible emergencies.
- The plan to increase the level of the general reserve from 2.5% of the net revenue budget to 3.5% of the net revenue budget (£4.5 million).

- The intention to allocate any excess above the proposed £4.5 million general reserve to the Modernisation Plans reserve.
- That Modernisation Plans earmarked reserve for 2008/09 would be approximately £2.3 million, noting that this included a contribution of £300,000 from the Primary Care Trust.

Members welcomed the content and clarity of the report. In the ensuing discussion the following principal points were made:

- An update was requested on plans for the Herefordshire Connects Programme. The Chief Executive said that if Cabinet on 21 February approved the acquisition of the social care solution this would deliver one of the early stages of the Connects programme. It then had to be decided whether, as integration with the Primary Care Trust developed, the change programme as represented by the Connects programme remained the best way to integrate business processes. He expected to bring proposals forward within two months.
- It was asked what level of savings the Herefordshire Connects programme was now expected to generate. The Director of Resources said that the approach was changing. The Financial Resource Model now provided for the replacement social care management information system, the Herefordshire Connects Core team, urgent ICT strategy work and ICT infrastructure. The programme was being reviewed and it was proposed that financial capacity to support the programme was provided through the Modernisation Plans earmarked reserve and financial capacity in future years, rather than the Financial Resource Model, until a decision had been taken on the way forward with the programme. To date there had been some efficiency savings from procurement and further efficiency savings were expected in the future, after initial investment costs had been met.
- A question was asked about the efficiency plan being prepared by the Director of Adult and Community Services to ensure that services were delivered in budget, without the need for any significant change in the level of service provided.

The Director of Resources confirmed that her staff were working with the Director of Adult and Community Services on the preparation of the efficiency plan. Whilst, initially that Director had put forward some service reductions for consideration it had been agreed that these would be unacceptable in a service recognised as a corporate priority.

Considerable additional resources had been allocated in recent years to adult social care. It was also proposed that the policy of no non-pay inflation in the MTFs should not be applied in full in that area. It was now therefore considered that changes and efficiencies could manage the budget pressures in adult social care without a reduction in the level of service provided.

- The Director of Resources was asked to expand on the reasoning behind the policy change, for which Members expressed support, from a requirement that core services manage within a 1% tolerance of net budget to a requirement that spending should be within the agreed budget. She advised that this represented a continued tightening of approach from the previous year and was designed to overcome a temptation to Directorates in effect to regard a 1% overspend as the budget.
- A question was asked about the reasons for the 15% overspend projected on the Corporate and Customer Services budget. The Director of Resources replied that this was due in large part to the position on the contract with Siemens for the

Community Network upgrade and what expenditure could be treated as capital expenditure and what as revenue expenditure. The operating budgets for ICT services were now considered to be on track. In response to a further question the Director of Resources clarified the proposed base budget adjustment to cover the net revenue cost of the Siemens contract for the Community Network upgrade.

- A question was asked about progress on the value for money review of the ICT Back Office Project and Community Network upgrade commissioned in response to the Crookall review of ICT financial and contractual governance arrangements. The Director of Corporate and Customer Services said that the draft report had been received and presented to CMB and consideration was being given to any necessary decision making route. A Member emphasised that the Audit and Corporate Governance Committee had understood that it would receive reports on the outcomes of this review.
- With reference to CMB's recommendation that the MTFS should state that, "all managers with budget responsibilities shall ensure that spending is within the agreed budget", it was suggested that the wording should be amended to the effect that accountability should rest with Directors. The Chief Executive suggested that whilst Directors had overall responsibility the responsibility of individual managers was an essential component of budget management.
- The planning assumption of a Council Tax increase of 4.7% in 2008/09 as proposed in the report to Cabinet was discussed, noting that Cabinet's current proposal was for a 4.4% increase instead. The Director of Resources advised that the Council's funding position in relation to other authorities remained low. She considered the higher level of increase to be justified having regard to the Council's investment needs and the Government's capping limit, noting also the detrimental cumulative effect in future years of opting for the lower level of increase. However, that choice was one that Members were required to make.

The Leader of the Council commented that, having regard to the current assessment of the financial settlement, he believed a Council Tax increase of 4.4% represented the appropriate balance between meeting service needs and affordability for Council Tax payers.

- It was requested that a report should be presented to the Committee on the level and nature of the Council's expenditure on consultants. There was some discussion of how consultants were defined. The Director of Resources undertook in producing the report to categorise the various types of external support upon which the Council drew.
- Reference was made to a section of the report to Cabinet on 24 January which, under the section headed Risk Management (paragraphs 44-50) had identified a number of pressures that Directors considered it might be difficult to contain within the resource allocation. Members commented on the pressures on Legal and Democratic Services, with a request that pressures on resourcing scrutiny should be quantified. The Director of Resources suggested that the best way forward would be for reports to be brought forward if action to manage these pressures was considered necessary.
- A question was asked about the policy for generating capital receipts from the Smallholdings estate and whether this was still based on amalgamation of vacant properties, reference being made to three notices to quit that had recently been issued to tenants. In reply the Cabinet Member (Resources) said that the policy

of amalgamating smallholdings and disposing of buildings remained in place. By its nature scope for achieving the target of £1 million per annum of capital receipts would vary from year to year. He explained the reasons for the eight notices to quit that had been issued to date in 2007/08. He added that it was important to remember that the purpose of the smallholdings estate was to provide an entry into farming not a life-tenancy. Consideration could be given to the future of each holding held on six year farm business tenancies upon their expiry.

- The extent to which local members should be informed of amalgamations and disposals was raised. The Director of Resources said that revised procedural rules for asset management, the subject of a later item on the Committee's agenda, provided for local members to be informed of proposed property transactions before they proceeded.
- In response to a comment about the impact of the introduction of fairer charging on service users, the Director of Resources noted that in several cases it had been identified that people had not been claiming benefits to which they were entitled. In those cases the impact of the changes to charges had been lessened.
- It was requested that a breakdown of the formula grant allocation be circulated to Members of the Committee indicating any changes in emphasis from the previous year. It was acknowledged that these allocations were not hypothecated and the Council had discretion to allocate these resources as it saw fit.
- The sufficiency of the allowance made for inflation, especially for pay, was questioned. The Director of Resources replied that the Financial Resource Model was based on the Government's indication that pay inflation would be 2%. The Government's estimate for non-pay inflation was 2.75% and, with the exception of part of the adult social care budget, Directorates were expected to meet this through efficiencies. The general reserve was intended to provide the resource to deal with financial risk including inflationary increases.
- Reference was made to the statement in the report to Cabinet that the Directorate of Environment's efficiency plan was designed to manage the budget pressure in highways without a reduction in the level of service provided. Whilst some Members felt this was an achievable objective other Members expressed concern that, whilst recognising the importance of striving for efficiency gains, based on their personal knowledge, some recent changes had had an adverse impact on service delivery. It was proposed that the Environment Scrutiny Committee should be advised of the Committee's concerns.
- Clarification was sought on the use to which the proposed Modernisation Plans earmarked reserve would be put. The Chief Executive said that the fund was in part to finance the process of joining services together and reports on detailed proposals would be brought forward as they were developed.
- The justification for the proposed increase in the level of the general reserve to 3.5% of the net revenue budget was questioned. The Director of Resources highlighted the need to provide for contingent liabilities in the 2006/07 statement of accounts of £726,000; specific contingencies to deal with changing demographics, the possible consequences of pay inflation exceeding 2%; the possible need to manage risks as set out in paragraphs 44-50 of the Cabinet report; and the implications of the move to area based grants. She emphasised that the position was kept under review. The proposal to allocate any excess

above the 3.5% level to the Modernisation Plans reserve demonstrated her wish to see as much resource as possible invested in service delivery, subject to a prudent approach on holding general reserves.

- Clarification was sought on the Treasury Management Strategy, forming appendix C to the MTFS.

The Head of Financial Services said that Sector Treasury Services Ltd were the Council's treasury advisors. The Council drew on their expertise and advice although retained the right to exercise its own discretion. The Council followed good practice laid down by the Chartered Institute of Public Finance and Accountancy and took a cautious approach to investments.

It was suggested that the section in the MTFS on the prospects for the economy and interest rates should be reviewed and consideration given to whether or not it should be removed given that a lot of the information would inevitably be out of date, running the risk of undermining the MTFS to some extent. It was noted that the Council received daily updates from its advisors on issues in this section of the MTFS. The Head of Financial Services agreed to review this point.

Concern was also expressed about the level of risk attached to the specified investments as listed in Annex A to the Treasury Management Strategy. It was suggested that the Audit and Corporate Governance Committee should receive clarification on the specified investments and that the Council's external advisers should be invited to attend and provide any necessary clarification and explanation.

- Attention was drawn to the increasing incremental effect of prudential borrowing on Council Tax bills. It was noted that whilst the Council was still well within the prudential borrowing limits Cabinet should be asked to have regard to this point.
- That section 7.3.35 of the MTFS relating to managing external funding should be expanded to make clear that the pursuit of private finance initiative funding should only be undertaken subject to the whole life costs of such schemes not being excessive.
- In response to questions the Director of Resources confirmed the basis on which the Council Tax base calculation took account of new development. She added that whilst the costs of providing services to new developments could not be taken into account in the next financial year Government statistics on which the formula grant calculation were based were updated annually.
- The intention to operate a vacancy turnover rate of 1% was discussed. The Director of Resources said that this was lower than in other authorities. The aim was to take incremental steps to improve financial management of the employees budgets and ringfence money allocated to these budgets, whilst retaining some flexibility.
- Concern was expressed about progress on the Accommodation Strategy, noting that the Financial Resource Model reflected the financial assessment approved by Cabinet in May 2006 and that the Council's lease at Plough Lane expired in 2010. The Chief Executive said that the Committee could expect a report on the Strategy within two months. The Cabinet Member (Resources) confirmed options were under consideration meaning there was no cause for concern about the 2010 date. It was proposed that the Committee's concerns should be registered with Cabinet.

- In response to a request for clarification of the financial position in relation to the schools review officers acknowledged reference to this issue within the MTFS needed to be revisited.

**RESOLVED**

- (a) That Cabinet be advised:
- That there is an urgent requirement to update the MTFS in respect of Council's Accommodation Strategy given the Financial Resource Model in the Report to Cabinet of 24 January 2008 reflects the latest financial assessment as approved by Cabinet in May 2006, now nearly two years ago.**
  - That the financial position needs to be updated in relation to the Schools Review given that the proposals have now been withdrawn.**
  - That reports should be brought forward to Cabinet on areas of financial pressure identified in the section of the Director of Resources' report to Cabinet on 24 January headed risk management, as soon as it becomes clear that action needs to be taken to manage these pressures.**
  - Regard should be had to the increasing incremental effect of Prudential Borrowing (eg. On Band 'D' property for year 2008/9 = £36.17, year 2009/10 = £69.89 and year 2010/11 = £83.58).**
  - That with reference to Corporate Management Board's recommendation, as set out in paragraph 10 of the report to Cabinet on 24 January 2008, that all managers with budget responsibilities should ensure that spending is within the agreed budget, the Medium Term Financial Strategy be amended to state that: "confinement of expenditure within general budgets be defined as the responsibility of budget managers at all levels and, in particular, respective Directors".**
  - That section 7.3.25 of the Medium Term Financial Strategy relating to managing external funding should be expanded to make clear that the pursuit of Private Finance initiative funding should only be undertaken subject to the whole life costs of such schemes not being excessive.**
- (b) **That a report be presented to the Committee on the extent, costs, purposes and value for money of the Council's use of consultants in 2007/08.**
- (c) **That a breakdown of the formula grant allocation be circulated to Members of the Committee indicating any changes in emphasis from the previous year.**
- (d) **That Environment Scrutiny Committee be advised of the Strategic Monitoring Committee's concerns relating to Environment Directorate efficiency proposals and possible adverse effects on Service Delivery.**
- (e) **That the Audit and Corporate Governance Committee be requested to consider a report on the specified investments as listed in Annex A to the Treasury Management Strategy in the Medium Term Financial Strategy and invite the Council's external advisors to attend their**

**meeting to provide any necessary clarification and explanation.**

(The meeting adjourned between 11.58 and 12.05)

**66. DRAFT CAPITAL PROGRAMME 2008/09**

The Committee's views were sought on the draft capital programme 2008/09.

A copy of the report to Cabinet on 24 January 2008 was appended to the report. Appendix 1 to the report showed the expected funding position for the next 3 financial years. Appendix 2 listed all the bids received for 2008/09.

The Head of Financial Services presented the report, outlining the basis on which schemes had been recommended for inclusion in the programme and how they would be funded.

In the ensuing discussion the following principal points were made:

- It was noted that the justification for recommending the schemes to be funded by prudential borrowing was that failure to progress them carried a legal or reputational risk to the Council. It was emphasised that the failure to progress a bid for the development of the Master's House, Ledbury carried both of these risks. The current library was in breach of the Disability Discrimination Act and the threat of action against the Council could well be acted upon if there were no clear plan for a replacement in place. It was also understood that English Heritage might well soon classify the Master's House which was a Grade 2\* listed building, as being at risk. The Committee was reminded that assurances had been given by the Council in consultation exercises and at public meetings about the commitment to develop the property. It was suggested that Cabinet should therefore be asked to reconsider proposals for the property's development and include the development within the Medium Term Financial Strategy.

The Director of Resources said that the project was a large one and would be difficult to afford. This did not preclude a bid, but, whilst officers continued to explore options, there was no firm capital bid and in the absence of firm costings it was difficult to include the proposal in the MTFs, but there was scope for such bids to come forward given financial capacity into the future was indicated.

- A request was made that in cases where a developer's contribution was secured, by the Council consideration should be given to using the income in the area where it was generated.
- In response to a request for clarification about the pattern of planned capital expenditure in the Children and Young People's Directorate the Head of Financial Services said that the increases shown in 2009/10 and 2010/11 related to Government Grant under the Building Schools for the Future initiative. He confirmed that this funding was secured.
- With regard to Colwall railway bridge it was noted that it was no longer intended to provide a Bailey bridge and that negotiations were continuing with Network Rail. It was requested that Cabinet be advised of the Committee's concerns at the need for clarity about the proposals for the replacement of Colwall railway bridge and specifically any costs to be borne by the Council.



- A Local Member and school governor emphasised the importance of completing the Holmer School flood alleviation works.

**RESOLVED:**

- That (a) **Cabinet be recommended to reconsider the proposals for the development of the Master's House, Ledbury, given concerns about the reputational and legal risks to the Council of not setting out a plan for the building's future use;**
- and**
- (b) **Cabinet be advised of the Committee's concern at the need for clarity in relation to the proposals for the replacement of Colwall railway bridge and specifically any costs to be borne by the Council.**

**67. REVIEW OF FINANCIAL PROCEDURE RULES AND CONTRACT PROCEDURE RULES**

The Committee's views were sought on proposed revisions to the Council's Financial Procedure Rules and Contract Procedure Rules and, as contained in a supplementary report, changes also to the Budget and Policy Framework and a proposed amendment to arrangements for receipt of questions to Council from Councillors.

Copies of the Procedure Rules and Contract Rules had been included with the agenda papers. The supplementary report contained updated versions highlighting further amendments to the documents following their consideration by the Constitutional Review Working Group on 11 February.

Mini guides to the asset management, financial management and procurement framework supporting the revised Procedure Rules were also circulated with the supplementary report.

The Director of Resources presented the report noting that drafts of the documents had previously been considered by the Audit and Corporate Governance Committee, the Standards Committee and the Constitutional Review Working Group. She explained that the aim was to ensure that respective accountabilities were clear. She commented on some of the specific changes.

In the ensuing discussion the following principal points were made:

- The process for approving the documents was questioned. It was stated that the revised draft of section 12 of the Constitution presented to the Audit and Corporate Governance Committee in December 2007, titled "scheme of delegation", had at section 12.15 proposed to allocate responsibility for reviewing that scheme to that Committee. That Committee had at the same time considered the Procedure Rules and Contract Rules and approved revisions. That Committee had the detailed knowledge that would enable it to give proper consideration to the latest versions of these documents as now presented.

The Head of Legal and Democratic Services said that the currently approved process for considering changes to the Constitution required consideration by the Constitutional Review Working Group, then by Strategic Monitoring Committee, then by Cabinet and then by Council. The reports could still be presented to the Audit and Corporate Governance Committee on 29 February if required.

The Chief Executive reiterated that in reviewing the documents the aim had been to ensure clarity. The documents before the Committee sat alongside the revised scheme of delegation, which remained draft and had not yet been approved by Council.

- The differences between the documents approved by the Audit and Corporate Governance Committee and those before the Strategic Monitoring Committee were explored in detail quoting specific references in the documents. In outline there were three principal areas of concern: an apparent weakening of the role of the Director of Resources; seven instances of a reduction in the role and involvement of Cabinet Members, which taken collectively were considered of great significance; and what were described as several other notable changes and omissions, new errors and anomalies.

The Chief Executive acknowledged in response that, on reflection, some clarity may have been lost in the drafting process and the documents may benefit from a further, final review.

The Committee recognised that the proposed changes to the documents had been made in response to the Crookall review of ICT financial and contractual governance arrangements and noted that there was an expectation on the part of the Audit Commission that these revisions would be approved by Council in March. However, there was some question as to whether Council in March could consider the issue as that meeting was principally reserved for consideration of the budget. Given the acknowledgment that further review of the documents to ensure the desired clarity had been achieved might be beneficial and the uncertainty of the process of approval of the revisions it was therefore proposed that the Committee defer consideration to a future meeting. It was recognised that this might still entail an additional meeting of the Committee before Council in March.

**RESOLVED: That consideration of the proposed revisions to the Constitution be deferred for further consideration by the Committee given the need for the documents to be revisited to ensure clarity and for the process of approval of the revisions to be clarified.**

#### 68. WORK PROGRAMME

The Committee considered its work programme.

It was requested that a report be made to the Committee on the outcome of Cabinet's response to the Committee's recommendations following its call-in of Cabinet's decision of 13 December in relation to the Herefordshire Connects programme.

**RESOLVED: That the work programme as amended serve as the basis for further development.**