Medium Term Financial Management Strategy (MTFMS) 2008 - 2011

Foreword by the Leader & Cabinet Member (Resources)

This is Herefordshire's refreshed Medium Term Financial Management Strategy (MTFMS). Its predecessor was agreed by Council in early 2007 and at that time represented a significant shift in the Council's financial management. It is not too dramatic to say that the move to a three year financial plan was evidence of the need to change the Council's financial culture from one centred on short-term budget setting to a more considered and adaptable medium-term model able to support service improvement.

Since the original MTFMS was agreed last year much has changed. Herefordshire is the first place in the country to have a single chief executive running both the council and the primary care trust and at a national level a new Prime Minister has confirmed that the pace of change in the public sector will not slow down. We will shortly see our performance measured within a new Comprehensive Area Assessment (CAA) framework. The new Area Based Grant (ABG) will be a significant force for change in 2008 as it pools over £8m of Herefordshire's specific grants into a single "pot" to deliver area based improvements. The MTFMS has had to reflect all these developments along with the outcome of national reports such as the Lyons Review.

Locally we have continued to see challenges and change affect the way we do business. The MTFMS is accompanied by a new set of Contract Procedure Rules and Financial Procedure Rules that support implementation of the financial strategy. Our new set of detailed policies and procedures will ensure budget holders have proper regard to the management of finance and ensure that the cash follows our priorities.

The challenges and opportunities that modernisation of service provision will bring are supported by the way we allocate our money. The refreshed MTFMS signals the establishment of a Modernisation Fund will include a £300,000 contribution from the Herefordshire Primary Care Trust (PCT). This is matched by the same amount from the Council and is strong evidence of a clear commitment by Herefordshire to ensure greater partnership working and value for money, ensuring Herefordshire continues to make decisions on how public services are delivered.

Cllr Roger Phillips
Leader of the Council

Cllr Harry Bramer
Cabinet Member (Resources)

Foreword by the Chief Executive & Director of Resources

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. Last year, we recognised that we could 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 outcome of the Comprehensive Spending Review 2007 (CSR07) will provide a financial challenge over the next three years every bit as difficult as we predicted last year. Whilst Herefordshire's financial settlement provided some headroom the Council must meet increasing demands for services in the years ahead. The Medium-Term Financial Management Strategy (MTFMS) now forms an important part of our financial governance and leadership arrangements. It sets out our approach to strategic financial management, concentrating on longer-term financial planning in support of longer-term corporate and service priorities.

The MTFMS is helping to ensure a change in Herefordshire's financial management culture takes shape and we change the way we use our financial resources. Whilst the Director of Resources is responsible for leading and advising on financial issues, budget managers are responsible for delivering their services within the budget made available to them and in line with the Council's financial policies and procedures. Financial management is a part of everyone's job and is a critical success factor for the Council as growth in public spending reduces significantly.

Chris Bull
Chief Executive

Sonia Rees
Director of Resources

Statutory Statement by the Chief Finance Officer

The purpose of this statement is to comply with the requirements of the Local Government Act 2003 whereby the Chief Finance Officer, in the Council's case the Director of Resources must report on the:

a) Robustness of the estimates made for the purposes of the budget calculations.

b) Adequacy of the proposed financial reserves.

Section 25 of the Local Government Act 2003 requires the Director of Resources to report to the Council when it is setting the budget and precept (council tax). The Council is required to take this report into account when making its budget and precept decision. The Director of Resources' report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

The Director of Resources states that to the best of her knowledge and belief these budget calculations are robust and have full regard to:

- The Council's corporate plans and strategies;
- The Council's budget strategy;
- The need to protect the Council's financial standing and manage corporate financial risks;
- This year's financial performance;
- The Government's financial policies;
- The Council's medium-term financial planning framework;
- Capital programme obligations;
- Treasury Management best practice;
- The strengths of the Council's financial control procedures;
- The extent of the Council's balances and reserves; and
- Prevailing economic climate and future prospects.

Sonia Rees
Director of Resources

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Appendices

1. Executive Summary

1.1 Herefordshire Council's Medium-Term Financial Management Strategy 2008-2011 (MTFMS) sets out how the Council 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.

1.2 Whilst building on the previous strategy the emphasis remains one that 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.

1.3 In the year since the publication of the MTFMS 2007-2010, public service reform has remained high on the government's agenda, with local providers required to work together more closely than ever before. In Herefordshire, the agreement to develop proposals for establishing Herefordshire Public Services (HPS) is evidence of a commitment to deliver modern effective services.

1.4 Herefordshire is an under-resourced council, stretched to deliver services throughout a large, sparsely populated area. Our government funding is approximately 18% 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.

1.5 Sound financial governance is 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.

1.6 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 and good financial management systems.

2. Introduction

2.1 Background

2.1.1 This is a comprehensive Medium-Term Financial Management Strategy (MTFMS) for Herefordshire covering the financial years 2008/09 to 2010/11 and it sets out Herefordshire's key financial aims and objectives. It shows how it intends to manage its financial affairs in order to maintain financial stability over the challenging period faced by local government.

2.1.2 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.

2.1.3 The MTFMS is 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:

a) Herefordshire Community Strategy (HCS).
b) Local Area Agreement (LAA).
c) Local Public Service Agreement (LPSA2).
d) Corporate Plan.
e) Annual Operating Plan (AOP).

2.4 Objectives

2.4.1 The objectives of the MTFMS are to:

a) Define the financial context for future service improvement decisions.

b) Set a baseline for reviewing resource availability & financial performance.

c) Establish and maintain a balanced budget.

d) Ensure corporate priorities drive the allocation of cash resources.

e) Promote strong financial governance at all levels within the Council.

f) Manage risks by keeping reserve funding and debt at appropriate levels.

g) Plan for Council Tax increases in line with national guidance.

h) Provide a focus on delivering improving efficiency & Value for Money.

2.5 Coverage

2.5.1 The MTFMS contains:

a) An overview of the financial outlook for local government and how we expect that to impact on Herefordshire.

b) A revenue budget strategy that sets out how we will achieve improving efficiency and Value for Money.

c) A medium-term financial plan for the revenue account.

d) A capital strategy covering investment decisions including ICT.

e) A medium-term capital investment plan.

f) 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 and our view on affordable debt limits.

g) A detailed financial risk assessment that shows the major areas of financial uncertainty, their likelihood of occurrence, their potential impact and how we propose to mitigate those risks.

h) A sensitivity analysis that shows the impact of adverse variations in key assumptions in the Financial Resource Model (FRM) included in the MTFMS.

2.6 Summary

2.6.1 Herefordshire faces a series of significant challenges and opportunities over the next three years. This situation can be assisted by adopting a corporate approach to financial management as outlined in the MTFMS.

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, not least because the UK has a new Prime Minister and Cabinet. 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 The following national policy documents have been published in the last 12 months that have significant implications for local government:

a) The Local Government and Public Involvement in Health Bill (December 2006).

b) The Transition from Comprehensive Performance Assessment to Comprehensive Area Assessment (Audit Commission - April 2007).

c) Place-shaping: a shared ambition for the future of local government (final report of the Lyons Inquiry - March 2007).

d) Review of sub-national economic development and regeneration (HM Treasury - July 2007).

e) Comprehensive Spending Review 2007 (CSR07).

3.1.3 These build on and develop ideas from the Local Government Association (Closer to People and Places – a new vision for Local Government); the Local Government White Paper – strong and prosperous communities as well as the Prime Minister's Strategy Unit's report – the UK government's approach to public service reform.

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

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

3.2 Place-shaping: a shared ambition for the future of local government

3.2.1 Sir Michael Lyons published his final report on the future role and function of local government on 21 March 2007.

3.2.2 In his report, Sir Michael called for a new partnership between central and local government. This needed to be based on changes in behaviour from all tiers of government to achieve a stronger relationship – creating a shared ambition for the future.

3.2.3 Sir Michael argued that central government needed to leave more room for local discretion and recognise the value of local choice; while local government needed to strengthen its own confidence and capability, engage more effectively with local people, make the best use of existing powers and stop asking for central direction.

3.2.4 Sir Michael concluded that council tax was not ‘broken’ but is seen as unfair and had been put under too much pressure.

3.2.5 The budget statement confirmed the Government’s response to the Lyons report and indicated it would:

a) Examine the local government grant system for potential to provide greater rewards to councils delivering increased economic prosperity in their areas.

b) Set targets for reducing specific grants, ring fenced funding, complex time consuming reporting and data provision.

c) Continue with capping powers.

d) Consider the proposal relating to Council tax benefit.

e) Modernise the empty business property rate scheme.

f) Not revalue Council Tax during this Parliament thus ruling out any changes to the banding structure.

g) Not introduce any tourism tax.

3.3 Review of sub-national economic development and regeneration

3.3.1 This further piece of work also provided context for the CSR07 and was published in July. This policy document proposed significant changes to the roles and balance between regional and sub-regional bodies and placed emphasis on improving their working relationships in future.

3.3.2 The review was based on three principles:

a) Managing policy at a spatial level.

b) Ensuring clarity of roles.

c) Enabling places to reach their potential.

3.3.3 Key policy proposals were:

a) A duty on upper tier local authorities to carry out an economic assessment of their area along with a requirement / duty for named bodies to co-operate in its production.

b) To devolve budgets to local authorities and to strengthen local decision making and leadership.

c) To transfer funding for 14-19 year olds back from the Learning and Skills Councils to local authorities.

d) To encourage sub regional working through the development of Multi Area Agreements (MAAs), with the first MAAs in place by mid 2008.

e) To enable local authorities to pool resources and develop / implement policies on a sub regional level.

f) That Regional Development Agencies (RDAs) produce a combined regional economic and spatial strategy, taking the role of Regional Planning Body from the Regional Assembly.

g) That local authorities be given responsibility for scrutinising RDA performance.

h) The government would strengthen the RDA performance management framework.

i) Regional assemblies would be abolished by 2010.

j) That each region have a ministerial champion – Liam Burn MP has since been appointed for the West Midlands.

3.3.4 In summary, the sub national review is a package of change across government in response to the Lyons Inquiry into local government, the Barker Review of land use planning, the Eddington transport study and the Leitch review of skills.

3.4 The Local Government and Public Involvement in Health Act

3.4.1 The Act impacts on council restructuring, designated political leadership models, creating a duty for councils to develop and create local involvement networks (LINKS).

3.4.2 The Act takes forward the decentralisation and deregulation proposals in the Local Government White Paper 2006 but does not address the recommendation in the Lyons Inquiry report on the future role and funding of local government. In summary the Act:

a) Restructuring in nine areas of the country and the creation of new unitary authorities in what are currently two tier areas.

b) The introduction of Comprehensive Area Assessments from 2009.

c) A reduced national data set of performance indicators for local government.

d) The adoption of one of three forms of political management arrangements.

e) A statutory framework for local area agreements across the country supported by a duty of co-operation on a wide range of public bodies.

f) The introduction of community calls for action and LINKS to offer more health and social care accountability.

3.5 The transition from CPA

3.5.1 Work has already begun on the practical aspects of the new performance framework for local government – the Comprehensive Area Assessment (CAA) - set out in the Local Government and Public Involvement in Health Bill. The Audit Commission have published three reports:

a) The evolution of regulation.

b) The transition from CPA to CAA.

c) CPA - the harder test framework.

3.5.2 The CAA is a fundamentally different approach to assessment that is area based, risk focussed and more forward looking than CPA. It will take account of how services are delivered across areas and focus on outcomes and the active engagement of people in the design, delivery and assessment of services.

3.5.3 At the core of CAA lie:

a) An area based risk assessment on the chances of the successful achievement of an area's priority outcomes.

b) A direction of travel assessment building on those that already exist for individual public bodies.

c) A use of resources judgement.

d) A national data set of 198 indicators with an emphasis on perception indicators.

3.5.4 Future inspection will be targeted on areas with specific weaknesses in any respect. CAA will be introduced in the Spring of 2009.

3.6 Other Government Policy Initiatives

3.6.1 On Tuesday 6th November 2007 the Queen's speech indicated the Government will bring forward legislation that will have varying levels on impact on local government. The key bills for local government and their potential impact are set out below:

3.6.2 **Housing and Regeneration Bill:**

a) Establishes the **Homes and Communities Agency (HCA)** in England – merging the Housing Corporation and English partnerships.

b) Creates the Office for Tenants and Social Landlords – a new, independent regulator for the social housing sector.

c) Introduces the statutory planning charge to fund infrastructure, this is the government's alternative to the Planning Gain Supplement.

d) Allows "eco towns" – with zero or low carbon housing – to be built more quickly.

3.6.3 **Health & Social Care Bill**:

a) The creation of a new single and integrated regulator for health and adult social care – the Care Quality Commission - bringing together the three existing health and social care regulators.

b) Following on from the Shipman inquiry, this Bill will form part of government's response to reform professional regulation which will enhance public and professional confidence and strengthen clinical governance.

c) Amending the Public Health (Control of Diseases) Act 1984 including port health requirements, to take into account emerging threats, human rights legislation and worldwide developments.

d) The bill announces new provisions where a one off payment will be made to all expectant mothers from the 29th week of pregnancy.

3.6.4 **Climate Change Bill**:

a) Pilot scheme for reducing waste – provide a power for local authority incentives for household waste minimising and recycling.

b) Setting a 60% reduction in CO_2 by 2050 in statute – along with a set of measures to pave the way to this target.

c) The establishment of a Committee on Climate Change – to provide an institutional framework to manage the transition to a lower carbon economy.

d) Powers to introduce trading schemes – the draft bill proposes powers to enable the government to introduce measures to help achieve the targets through secondary legislation.

e) Proposals for reporting – the proposed Committee on Climate Change will be required to review progress on adaptation.

3.6.5 **Draft Constitutional Renewal Bill**:

a) Aims to rebalance power between parliament and government, and to give parliament more ability to hold government to account.

b) Measures to strengthen democracy and increase participation in decision-making.

c) Clarification of the role of both central and local government.

d) Placing on a statutory footing the role of parliament in the process for ratifying treaties.

3.6.6 **Children and Young Persons Bill**:

a) Reforms the statutory framework around the care system focussed on the needs of the child.

b) Councils given power to test a different model of organising social care, by commissioning and regulating services from "Social Work Practices".

c) Placing the role of the designated teacher on a statutory footing, and ensuring that children in care do not move schools in Year 10 and 11 except in exceptional circumstances.

d) Improving the financial support available to care leavers who go on higher education.

e) Ensuring children in care and custody are visited regularly and have a voice in the decision making when they move into independence.

f) Extending the duty to visit children in youth custody.

g) Seeking to improve the support for children cared for by family and friend carers.

3.6.7 **Citizenship and Immigration Bill**:

a) This Bill will take forward recommendations emerging from the Goldsmith review of Citizenship. The review was trailed in *The Governance of Britain*, launched formally on 5th October 2007 and due to report by the end of March 2008.

b) Much of the review – and likely focus of subsequent legislation – will focus on technical and legal issues around the formal rights, responsibilities and status of British citizenship.

3.6.8 **Education and Skills Bill**:

a) Provisions to raise the minimum age at which young people can leave education or training to 18. It also establishes an enforcement process with a system of penalties for those who do not participate up to 18.

b) Implement key elements of the Leitch Review into the long term skills needs.

c) New duties which will be placed on young people and on parents and employers to take reasonable steps to ensure or encourage children to participate in education.

d) New registration duties on providers and local authorities in relation to young people with special educational needs, and possibly some other groups.

3.6.9 **Local Transport Bill**:

a) The bill, published in draft in May 2007, aims to tackle congestion and improve public transport by giving councils more power to develop local solutions to local transport challenges.

3.6.10 **Planning Reform Bill**:

a) Establishes an infrastructure planning commission, its powers and functions; a single consent regime for nationally significant projects and a streamlined process for considering applications.

b) Changes to process for local development plan documents and establishing arrangements for local authorities to decide appeals on minor planning applications.

c) Introduces Housing and Planning Delivery Grant to incentivise local planning authorities.

3.6.11 **Adult & Community Services:**

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

a) **Herefordshire Public Services:** the Council has committed to establishing joint working arrangements between health and social care services in Herefordshire.

b) **Housing Related Funding:** responding to the government's changed approach to funding the Supporting People Programme and allocating capital resources for housing renewal to focus resources on affordable housing.

c) **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.

3.6.12 **Children & Young People:**

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

a) **Every Child Matters Change Programme:** will require continued effort to put planned reforms in place.

b) **Youth Matters Change Programme:** will require strengthened links to the Youth Council and new service approaches.

c) **Education & Inspections Bill:** will require new relationships with schools.

d) **Dedicated Schools Grant (DSG):** this grant covers both individual schools budgets and support services provided for schools such as Special Education Needs (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 Children, Schools and Families (DCFS). Efficiency gains within DSG can be kept within DSG and will be essential to help offset reductions in DSG from falling pupil numbers. DSG distribution was reviewed for the 3-year period covered by Comprehensive Spending Review (CSR07).

e) **E-learning, E-admissions, Integrated Children's System and Information Sharing Index:** will require transformation of service arrangements.

f) **Safeguarding Guidance & Looked After Children Green Paper:** will require new arrangements and targets to be resourced.

3.6.13 **Corporate & Customer Services (including Human Resources):**

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

a) **Unification Project for Registration Services:** potential for significant changes in existing service delivery arrangements.

b) **Further development of the LAA framework:** with potentially both corporate and directorate implications.

c) **Support services:** ensuring all support services are adequately resourced to provide the level of service needed to achieve national and local priorities.

d) **Adult & Children's Services Workforce Strategies:** the requirement to deliver integrated strategies with health.

e) **Welfare to Work Reforms:** ongoing requirement including reducing the numbers of people on benefit by providing work.

f) **Local Government Pension Scheme:** advising employees on the agreed changes as from 1st April 2008.

g) **Changes in employment legislation:** embedding age and disability legislation.

h) **National Skills Agenda:** new frameworks for social work and priority training for minimum skills standards.

3.6.14 **Environment:**

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

a) **Landfill Diversion:** targets are increasingly more challenging requiring either increased resources and / or radical changes to service delivery.

b) **Respect Agenda:** community safety including anti-social behaviour, cleaner neighbourhoods and improvements to the street scene.

c) **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.

d) **Reform of the Planning System:** roll-out of the local development framework and proactive response to further proposals for change from the government.

e) **Improving Road Conditions:** government targets require sustained and increasing investment.

3.6.15 **Resources:**

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

a) **Reform of the local government finance system:** may affect billing services.

b) **Comprehensive Spending Review 2007:** extra demands on the Resources Directorate to provide leadership in the management of corporate resources.

c) **Green Paper on Welfare Reform:** Local Housing Allowances will impact on benefit services.

d) **Efficiency gains:** increasing pressure on strategic procurement services to make significant and demonstrable efficiency gains was confirmed in CSR07.

e) **National Procurement Strategy for Local Government:** increasing need to deliver key milestones in the Council's procurement strategy.

f) **Use of Resources Assessment:** increasing pressure to demonstrate the effectiveness of the Council's overall governance arrangements. There will be a new assessment framework for 2008.

3.7 Summary

3.7.1 The evidence is that the new Prime Minister will continue to reform public services over the medium-term.

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

a) The agenda will accelerate the move to greater localism, not just to local authorities but also to the individual neighbourhoods within them.

b) 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.

c) There will be more powers and duties underpinning local government's community leadership and well-being responsibilities.

d) Greater freedom for local government will be matched by more effective and more streamlined systems of performance management.

e) Achieving quality, efficiency and Value for Money in service provision will remain a high priority.

f) Services will need to be citizen-centred and service users will have a greater say in the design of services.

g) More will be done to ensure social justice and close the widening social divisions.

h) There will be greater pooling of resources as LAAs are developed and funded by the new Area Based Grant.

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 provides an assessment of the outcome of CSR07 following its announcement on 9th October 2007.

4.2 National economy

4.2.1 The government has signalled that the growth expectation for the UK economy will be lower in the future. This has a direct impact on local government and the rest of the public sector. Much of the increased investment in recent years has been provided by an unprecedented economic expansion.

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 (CSR07) 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 CSR07 sets the Departmental Expenditure Limits (DEL) for all Government departments including local government spending programmes. The Public Service Agreements (PSAs), announced alongside the DELs detail the key improvements the public can expect from these resources.

Key challenges for local government

4.3.3 Adult social care and waste have been included as key challenging areas for local government. The four key headlines were:

a) Adult social care - rising demands due to long-term demographic changes.

b) Waste - pressure to radically reduce household landfill to meet EU commitments.

c) Communities - increasing place-shaping role for local councils.

d) Services - rising expectation for modern and personalised services.

Value for Money

4.3.4 For the three-year CSR07 period authorities can now expect:

a) 3% annual cashable efficiency savings.

b) 5% annual cap in Council Tax increases with actual increases expected to be “well below” that figure.

c) £150m efficiency support over the CSR07 period.

4.3.5 The Government has also published a corporate report on Value for Money entitled **'Delivering Value for Money in Local Government: Meeting the challenge of CSR07'**. The document outlines the ways in which councils may deliver this expectation and the activities planned to support their implementation.

Performance Framework

4.3.6 Announcements surrounding the performance framework for local government were as follows:

a) A single set of local government priorities in Public Service Agreements and Departmental Strategic Objectives.

b) A set of 198 national performance indicators.

c) A maximum of 35 national targets (plus a statutory 17 for education) negotiated through the LAAs.

d) A third round of LAA Reward Grant to incentivise partnership working.

e) An asset Management Programme to help improve local authorities' capacity - updating existing guidance to place a greater emphasis on asset management.

Funding Streams

4.3.7 Enforcing the Government's commitment to reduce specific and ring-fenced grant, local authority funding will be delivered through Formula Grant and Area Based Grant (ABG). Specific grants that will be delivered via Formula Grant from 2008/09 include:

a) Access and Systems Capacity.

b) Delayed Discharges.

c) Children's Services.

d) Waste Performance and Efficiency.

4.3.8 Area-Based Grant (ABG) (previously known as LAA grant) includes various previous specific grants. Ring fenced grants will only be used where a programme is particularly novel or expenditure has little or no discretionary element at local level.

4.3.9 The ABG includes the following grants:

Grant	**Government Department**
14-19 Flexible Funding Pot	DCSF

Adult Social Care Workforce	DH
Aggregates Levy Sustainability Fund	DEFRA
Care Matters White Paper	DCSF
Carers	DH
Child and Adolescent Mental Health Services	DH
Children's Social Care Workforce	DCSF
Children's Fund	DCSF
Choice Advisers	DCSF
Cohesion	DCLG
Connexions	DCSF
Crime Reduction, Drugs Strategy and Anti Social Behaviour	HO
Detrunking	DfT
Education Health Partnerships	DCSF
Extended Rights to Free Transport	DCSF
Extended Schools Start Up Costs	DCSF
Local Enterprise Growth Initiative	DCLG
Local Involvement Networks	DH
Mental Capacity Act and Independent Mental Capacity Advocate Service	DH
Mental Health	DH
Positive Activities for Young People	DCSF
Preserved Rights	DH
Secondary National Strategy–Behaviour and Attendance	DCSF
Secondary National Strategy – Central Coordination	DCSF
Preventing Extremism	DCLG
Primary National Strategy – Central Coordination	DCSF
Respect	HO

Road Safety Grant	DfT
Rural Bus Subsidy	DfT
School Development Grant	DCSF
School Improvement Partners	DCSF
School Intervention Grant	DCSF

4.3.9 In addition, CLG aim to include the Supporting People programme grant within the Area Based Grant from 2009/10. The DCSF aim to include Contact Point (formerly Sharing IS Index grant in ABG) from 2010/11.

4.4 Formula Grant Review Issues

4.4.1 The Government has recently consulted on proposed changes to the system of local government finances.

4.4.2 The consultation, like the series of settlement working group (SWG) meetings that preceded it, looks at the assumptions the system for distributing formula grant makes about local authorities' needs. These relate to the provision of fire and police services; adult and children's social services; highways maintenance; and environmental, protective and cultural services. It questions their validity and suggests options for change.

4.4.3 One of the biggest issues noted was to find a way to distribute the extra £212m for national concessionary bus fares for older and disabled people without adverse impacts on other services. The various local government groups were in agreement: allocate the cash through a specific grant.

4.4.4 There were other topics of discussion, none more contentious than the potential removal of damping in the children and younger adults relative needs formulae.

4.4.5 The consultation paper was clear about the problem. It says "the government remains committed to fully implementing the new formulae which better reflect the current patterns of relative need than those they replaced. This however needs to take account of the government's policy in favour of stability and predictability".

4.5 Summary

4.5.1 Since Council approved the MTFMS 2007-2010 in March 2007, the financial pressures for local government have increased as planned growth in public spending will slow as set out in CSR07.

4.5.2 The local government finance settlement and DSG settlement announcements that followed on from CSR07 set out the level of funding we can expect for non-school and school services respectively for 2008/09 to 2010/11.

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. 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.

5.1.2 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 was the culmination of a major review in 2005 of the Herefordshire Plan.

5.2.2 The HCS sets our aspirations for the County by 2020 and how they might be achieved. 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.

5.2.3 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:

a) Chamber of Commerce Herefordshire and Worcestershire, and Business Link West Mercia.

b) Herefordshire Association of Local Councils.

c) Herefordshire Council.

d) Herefordshire Primary Care Trust.

e) Learning & Skills Council, Herefordshire and Worcestershire.

f) Voluntary Organisations.

g) West Mercia Constabulary.

5.2.4 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.

5.2.5 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:

a) Realise the potential of Herefordshire, its people and communities.

b) Integrate sustainability into all our actions.

c) Ensure an equal and inclusive society.

d) Build on achievements of partnerships working and ensure continual improvement.

e) Protect and improve Herefordshire's distinctive environment.

Outcomes covering four themes – which are:

a) Economic development and enterprise.

b) Healthier communities and older people.

c) Children and young people.

d) Safer and stronger communities.

5.3 Herefordshire Corporate Plan & Annual Operating Plan

5.3.1 Herefordshire's Corporate Plan for 2008 – 2011 sets out the Council's objectives for the next three years in support of the Herefordshire Community Strategy.

5.3.2 Subject to the approval of Council in May 2008, the Council's top priorities for the period of the Plan are:

- The best possible life for every child, safeguarding vulnerable children and improving educational attainment

- Reshaped adult health and social care, so that many more older and other vulnerable people maintain control of their lives

- The essential infrastructure for a successful economy, enabling sustainable prosperity for all

- Affordable housing to meet the needs of local people

- Better services, outcomes for people and value for money, particularly by working in partnership with the Herefordshire Primary Care Trust and other local organisations

5.4 The Performance Challenge

5.4.1 Under the Comprehensive Performance Assessment (CPA) Harder Test, Herefordshire's score is currently 2 (out of a possible 4). This compares with a score of 3 in 2006. This happened because housing receiving a 1 star rating as a result of a one-year only change in the indicators used to assess housing performance, which did not reflect actual improvements, particularly a huge reduction in the number of families in bed and breakfast accommodation.

5.4.2 For the third year running, the Council has been adjudged in 2007 to be improving adequately, with performance having improved in most priority areas. Improvements include examination results, arrangements for looked-after children, helping vulnerable people to live at home, tax collection, benefits administration, the speed of dealing with planning applications, street cleanliness and recycling. On the other hand, it costs more to collect waste and there has been limited progress with the Council's transformation programme. Also, although value for money is judged by the Audit Commission to be reasonable, it isn't measured consistently across the Council. Because of this, and the identification of significant weaknesses in the governance of ICT (in respect of which remedial plans are being implemented), the Council's Use of Resources Score for 2007 has fallen from 3 to 2.

5.5 Herefordshire's Business Transformation Programme

5.5.1 At the time Council approved the MTFMS for 2008 – 2011, the remainder of the Herefordshire Connects programme was being reviewed by the new joint Chief Executive and his team of Directors from the Council and PCT. Much has been achieved with plans now in place to update the social care management information system. The MTFMS 2008 – 2011 includes the savings to be generated from more efficient procurement practices and the cost of the new social care system. Financial capacity is included in the MTFMS 2008 – 2011 to support the remainder of the transformation programme, to be released as those plans are developed and approved.

5.6 Office Accommodation

5.6.1 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.

5.6.2 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.

5.6.3 The Plough Lane building has been secured until 31st December 2010 – including the middle floor. This provides the certainty needed to reconsider both medium term and long term options for office accommodation in conjunction with the Council's strategic partners.

5.7 Summary

5.7.1 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. It also shows how corporate priorities are being progressively integrated to the maximum extent possible with our key partners and the Herefordshire Partnership generally.

5.6.2 Herefordshire has entered 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 not going to increase at the rate previously experienced by local government. Sound financial governance will be essential to ensure the Council's continued financial health.

5.6.3 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. 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 Background

6.2.1 On 6th December 2007 the Minister of State for Local Government announced the provisional three year settlement for local government covering 2008/09 to 2010/11. The announcement has a direct impact on the level of financial resources Herefordshire will have over the next three years and is reflected in the Medium Term Financial Management Strategy (MTFMS). The final settlement was announced on 24th January 2008.

6.2.2 Key national points:

a) In total, government revenue funding for local authority services will be £70.4 billion in 2008/09; £73.5 billion in 2009/10 and £76.7 billion in 2010/11.

b) These are increases of 4.0%, 4.4% and 4.3% respectively – an annual average increase of 1.5% above inflation.

c) Every authority will receive a Formula Grant increase in every year.

d) The Formula Grant is made up of Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR). For 2008/09 the amount of NNDR for England has increased by 10.8% to £20.5bn. This is due to the extension of business rates to empty properties.

6.2.3 Key points for Herefordshire:

a) The announcement on 24th January provided notification of the level of Formula Grant to be received by Herefordshire over the next three years as follows:

	Formula Grant Amount £m	**Adjusted Increase £m**	**Percentage Increase**
2008/09	53.307	2.419	4.8%
2009/10	55.379	2.143	4.0%
2010/11	57.584	2.232	4.0%

b) The above indicates that Herefordshire's 2008/09 increase on a like-for-like basis is 4.8%. Herefordshire, in common with most unitary authorities and county councils, had a better than expected settlement.

c) Herefordshire's assumptions about a cash standstill and likely efficiency savings for 2008/09 were in line with other authorities and based on the widely accepted assessment that Comprehensive Spending Review 2007 (CSR07) would be "tight". There was also concern that changes made to the distribution formula would adversely affect Herefordshire.

d) As part of the CSR07, it was announced that the following grants would be delivered via the overall Formula Grant. The adjustments to base budgets for 2008/09 are in brackets:

  i) Children's Services (£490k).

  ii) Delayed Discharges (£384k).

  iii) Access and Systems Capacity (£2.059m).

  iv) Waste Performance and Efficiency (£183k).

  v) Contaminated Land (£1k).

  vi) Food Hygiene Enforcement on Farms (£28k).

  vii) New Conduct Regime (£9k).

  viii) Animal Feed (£4k).

  ix) New Conduct Regime (£9k).

  x) Student Finance (a reduction of £24k).

e) Councils are expected to agree Council Tax increases 'well below 5%'. There is some debate about whether the Government means an individual council must set its Council Tax 'well below 5%' or whether this refers to the overall position across the country. With some councils getting a settlement in high single figures it may be that the Government will expect very low or no increase in some cases.

6.3 Relative Funding Position

6.3.1 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 18% below the average in our last Corporate Assessment report.

6.3.2 Updating the position for the 2008/09 settlement figures reveals that the gap in funding has widened. The figures for this year are as follows:

a) Formula Grant per head of population is £296 – 23% below the unitary authority average of £383.

b) Indicative Dedicated Schools Grant per head of population is £469 – 19% below the unitary authority average of £575.

c) Formula Grant plus indicative Dedicated Schools Grant per head of population is £764 – 19% below the unitary authority average of £946.

6.4 Reserves

Revenue Reserves

6.4.1 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.

6.4.2 The following table shows the balance on the General Fund and the level of Specific Reserves at the end of the last 4 financial years plus an indicative forecast of the position at the end of 2007/08 based on projected 2007/08 outturn at the end of January 2008..

(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	8,023	8,137	11,637	27,797
31st March 2008 (estimated)	6,168	7,730	6,226	20,117

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

a) A significant proportion of the Specific Reserves belong to our schools and cannot be used to help pay for non-schools services.

b) The General Fund balance at 31st March 2007 included £157,000 of budgets carried forward into the current financial year and £1m of LABGI grant to be used in 2007/08.

c) The large increase in Other Specific Reserves as at 31st March 2007 was due to a specific policy change signalled in last year's

MTFMS of earmarking funds for specific purposes in order to give greater transparency.

6.4.4 From 1st April, 2008, the Council's policy will be to maintain the General Reserve at £4.5m (approximately 3.5% of the net revenue budget). This level of General Reserve balance is in line with recommended best practice and is consistent with the approach other similar authorities take. The Director of Resources is content to make her statutory declaration that this level of General Reserves is prudent as it provides adequate cover for:

a) Demand pressures that are volatile, difficult to predict or unforeseen at the time the budget is set and that are not covered by an earmarked reserve.

b) The contingent liabilities at the end of the 2006/07 financial year as set out in the annual Statement of Accounts (£726k).

c) An adverse change in the key variables within the Financial Resource Model (FRM) as identified in section 7.5 of the MTFMS 2008 – 2011.

d) Daily cash flow needs.

6.4.5 The excess above a general reserve level of £4.5m is to be allocated to an earmarked reserve to be called 'Modernisation Plans' with money to be released as such plans are formally approved. This ensures that Council Tax payers' money is spent improving priority areas such as service delivery and transactional processes rather than it being held in excessively high levels of reserves and balances.

Capital Reserves

6.4.6 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.

6.4.7 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**
2004/05	40,100	33,198	(6,902)
2005/06	37,131	31,845	(5,286)
2006/07	58,977	39,542	(19,435)
2007/08 (Estimate)	65,462	53,418	(12,044)

6.4.8 The Council agreed a strategy for disposing of surplus assets as part of the Asset Management Plan (AMP). 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 future years.

6.4.9 The Council has set the Smallholdings Estate an annual target of realising £1m capital receipts net of capitalised repairs and maintenance expenditure. This policy ensures a steady but modest stream of new capital receipts each year.

6.4.10 The Council has a policy that ensures capital cash resources are used effectively in support of corporate priorities. As a result all capital receipts are a corporate resource unless allocated for a specific purpose.

6.5 Trends in Outturn

Revenue Overview

6.5.1 The table below compares the actual use of General Fund balances to planned use for the last 4 financial years and an estimate for 2007/08 based on the latest Integrated Performance Report covering the period to the end of January 2008.

(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
31st March 2007	(8,890)	(6,502)	+2,388
31st March 2008 (estimated)	(1,157)	(698)	+459

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 for the year that was used to top the general contingency.

3 - a plus sign means actual financial performance was better than planned whilst a minus sign means that actual performance is worse than planned.

6.5.2 The table in the preceding paragraph shows that financial capacity is decreasing year on year. There is an urgent need for all Directors to commit their emerging budget strategies to paper and seek help and guidance from Financial Services to assess the benefits and cash savings.

6.6 Local Spending Pressures

6.6.1 The audited outturn position for 2006/07 provided evidence of Herefordshire's spending pressures for the future, many of which reflect the national trends identified in section 4.4 of the MTFMS. The projected outturn for 2007/08 is further evidence of these pressures.

6.6.2 As in the MTFMS for 2007-2010 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. In 2007/08 this area also received £2.7m of additional recurring funding to improve outcomes for the Older People and Learning Disabilities service areas.

6.6.3 The additional resource for Adult Services is based on the findings of research into the impact that Herefordshire's ageing population and other factors will have on demand for social care services and the options for the patterns and levels of services needed to meet them. Further needs analysis work on Mental Health and Physical Disabilities services indicates financial support is required. In 2008/09 an additional £275k will be provided with a further £275k in 2009/10. these amounts will be ring-fenced to these service areas.

6.6.4 The 2007/08 projected outturn for social care across both adults and children's services is an overspend of £4.2m before use of the £1.3m centrally held contingency and spend to save resources.

6.6.5 Other spending pressures that need consideration include:

a) Waste disposal – the Specific Reserve for this issue stands at £2.3m but needs review as the date for agreeing changes to the original PFI contract continues to slip and waste tonnages continue to grow.

b) Contingent liabilities – there is no provision for these items of expenditure which could cost up to £726,000 if the liability was confirmed (the Statement of Accounts for 2006/07 refers).

c) The Council has committed to a programme of review of its school provision. This may create spending pressures for the future.

6.7 Summary

6.7.1 Herefordshire is not a well-resourced council. 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.

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

6.7.3 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 describe a medium-term financial management strategy to ensure that we preserve our financial health through a period of significant change and improvement whilst growth in financial support from the government decreases.

7. Financial Management Strategy

7.1 Introduction

7.1.1 The first Herefordshire MTFMS 2007-2010 indicated it supported all of Herefordshire's other resource management and service delivery strategies. This remains the case in this update.

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:

a) Revenue spending.

b) Capital investment.

c) Efficiency review and improving Value for Money.

d) 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:

a) Ensure budget plans are realistic, balanced and support corporate priorities – especially those that protect the vulnerable in our communities.

b) Maintain an affordable Council Tax – the Financial Resource Model (FRM) in the MTFMS assumes a sub-5% increase. This has proven correct given the recent CSR07 announcement.

c) Manage spending within budgets – Directorates are required as a 'non-negotiable' to manage outturn expenditure for each financial year within budget.

d) Ensure sustainable balances, reserves and provisions – within a reasonable limit consistent with the corporate financial risks without tying up public resources unnecessarily.

e) Create the financial capacity for strategic priorities for service improvement.

f) Support a prudent level of capital investment to meet the Council's strategic requirements.

g) Maintain a strong balance sheet position.

h) Deliver year on year efficiency and Value for Money improvements.

i) Ensure an integrated approach to corporate, service and financial planning in full consultation with key stakeholders.

j) Ensure a whole-life costing approach is taken to both revenue and capital spending decisions.

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 2007/08 was £8.023m. This is significantly in excess of the policy in place at that time to maintain a minimum balance of £3m.

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 All Directorates will be expected to manage budget pressures within the overall requirement to deliver an outturn at or below budget.

7.3.5 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. Part of the review of General Fund balances indicates it is now appropriate to maintain a level of £4.5m (3.5%) to provide adequate cover for demand pressures. The excess above £4.5m will be allocated to the proposed earmarked reserve to be called Modernisation Plans.

Managing a balanced budget

7.3.6 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 although it recognises more will be needed to meet future demand.

7.3.7 The impact on General Fund balances in 2007/08 is illustrated in the following table:

	£000	£000
General Fund balance on 1st April 2007		**8,023**
Less		
Possible 2007/08 overspends (Month 10 IPR)	698	
LABGI grant carried forward	1,000	
Carry forward budgets from 2006/07	157	-1,855
General Fund Balance on 31st March 2008		**6,168**

7.3.8 The above table makes a number of assumptions but shows the likely pressure on General Fund balances. The key pressure will arise from possible overspends in 2007/08 that will need to be covered by the General Fund.

Managing financial performance

7.3.9 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.

7.3.10 Non-financial information was incorporated into the routine bi-monthly financial performance reports that form part of the Integrated Performance Report.

7.3.11 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

7.3.12 The Council's Financial Procedure Rules have been amended to ensure the cash resource redeployed through the year-end budget carry forward arrangement is allocated in line with corporate priorities.

7.3.13 Budgets are now only carried forward if there in an under spend on the Council's overall 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.

7.3.14 Budget carry forwards on support service and other recharged items are not to 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

7.3.15 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.

7.3.16 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

7.3.17 The current FRM includes 2% for pay inflation in each year in line with government assumptions at the time. The pay award for 2007/08 was settled at 2.475%. The government's assumption for pay inflation for the next three financial years remains at 2% and its stated intention is to negotiate a three-year pay agreement for public sector workers. The CMB therefore recommends that the 2007/08 salary base budget be uplifted by an additional 0.475% and that the policy of a 2% uplift for pay inflation be retained for the draft MTFS for 2008 – 2011.

7.3.18 The current FRM for 2007 – 2010 does not provide for an inflationary uplift on non pay expenditure budgets as an inbuilt efficiency target. This challenging policy ensures that managers:

a) Negotiate appropriate contracts for the provision of services.

b) Manage contracts and contractor performance effectively.

c) Continually review service delivery arrangements to ensure improvements in efficiency and value for money.

7.3.19 Corporate Management Board (CMB) has checked that this approach to securing efficiency gains for 2008/09 – 2010/11 can be achieved in all service areas through better use of resources without any significant reductions in the level of service provided. The following table identifies the core services where this policy creates the most financial pressure in 2008/09 and explains how CMB expects that pressure to be managed:

Core Service	Estimated Financial Pressure	Management action
Adult social care	£880k	This pressure reduces to £596k after allowing for additional income from Fairer Charging in the FRM and the effect of the proposed efficiency targets. The Director of Adult & Community Services advised that this pressure could not be managed without a reduction in the level of service provided. He further advised that he will have an efficiency plan in place by the end of March 2008 designed to manage this pressure without a reduction in the level of service provided. The FRM allows for the adult social care base budget to be increased by £596k in order to avoid service cuts.
Waste	£360k	The Environment Directorate's efficiency plan is designed to manage this pressure without a reduction in the level of service provided.
Children's social care	£220k	This pressure can be managed by allocating £650k from the social care contingency currently in the corporate base budget to the service base budget.
Highways	£200k	The Environment Directorate's efficiency plan is designed to manage this pressure without a reduction in the level of service provided.
Schools Transport	£180k	The Director of Children's Services plans to review the school transport policy.

7.3.20 CMB has only identified one significant example of the current policy for efficiency gains causing difficulty if retained for the FRM for 2008 – 2011. A reduction in the level of adult social care services that can be provided is clearly not acceptable given this service is a corporate priority. The CMB therefore recommends that the current policy is retained as an incentive to improve efficiency and value for money with the exception of a one-off increase of £596k to the base budget for adult social care.

7.3.21 The current FRM assumes inflation on client and customer receipts budgets of 2.5%. The key exceptions are income budgets where the fee is dictated by a statutory arrangement. This policy is to be retained for the draft FRM for 2008 – 2011 and there will be a review of all fees and charges so that these can be integrated into the budget policy framework.

7.3.22 The MTFMS covers income generation. The overall approach is to:

a) Ensure income budgets reside with the client service where the service is responsible for determining service strategy.

b) 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.

c) Focus on debt collection by setting targets for improvement.

d) Building on the agreed revised charging structure for Adult Services consider the scope for higher levels of charging for services elsewhere especially where there is clear evidence that Herefordshire attracts much lower levels of income than comparator authorities.

e) Investigate new freedoms to charge for services.

Managing partnership resources

7.3.23 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:

a) The financial viability of partners before committing to an agreement.

b) There is clarity of respective responsibilities and liabilities.

c) The accounting arrangements are established in advance of operation.

d) The implications of terms and conditions on any associated funding are considered in advance of operation.

7.3.24 From 2008/09 the new Area Based Grant will be a significant component of partnership working. It is likely that governance arrangements will be shaped by forthcoming guidance from central government.

Managing external funding

7.3.25 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:

a) Match funding requirements are considered in advance.

b) They support corporate priorities.

c) They do not conflict or distract from corporate priorities.

d) They have no ongoing commitment that cannot be met by base budget savings.

e) They do not put undue pressure on existing resources.

f) The net cost overall is not excessive.

Managing Developer Contributions

7.3.26 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).

7.3.27 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. To achieve better monitoring of these agreements a new post has been agreed with the Environment Directorate.

Managing Modernisation Initiatives in Social Care Services

7.3.28 The following amendments to the current MTFS reflect the relevant Director's accountability for financial management:

a) The social care contingency of £1.3m in the corporate base budget be allocated in equal shares to the adult and children's social care base budgets.

b) The adult social care modernisation funding of £2.7m will be transferred from the corporate base budget to a ring-fenced budget within the Adult & Community Services service budget for release by the Director of Adult & Community Services in consultation with the Director of Resources in support of modernisation plans.

c) The children's social care modernisation funding of £824k will be transferred from the corporate base budget to a ring-fenced budget within the Children & Young People's Services core service budget for release by the Director of Children & Young People's Services in consultation with the Director of Resources in support of modernisation plans.

Modernisation Plans:

7.3.29 The needs analysis for adults with mental health and physical disabilities has now been completed and modernisation funding for these services of £275k in 2008/09 rising to £550k in 2009/10 is required. It is recommended that modernisation funding for adult social care services:

a) Is included in the FRM within the draft MTFMS for 2008 – 2011 as modernisation of these services is a key corporate priority.

b) Is ring-fenced within the base budget for adult social care for modernisation purposes only.

c) Is released by the Director of Adult & Community Services following consultation with the Director of Resources.

Managing Value Added Tax (VAT)

7.3.30 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.

7.3.31 VAT is a particularly specialised field within the accountancy profession and we supplement in-house resources with external consultancy support when needed. The Technical Accounting 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 (FRM)

7.4.1 The FRM 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 from2008/09 to 2010/11.

7.4.2 Cabinet has decided to retain the policy for a planned increase in council tax of 4.7%. The actual increase for 2007/08 was 3.8% which reduced council tax income by £560k per annum. The proposed council tax level for 2008/09 is a 4.4% increase representing a potential £225k reduction in council tax income.

7.4.3 The FRM 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:

a) **Herefordshire Connects** – the FRM includes funding the social care solution.

b) **Office Accommodation Strategy** – the FRM reflects the latest financial assessment approved by Cabinet in May 2006.

c) **Customer Services Strategy** – the FRM provides £500k per annum in each of 2007/08 and 2008/09 to support the strategy. It should be noted this ends in 2009/10 by which time the service model is to deliver compensating savings thus removing the needs for financial support.

d) **Capital Investment** – the FRM reflects the revenue implications (cost of prudential borrowing) of the capital programme approved by Council in 2007 plus slippage from 2006/07 and 2007/08 as well as the draft capital programme presented to Cabinet on 24th January 2008. It allows for £1m of new prudential borrowing in 2008/09 and each year thereafter. It also reflects Cabinet's decision to put £356k into capital financing costs in 2008/09 and an additional £394k in 2009/10. the overall total of £750k is therefore evident in 2009/10 onwards.

e) **Formula Grant** – the FRM reflects the final local government finance settlement for 2008/09 and indicative figures provided by the government for 2009/10 and 2010/11.

f) **Dedicated Schools Grant** – the FRM reflects the 4.3% increase for 2008/09 and assumes a 2% increase in following years.

g) **Employers' superannuation costs** – the FRM includes increases in employers' contributions rates in line with latest actuarial advice.

h) **Interest Rates** – the FRM reflects interest rate assumptions for investment income and new borrowing costs in line with the Treasury Management Strategy for 2008/09 included at Appendix C.

i) **National Taxation** – the FRM assumes there will be no significant change to national taxation systems.

j) **Local government finance system** – the FRM assumes the status quo with no change to the grant distribution system, Council Tax or National Non-Domestic Rates. This is a key area and will be amended in the future for the outcome of the Government's review when it is announced.

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

l) **Local Authority Business Growth Incentive Grant** – the FRM assumes no further grant income after the current scheme ceases in March 2008.

m) **Council Tax Income** – 4.4% for 2008/09 and 4.7% for the remaining two years of the MTFMS.

n) **Local Development Plan** - £500k allowed in 2009/10 and 2010/11 for implementing the new planning framework.

7.4.4 The FRM 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:

	2008/09	2009/10	2010/11
Potential financial capacity in the base budget.	0	£2.043m	£3.971m

7.4.5 The above table demonstrates that the total budget in 2008/09 meets estimated resource requirements given current planning assumptions.

7.4.6 To summarise, the FRM looks at the totality of the revenue account and identifies indicative cash limits at the corporate level.

7.4.7 Plans to modernise both service provision and support services will start to take shape now that the new joint Chief Executive has taken up post. The Primary Care Trust (PCT) has already taken an opportunity to set aside some cash to help support implementation of emergent plans for modernisation. The PCT will transfer £300k to the Council to manage on its behalf. The FRM within the draft MTFMS for 2008 – 2011 includes a Council match funding contribution to be held in an earmarked reserve called 'Modernisation Plans' until such times as an modernisation plan for the two organisations has been formally approved.

7.4.8 The Council has been developing a corporate programme to modernise the way in which day-to-day business is transacted to deliver improved value for money and better services for the community. That programme – Herefordshire Connects – is being reviewed by the new Chief Executive and his team of Directors from the Council and the PCT.

7.4.9 The FRM within the MTFMS for 2007 – 2010 included the financial envelope for Herefordshire Connects programme as outlined in April 2006 but adjusted to reflect estimated timings of investment and benefits as at March 2007. The passage of time means that the original financial model was too old to be a reliable basis for the FRM within the MTFMS for 2008 – 2011. Decisions have been made about the social care management information system. This decision, and the fact that the programme is now under review, is reflected in the FRM in the MTFMS for 2008 – 2011 as follows:

a) Inclusion of the investment requirement for a replacement social care management information system (£687k in 2008/09 reducing to £154k thereafter – subject to the call-in process).

b) Inclusion of the funding for the Herefordshire Connects Core Team so there is a resource to maintain a Council-wide modernisation programme (£450k in 2008/09 reducing to £300k in 2009/10 and £200k in 2010/11).

c) Inclusion of the funding for urgent ICT strategy work needed to support the Herefordshire Connects programme and ICT infrastructure (£247k in 2008/09 rising to £647k thereafter).

7.4.10 The Herefordshire Connects programme is a modernisation programme under review. As detailed financial information is not yet available, the financial capacity to support the programme is to be provided through a new earmarked reserve called 'Modernisation Plans' rather than through the FRM until such times as a formal decision on the way forward has been taken.

7.5 Sensitivity Analysis

7.5.1 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:

a) An increase or decrease of 0.5% in the Council Tax Base impacts the budget by £410k in 2008/09.

b) 1% variance in Council Tax inflation impacts the budget by £765k for 2008/09, increasing to £840k by 2010/2011.

c) A figure of 0.5% for losses on collection would result in a reduction in the tax base for 2008/09 of 347 units of band D equivalents.

d) A £100k increase in budget increases council tax by up to 0.13%.

e) An increase of 1% in average base rates would also have an impact. Existing debt is at fixed rate and increases in base rates have little impact upon long term (50 year) borrowing rates from the Public Works Loan Board (PWLB), so the impact on cost of borrowing is marginal. Investments would generate an extra £272k, based on an average cash balance of £27.2m (Historically); therefore an increase in base rates means the net effect is we generate greater investment income.

f) The risk of base rates going up appears at the present time to be very low but that could easily change.

g) An increase of 1/4% in base rates would be expected to generate an extra £68k per year investment income (£5.7k per month).

h) The impact on borrowing rates is difficult to determine because the source of borrowing we tend to use is not linked directly to the base rate. In practice we would probably be able to adjust the maturity period from our original intention to make the impact negligible.

i) There is a risk that the government's formula grant figures are lower than the amount indicated. If so, a 1% drop equates to £530k per annum.

j) Every 1% in discretionary fees and charges equates to approximately £70k.

k) If the pay settlement varies by 1% from the FRM's assumption this has an impact of approximately £560k.

l) If volume percentages in the current waste contract increase by 1% this would create an additional £300k spending pressure.

7.6 Financial Management Strategy for Capital Investment

7.6.1 The capital receipts reserve totalled £22.426m as at 1st April, 2007. Receipts of £1.8m have been received to date in 2007/08. Expected capital receipt reserve spending in 2007/08 totals £7.104m leaving a balance of £17.122m to be carried forward into 2008/09. This may change if additional receipts arise before 31st March 2008 and depending on final funding decisions for capital spending in 2007/08 when the annual accounts are prepared.

7.6.2 Capital receipts reserve funding of £10.108m has been committed to fund the 2008/09 capital programme however additional capital receipts from the sale of smallholdings and the old Whitecross High School site are expected.

7.6.3 The FRM for the revenue account reflects the new borrowing requirement implied by the Treasury Management Strategy (see section 7.8) to support the capital programme. Potential capacity in the revenue account to absorb the revenue implications of yet more borrowing is limited.

7.6.4 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:

a) The provision of a new Cattle Market.

b) Repairs, maintenance and enhancement of corporate assets such as property assets and ICT.

c) Investment in property assets needed to deliver the changes needed in adult social care.

d) ICT Strategy to support the Business Transformation programme.

e) Edgar Street Grid (ESG).

f) Office Accommodation Strategy.

7.6.5 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.

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

a) Maximising developers' contributions as outlined in the financial management strategy for the revenue account.

b) Effective project management of capital schemes to ensure they stay within budget.

c) 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).

d) Maintaining our successful track record for innovative capital investment schemes – e.g. the Whitecross PFI project and the Edgar Street Grid redevelopment project.

e) Attracting external funding such as the recent grant allocation under the government's Building Schools for the Future programme.

7.6.7 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:

a) 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.

b) Ensure that corporate assets (including property assets and ICT infrastructure) are not neglected.

c) Develop a corporate approach to maintaining and developing corporate assets.

d) Reallocate existing resources in Directorate base budgets used for this purpose to boost the corporate maintenance fund.

Capital Programme 2008/09

7.6.8 Schemes recommended for funding by Prudential Borrowing are as follows:

a) <u>Strangford landfill site</u>
There is a legal requirement to assess the impact of the landfill site on groundwater. The scheme will provide groundwater monitoring boreholes.

b) <u>Holmer School Flood alleviation</u>
This will fund remedial works to the school to prevent a re-occurrence of the flooding problems experienced in July 2007.

c) <u>Legionella prevention work</u>
This scheme upgrades hot water installations to meet code of practice requirements in council owned buildings across the county.

d) Prospect Wall repairs
Part of the existing retaining wall between The Prospect in Ross-on-Wye and the adjacent graveyard has collapsed. A large section of the wall needs to be rebuilt.

e) Sustrans Lottery Match Funding
This covers the estimated match funding needed for a walking and cycling route exploiting an existing bridge over the River Wye by the Welsh Water treatment works. The current scheme includes extending the route along the disused Hereford to Ross railway line between Rotherwas and Holme Lacy. There is a requirement to get clarity from Sustrans about the timing of funding and the £300k represents an estimate of the 2008/09 requirement.

7.6.9 Directorates have been encouraged to bring forward schemes that can be funded by revenue savings or budget to make the prudential borrowing repayments. The following fall into this category:

a) Development of Specialised Adults With Learning Difficulties Day Opportunities
A scheme funded by £40k annual savings. Savings need to be signed off, but once this is confirmed the scheme could proceed.

b) Development of Community Support Centres
A scheme funded by £65k annual savings. Scheme rises to £100k in 2009/10. Savings need to be signed off, but once confirmed the scheme could proceed.

c) Server virtualisation
This scheme can be funded by the additional resources for the ICT Strategy built in to the financial model. The scheme is one of the 'top 10' projects identified by ICT.

(d) Salix funded Schemes
The Council has been awarded £100k towards carbon reduction works. This grant is based on match funding of £100k from the Council. The £200k is then 'lent' to the relevant properties and paid back. The ability to fund repayments needs to be signed off.

7.6.10 The estimated capital financing costs for the above schemes totals £61k in 2008/09, £168k in 2009/10 and £175k in 2010/11 with annual reductions in repayments thereafter.

7.6.11 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 future years. The opportunity cost to the Council of temporarily funding external capital expenditure pending receipt of the anticipated external funding contribution has been built into the FRM. Schemes where this may apply are as follows:

- Rotherwas Futures
- Edgar Street Grid.
- Grant funded schemes such as the Building Schools for the Future programme.

7.7 Medium-Term Capital Plan

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

7.7.2 The following table summarises the existing capital investment programme updated for slippage. The table sets out the updated position.

	2007/08 Budget £'000	**2008/09 Budget £'000**	**2009/10 Budget £'000**	**2010/11 Budget £'000**
Children and Young People's Services	12,251	15,582	30,993	25,769
Resources	2,296	4,436	2,910	8,600
Corporate and Customer Services	322	669	-	-
Adult and Community Services	10,020	16,310	3,105	2,329
Environment Services	27,585	16,203	13,407	13,620
Available funding not yet allocated	-	4,188	5,221	646
Herefordshire Connects	944	508	-	-
	53,418	**57,896**	**55,636**	**50,964**
Funded by:				
Supported Capital Expenditure (Revenue)	9,963	12,750	13,567	13,230
Prudential Code Borrowing	9,277	14,911	9,256	9,740
Capital Receipts Reserve	7,136	10,104	1,347	745
Revenue Contribution	161	170	-	-
Government Grants & Contributions	26,881	19,961	31,466	27,249
	53,418	**57,896**	**55,636**	**50,964**

7.8 Efficiency Review & Value for Money

Efficiency Review

7.8.1 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.

7.8.2 Herefordshire has had a good track record for delivering on its 2.5% overall Gershon efficiency gains target as can be evidenced in its Annual Efficiency Statements. This is helpful given the move to a 3% cashable target in 2008/09.

7.8.3 Given the tight funding levels for local government over the period covered by CSR07, and that the government has indicated a 3% "cashable" target over the term of the CSR we will use our existing experience of exceeding government targets to deliver the new required level of efficiencies.

7.8.4 Under the requirement of the annual efficiency process Herefordshire Council needs to identify as a minimum a cumulative savings target of £6.619m by the end of 2007/08 to meet the 'Gershon' savings target.

7.8.5 The target for 2008/09 will be an additional £3.75m which must be cashable. The resulting cumulative target to be achieved by the end of 2008/09 is £10.4m.

7.8.6 CMB has also reviewed proposals from the Benefits Group (that exists as part of the governance arrangements for the Herefordshire Connects programme) on efficiencies both within that programme and outside of it that can be delivered whilst waiting for final approval to proceed with the programme. In total, further efficiency gains totalling £750k a year from 1st April 2008 have been identified as follows:

Efficiency Gain	**Estimated Saving**
Printer / copier rationalisation	£100k
New mobile telephone tariff	£25k
New postal services contract	£70k
New BT line rental contract	£10k
New PC supplier contract	£10k
Improved WMS usage	£50k
Increase in WMS dividend	£90k
Externalise travel management arrangements	£10k
Standardisation of PC specification	£200k
Purchasing card rebate	£25k
Strategic sourcing	£160k
TOTAL	**£750k**

7.8.7 The Director of Environment is in the process of implementing a plan to achieve efficiencies and improvements in service delivery within the limits of the cash allocations for his area of responsibility. The CMB supports this proactive approach to financial management and service improvement as an example of good practice in obtaining value for money from public money.

7.8.8 The Director of Adult & Community Services is currently preparing an efficiency plan to ensure services are delivered within budget without the need for any significant change in the level of service provided. This efficiency plan will need to complement the service modernisation plan for adult social care. The CMB endorses this approach as an essential component of every Director's financial management responsibilities. The plans need to be finalised and formally approved as a matter of urgency in readiness for the new financial year.

Value for Money (VfM)

7.8.9 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.

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

a) 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.

b) Appointment of a Procurement & Efficiency Review Manager and reviewing the level of corporate resource for this critical function with the West Midlands Centre for Excellence.

c) Integrating corporate, service and financial planning processes.

d) Planning over the medium-term as well as the short-term.

e) Developing our routine financial performance monitoring reports for Cabinet to include VfM reviews.

f) Benchmarking our costs and activities with other authorities.

g) Through internal and external audit reviews.

h) Through scrutiny reviews.

7.8.11 A key development is including non-financial performance information in our routine financial performance monitoring.

7.9 Treasury Management Strategy

7.9.1 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 2007/08 complies with the detailed regulations that have to be followed. The 2008/09 strategy and prudential indicators is attached at Appendix C.

7.9.2 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.

7.9.3 It is not necessary to include the full Treasury Management Strategy in the MTFMS although the two documents do complement each other.

7.9.4 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.

7.9.5 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 FRM.

7.9.6 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:

- Fall to 5.50% in the first quarter of 2008.
- Then fall to 5.25% in the second quarter of 2008.
- Then fall to 5% by in the second quarter of 2009.

7.9.7 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 investments activity to increase the level of interest we receive.

7.10 Key Corporate & Financial Risks

7.10.1 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. In late 2007 and early 2008 we held additional training to ensure this is part of Service Planning arrangements.

7.10.2 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.

7.10.3 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. To help deliver this change the Insurance Manager’s post was redesignated Corporate Risk Manager in April 2007.

7.10.4 The most recent update of the Corporate Risk Register is provided for information at Appendix D.

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

7.11 Summary

7.11.1 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:

a) Strong corporate working supported by open book accounting.

b) Strong financial management.

c) Successful and timely delivery of the business transformation programme.

7.11.2 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.

Medium Term Financial Management Strategy (MTFMS)

Appendix A

MTFRM	2008/2009 Budget £'000	2009/2010 Budget £'000	2010/2011 Budget £'000
Base Budget	**122,371**	**131,778**	**138,455**
Inflation - Staff	1,602	1,375	1,450
Inflation - Income	(310)	(318)	(326)
	123,663	**132,835**	**139,579**
Deliverable Efficiency Gains			
- Audit Fees/bank charges/insurance	(100)	0	0
- Employee savings	(500)	0	0
- Supplies & Services savings	(200)	0	0
- Pertemps Saving	(100)	0	0
Transfers to/from RSG			
- Children's Services Grant	490	0	0
- Delayed Discharge	384	0	0
- Access Systems Capacity	2,059	0	0
- Waste PEG	183	0	0
- Gower Review	13	0	0
- Dog Control	12	0	0
- Food Hygiene Enforcement on Farms	28	0	0
- Animal feed	4	0	0
- Contaminated land	1	0	0
- New conduct regime	7	0	0
- Student Finance	(24)	(71)	(27)
MTFMS changes			
- Waste management - PFI Contract (net of £2m reserve)*	450	500	500
- Whitecross PFI requirement (net of schools contribution)	0	0	168
- Queenswood Park	0	0	0
- Procurement & Efficiency Staff	0	0	0
- Herefordshire Matters	0	0	0
- Chief Executives Development Fund	0	0	0
- HB & CT Benefit Administration	0	0	0
- Support Services Review	0	0	0
- ESG	0	0	(225)
- Local Development Framework	0	500	0
Herefordshire Connects (revenue)			
- Herefordshire Connects - Revenue Costs	0	0	0
- Herefordshire Connects - Revenue Savings	(750)	0	0
- Backfilling of seconded posts	0	0	0
- Legacy systems	0	0	0
- Social Care System	687	(533)	0
- Core team costs	450	(150)	(100)
Capital Financing Costs			
- Accommodation Strategy	146	254	492
- Repayment of LGR SCA	(453)	(334)	(230)
- Existing SCE(R) & Prudential Borrowing	482	1,088	1,015
- New Prudential Borrowing Bids	379	506	112
- Cash flow implications of externally funded projects	0	0	0
- Social Care System	225	89	(13)

Medium Term Financial Management Strategy (MTFMS)

Funding Sources			
- Use of existing Herefordshire Connects Reserve	1,500	0	0
- Transfer of Part of Social Care Contingency Reserve	1,300	0	0
- Transfer of Budget Management Reserve	1,100	0	0
- LABGI Grant	2,000	0	0
- Increased Cash Transactions Income	0	0	0
- Balance Sheet Review	300	0	0
- Procurement & Efficiency	0	0	0
- Use of 2008/09 capacity reserve	(1,500)	1,500	0
- Use of reserves to maintain capacity	0	0	
Emerging Pressures			
- Student Finance	36	53	(42)
- Customer Services Division	0	(500)	0
- Corporate Capacity	0	0	0
- Community Network Upgrade	1,100	0	0
- ICT Strategy	247	400	0
- Adult Social Care	596	0	0
- Match funding contribution to proposed Integration Plans Res	300	0	0
- Plough Lane Service Charge	100	0	0
- NNDR Empty Properties	126	0	0
- Rotherwas Loss of Income	201	0	0
Capacity to achieve desired Tax increase			
2008/09 capacity reserve	**(1,500)**	**0**	**0**
Herefordshire Connects	**(1,939)**	**0**	**0**
Invest to save			
Needs Analysis Mental Health/Physical Disabilities	**275**	**275**	
Capacity	**0**	**2,043**	**3,971**
TOTAL BUDGET	**131,778**	**138,455**	**145,200**
Council Tax increase	4.40%	4.70%	4.70%
<u>Assumptions</u>			
Assumed Pay and Price Increase			
Employees	2.5%	2.0%	2.0%
Employers pension contributions - additional on basic pay	0.7%	0.7%	0.8%
Other Expenditure	0.0%	0.0%	0.0%
Income **C & CR only 08/09,09/10,10/11**	2.5%	2.5%	2.5%
Prov Formula Grant increase on adjusted baseline	4.8%	4.0%	4.0%
Assumed Collection Fund Surplus (£'000)	-	300	300
Assumed Taxbase Increase	0.75%	0.75%	0.75%
New prudential borrowing (£m)	1.00	1.00	1.00
Dedicated Schools Grant b/fwd	81,892	84,484	86,272
Increase	2,592	1,788	2,707
Dedicated Schools Grant	**84,484**	**86,272**	**88,979**
DSG % increase	3.2%	2.1%	3.1%

APPENDIX B

MEDIUM-TERM CAPITAL PLAN

	2007/08 Budget £'000	2008/09 Budget £'000	2009/10 Budget £'000	2010/11 Budget £'000
Children and Young People's Services	12,251	15,582	30,993	25,769
Resources	2,296	4,436	2,910	8,600
Corporate and Customer Services	322	669	-	-
Adult and Community Services	10,020	16,310	3,105	2,329
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Prudential Code Borrowing	9,277	14,911	9,256	9,740
Capital Receipts Reserve	7,136	10,104	1,347	745
Revenue Contribution	161	170	-	-
Government Grants & Contributions	26,881	19,961	31,466	27,249
	53,418	**57,896**	**55,636**	**50,964**

APPENDIX C

TREASURY MANAGEMENT STRATEGY 2008/09

1. INTRODUCTION

1.1 The Financial Services Technical Team is responsible, under the direction of the Director of Resources for the day-to-day management of the Council's treasury management activities. The Treasury Management Strategy for borrowing and Annual Investment Strategy for 2008/09 details the expected activities for the Team in the coming financial year and has been produced in accordance with the Council's approved Treasury Management Policy Statement.

1.2 The 2003 Prudential Code for Capital Finance in local authorities introduced new requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of this integrated Treasury Management Strategy.

1.3 The Treasury Management Strategy covers the:

- current treasury portfolio position;
- treasury limits for 2008/09;
- prudential indicators for 2008/09 – 2010/11;
- 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.

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. A local authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

a) increases in interest charges caused by increased borrowing to finance additional capital expenditure, and

b) any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. CURRENT TREASURY PORTFOLIO POSITION

2.1 The Council's treasury portfolio position as at 7th January 2008 is as follows:

DEBT POSITION	Principal (£)	Borrowing Rate (%)
Public Works Loan Board	91,572,716	4.5
Market Debt *	12,000,000	4.5
Total Debt	**103,572,716**	**4.5**

Estimated Borrowing Requirement 2008/09 – supported borrowing approvals of approximately £12.75 million, plus the potential for an additional £14.91 million unsupported borrowing under the Prudential Code (which includes slippage from previous year). In addition refinancing of maturing debt of £486,000 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.

* The Market debt refers to two LOBO (Lender Option Borrower Option) loans that were taken out at low interest rates fixed for 2 years with the remaining 48 years of the loans currently running at an interest rate of 4.50%

INVESTMENT POSITION	Principal (£)	Rate of Return (%)
Internally managed funds	55,460,000	6.16
Externally managed funds**	0	n/a
Total Investments	**55,460,000**	**6.16**

**The externally invested funds were brought back in house during 2007/08.

3. TREASURY LIMITS FOR 2008/09

3.1 It is a statutory duty under Section 3 of the Local Government Act 2003, and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". 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 their Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is 'acceptable'.

3.3 Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

4 PRUDENTIAL INDICATORS FOR 2008/09 – 2010/11

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

PRUDENTIAL INDICATOR	**2007/08**	**2008/09**	**2009/10**	**2010/11**
(1). Budget Setting Indicators				
	£’000	**£’000**	**£’000**	**£’000**
Capital Expenditure	53,418	57,896	55,636	50,964
Ratio of financing costs to net revenue stream				
Net Revenue Stream	122,371	131,778	138,455	145,200
Financing Costs	9,364	10,546	12,363	13,389
Ratio of financing costs to net revenue stream	7.65%	8.00%	8.93%	9.22%
		2008/09	**2009/10**	**2010/11**
Incremental effect of Prudential Borrowing		**£ p**	**£ p**	**£ p**
Existing Prudential Borrowing allocations		39.56	51.12	58.82
New Prudential Borrowing bids		5.46	12.66	14.16
Total		**45.02**	**63.78**	**72.98**
Contributions from existing revenue budgets		(9.19)	(12.19)	(7.13)
Net Band D Impact		**35.83**	**51.59**	**65.85**
Capital Financing Requirement (as at 31/3)	**£’000**	**£’000**	**£’000**	**£’000**
Total	138,189	158,805	173,694	188,223

PRUDENTIAL INDICATOR	**2007/08**	**2008/09**	**2009/10**	**2010/11**
(2). Treasury Management Prudential Indicators				
Authorised Limit for External Debt	**£’000**	**£’000**	**£’000**	**£’000**
Borrowing	166,000	175,000	195,000	210,000
Other Long Term Liabilities	3,000	10,000	10,000	10,000
Total	**169,000**	**185,000**	**205,000**	**220,000**
Operational Boundary	**£’000**	**£’000**	**£’000**	**£’000**
Borrowing	130,500	152,000	164,000	174,000
Other Long Term Liabilities	1,500	6,000	6,000	6,000
Total	**132,000**	**158,000**	**170,000**	**180,000**

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	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
	10,000	10,000	10,000	10,000

5. PROSPECTS FOR THE ECONOMY & INTEREST RATES

5.1 The Council currently has Sector Treasury Services Limited as its treasury advisers and part of their service is to assist in forming a view on economic trends and the effect on interest rates. This section of the strategy outlines the Council's view of the economy and interest rates based on the advice of its treasury advisers.

Economic Background

The sub prime crisis and the major downturn in the housing market in the United States has prompted fears around the world of the potential impact on world banking systems and on world growth. This has led to a sharp downturn in economic sentiment at the start of 2008 which caused the U.S. Fed to take emergency action in January to counteract these hugely negative developments. These have led some forecasters to make a sharp downward re-assessment of forecast interest rates in 2008 and 2009.

UK

- Gross Domestic Product (GDP): growth has been strong during 2007 and hit 3.3% year on year in Q3 and 2.9% in Q4 despite expectations of a significant slowdown in the pace of the economy. Growth is expected to cool to 2.0% in 2008.
- Higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation.
- House prices started on the downswing in Q3 2007 and this is expected to continue into 2008.

- The combination of increases in Bank Rate and hence mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure.
- Banks have also tightened their lending criteria since the sub prime crisis started and that will also dampen consumer expenditure via credit cards and on buying houses through obtaining mortgages.
- Government expenditure will be held under a tight reign for the next few years, undermining one of the main props of strong growth during this decade.
- The Monetary Policy Committee (MPC) is very concerned at the build up of inflationary pressures, especially the rise in the oil price to reach $90 – 100 per barrel from time to time (was $30 in 2003) and the consequent likely knock on effects on general prices. The price of UK manufactured goods has risen at the fastest rate in 16 years in December 2007 – 5.0%. Food prices have also risen at their fastest rate for 14 years (7.4% annual increase) driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates compared to the Fed in the face of these very visible inflationary pressures. In addition, UK growth was still strong in Q4 (despite expectations of a significant cooling off). The downward trend in Bank Rate is now expected to be faster than at first thought after the initial cut in December 2007 to 5.50% in view of the MPC minutes, which showed a unanimous MPC vote for a cut and the consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. If those pressures subside, then there is further downward risk to the Sector forecast which currently only allows for 0.25% cuts to reach 4.75% in Q3 2008.

International

- The US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures.
- The US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. The Fed. rate peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis which started in August 2007 and has subsequently resulted in banks making major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria which has hit hard those consumers

with poor credit standing.

- The Fed cut its rate again, to 4.5% in October 2007 and to 4.25% in December. A steep plunge in equity markets around the world in January precipitated by widespread concerns as to recession in the US, the financial viability of bond insurers in the US as a result of the sub-prime crisis and the unwinding of huge unauthorised positions taken by a rogue trader at the French bank SocGen, triggered an emergency between meetings cut of 0.75% by the Fed. This was followed by another cut of 0.50% at its regular meeting a few days later on 30 January.
- More cuts may be required to try to further stimulate the economy and to ameliorate the extent of the expected downturn. However, the speed and extent of these cuts may be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could be heading into stagflation in 2008 – a combination of inflation and a static economy (but the economy could even tip into recession if the housing downturn becomes severe enough).
- The major feature of the US economy is a steepening downturn in the housing market which is being undermined by an excess stock of unsold houses stoked by defaulting sub prime borrowers pushed into forced sales. Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so conversely will lead to a fall in consumer expenditure. Petrol prices have trebled since 2003 and, with similar increases in the price of home heating oil, this will also depress consumer spending with knock on effects on house building, employment etc.
- The downturn in economic growth in the US in 2008 will depress world growth, (especially in the western economies), which will also suffer directly under the impact of high oil prices. However, strong growth in China and India will partially counteract some of this negative pressure.
- EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008.

Interest rate forecast

Base Rate:

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

- started on a downward trend from 5.75% to 5.50% in December 2007
- to be followed by further cuts in Q1 2008 to 5.25%, to 5.00% in Q2 2008 and to 4.75% in Q3 2008
- then unchanged until an increase in Q4 2009 to 5.0%
- unchanged then for the rest of the forecast period

- there is downside risk to this forecast if inflation concerns subside and therefore opens the way for the MPC to be able to make further cuts in the Bank Rate

Long Term Rates:

- The 50 year PWLB rate is expected to fall marginally from 4.50% in Q1 2008 to 4.45% in Q2 2008 before rising back again to 4.50% in Q2 2009 to eventually reach 4.65% in Q2 2010.
- The 25 year PWLB rate is expected to fall from 4.55% to 4.50% in Q2 2008 and then to rise in gradual steps from Q2 2009 to reach 4.75% in Q3 2010.
- The 10 year PWLB rate is expected to fall from 4.60% in Q1 2008 to 4.55% in Q2 and to 4.50% in Q3 2008 and to then gradually rise from Q1 2009 to reach 4.85% in Q3 2010.
- The 5 year PWLB rate is expected to fall from 4.55% in Q2 2008 to 4.50% in Q3 2008 and to then gradually rise starting in Q1 2009 to reach 4.85% in Q2 2010.

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

Table 1 Sector Treasury - Interest Rate Forecast

(This table represents the view of the Council's Treasury advisors as at February 2008)

%	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009
Base Rate	5.25	5.00	4.75	4.75	4.75
5 Year PWLB	4.55	4.55	4.50	4.50	4.55
10 Year PWLB	4.60	4.55	4.50	4.50	4.55
25 Year PWLB	4.55	4.50	4.50	4.50	4.50
50 Year PWLB	4.50	4.45	4.45	4.45	4.45

Table 2 Summary of Independent Forecasts of Base Rate

(This table represents the views of independent forecasters' views of base rate as at January 2008)

%	2008 Q4	2009 average	2010 average	2011 average
Median	4.88%	5.20%	5.24%	5.27%
Highest	6.25%	6.25%	6.25%	6.25%
Lowest	4.25%	4.80%	4.50%	4.50%

6 BORROWING STRATEGY

6.1 Based upon the prospects for interest rates, there is a range of options available for borrowing strategy for 2008/09. Variable rate borrowing is expected to be more expensive than long term borrowing and will therefore be unattractive throughout the financial year compared to taking fixed rate borrowing. There is expected to be little difference between 5 – 50 year PWLB rates so this may open up a range of choices for new borrowing for authorities that want to spread their debt maturities away from a concentration in long dated debt. There is also expected to be little variation in rates during the year so borrowing could be undertaken at any time in the year.

6.2 The main strategy is therefore as follows:

- To undertake new borrowing over the longer term (50 year will be marginally cheaper than 25-30 year borrowing) and at any time in the financial year. A suitable trigger point for considering new fixed rate long term borrowing would be 4.50%.
- If shorter term rates become available around this rate they will also be considered.
- To take account of future rescheduling opportunities by reviewing the differentials between new borrowing rates and rates for early repayment of debt, which are the basis of the calculation of premiums and discounts. Currently the 25 -30 year loans are more attractive for rescheduling.
- To maintain an even spread debt maturity profile.
- Money Market debt will also be considered where opportunities are available to minimise borrowing costs. The Director of Resources will carefully monitor the interest rates available and take advice from the Treasury Management Consultants.

6.3 Against this background caution will be adopted with the 2008/09 treasury operations. The Director of Resources will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances.

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 both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- ***if it were felt that there was a significant risk of a sharp rise in long and short term rates****,* perhaps arising from a greater than expected increase in world economic activity or further increases in inflation, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

- ***if it were felt that there was a significant risk of a sharp fall in long and short term rates,*** due to e.g. growth rates weakening, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term funding will be considered.

7. DEBT RESCHEDULING OPPORTUNITIES

The introduction of different PWLB rates on 1 November 2007 for new borrowing as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period loans narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings may still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans.

The Director of Resources will actively give consideration during the year to undertaking rescheduling in line with the strategy set out in paragraph 6 above.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- help fulfil the borrowing strategy ; and
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

8 SPECIFIED AND NON-SPECIFIED INVESTMENTS

8.1 Under CIPFA's Treasury Management Code of Practice and the ODPM's Guidance on Local Government Investments issued in March 2004 the Council is required to formulate a strategy each year regarding its investments.

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** as detailed in **Annex A**.

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.
- If non-specified investments are to be used, whether prior professional advice is to be sought from the Council's treasury advisors (Sector Treasury Services Ltd).

8.4 With regard to the Council's Joint Ownership of West Mercia Supplies and the level of balances held by this organisation; the Council may, if deemed in the best interest of prudent management of the West Mercia business undertake transactions pertaining to foreign currencies, such as foreign exchange deals and investments. Such dealings must have **relevance to the course of business of West Mercia Supplies**. These dealings will be classified as **non-specified** as they are not sterling denominated.

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*. 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. This includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need).

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* and *Moody's Investors Service* 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.

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.

11. INVESTMENT STRATEGY

11.1 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 that Bank Rate has now started on a downward trend from 5.75% to 5.50% in December 2007, and to 5.25% in February. This will continue with further cuts forecast to 5.00% in Q2 2008 and 4.75% in Q3. It is then expected to remain unchanged until Q4 2009.

12. EXTERNALLY MANAGED FUNDS

12.1 For a number of years the Council had a fund management agreement with Investec, who managed a proportion of the Council's investments. However, during 2007/08 these funds were called back to be managed internally as the fund had not been performing as well as expected.

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 2008/09

1 INTRODUCTION

The PIs set out below are recommended by the Prudential Code. However members may prefer additional or alternative indicators that will help with the decision making process.

2 ACTUAL AND ESTIMATED CAPITAL EXPENDITURE

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

Any further allocations of funding will be added to the Capital Programme and reported as part of the Capital Monitoring process.

.	Forecast Outturn 2007/08 £'000	Estimated 2008/09 £'000	Estimated 2009/10 £'000	Estimated 2010/11 £'000
Capital Programme Area: -				
Children and Young People's Services	12,251	15,582	30,993	25,769
Resources	2,296	4,436	2,910	8,600
Corporate and Customer Services	322	669	-	-
Adult and Community Services	10,020	16,310	3,105	2,329
Environment Services	27,585	16,203	13,407	13,620
Available funding not yet allocated	-	4,188	5,221	646
Herefordshire Connects	944	508	-	
	53,418	**57,896**	**55,636**	**50,964**
By funding				
Supported Capital Expenditure (Revenue)	9,963	12,750	13,567	13,230
Prudential Code Borrowing	9,277	14,911	9,256	9,740
Capital Receipts Reserve	7,136	10,104	1,347	745
Revenue Contribution	161	170	-	-
Government Grants & Contributions	26,881	19,961	31,466	27,249
	53,418	**57,896**	**55,636**	**50,964**

3. RATIO OF FINANCING COSTS TO NET REVENUE STREAM

3.1 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.

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Net Revenue Stream	122,371	131,778	138,455	145,200
Capital Financing Costs	9,364	10,546	12,363	13,389
Ratio of financing costs to net revenue stream	7.65%	8.00%	8.93%	9.22%

4 CAPITAL FINANCING REQUIREMENT

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

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Capital Financing Requirement (as at 31/3)	138,189	158,805	173,694	188,223

5 AUTHORISED LIMIT FOR EXTERNAL DEBT

5.1 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.

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	166,000	175,000	195,000	210,000
Other Long Term Liabilities	3,000	10,000	10,000	10,000
Total	**169,000**	**185,000**	**205,000**	**220,000**

6 OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

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

	2007/08 £'000	2008/09 £'000	2010/11 £'000	2010/11 £'000
Borrowing	130,500	152,000	164,000	174,000
Other Long Term Liabilities	1,500	6,000	6,000	6,000
Total	**132,000**	**158,000**	**170,000**	**180,000**

7 COUNCIL TAX IMPLICATIONS OF THE INCREMENTAL EFFECT OF CAPITAL DECISIONS

7.1 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:	**2008/09**	**2009/10**	**2010/11**
	£ p	**£ p**	**£ p**
Existing Prudential Borrowing allocations	39.56	51.12	58.82
New Prudential Borrowing bids	5.46	12.66	14.16
Total	**45.02**	**63.78**	**72.98**
Contributions from existing revenue budgets	(9.19)	(12.19)	(7.13)
Net Band D Impact	**35.83**	**51.59**	**65.85**

8 TREASURY MANAGEMENT INDICATORS

8.1 These are specific indicators which relate to the management of the Treasury Management process.

	2007/08	**2008/09**	**2009/10**	**2010/11**
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	**2007/08**	**2008/09**	**2009/10**	**2010/11**
	£'000	**£'000**	**£'000**	**£'000**
(per maturity date)	10,000	10,000	10,000	10,000

ANNEX A

SPECIFIED INVESTMENTS

All specified investments will be sterling-denominated with maturities up to a maximum of 1 year.

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
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
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	Buy and hold to maturity: to be used in-house after consultation with Treasury Management advisor
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 after consultation with Treasury Management advisor
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

ANNEX A

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*	In-house	25%	5 years
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year *Custodial arrangement required prior to purchase*	YES-varied *Minimum rating "AA" Long-term and "F1+" Short-term (or equivalent)*	In-house after consultation with Treasury Management advisor	20%	5 years
Callable deposits with credit rated deposit takers (banks and building societies)	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	In-house after consultation with Treasury Management advisor	20%	5 years in aggregate
Range trade deposits with credit rated deposit takers (banks and building societies)	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	In-house after consultation with Treasury Management advisor	20%	5 years
Snowballs with credit rated deposit takers (banks and building societies)	YES-varied *Minimum rating "AA-" Long-term and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	In-house after consultation with Treasury Management advisor	20%	5 years
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.]*	*Minimum rating "AA-"*	External fund manager only subject to guidelines and parameters agreed with them	20%	10 years

ANNEX A

Investment	Security / Minimum credit rating	Circumstance of use	Max % of overall investments	Maximum maturity of investment
UK government gilts *Custodial arrangement required prior to purchase*	Govt backed	Buy and hold to maturity: in-house after consultation with Treasury Management advisor	20%	10 years (but also including the 10 year benchmark gilt)
Treasury bills [*Government debt security*] *Custodial arrangement required prior to purchase*	Govt backed	In-house after consultation with Treasury Management advisor	20%	5 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*	In-house after consultation with Treasury Management advisor	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 and "F1" Short-term (or equivalent) Support 1,2 or equivalent*	In-house	20%	1 year
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in Statutory Instrument 2004 No. 534) *Custodial arrangement required prior to purchase*	AAA / Govt guaranteed	Buy and hold to maturity: in-house after consultation with Treasury Management advisor	20%	10 years
Bonds issued by multilateral development banks (as defined in Statutory Instrument 2004 No. 534) *Custodial arrangement required prior to purchase*	AAA / Govt guaranteed	Buy and hold to maturity: in-house after consultation with Treasury Management advisor	20%	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)* 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 as 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

Managing Risks – Corporate Risks
November 2007

Stage 1					Stage 2					Stage 3		
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)					
Identified Risk Area	Risk Ref No	Impact (Severity)	Likelihood (Probability)	Priority Rating	Potential Mitigation Strategy Summary	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating	Action Description	Action Owner	Target/ Review Date
Corporate spending pressures outweigh the level of resources available to meet them. Particular pressures prevalent in Adult Social Care, Childrens Social Care and ICT & Customer Services	CR2	4	4	High	The Council's Medium Term Financial Management Strategy highlights the requirements for all Directorate budgets to be managed within a 1% overspend tolerance. Budgetary pressures continue for both adult and children social care services. Contingency funding has been set aside within the Council's budget plan to help mitigate this risk. A significant overspend on social care budgets is currently expected. The forecast outturn for ICT & Customer Services is now expected to be within budget for the year but there will be significant under and over spends within that position. Additional budget pressures include flood recovery costs and unbudgeted revenue costs of the Siemens contract. A new potential pressure is grant clawback on the ARCH programme.	ALL/SR	3	3	High	1. Budget management plan for A&CS agreed. 2. Budget management plan for C&YP agreed. 3. ICT base budget issues being examined by DC&CS with support from financial services. 4. Robust challenge of monthly budget monitoring reports from Directorates by financial services. 5. Robust challenge of Directorate budget management plans for the further through the Performance Improvement Cycle process. 6. Medium Term Financial Strategy being reviewed.	GH SM JEJ DP DP DP	 Ongoing Complete Jan 2008
Failure to maintain CPA 3 start rating and move from improving adequately to improving strongly	CR4	4	4	High	The key threats to the direction of travel are now a failure to increase the proportion of satisfaction indicators that are improving year on year, data quality and adverse inspection results, recent governance/control issues and uneven annual service scores. The removal of the Council's current 'protected' corporate assessment score in 12008/09 will affect our start rating unless the national rules are changed or we achieve at least a score of ¾ in each of the three 'first tier' services. The impact of the rules base approach to service scores could mean a drop in our start rating if any service dropped below a 2/4.	ALL/CB	3	3	High	a) Continue to respond positively to all corporate audits e.g. performance indicators and data quality, b) develop and implement robust improvement plans where audit results are poor, d) direction of travel audit handled well, e) getting agreement for a standard approach prior to all future audits/inspections, f) redirect PIMs to the areas that need most support, g) Herefordshire Connects provides corporate performance management solution – interim solution to be investigated.	a) TF b) relevant HoS/ Director d) TG e) TG f) TG g) Hfds Connects Board/ TG	d) Nov 07 e) Jan 08 f) as required g) visits to other authorities from Jan 08
					Use of Resources Improvement Plan for 2006 has been implemented.	SR				Use of Resources assessment for 2007 expected shortly, SR to lead on development of an improvement plans.	SR/ALL	Ongoing
					Considerable work has taken place embedding a strong performance management framework including structured meetings between Chief Executive and Directors. Performance Improvement Managers have been appointed for all Directorates. Additional support is being given to the service planning for 2008 through a series of training modules.	CB/JJ				Action plans resulting from internal audit reviews implemented to agreed timescales	ALL	Nov 07 – Mar 08
The inability to provide critical services due to the failure of the ICT networks	CR5	3	4	High	Substantial capital investment has been made in ICT network and disaster recovery arrangements. Extensive ICT specific service continuity plans have been developed. 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. The Council is reviewing the Community Network Contract with Siemens to ensure it provides value for money.	ALL/CB	3	3	High			

Medium Term Financial Management Strategy (MTFMS)

Stage 1					Stage 2					Stage 3		
		Assessment of Risk (Assume NO controls in place) using risk matrix					Assessment of Residual Risk (With control measures implemented)					
Identified Risk Area	Risk Ref No	Impact (Severity)	Likelihood (Probability)	Priority Rating	Potential Mitigation Strategy Summary	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating	Action Description	Action Owner	Target/ Review Date
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 were part of Improvement Plan. A minimum of 20% of corporate directors' time will be spent on corporate issues. Discussed by CMB as part of 2007 PIC and adjustments proposed for the budget. New CMB/SMT joint working has also been launched.	CB	4	2	Medium			
Achievement of LPSA2 targets and hence the Performance Reward Grant (PRG). Failure to manage future PRG will have a significant and detrimental impact on the Council's ability to invest in future performance gains in services.	CR8	3	3	High	Herefordshire Partnership Manager and the Head of Policy & Performance now meet regularly with the assigned project manager and have agreed 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.	JEJ	3	2	Medium	a) redistribution of some LPSA2 funding undertaken b) challenge meetings held with all LPSA2 lead officers	JW/TG	a) BCG convened in August thereafter meeting at least monthly b) HCPB convened and meeting monthly
Delivery of Local Area Agreement	CR9	3	2	Medium	Financial and performance management process in place and working. Herefordshire Partnership Performance Management Group (PMG) to monitor PIs and LAA Single Pot and agree detailed actions.	JJ	3	2	Medium	a) PMG in place b) action undertaken on basis of performance reviews	JW	Ongoing – PMG to meet at least 6 times/year
Failure to recruit and retain staff where there are national skills shortages and including the impact of Job Evaluation,. Ensuring consistent treatment of Equal Pay Claims	CR11	3	3	High	Succession planning as part of management development provision Utilise SRDs/implement career development posts and conclude job evaluation. 94% SRDs completed by the end of May. HR to support Directorates deliver to identified training needs, to work to Investor in People standard. Focused recruitment activity to support identified shortages e.g. Social Work (Childrens) and more recently difficulties in recruiting to Asset Management & Property Services posts, plus development of a workforce plan, and work to implement national data sets. Actions to address ICT shortages are in place and progressing in Building Control. Promote professional development support through training agreements and payment of professional fees. Develop secondment opportunities internally and with partners. Implement Market Forces Supplement. Improving leadership and management through revised management development provision. Implement software to review new pay structure to ensure that it is equally proofed.	ALL/GC	2	2	Low	Looking at traineeships in Building Control, overseas recruitment for Social Workers. Council's establishment to be reviewed quarterly. Market Forces Supplement in place. Numbers in receipt of MFS included in quarterly directorate performance reports Equal pay software implemented and initial review in progress. Review completed by end of Jan 08		Mar 08 Jan 08
Lack of development in the Adult's Workforce Strategy					Pride in Herefordshire approach to be implemented. Adult Strategy being developed first phase focusing on Learning Disabilities.	GH				Awards ceremony arranged Initial focus on learning disability	GCheesman GC	
Lack of development in the Children's Workforce Strategy					Children's draft workforce strategy agreed in principle and implementation plans being developed.	SM				Action plans lead officer in place	Shaun McLurg	

Medium Term Financial Management Strategy (MTFMS)

Stage 1					Stage 2					Stage 3		
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Identified Risk Area	Risk Ref No	Impact (Severity)	Likelihood (Probability)	Priority Rating	Potential Mitigation Strategy Summary	Responsible Directors	Impact (Severity)	Likelihood (Probability)	Residual Priority Rating	Action Description	Action Owner	Target/ Review Date
Approach to Diversity: risk of not achieving level and not improving standard	CR12	3	2	Medium	Long term development produced. EIA action plans to be incorporated into service plans and monitored through the performance management process. The approach needs improving for 2007/08	JEJ	3	2	Medium	a) increased/improved training provision focused on critical service. b) improved service planning guidance and adherence to this c) corporate focus in contracts and consultation requirements d) external assessment during 2007/08	a) CT b) TG/all HoS c) CT/DH/ MHR d) CT	a) from Jun 07 b) Oct 07-Mar08 c) Jul 07-Mar 08 d) by Mar 08
Review of Accommodation Strategy	CR13	4	4	High	An Accommodation Strategy Group has been established to review future options for the new Council to consider in Autumn 2007. Cabinet are considering officer recommendations. An emerging risk is the move towards flexible working. An initial observation/data analysis study has been commissioned to identify potential flexible working solutions.	SR MH	3 3	2 3	Medium High	Future options for consideration by Council have been developed by the Accommodation Strategy Group	SR	Jan 08
Timetable for the establishment of a Public Service Trust for Herefordshire	CR15	3	2	Medium	A Project Manager appointed. Steering group and work streams established.	CB	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	3	High	Ongoing commitment from Herefordshire and Worcestershire (H&W) to retaining 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)	MH	4	2	Medium	H&W have an agreement to Trade LATS between the two authorities at “no cost” to offset risks – this risk needs to be formalised. The failure of negotiations with ReEnergy means that the issue of MWM identifying and introducing a new sub-contractor will need to be monitored to ensure early warning can be given of likely timescales for the negotiations and implementation of a varied contract. Because of the timescales involved in delivering a variation to the Contract it will be necessary to offset our risks of LATS penalties by maximising our recycling performance through Waste Collection to deliver increased diversion from landfill. In addition the two authorities are now also negotiating a contract to secure capacity at an Energy from Waste Plant to ensure we collectively meet our diversion targets. The contracts are both “out of county” and are designed to deliver the minimum quantity of waste to meet our LATS target and to minimise the amount of waste being transported out of the counties. In addition further work is being undertaken to secure appropriate diversion technology to secure the longer term viability of the contract.	MH	
Reduction in the Use of Resources overall assessment	CR17	4	2	Medium	Adverse opinion on Value of Money in Annual Governance letter, due to the financial governance issues in ICT & Customer Services highlighted in the Section 151 Officer report dated 20.09.07 and the Crookall report, will impact on the 2007 Use of Resources score for Internal Control and Value for Money	SR	3	4	High	Directorate Management Teams to review progress implementing actions arising from internal audit reviews on a monthly basis.	ALL	Ongoing
Benefits CPA Score 2007	CR18	2	2	Low	The BFI Performance Measures have been monitored closely. We have regained a 3 score.	SR	2	1	Low	The BFI has confirmed the self assessment in November 2007. This is now a “good” service.	SR	Completed for 2007

Stage 1					Stage 2					Stage 3		
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The inability of the Council to provide critical services and an effective emergency response due to non-IT related failures (Loss of accommodation, staff or resources)	CR19	4	3	High	Service continuity plans are in place to mitigate the effects of major incidents on the delivery of essential services. A monthly review of service impact assessments and continuity plans ensures the plans meet the changing requirements of the Council. Annual update 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 and environment following an emergency. Bi-annual exercising of the Emergency Response Team. Annual exercising of emergency response plans.	ALL/CB	2	2	Low	A major review of service continuity plans to be undertaken in 2007/08 to ensure compliance with BS25999	ALL	Ongoing
CRB process not carried out to an appropriate and reliable level	CR27	4	3	High	Officers agreed areas of concern and an action plan to be drawn up to redress the issues as quickly as possible.	SM	4	2	Medium	Action plan to be developed that will address the 7 areas of concern as raised by the Director of Children's Services. Appropriate financial support to be allocated so that the recommendations of the plan can be actioned speedily and readily. Report to members.	SM	
Deliverable benefits from Herefordshire Connects not realised	CR28	4	3	High	The MTFMS highlights the investment and expected savings in the short and long term whilst minimising service costs to balance the budget. Benefit realisation framework in place and being managed through Benefits and Commercials Group (BCG), IPG and Programme Board. The Herefordshire Connects programme is in "strategic" pause. Savings are being utilised to balance Directorate budgets.	JEJ	3	3	High	a) BCG in place and meeting regularly, benefits envisaged to be assessed at each meeting b) Programme Board receive regular exception reports c) actual investment and savings monitored against the MTFS	a) DP b) AK c) DP	Monthly, next review Jan 08
Both Data Centres are in leased accommodation, are near capacity, plus there are environment issues such as power and fire suppression that need to be addressed. Loss of data centres will affect delivery of all services. This is linked with accommodation strategy CR13	CR29	4	4	High	Decisions required from accommodation strategy to establish where future data centres should be located. Project to be established to relocate data centres to these locations. Investment required, server virtualisation will reduce risk in part.	JJ/SR	4	4	High	To be completed by risk owner		
Legacy systems out of support with vendors and on old hardware. Compounded by CR28 Benefits from Herefordshire Connects e.g. Cedar	CR30	4	4	High	Establish which systems are deemed critical and make good the systems. Any expenditure may need to be deducted from Herefordshire Connects benefits.	JJ/SR	1	1	Low	To be completed by risk owner		
Disaster recovery and business continuity does not fully support critical systems	CR31	4	4	High	Immediately establish some recovery process for each system. Then in conjunction with Data Centre relocation CR29 implement DR to support systems to agreed recovery parameters and business continuity	JJ/SR	1	1	Low	To be completed by risk owner		

Stage 1					Stage 2					Stage 3		
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Currently the Council's websites use the Star internet feed which is becoming increasingly unreliable. The TOM target is to move the internet feed to the 16Mbytes pipe as soon as possible however feedback from Networks is that this is already reaching capacity usage at peak times from school traffic which already uses this feed. In addition the MLE/VLE hosted externally will place additional demands on this bandwidth but the level of additional traffic is not known	CR32	4	4	High	Siemens are currently working on an alternative supplies to BT, whose costs are very high and they hope to significantly reduce the costs provided so far. These costs will also take into consideration any cancellation charges as the BT circuits were procured on a 3 year rental basis. Also these costs will be based on the service being provided to the 2 current data centres; if internet feeds are required at any new data centres it would require a "B" end shift(s). In reality this will be a new circuit and no provider will provide costs for doing this until the final destinations are known and the route/fibre capacity etc checked out. The technology used by BT the current feeds can only be incremented up to a total bearer bandwidth of 34Mb which gives 32Mb of usable bandwidth (limitation of ATM (Asynchronous Transfer Mode) over SDH (Synchronous Digital Hierarchy)). As mentioned above Siemens are looking at other technology options that can provide bandwidths from 30Mb up to 120Mb for HC to consider. Another option is to retain the existing 16Mb feeds for corporate and install totally new ISP Internet feed for schools.	ALL	4	4	High	To be completed by risk owner		

Signed: ________________________________ Position: ___________________________________

Date: _________________________

Key to Assessment of Risk Scores

Impact Rating	Score	Description/Examples
Catastrophic	4	One or more fatalities Service disruption for more than 5 days Adverse national publicity Financial loss up to 75% of budget Litigation almost certain and difficult to defend Breaches of law punishable with imprisonment
Critical	3	Extensive, permanent injuries, long term sick Service disruption 3-5 days Adverse local publicity Major injury to individual/several people Litigation is expected Financial loss up to 50% of budget
Significant	2	Severe injury to individual/several people Service disruption 2-3 days Needs careful public relations Financial loss of up to 25% of budget Higher potential for complaint, litigation possible Breaches of regulations/standards
Negligible	1	No injuries beyond first aid level No significant disruption of service capability Unlikely to cause any adverse publicity Financial loss of up to 10% of budget Unlikely to cause complaint/litigation Breaches of local procedures/standards

Likelihood Rating	Score	Description
Very Likely	4	Is expected to occur in most circumstances i.e. there is a more than 75% chance of occurrence.
Likely	3	Will probably occur in most circumstances i.e. there is a 40-75% chance of occurrence.
Unlikely	2	May occur in exceptional circumstances i.e. there is a 10-40% chance of occurrence.
Very Unlikely	1	Is never likely to occur i.e. a less than 20% chance of occurrence.

Medium Term Financial Management Strategy (MTFMS)

Appendix E

Glossary of Terms

ABG	Area Based Grant
AES	Annual Efficiency Statements
AOP	Annual Operating Plan
CAA	Comprehensive Area Assessment
DCLG	Department for Communities & Local Government
CMB	Corporate Management Board
CPA	Comprehensive Performance Assessment
CSR07	Comprehensive Spending Review 2007
DCSF	Department for Children, Schools & Families
DEFRA	Department for Environment, Food & Rural Affairs
DEL	Departmental Expenditure Limits
DfT	Department for Transport
DH	Department of Health
DSG	Dedicated Schools Grant
FRM	Financial Review Model
GDP	Gross Domestic Product
HCA	Homes and Communities Agency
HCS	Herefordshire Community Strategy
HO	Home Office
HPS	Herefordshire Public Services
IPR	Integrated Performance Report
LAA	Local Area Agreement
LABGI	Local Area Business Growth Incentive Grant
LINKs	Local Involvement Networks

LOBO	Lender Option Borrower Option
LPSA2	Local Public Service Agreement
LSP	Local Strategic Partnership
MAA	Multi Area Agreements
MPC	Monetary Policy Committee
MTFMS	Medium Term Financial Management Strategy
NNDR	National Non-Domestic Rates
PIC	Performance Improvement Cycle
PCT	Primary Care Trust
PFI	Public Finance Initiative
PSA	Public Service Agreements
PWLB	Public Works Loan Board
RDA	Regional Development Agency
RSG	Revenue Support Grant
SEN	Special Educational Needs
SWG	Settlement Working Group
TMS	Treasury Management Strategy
VfM	Value for Money