

MEETING:	CABINET
DATE:	19 JANUARY 2012
TITLE OF REPORT:	DRAFT FINANCIAL STRATEGY AND BUDGET 2012/13
PORTFOLIO AREA:	CORPORATE SERVICES AND EDUCATION

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To propose the draft financial strategy for 2012/13 to 2015/16 that includes the 2012/13 budget for approval by Council on 3 February 2012.

Key Decision

This is not a Key Decision.

Recommendation

THAT Cabinet recommends to Council on 3 February 2012

- (a) Approval of the Medium Term Financial Strategy (MTFS) shown in Appendix A, which includes the 2012/13 budget and Treasury Management Strategy and Policy Statement;**
- (b) Approval of a freeze of Council Tax for 2012/13 at 2011/12 levels; and**
- (c) Approval of the Capital Programme outlined in paragraph 67 of the report.**

Key Points Summary

- Cabinet has recommended that Council accepts the 2012/13 Council Tax freeze grant and does not increase its level of Council Tax.
- The Council will set its Council Tax on 2 March 2012. This must be based on a balanced budget. It cannot budget for a deficit.
- The Council continues to be affected by the reducing level of central government funding.
- The 2012/13 net budget total is **£143.359m** excluding schools funding.

Further information on the subject of this report is available from
David Powell, Chief Officer: Finance and Commercial Services on 01432 383518

Alternative Options

- 1 A balanced budget for 2012/13 is proposed and summarised in the Financial Resource Model (FRM) in the attached MTFs. It incorporates inflation, service pressures and other spending requirements. Funding has been identified from within Council Tax, Formula Grant, service efficiencies and reductions.

Reasons for Recommendations

- 2 The Council has a legal obligation to set a balanced budget as required by the Local Government Finance Act 1992. The proposed MTFs shown in Appendix A provides a financial planning framework for the next four years.

Introduction and Background

- 3 The Cabinet is requested to consider the budget proposals set out in the MTFs in order to make a recommendation to Council for setting the 2012/13 revenue budget based on holding Council Tax at current levels.
- 4 The provisional local government settlement was announced on 8 December 2011. The key component is the Formula Grant, which includes Revenue Support Grant and redistributed business rates, which is set at £54.462m (£56.615m after including council tax freeze grant). This is a £5.7m cash reduction on the amount received in 2011/12 and it is unlikely this will change when the final settlement is published in late January 2012.

Considerations

Provisional Local Government Settlement 2012/13

- 5 Local government will enter the 2012/13 financial year without certainty about the funding position for 2013/14 onwards. This is because CSR10 announced in October 2010 only provided a finance settlement for two years (2011/12 and 2012/13). However, the council's assessment of funding for budget planning purposes assumes at least 10% reduction over the 2013/14 to 2015/16 period. A more fundamental review of local government funding is anticipated from 2013/14 so outline assumptions are used at this stage.
- 6 The provisional local government settlement for 2012/13 was announced on 8 December 2011. The formula grant (Revenue Support Grant and redistributed business rates) remains unchanged from the figure previously announced of £54.462m (before the council tax freeze). This compares to £60.191m in 2011/12, a cash reduction of £5.7m (9.5%). Some additional funding is provided for in the provisional 2012/13 settlement:
 - a. £1.5m social care funding within formula grant;
 - b. £2.1m of funding for the 2011/12 council tax freeze. This will cease after 2014/15; and
 - c. £2.3m NHS funding to support social care.
- 7 The New Homes Bonus match funds the additional council tax raised for new homes and empty properties brought back into use. The scheme commenced in April 2011 and is paid for six years. Herefordshire was awarded £591k per annum for 2011/12 and has been provisionally awarded £824k for 2012/13 (paid for six years from 2012/13). The council's financial model now reflects the national top slice expected from 2013/14 that will reduce the allocation.

- 8 The Department for Education has indicated that Dedicated Schools Grant (DSG) remains at £4,723.65 per pupil.

Autumn Statement – November 2011

- 9 On 29 November 2011 the Chancellor of the Exchequer made his Autumn Statement to the House of Commons updating MPs on economic and fiscal forecasts for the UK economy. Key points for councils were;
- The Chancellor confirmed that there would be no change to the figures already announced in the 2010 Spending Review. The Chancellor also stated that he had set new Expenditure Totals for the end of the spending review period: 2015/16 and 2016/17. Over these two years, the Total Managed Expenditure is set to fall by 0.9% a year in real terms, excluding one-off investments in infrastructure announced in the Autumn Statement.
 - The Statement reiterated the Government's offer of a one-off council tax freeze grant in 2012/13 "to help with the rising cost of living", which had been announced previously.
 - The Chancellor announced an extra £1.2bn spending on schools. £600m will help the local authorities with the greatest basic need for schools places and is hoped to fund an additional 40,000 places. The remaining £600m will support reforms and build 100 additional Free Schools – including Maths Free Schools for 16-18 year olds. He also announced that the number of childcare places for deprived 2 year olds will double from 130,000 to 260,000.
 - Following the 2-year pay freeze there will be a 1% cap on public sector pay. There will also be a review of regional pay.
 - The small business rate relief "holiday" was extended for a further 6 months to 1 April 2013.
 - 2012/13 business rates are to be up-rated in line with September RPI at 5.6%. Businesses will be given the opportunity to defer 60% of the increase to be repaid in the following 2 years.
 - An extra £1bn was announced for the Regional Growth Fund over the remaining Spending Review.

Council Tax Freeze Grant for 2012/13

- 10 On 3 October 2011 the Chancellor of the Exchequer announced that the Government will pay a grant to authorities which freeze their council tax for 2012/13. This grant is for one year only.
- 11 By accepting the grant Herefordshire Council will freeze council tax bills for a second successive year. However, a careful approach is needed in order to manage the consequences for council tax and budgets in subsequent years as the grant will only fund one year of grant payment at 2.5%.
- 12 The grant covers 2012/13 only and is therefore very different from the funding for the 2011/12 council tax freeze where the government will pay the grant for the four years of the spending review (up to and including 2014/15).

- 13 The grant on offer covers the equivalent of 2.5% increase in council tax (this equates to £2.16m for Herefordshire Council). The grant for Police and Fire and Rescue Authorities is 3%. The grant does not cover parish and town council precepts.
- 14 Payment to the council will be made by a single amount in March or April 2012 and will be made as soon as the council confirms it will freeze the 2012/13 council tax. For Herefordshire this would follow council tax setting. The grant is not ring fenced and can be used for any purpose. It could also be carried forward if not fully used in 2012/13.
- 15 As indicated, accepting the grant rather than increasing council tax by the same amount means losing the “base” effect of a 2.5% council tax increase. Therefore it is proposed, subject to final Council approval, to use the grant as a one off source of funding for transformation (including Root and Branch reviews – see below) and budget contingency in 2012/13. The approach to the use of the funding will be developed before the end of March but it will be based on supporting transformation to enable sustainable budget reductions to be made, with a particular emphasis on Adult Social Care.

Grants for 2012/13

- 16 In 2010 the government announced a significant reduction in the number and value of grants that affected 2011/12 and to a lesser extent 2012/13. The allocations for 2011/12 and 2012/13 (excluding Council Tax Grant and Dedicated Schools Grant) are as follows:

List of Grants	2011/12	2012/13
	£000	£000
Early Intervention Grant	6,501	7,097
HCTB Admin	1,228	1,177
Music grant	263	236
Community Safety	158	80
Home to school transport	435	540
Lead Local Flood Authorities	130	200
Learning Disability	3,657	3,738
Preventing Homelessness	225	225
TOTAL	12,597	13,293

- 17 In 2011/12 £13.5m of specific grants and Area Based Grant were moved into formula grant, but reduced to an estimated £10.8m, leaving a funding shortfall of £2.7m. A further £932k reduction in these grants is estimated to be included in the Formula Grant reduction in 2012/13. The above shows an increased total compared with 2011/12 but this comes with additional responsibilities and in some cases increases will be passported to other bodies.
- 18 The Council Tax and Dedicated Schools Grants are the only ring fenced grants. As a result this gives greater flexibility when using the grants outlined above.
- 19 In 2012/13 the Early Intervention Grant increases by £596k but the additional amount is to

cover the responsibilities to provide pre-school places for vulnerable two year olds.

Budget and Policy Process

20 The 2012/13 budget process has seen greater alignment between policy and budget setting. This builds on the process that commenced in the previous year and led to a series of star chambers in late 2011. The star chambers had the following aims:

- a. To sign off the savings agreed in 2010 as part of the two year process;
- b. To seek additional savings to meet the emerging gap resulting from the Council Tax freeze grant for 2012/13; and
- c. To test the requirement for additional funding built into the current financial model.

21 As part of the overall process the following core principles set out what the council stands for and what residents can expect of it.

PRINCIPLE	IMPACT
Valued Services	<ul style="list-style-type: none"> • <i>Focusing on our priorities & what matters to people, stopping things we don't need to do</i>
Reducing Bureaucracy	<ul style="list-style-type: none"> • <i>Less regulation and red tape, smaller local government; right first time delivery</i>
Supporting the Vulnerable	<ul style="list-style-type: none"> • <i>Targeting resources on individuals, families, communities at risk or disadvantaged; early intervention & prevention; a shift in social care provision</i>
Value for Money	<ul style="list-style-type: none"> • <i>Reducing the pay bill; third party spend savings; smarter delivery; cutting costs</i>
Local Delivery	<ul style="list-style-type: none"> • <i>Devolution to parishes and the VCS, local decision making; working through 9 localities</i>
Personal Responsibility	<ul style="list-style-type: none"> • <i>Self reliance, people and communities helping themselves, behavioural change; increase in personalisation</i>

22 It is important to note that Cabinet of 15 December 2011 agreed to recommend to Council that the 2012/13 Council Tax Freeze Grant announced on 3 October 2011 by the Secretary of State be accepted, which means, subject to Council approval, there will not be an increase in council tax in 2012/13. However, the one year nature of the funding means the permanent ongoing increase that would have occurred from the assumed 2.5% increase in Council Tax is foregone. As a result the Cabinet's policy is to use this as "one off" funding split between transformation (£1.2m) and budget contingency (£1.0m).

Income Generation

23 During 2009/10, the Council generated £18.1m through fees, charges and sales which was 4.7% of total gross revenue expenditure.

24 According to benchmarking analysis undertaken by the council and Price Waterhouse Cooper, in a number of specific expenditure areas (e.g. pest control, highways planning, water safety),

the council performs well on recovery relative to nearest neighbour authorities. Overall, though, the council has the lowest recovery rate out of 15 comparators.

- 25 The intention is to become a median performer in terms of income recovery, which would mean generating approximately £2.78m of additional net income per year. A 'stretch' target of £12.43m has also been identified, representing average upper quartile performance.
- 26 The 2011/12 budget includes £712k to be delivered through increases in existing income and the development of new income streams within directorates.
- 27 A set of Charging Principles for the council has been agreed by Cabinet, and a process for approving new income proposals has been put in place by the Commercial Board in response to these.
- 28 Cabinet approved three 'quick win' income proposals in June 2011. These covered car parking, pre-application planning advice and school transport. There are a number of further income projects at varying stages of development across the authority.
- 29 The Overview and Scrutiny Committee have also been tasked with "undertaking a review to identify options for the development of budgetary policy to support further income generation". This will influence the outcome of the PwC work and the council's medium term plan.

Budget Setting Principles

- 30 The MTFs, attached to this report, includes the council's financial model. This indicates the variations to the budget including amounts to meet pressures as well as compensating savings. The key points are as follows:
 - a. Inflation: the model includes net inflation of £2.35m.
 - b. Additional funding for Adult Social Care: the council will passport to Adult Social Care the £1.48m included in the formula grant along with funding from the NHS included in the CSR10 announcement.
 - c. Further savings from the Shared Services programme amounting to £571k are included for 2012/13.
 - d. Change management: the budget includes £1.0m to support costs associated with staff reductions. If the government permits capitalisation of such costs in 2012/13 (as it did in 2011/12) the council will make a case to take advantage of this approach.
 - e. Council Tax: the 2012/13 budget includes use of the one year Council Tax Freeze Grant announced in 2011. This means for the second year council tax will not be increased. Future years assume 2.5% increase.
 - f. Council Tax Freeze Grant: the 2012/13 amount on offer from central government will be used to support transformation activity (£1.2m) and the balance of £1.0m will be used as budget contingency.
 - g. Pressures: the budget includes £907k for contract inflation; £785k for service and demographic pressures and £544k for statutory changes. In total the budget includes £2.236m of additional funding to support pressures.

Financial Management and Reserves

- 31 A key part of the budget process is to ensure the council has appropriate levels of reserves especially at a time of continuing financial challenge. Over the medium term it is proposed that the council will put in place a budget contingency.
- 32 The current level of the general reserve is £6.3m representing 4% of the net budget. Whilst the policy is for a general reserve of 3% it is considered prudent to use any amount in excess of 3% to fund a budget contingency reserve.
- 33 The Council holds a variety of reserves some of which relate to schools. In total the overall level of reserves will be approximately £16m on 31 March 2012 but within this total it is assessed £8.6m will be available for corporate use. These include the General Fund (£6.3m), Waste Disposal Reserve (£1.9m), Whitecross PFI Reserve (£0.3m) and Insurance Reserve (£1.0m).

2013/14 Onwards

- 34 The funding position for 2013/14 onwards is much less certain. Currently the government is consulting on a proposal that will see councils retain business rates for their area. This is a significant change to the current arrangements where Herefordshire collects business rates on behalf of the government and receives a formula grant in return.
- 35 The proposed changes give councils some local control and provide an additional incentive to support economic growth. However local changes to collection rates can lead to income fluctuations in any year. Herefordshire gains from the current system and currently gets more funding through the formula grant than it collects in business rates. Herefordshire will need to ensure the “base” position supports the current level of funding in order to avoid additional financial pressure.
- 36 In 2013/14 local government will also see a significant change to Housing and Council Tax benefits. Housing Benefit will become part of the new single universal credit. Council Tax benefit will be funded by a specific grant paid to Unitary and District Councils. The amount paid will be subject to a 10% cut compared with 2012/13 levels of funding. Furthermore, those viewed as “vulnerable” by government regulations will receive a greater proportion of the overall grant than at present.

Directorate Budget Proposals

DIRECTORATE	ORIGINAL £'000	REVISED £'000
Corporate	1,191	1,256
Peoples	3,500	4,324
Places	1,092	2,170
Council Wide Initiatives	240	1,554
TOTAL	6,023	9,304

Corporate Services Directorate

- 37 The Directorate has identified total savings for 2012/13 of £1.256m.
- 38 The Directorate's savings plan for 2012/13 includes £571k further savings from Shared Services. The majority of which will be achieved through the contract arrangements with Hoople Limited.
- 39 There are also savings of £302k through further measures to reduce the pay bill across all services along with increased income from Charging Reviews in the Diversity and Registration services of 33k.
- 40 Other savings for the Directorate are as follows:
- Non-pay inflation across most services where contract inflation is not already committed, totalling £350k. Non-pay inflation has only been held back to meet committed pressures on ICT contracts. Root and Branch Reviews within Customer Services and Support Services are expected to achieve a further £250k.

Places Directorate

- 41 The Directorate has identified savings for 2012/13 of £2.17m. This is in addition to managing over £500k pressures in relation to contract inflation and new government initiatives, such as introduction of Neighbourhood Planning and Enterprise Zone.
- 42 Contract savings of £500k are expected through negotiations with Amey in relation to extending the current Managing Agent Contract beyond September 2013 along with savings from the FOCSA contract of £200k per annum by discontinuing the free provision of black sacks, although this is not be realisable until November 2012.
- 43 There is agreed reduction in Management Fee to partner organisations, Halo, Courtyard and Hereford Futures of 10%. totalling £173k, these fees have been reduce by 5% in each of the previous two financial years.
- 44 There is an expected increase in charges of £389k across the Directorate in line with the Charging Review, which includes increasing Car Park Fee income by £200k.
- 45 The balance of savings for the Directorate is being made from service efficiencies across all services, including £750k from service reviews. These are:
- Cultural Services £150k
 - Regulatory Services £200k
 - Transport £100k
 - Community Protection & Parking £100k
 - Provision of Public Toilets £200k

Peoples Directorate:

- (a) Children's Services
48. The Directorate has identified savings of £4.32m. This is in addition to managing pressures such as £1.459m in Safeguarding services, due to the growth in child protection and looked

after children, plus other service pressures of £0.593m. The Children's Services budget was substantially reduced in 2011/12 as a result of cuts in both base budget and grants. Significant cuts were actioned across all service areas except for children's safeguarding services (which continue to experience increasing demand).

49. The savings are anticipated to be delivered through a combination of:

- restructure savings (full year effect of 11/12 staffing cuts) £591k,
- increases in grants confirmed of £776k,
- service reconfiguration yielding £421k across youth, connexions and children's centres,
- contract reductions of £235k,
- other early years savings of £150k,
- use of transformation fund £190k, targeted safeguarding savings of £150k,
- schools transport savings of £220k. The balance is expected to be delivered across a range of services with potential additional staffing cuts which have yet to be confirmed.

(b) Environmental Health, Trading Standards and Public Health

50. The Directorate has identified savings of £289k; this will be delivered through a combination of:

- service restructure which has been undertaken,
- increasing income budgets based upon maximum acceptable charges; and
- cutting non-essential expenditure.

51. The service will also operate with a shadow public health budget in 2012/13 in preparation for the budget transfer from 1st April 2013.

(c) Adults Services

54. The 2012/13 budget for adult services will see a £1.4m net increase compared to 2011/12 which is a result of additional funding from central government to support social care pressures. In order to achieve a balanced budget however, the Directorate has identified savings, efficiency and transformation schemes of £7.956m. This is to address medium term financial strategy required savings of £2.5m and this is in addition to a brought forward funding shortfall of £6.4m and 2012/13 demographic pressures of £3.6m. Mitigation by the additional funding streams and use of NHS monies for transformation has resulted in the net savings plan.

55. Given the scale of the cost challenge in Adult Services, consideration has been given to altering the threshold for adult social care services to critical. As this would be counter to the principle of early intervention, and unlikely to lead to cost reductions in the longer term, there will be no change to the eligibility criteria, which will therefore remain at substantial and critical needs.

56. Other measures to achieve a balanced budget have been considered including an increase of the threshold to Fair Access to Care Services to critical, rather than substantial and critical and not to award inflation increases to providers. However, following consideration, it has been decided that both would be counterproductive and not in the interests of service users in Herefordshire. Neither action would create sustainable service and budget positions and have therefore been discounted from these budget proposals.

57. The focus in the savings proposals is on transforming and re-shaping how services are provided with emphasis on reducing demand by creating greater independence. Through

different approaches to care. Transformation initiatives which will deliver the savings required are:

- reablement, enablement and substantially increasing the use of assistive technology
- reducing residential care by supporting people to live independently,
- creating a more vibrant market to offer greater choice and control to service users
- increased charges and removal of subsidies
- making better use of existing contracts and gaining better value for money from commissioned services.

58 To be able to achieve this investment of circa £1.4m is required which will support both health and social care to reshape supply from traditional `bed based` models of care.

59 A schedule of directorate savings is in Appendix A.

Schools Budget Settlement

Academies

60 The adjustments for Academies' funding have not changed from those previously announced. However, the Department for Education, in consultation with the Secretary of State for Communities and Local Government, has been reviewing the amount and distribution of the funding transfers from local government for 2011/12 and 2012/13 to reflect the responsibilities transferring from them when schools convert to academies. No final decisions have yet been taken regarding the amount and distribution of these funding transfers.

61 For 2012/13 the top-slice from Formula Grant will remain at £265m, but a new methodology will be used to calculate individual authorities' contributions. Where this methodology suggests authorities have had more taken away than they should they will receive a specific grant. There will be no adjustment where the calculation suggests that an authority should have contributed more.

Schools and Children's Services funding

62 The Department of Education (DfE) made a separate announcement on Dedicated Schools Grant (DSG) and Pupil Premium;

- DSG is to be same flat cash per pupil, the rate therefore remains at £4,723.65 per pupil – so no increase in pupil funding for any authority
- The Minimum Funding Guarantee remains at (minus) 1.5% - as expected
- The spend on the pupil premium will double to £1.25bn. This is as expected.
- The pupil premium is to be £600 per free school meals pupil and Looked After Children and £250 for service children (up £50 from £200). The basis for payment has been widened so that it includes pupils who have ever had free school meals within the last 6 years. This will widen eligibility by approximately 30% and hence reduces the payment rate per individual pupil.

- 63 As expected there will be no uplift in DSG for 2012/13. It will continue to be paid at the same rate as in 2011/12 i.e. £4,723.65 per pupil. DfE have not provided an overall total and expect councils to work to their own estimates. Based on the September pupil count we now estimate 22,600 pupils i.e. a reduction of 117 pupils. Final pupil numbers will be confirmed in late February following the 2012 pupil census. Estimated DSG for 2012/13 is:

2012/13 Estimated Allocations	£m
DSG (22,600 pupils at £4723.65 per pupil)	106.75
TOTAL DSG 2012/13	106.75

- 64 The Schools Forum has already consulted on proposals to address the pressures within the DSG and will be making recommendations to the Cabinet Member in the light of the settlement.

Proposed Capital Programme

- 65 The Joint Capital and Asset Management Strategy agreed by Cabinet on 16 December 2010 sets out capital priorities and plans as well as how these link to strategic objectives.
- 66 The strategy listed a number of schemes that are priorities within the Joint Corporate Plan (JCP) and confirmed that if they continue to encapsulate the Herefordshire Public Services (HPS) Vision they could be funded as resources become available and are identified in coming years. These included a number of schemes that remain priorities. There is a key link between the strategy and the HPS strategic aim of "Herefordshire will be a place where people, organisations and business working together within an outstanding natural environment, will bring about sustainable prosperity and well being for all".
- 67 The strategy includes a number of additional key schemes. These are:
- Broadband – Herefordshire is one of four pilot areas identified that has received government funding. It is a requirement that the council match funds the programme and £6m will be made available.
 - Hereford Futures – Hereford has been identified as a regional growth point and planning permission has been granted for a relief road as part of the overall package of infrastructure to facility and enable growth to take place. The relief road will also enable the bringing forward of new homes in partnership with Sanctuary Housing. The estimated cost of the overall scheme will be £27m for the relief road. It is proposed that this scheme is included and therefore funding decisions can be made to enable to council to lock in low rate funding, as the long term savings from borrowing sooner rather than later, may not be available if further postponed. It should be noted that the overall funding needed will be confirmed in 2012 and appropriate contributions will be sought from developers and other funding sources.
 - The provision of a replacement Archives facility is required if Herefordshire is to continue to hold its county records. If a facility is not provided there is a likelihood that the county's historical records will need to be moved outside of Herefordshire. It is also appropriate to bring together modern records provision with the archives facility and so an overall facility is proposed up to a maximum capital cost of £6.0m.

- Stretton Sugwas Landfill: this is a £70k scheme to provide routine replacement of infrastructure.

68 The capital programme also includes a budget of £1.0m for repairs to Garrick House car park. These will ensure it continue to provide income and parking capacity for those shopping in Hereford City Centre.

69 In addition the Government supports capital investment through the allocation of grants. This approach replaces the previous supported borrowing model. Known grant funding allocations for 2012/13 are:

Local Transport Plan

- This has been reduced by a further 5% to £10m for 2012/13 split between integrated transport and capital maintenance allocations. Indications are this funding will fall further to £9.8m for 2013/14 and 2014/15.
- Hereford submitted a successful application, (Destination Hereford), for capital funding from the Local Sustainable Transport Fund, for sustainable transport initiatives in Hereford. £3.2m of grant funding is expected to be spent between 2012/13 and 2014/15 on improving Broad Street and providing the non-motorised connection between the city centre and Rotherwas.

Schools Capital

- There have been further substantial changes in the allocation of schools capital funding for 2012/13 due to a number of Herefordshire's schools converting to academies in 2011/12 and changes to the formula mechanisms that the DfE use to allocate capital grant funding.
- The total allocation for maintenance and basic need has reduced by 46% from an allocation of £4.8m in 2011/12 to £2.6m in 2012/13. Capital maintenance funding has been reduced by £0.9m; a separate funding pot is available for academies to bid for funding. Basic need funding has reduced by £1.3m as a result of funding formula changes from allocations being based on pupil growth and capacity in 2012/13 as opposed to being based on pupil growth alone in 2011/12. Further basic need funding available to central government is yet to be allocated. These allocations will be announced in the New Year along with the results of the priority school building review and response to the capital review carried out earlier in the year.

Adult Social Care

- The Department of Health has announced funding of £0.46m towards personalisation, reform and efficiency in adult social care in 2012/13.

Other Capital Grants

- Herefordshire has been selected as one of four pilot schemes to deliver superfast broadband to rural areas in Herefordshire and Gloucestershire, the procurement process is underway with the successful provider expected to be announced in May. The scheme is to be funded through grants from BDUK, Gloucestershire and corporate match funding.
- Herefordshire Council will receive £1.5m from the Regional Growth Fund for a new Marches Redundant Building Grant Scheme covering the 3 local authority areas in the Marches Local Enterprise Partnership (Herefordshire, Shropshire and Telford & Wrekin).
- Capital grant applications for funding towards the Masters House in Ledbury are to be confirmed, if successful this will enable the completion of the desired scheme.

70 The following summarises funding for the capital programme up to and including 2015/16:

	2012/13	2013/14	2014/15	2015/16
Directorate	£'000	£'000	£'000	£'000
People's Services	12,828	-	-	-
Places & Communities	17,591	16,917	10,842	-
Corporate Services	4,351	12,257	-	-
Funding to be allocated	4,260	11,200	11,492	6,213
<i>Contingency</i>	332	330	283	-
TOTAL	39,362	40,704	22,617	6,213
Funded by				
Prudential Borrowing	11,905	23,787	11,775	6,213
Capital receipts reserve	465	70	-	-
Grants and contributions	26,992	16,847	10,842	-
TOTAL	39,362	40,704	22,617	6,213

Equality and Human Rights

71. In demonstrating “due regard” in our decision making process, we will ensure that individual directorates and service areas assess the potential impact of any proposed changes that are as a consequence of budgetary constraints, leading to fairer, transparent and informed decisions being made.

Financial Implications

72 These are set out in the report.

Legal Implications

- 73 Local authorities must decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on services. Because they decide on the council tax before the year begins and can't increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:
- making prudent allowance in the estimates for services; and
 - ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
- 74 Local government legislation requires an authority's chief finance officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so members will have authoritative advice available to them when they make their decisions.

Risk Management

- 75 The position outlined in the report indicates the state of public finances means a reducing funding envelope for local government. This creates a number of additional risks to those normally associated with any budget setting process. The following lists specific risks:
- a. Directorate Savings: the loss of funding in 2012/13 requires a significant level of savings. There is a risk of slippage should unforeseen delays occur. The use of the £1.0m budget contingency will assist along with using anything in excess of 3% on the general fund reserve as a budget contingency reserve. Directorates' plans for delivery of savings will need robust management, and action plans to ensure delivery. Contingency plans will form part of the process.
 - b. Local Government Resource Review: 2013/14 will see one of the most significant changes to funding for local government. The proposal to allow councils to retain business rates rather than contribute to the national pool could create risk if the "base" level is set too low by central government. Central government will continue to control the level of business rate increase.
 - c. Treasury Management: the council has significant treasury management activity covering borrowing and investment. The current financial climate means this area plays an important part in resource delivery for the council. The decision to refinance existing borrowing and take on additional requirements will need to be timed to take advantage of opportunities provided by historically low interest rates.
 - d. Income: the council's budget is supported by income. The level of income receipt could be affected by factors such as the economic climate. The council's review of income and charging levels will need to play an appropriate part delivering the balanced budget.

Consultees

- 76 Herefordshire Public Services set out to ask local people for their views on funding priorities so that their feedback could help it to begin to plan how its budget should be used in the future. With current pressures on funding being experienced by public services nationwide, it wanted to explore a new way of engaging with the population at an early stage in the process. As a

result, a series of 10 public events were held across the range of localities in the county during November and December 2011, attended by over 250 people in total. Alternatively, people could give responses through an on-line questionnaire.

- 77 The consultation included four topic areas, on which people were asked a series of high-level questions about general spending principles on which each could cast their vote using an electronic hand-held device. Each section was first introduced by providing some contextual information. Questions were asked concerning finance, adult social care, clinical commissioning of healthcare, and health and wellbeing. This was followed by an opportunity for people to write further comment for each of the four topic areas, and to ask questions of the presenters. The public engagement exercise asked a series of questions and the headline responses are as follows:
- a. Overall 54% agreed with prioritising funding for services for vulnerable people.
 - b. Overall just fewer than 60% of people agreed with the Council not providing some services to protect and develop others; 21% disagreed.
 - c. Overall 47% of people agreed that they would be willing to pay more council tax to help protect services and 40% disagreed, with 12% not voting.
 - d. Overall 65% of people agreed the council outsourcing functions where there was a sound case to do so.
 - e. Overall 69% of people agreed that we should increase the support available to help with access to services on line.
 - f. Overall 59% thought their area could get involved in delivering some services – 30% disagreed.
 - g. Overall 67% of people agreed that it was appropriate to transfer assets to local groups.
- 78 The events showed there is a clear appetite for people to engage in discussion about how public services are funded and organised, but people want an opportunity to have more in depth discussions and access to background information. This will inform the next stage of public engagement.

Appendices

- 79 Identified Directorate Savings for 2012/13 (Appendix A)
- 80 Medium Term Financial Strategy (Appendix B)

Background Papers

- 81 Joint Capital and Asset Management Strategy agreed by Cabinet – 16 December 2010