HEREFORDSHIRE COUNCIL

REVENUE BUDGET 2004/05

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET **19TH FEBRUARY, 2004**

Wards Affected

County-wide.

Purpose

To formulate Cabinet's recommendations to Council on the budget for 2004/05 and the associated level of Council Tax.

Key Decision

This is not a key decision. The final decision will not be taken by Cabinet but by Council at its meeting on 5th March 2004.

Recommendation

THAT Revenue Budget proposals for 2004/05 be finalised and decisions taken on the consequent level of Council Tax for recommendation to Council.

Reasons

To agree a recommendation to Council.

Considerations

1. At its meeting on 29 January 2004, Cabinet considered the recommendations of the Budget Panel regarding the parameters for preparation of the Revenue Budget for 2004/05.

2. The following paragraphs detail the information reflected in the report considered by Strategic Monitoring Committee as a basis for commenting on the budget proposals prior to a final recommendation from Cabinet to Council. The recommendations of Strategic Monitoring Committee are contained in paragraph 30.

Medium Term Financial Plan

3. The Council has recognised the importance of forward planning and has adopted key principles, to be reflected in budget considerations, within a Medium Term Financial Framework. Building on this approach, further work has been undertaken to develop a Medium Term Financial Plan for the period 2004/05 to 2007/08.

Further information on the subject of this report is available from Mr N M Pringle, Chief Executive, on (01432) 260044 and Mr I Hyson, County Treasurer on (01432) 260235

4. The priorities for the Medium Term Financial Plan, for the four-year period 2004/05 to 2007/08, agreed by Cabinet following recommendations by the Budget Panel are as follows:

- The underlying principle of the medium-term financial strategy is that the Council would intend to maintain the real purchasing power of current revenue budgets throughout the life of the planned period 2004/2005 to 2007/2008.

- An acceptance that the Education budget will largely be driven by a national agenda which has driven investment in Education above the level of inflation throughout the life of this Council. The emphasis within that investment is on passporting cash to schools. The Council wishes to support that approach whilst recognising that this can create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics. The Council does, however, believe that spending on Education must be contained within these allocations.

- There will be a need to continue to strengthen the Social Care budget through the medium-term financial plan period if the Council is to maintain improvement in this key area of its performance. This is particularly true in the area of care for older people where the Council spends significantly below its FSS. The Council will need to quantify its approach to the Business Case presented for the improvement and development of Older People's Services.

- The Council has been postponing investment in information and communications technology, partly because of its poor and inconsistent inheritance but also because of the difficulty of making judicious investment in those areas based on the occupation of existing accommodation. Investment cannot, however, be further postponed without the Council risking failure in the way it works and delivers services to the public.

- The Council needs to address its performance in relation to highways, transport, planning and waste. This will require investment but also requires the Council to support significant changes in the pattern of provision.

- There is a need to continue to resource activity, which is of direct benefit to the community. Recent inspections have led to criticism of levels of investment in adult learning and libraries. The Council needs to maintain resources for these services if it is to continue to offer them. If it is unable to maintain those minimum levels of resources, then it needs to consider in some cases whether to continue to maintain the services at all in some areas.

5. In addition, Cabinet will also need to consider the extent it wishes to resource any additional borrowing required as a consequence of the Prudential Guidelines. Following initial consideration on 29 January, the budget recommendations allow for £5,000,000 of additional borrowing in 2004/05. Broadly speaking, each £1,000,000 of capital investment incurs an ongoing revenue cost of £100,000 per annum. The Medium Term Financial Plan will need to incorporate sums consistent with the Council's aspirations for capital spend within Prudential Guidelines. A provisional sum of £5,000,000 per annum is reflected in the report on the Prudential Indicators elsewhere on the agenda.

6. A critical component in determining local priorities will be the outcomes anticipated from the investment of such sums.

Applying the Medium Term Financial Process to Budget Policy

7. In determining its budget policy, the Council will need to take into account immediate factors outside the medium-term financial plan. These include:

   (a) the need to protect the Council's financial reputation, managing and highlighting potential risks to the medium-term financial strategy both in terms of the forthcoming annual budget but also into future years.

   (b) continuing to learn from the monitoring of the current year's financial performance translating that practical experience into amendments to the budget for the forthcoming year. This requires an examination of both overspends and underspends although clearly overspends represent a greater risk.

   (c) assessing the Government's financial settlement for the forthcoming year but also seeking to anticipate trends over the medium-term financial plan period.

   All those three factors need, of course, to be set in the context of the medium-term financial plan.

Status and Risks

8. Clearly a feature of the budget proposals is the potential impact in terms of Council Tax. However, it is also vital that the Council has regard to the risks faced, both in terms of impact on service delivery and its status and reputation, in determining its Medium Term Financial Plan. The following paragraphs highlight the status and risk issues to be considered.

9. The Council has maintained its position as a "Good" authority as part of the revisit of the Audit Commission's Comprehensive Performance Assessment and has achieved a top score of 4 on the use of resources. The Council has made progress on its service scores for Benefits but has fallen back in its Education score. It needs to continue to apply resources to achieving through its Improvement Plan "Committed to Excellence". The assessment of the Council's financial standing by its external auditors remains satisfactory. They express themselves satisfied that the Council remains in a position to drive forward improvement. The Council has been advised that it is eligible for a corporate assessment in 2004 (with a view to progressing to excellent) although the current steer of the Council, agreed by Cabinet, is to await the next CPA round in 2005. It does, however, need to invest in its medium-term financial planning but also to concentrate on detailed aspects of audit, particularly in relation to Best Value Performance Indicators and information security.

10. The Council does, however, face significant risk in the following areas over the medium term:

   (a) The Social Care budget, which without ongoing investment would place the Council at risk with a growing prospect of increased expectation, increasing number of clients and increased exposure to challenge.

(b) The difficulty of estimating the escalating costs of waste disposal and collection. There are a number of facets such as the need to re-negotiate the Waste Disposal PFI contract and the pressure of ever-increasing volumes of waste (above those estimated), coupled with the annual increases in landfill tax. There is also the cost of recycling, particularly in a scattered rural community. The standstill budget reflects the costs associated with anticipated increases in waste volumes and a provisional allowance for increased costs. A figure in the order of £800,000 to £900,000 per annum has been included.

(c) There is a need to continue to address issues of levels of performance within Environment and Planning, which contribute to poor inspection scores in these areas.

(d) In relation to other service areas, national targets and standards, which are subject to a variety of inspection regimes, do have to be met, both in the short and medium-term. They require either a realistic budget provision or for the Council to formulate a strategy for dealing with the non-achievement of those targets.

(e) Regarding the late additional monies in this year's settlement, it is not known at this time whether they will be made available again next year. If not, that would place a further pressure on the Council Tax.

(f) The Council is due to receive an actuarial review of the Pension Fund, during 2004, which will review employer contributions, and until such time as this report is received, additional costs could exceed those currently predicted.

11. As reported to Cabinet in December, the Local Government Act 2003 has a number of implications for local authorities. Section 25 requires the County Treasurer to report to the Council when it is determining the budget and council tax each year. The County Treasurer is required to give professional advice on those two elements which are inter-dependant and must be considered together. Decisions on the appropriate level of reserves must be considered in the context of risk and uncertainty, with decisions ultimately guided by advice based on an assessment of all the circumstances considered likely to affect the Council. Paragraphs 13 and 14 below reflect this requirement. Statements of reserves are attached at appendices 1A and 1B.

12. Cabinet is recommending, as part of the overall budget package, that reserves are reinstated in accordance with last year's Council resolution by accumulating that sum over the period of the Medium Term Financial Plan by utilising the additional income raised from second homes (circa £300,000 per annum). Such an approach is fundamentally linked to the additional investment proposed which will help to minimise the risk to the Council's budget over the Plan period given the overall level of reserves currently held by the Council. The position would, of course, require ongoing monitoring and formal review each year as part of the budget process.

13. The County Treasurer, in considering the robustness of the estimates reflected in the budget and the adequacy of general reserves, has taken into account the following factors:

- **Realism of budget provision for:**

  - Pay awards and price increases.

- Income, particularly that of a volatile nature.
- Demand led services, most notably but not exclusively within Social Care and Waste Management.

- **Financial management arrangements currently in place including:**
  - Revenue and Capital monitoring and reporting procedures .
  - Treasury Management best practice.
  - Income collection and debt management procedures.
  - Specific provisions and estimated reserves.
  - Financial control procedures and internal audit reviews.
  - Risk management and contingency planning procedures.

- **External influences**
  - Potential claims against the Council.
  - Economic considerations.
  - Major unforeseen events or emergencies.

14. On balance, and having regard to all relevant factors known to him, the County Treasurer is satisfied that the budgets proposed are realistic and the level of reserves, subject to paragraph 12 above, are adequate. That judgement does, however, rely on the recommendation made in Paragraph 19 of the report to Cabinet on 29th January 2004. That paragraph recognised that the change in administration had impacted on the budget process for 2004/05. It spelt out the process for dealing with these issues for 2005/06 to improve the alignment of financial risks with strategic and service priorities. For 2004/05 a one-off "budget implementation" exercise would be undertaken to ensure that any potential issues arising from the 2004/05 budget are identified early and addressed.

Current Year's Budget and emerging budget pressures

15. The main features arising from this year's revenue budget which are relevant to the medium-term financial plan are:

- Demographic demand for older peoples services.
- Waste management – increasing volumes.
- Loss of external income – support services
- ICT support
- Reducing income:

  Land Charges.
  Industrial Estates.
  Commercial Property.

- Grounds maintenance:

  Adopted land etc.

The pressures above have been reflected in earlier presentations to the Budget Panel. A full schedule of the budget pressures considered by the Budget Panel is attached at Appendix 5.

Standstill budget

16. A key component of the Council's budgeting process in recent years, endorsed by Council last year in adopting a set of Financial Framework Principles, has been the maintenance of the real terms purchasing power of current revenue budgets. In essence this is the impact of inflation for pay and prices on current budgets over the life of the planned period.

17. The standstill budget takes account of this anticipated inflation together with unavoidable commitments, either known or anticipated, of a **corporate** i.e. Council wide nature. Account is also taken of changes to the budget required as a result of the transfer of funding between mainstream RSG funding and Specific Grants (e.g. Children's Services Grant). The position reached is the total cost of providing current levels of service before taking into account of service pressures or any other policy decisions. Standstill budgets for 2004/05 to 2007/08 are detailed in Appendix 2 (a-b).

18. Government Funding through the Revenue Support Grant (RSG) Mechanism is then taken into account to arrive at the Council Tax required to meet the approved level of spending.

Revenue Support Grant Settlement

19. The final settlement is reflected in Appendices 3 (a-c). The figures incorporate the Council's share of the further injection nationally of £340 million to mitigate increases in Council Tax, i.e. £1.2 million.

20. As a consequence, Central Government support, incorporating both RSG and redistributed business rates, as a proportion of Formula Spending Share (FSS) increases from 63.6% to 64.3%% compared to 63% in 2003/04.

21. As can be seen from Appendix 3(a), the main increases in FSS are Education, maintaining government plans for annual increases in the order of 5%, Personal Social Services reflecting increasing numbers of older people and Capital Financing costs, reflecting the Council's success in attracting supported borrowing approvals to facilitate capital investment. Data from the Comprehensive Spending Review would indicate that this trend is likely to continue into 2005/06 with little clear indication beyond that point other than the potential for a general downturn as a consequence of the overall economic situation and fiscal policy.

Council Tax Capping

22. An extremely complex position is developing in relation to the prospect of capping for the forthcoming financial year.

23. In 2003/04, authorities rated as Excellent or Good in the Comprehensive Performance Assessment were immune from capping. The current Government has never exercised its power to cap the expenditure of a local authority although it

reserves the right to do so. It has called in Councils (including Herefordshire) to give an explanation for their spending plans but has not so far resorted to capping.

24. The prospect of capping has been re-introduced for all Councils this year as a result of announcements made by the Office of the Deputy Prime Minister faced with what was considered to be unacceptable council tax rises in the current year. The Audit Commission has recently reported on those issues and has concluded that much of the council tax increase in the current year was generated by the change in the Government's support arrangements for local authorities. This is very easily illustrated in Herefordshire by reference to the Government's systems under SSA and FSS. If the Council had spent at SSA in the last year of the SSA system then 32% of its expenditure would have been met by the council taxpayer. If the Council had levied its council tax in 2003/04 at FSS (i.e. 17.3%) then 37% of the Council's expenditure would have been met by the council taxpayer. That is a very stark indication of the Audit Commission's conclusion. Local authorities were not, however, immune from criticism and there were particular comments about the inability/unwillingness of Councils who do not expect to drive down costs in the provision of additional services.

25. Since the Audit Commission's report, as mentioned above, the Office of the Deputy Prime Minister has injected additional monies into local government. Herefordshire has gained from that additional allocation. It is therefore extremely difficult to predict the approach to capping in the forthcoming year. Government will always be reluctant to cap more than a handful of authorities. Costs involved in rebilling all council tax payers (this is because the council tax bills have to go out before the Government can exercise its right under the capping regime) means it is an exercise which is carried out at the expense of the public purse and that is unsustainable if a large number of authorities are capped. We know that there are Councils that are already contemplating figures significantly in excess of that which will be faced by Herefordshire but better information will emerge on those issues in the coming weeks.

26. The initial indication was that the Office of the Deputy Prime Minister was unlikely to cap authorities (in year) but that they might impose a limit in line with the Government guideline for the ensuing financial year. Whilst the announcement from the Office of the Deputy Prime Minister might appear to have changed that stance, given that a General Election may well be held in 2005, technically the capping of authorities' spend for the ensuing year 2005/06 would still appear to be the more likely prospect. The position is, however, much more uncertain than it was immediately post the provisional settlement. This is a judgement for the Council as a whole to make and it can only be effectively made when better information is available about the increases likely to be imposed by other local authorities.

27. Whatever the level of resourcing the Council determines for the medium term financial planning, then the balance of advantage will still seem to lie in raising a significant amount of the total funding in the first year with reducing sums in the subsequent three years. This is a pattern, when coupled with effective communication strategies, that appears to have served other authorities well in creating a constructive approach to their medium-term financial planning.

Initial proposals from Cabinet

28. The initial proposal from Cabinet for further consultation, based on the provisional Revenue Support Grant (RSG) settlement, is a total budget of £176.409m, which implies a Council Tax at Band D of £972.50. After taking account of the final RSG settlement, the revised total is £176.433m, producing a Council Tax at Band D of £972.45, which may be summarised as follows:

	£000	**£000**
Standstill budget reflected in Appendix 2		174,013
Cabinet Budget proposals		
Correcting current budget under provision	520	
Older Peoples Services	1,000	
ICT infrastructure	700	
Other Services	200	2,420
Total Budget requirement		**176,433**

29. Supporting schedules detailing the budget for each programme area are attached at Appendix 4.

Recommendations from Strategic Monitoring Committee

30. Cabinet will wish to consider the observations made by Strategic Monitoring committee at its meeting on 9th February, which are to be found in the report from the Committee included at Item 5 on this agenda.

Consultation arrangements

31. The Council has consulted widely on the overall budget position incorporating the following approaches:

- County-wide participation through Herefordshire Matters survey.
- Council Tax roadshows, in Hereford and all market towns.
- Town Centre street surveys.
- Business community consultation meeting.

32. The key points emerging from the consultation meetings are:

- A concern at the recent levels of increase in Council Tax, particularly by those on fixed incomes.
- A recognition that this is a national issue and not limited to Herefordshire.
- A concern that rural issues are not fully addressed in government funding of local

authorities.

- An acknowledgement that the continued search for efficiencies would not in itself be sufficient to significantly reduce Council Tax bills.

33. The results of the countrywide consultation are currently being collated and will be presented at the meeting.

34. Cabinet is invited to formulate its final recommendations to Council on the budget for 2004/05 and the associated level of Council Tax.

Risk Management

Due consideration of budget pressures is required to ensure that financial resources are attached at Appendix 4.

Consultees

Budget Panel, Strategic Monitoring Committee and the general public.

Background Papers

Report to Strategic Monitoring Committee – 9 February 2004.

Report to Cabinet – 29 January 2004.