

<b>MEETING :</b>	<b>CABINET</b>
<b>DATE:</b>	<b>5 FEBRUARY 2013</b>
<b>TITLE OF REPORT:</b>	<b>BUDGET 2013/14 AND MEDIUM TERM FINANCIAL STRATEGY</b>
<b>REPORT BY:</b>	<b>COUNCILLOR ANTHONY JOHNSON – CABINET MEMBER FOR FINANCIAL MANAGEMENT</b>

### **1. Classification**

Open

### **2. Key Decision**

This is not a key decision.

### **3. Wards Affected**

County-wide

### **4. Purpose**

To propose the draft financial strategy for 2013/14 to 2015/16 that includes the 2013/14 revenue and capital budget for approval by Council on 18<sup>th</sup> February, 2013 and to consider the outcome of consultation on proposals for savings. *Note: a supplementary report will be circulated to Cabinet following the closure of consultation on 31 January 2013*

### **5. Recommendation(s)**

**THAT:**

**Cabinet, subject to consideration of the outcome of public and stakeholder consultation, recommends to Council on 18<sup>th</sup> February:**

- a) Approval of the Medium Term Financial Strategy (MTFS) shown in Appendix A, which includes the 2013/14 budget and Treasury Management Strategy and Policy Statement;**
- b) Approval of a 1.9% increase in Council Tax for 2013/14; and**

- c) **Approval of the Capital Programme outlined in paragraph 10.56 of the report; and**
- d) **Cabinet notes the arrangements put in place by the Leadership Team to assure delivery of budget savings and the actions from the Root and Branch Reviews.**

## **6. Key Points Summary**

- Herefordshire's funding from central government will reduce by £5.45m (6.9%) in 2013/14. The proposed budget will meet this shortfall and other agreed pressures facing the Council. Additional savings will need to be made in future years as Government grant is reduced further. These figures are based on the Provisional Settlement. The Final Settlement is expected sometime in February.
- The budget is based on a 1.9% Council Tax increase. This would increase a Band D Council Tax by £22.90 per annum to £1,227.99 per annum.
- Based on the provisional settlement the net budget requirement is £150.297m, funded by Revenue Support Grant (£42.862m), retained business rates (£22.726m), Government top-up funding (£6.559m) and Council Tax (£78.911m) less an amount of £761k for a deficit brought forward on the Collection Fund.
- Total savings of £9.142m from the Root and Branch Review programme are included to meet the budget shortfall and demographic and other service pressures that require funding.
- The capital programme for 2013/14 includes new schemes totalling £13.78m. The majority (£8.85m) of the total for new schemes covers self funded schemes.
- The attached Medium Term Financial Strategy (MTFS) covers the period 2013/14 to 2015/16 and includes the Treasury Management Strategy. The document is part of an integrated set of policy and delivery documents designed to match available resources to corporate priorities as set out in the Corporate Plan.
- The Leadership Team have put in place arrangements to assure delivery of budget savings and the actions from the Root and Branch Reviews.

## **7. Alternative Options**

- 7.1 It is open to Cabinet to amend the proposals in the light of the outcome from the consultation exercise or otherwise; however any amendments to increase expenditure in one area must be accompanied by compensatory savings elsewhere to ensure that an overall balanced budget is maintained.

## **8. Reasons for Recommendations**

- 8.1 The Council has a legal obligation to set a balanced budget as required by Local Government legislation.

## 9. Introduction and Background

- 9.1 In 2012/13 Herefordshire Council is budgeted to spend over £340m gross (£143m net of service income) delivering services across the county. The gross spend is reducing as schools transfer to Academy status.
- 9.2 Each year Cabinet is required to develop budget proposals for Council to consider. This is in order to stay within the cash limit that includes income from Council Tax. To develop its proposals, Cabinet draws on a wide range of information including the Corporate Plan agreed by Council in November, information about service need and priority gained from a range of sources (and summarised in *Understanding Herefordshire*), views of partners and the community about how and where the council should spend its money, and what is known about other sources of funding.
- 9.3 The Corporate Plan priorities agreed on 23 November 2012 are:
- Create and maintain a successful economy
  - Enable residents to be independent and lead fulfilling lives; and
  - Underpinned by efficient and effective operations to deliver value for money
- 9.4 On 13 December 2012 Cabinet received the initial indication of the updated budget position for 2013/14 and confirmed the financial planning assumptions as well as the approach being taken to achieve savings via the 'Root and Branch' process.
- 9.5 The provisional local government settlement was announced on 19 December 2012. The provisional settlement reflects the fundamental reform of local government funding that has been a key feature affecting financial planning since the agreement of the current year's budget in 2012. The provisional settlement indicated a reduction of £5.452m (6.9%) for Herefordshire. Government has not confirmed the date when these figures will be agreed but there is an indication that this will be in February.
- 9.6 On 17 January 2013 Cabinet was updated on the provisional local government settlement and its views on the draft Medium Term Financial Strategy was sought along with the emerging proposals contained in the budget for 2013/14. The comments were used to inform the version contained in this report for agreement as part of the budget policy document.
- 9.7 General Overview and Scrutiny Committee received a presentation on 14 January and the Committee's views were provided to Cabinet on 17 January. There will be further Overview & Scrutiny Committees on 1 February to consider the budget.
- 9.8 The Cabinet is requested to consider the budget proposals set out in the paper in order to make a recommendation to Council for setting the 2013/14 revenue budget based on a Council Tax increase of 1.9%. For information the Government has set the 2013/14 Business rate increase at 2.7%. It uses the previous September's retail price index when determining the level of increase.

## 10. Key Considerations

### Budget Background and Future Prospects

- 10.1 The government has set a four year Comprehensive Spending Review (CSR) over the period 2011/12 to 2014/15. The initial local government settlement covered 2011/12 and 2012/13. The latest announcement provides a two year funding position covering 2013/14 and 2014/15.

Within this context our response has been to develop a corporate savings and transformation programme (Root and Branch) to be brought forward to provide major changes within a reduced funding envelope.

- 10.2 When the CSR was originally announced by central government, the reductions were principally in the first two years (2011/12 and 2012/13) and our financial plans reflected this position. However the worsening national economic environment has led to a continuing requirement to respond to a reducing funding settlement.
- 10.3 The Chancellor's Autumn Statement indicated further reductions may be required beyond the lifetime to the current CSR. There was also an indication that this may be until 2016/17.

### **Provisional Local Government Settlement**

- 10.4 On 19 December 2012, the 2013/14 provisional Local Government Finance Settlement was published. It included details of elements of the business rates retention scheme which will be implemented from 1 April 2013. The provisional settlement was announced late and did not include some important elements of the estimated financial position; the key being the amount to be received for the transfer of public health responsibility to local government from the Health Service, which was subsequently announced on 10 January 2013.
- 10.5 This new rates retention scheme provides a baseline for business rates funding. Authorities can be categorised as tariff or top-up authorities under the new system. Tariff authorities are those that have more business rates than their baseline funding levels. Tariffs will be used to top up payments to authorities whose business rates are less than their baseline funding levels. The system is in place to ensure that those areas with a below average business rates base continue to receive an element of redistribution when the new system commences in April 2013. Herefordshire is one of those authorities that benefit from redistribution because of its lower than average business rate base and is therefore a top-up authority. In 2013/14 we will receive £6.559m top-up that will remain in our base funding. The opening funding position is known as 'start-up funding' and consists of a formula funding allocation plus allocation of former specific grants transferring from April 2013.
- 10.6 For Herefordshire the provisional start-up funding allocation is comprised of the following and 2012/13 is included for comparison on a "like for like" basis;

### **Start Up Funding**

	<b>2012/2013</b>	<b>2013/2014</b>
	<b>£000</b>	<b>£000</b>
<b>Formula Funding</b>	54,462	50,092
<b>Specific Grants</b>		
11/12 Council Tax Freeze	2,153	2,153
Council Tax Support	11,039	9,683
Early Intervention Grant	7,097	5,271
Homelessness	225	206
Lead Flood Authority	200	130
Learning Disability and Public Health Reform Grants	3,738	3,842

<b>Start-up Funding Allocation</b>		<b>71,377</b>
<b>Central Education funding</b>		<b>2,085</b>
<b>'Like for like' total</b>	<b>78,914</b>	<b>73,462</b>

- 10.7 The start-up funding allocation is £71.377m and when added to our estimated education services grant (included in formula grant in 2012/13) means that when compared with our 2012/13 funding Herefordshire has £5.452m (6.9%) estimated reduction in its central government funding allocation.
- 10.8 Herefordshire may gain as a top-up authority because of its low business rates tax base but it then loses some funding because the Government's overall funding formula has a 'guarantee' designed to provide stability in the financing of local services that covers those authorities who fall below a guaranteed minimum level of funding. Herefordshire loses money through this system and the provisional settlement includes a reduction of £3.576 m.
- 10.9 Those authorities with a greater than 8.8% reduction in "revenue spending power" in 2013/14 and/or 2014/15 will receive a special grant known as the Efficiency Support Grant. The revenue spending power measure does not adequately reflect the impact of cuts in central government funding as it seeks to include funding received via transfers for the NHS which cannot be used to support the overall budget and must be spent in a manner specified by an external body. Only seven local authorities qualified for this grant, which did not include Herefordshire.
- 10.10 It appears that DCLG has not considered rural areas sufficiently in its determination of the settlement. It remains the case that providing services in rural areas can cost more and this key point informed our response to the provisional settlement. Adjustments were made to the funding formula, but were then largely lost through the "damping" mechanism. This issue of funding a rural area was noted by the Council's Overview and Scrutiny Committee on 14<sup>th</sup> January. Government is indicating a willingness to look at this national issue for the 2014/15 settlement.

### Specific Grants

- 10.11 Central government funding also includes the following list of specific grants:

<b>Grant</b>	<b>2012/2013 £000</b>	<b>2013/2014 £000</b>	<b>2014/2015 £000</b>
Social Fund	3	371	366
Local Reform and Community Voices (new in 2013/14)	0	154	159
Lead Local Flood Authority	200	70	70
Housing Benefit Admin Subsidy	1,177	1,075	tbc
Community Right to Bid	5	8	8
Community Right to Challenge	9	9	9
Council Tax Support – new burdens	84	91	98
Community Safety	80	0	0

Home to School Transport	540	tbc	tbc
Social care funding	2,274	3,152	tbc
Public Health Grant (new in 2013/14)	0	7,752	7,969

## **Council Tax Freeze Grant**

- 10.12 Details of the Council Tax freeze for 2013/14 for England, first announced by the Chancellor on 8 October 2012, were published in December. A local authority will be eligible for the grant providing it does not increase the basic amount of Council Tax in 2013/14, compared to 2012/13. The grant will be equivalent to a 1% increase in the 2012/13 average band D amount multiplied by the Council Tax base for 2013/14.
- 10.13 Providing the 2013/14 Council Tax is frozen or reduced, the grant will be paid in each of the financial years 2013/14 and 2014/15. DCLG will be writing to local authorities with more details on the way in which the Council Tax freeze will operate and has publishing indicative allocations. The indicative figure for Herefordshire is £875k. Cabinet has agreed that for planning purposes we assume a Council Tax increase of 1.9%

## **New Public Health Responsibilities**

- 10.14 As a result of the Health and Social Care Act, from 1 April 2013, local authorities will have a range of new responsibilities for public health, including a set of mandatory public health services. The public health functions currently undertaken by Primary Care Trusts (PCT) will transfer, along with their associated budgets and staff, to local authorities and to other legacy organisations;
- 10.15 The public health grant allocation for Herefordshire has been confirmed for 2013/14 and 2014/15 as £7.752m (2013/14) and £7.969m (2014/15). This is a ringfenced grant which national guidance specifies is to be used:
- To improve significantly the health and wellbeing of local populations
  - To carry out health protection functions delegated from the Secretary of State
  - To reduce health inequalities across the life course, including within hard to reach groups
  - To ensure the provision of population healthcare advice (including core offer to CCG)

## **Social Care Funding – NHS Transfer**

- 10.16 On 19 December the Department of Health confirmed the funding to be transferred to local authorities to support adult social care services which also benefit health. The arrangements for 2013/14 have been changed to reflect the demise of PCTs. The new approach will see funding transferred via the NHS Commissioning Board. In 2013/14, Herefordshire will receive £3.152m compared to £2.274m in 2012/13. Use of the money will be agreed between the Council and the Clinical Commissioning Group through the Health and Wellbeing Board.

## **Dedicated Schools Grant (DSG)**

- 10.17 The DSG is a significant amount of expenditure that is included in our gross budget but excluded in our net budget calculation. This is because schools are funded by a specific grant that is not funded by either Council Tax or the other funding sources from Government that make up the funding of our net budget.
- 10.18 It is important that all areas of funding are considered and the DSG will be subject to change in 2013/14. In future it will be split into three distinct blocks:
- Schools Block - funding delegated to schools as determined by the new national funding formula
  - High Needs Block – all funding for special educational needs including post-16

- Early Years Block – funding for Private, voluntary, independent nursery providers and central early years services. This includes a transfer of funding for two year old nursery education previously paid within the Early Intervention Grant

10.19 DSG is the main source of income for schools. Each block within DSG, although not ringfenced, will in future be funded separately. The schools block will be based upon a per pupil formula using the actual pupil numbers from the October school census data, The Early Years block will be calculated on a rolling basis through the year based on three termly pupil census dates. The High Needs Block will be determined on an assessment of the 2012/13 spend as previously submitted by the authority. Responsibility and funding for post-16 high needs is to be transferred to the authority from August 2013.

10.20 The totals for the three blocks and top-slice for academies are estimated to be;

<b>2013/14 DSG Allocations</b>	<b>£m</b>
Schools Block 21,060 pupils x £4,306.44 per pupil	90.7
High Needs Block Schools - Pre-16 Colleges – Post-16	12.0 0.7
Estimated Early Years Block 1,385 pupils x £3,454.43 per pupil	4.8
Additional funding for two year old grant, early years and newly qualified teachers	1.2
Additional funding for hospital education grant and growth in special school places	0.3
<b>TOTAL DSG 2013/14</b>	<b>109.7</b>
<b>Less</b> money paid by Government directly to Academies in Herefordshire	<b>(33.0)</b>
<b>DSG received by the council</b>	<b>76.7</b>

### **Budget Principles and Corporate Plan**

10.21 The Council's budget process has been set within the overall principles agreed as part of the budget setting approach. These principles are as follows:

<b>PRINCIPLE</b>	<b>WHAT THIS MEANS</b>
Valued Services	<ul style="list-style-type: none"> <li>• Focussing on our priorities and what matters to people; our core business</li> <li>• Stopping things we don't need to do or that don't demonstrate value for money</li> </ul>
Reducing Bureaucracy	<ul style="list-style-type: none"> <li>• Less regulation, process and red tape; smaller local government</li> <li>• Making it easier to contact us; right first time delivery</li> </ul>



Supporting the Vulnerable	<ul style="list-style-type: none"> <li>• Targeting resources on individuals, families and communities at risk or disadvantaged</li> <li>• Early intervention and prevention; a shift in social care provision</li> </ul>
Value for Money	<ul style="list-style-type: none"> <li>• Reducing the cost of running the council: the paybill; third party spend; smarter delivery</li> <li>• Reducing public subsidy of services; increasing income and trading; full cost recovery</li> </ul>
Local Delivery	<ul style="list-style-type: none"> <li>• Setting priorities for the nine localities and increasing local decision making</li> <li>• More choice to local councils and the voluntary &amp; community sector to deliver services</li> </ul>
Personal Responsibility	<ul style="list-style-type: none"> <li>• Increasing self-reliance; more people and communities helping themselves; behavioural change</li> <li>• Increase in personalisation and personal budgets</li> </ul>

10.22 The principles have been framed in order to support the delivery of the Council's corporate plan agreed on 23 November, 2012. The Corporate Plan contains three overarching priorities for the Council:

- Create and maintain a successful economy
- Enable residents to be independent and lead fulfilling lives; and
- Underpinned by efficient and effective operations to deliver value for money

10.23 In addition the income/charging principles agreed by Cabinet in 2012 support the overarching budget principles.

10.24 The corporate plan provides the context for development of budget proposals that will then be delivered by 2013/14 service delivery planning. This approach has been further developed to allow a more consistent and strategic link between available resources and service delivery. In turn the corporate plan links with the Herefordshire Partnership Community Strategy and the Health and Wellbeing Strategy.

### **2013/14 Draft Budget – the overall funding position**

10.25 Based on the Provisional Settlement and a Council Tax increase of 1.9% the funding available for the net budget (known as the Budget Requirement) is £150.297m. This is funded by Revenue Support Grant (£42.862m), retained business rates (£22.726m), Government top-up (£6.559m) and Council Tax (£78.911m) less an amount of £761k for a deficit brought forward on the Collection Fund. There is a possibility that government funding may change as the Final Settlement has not yet been announced.

10.26 The following table summarises the movements on the Net Budget Requirement from 2012/13. It shows how the new total of £150.297m is funded.

	2013/14	%
	£000	
<b>2013/14 NET BUDGET FUNDING</b>		
Estimated rates (retained by council)	22,726	15.1
Business Rates Top-up	6,559	4.4
Revenue Support Grant	42,862	28.5
Council Tax (net of discounts from 13/14)	78,911	52.5
Collection fund deficit	(761)	(0.5)
	<b>150,297</b>	<b>100</b>

<b>EXPENDITURE REQUIREMENT AND CHANGES TO BUDGET</b>	
<b>2012/13 Base budget</b>	<b>143,359</b>
Inflation	2,603
Grants rolled into Rates Retention	9,449
Directorate pressures	5,180
New capital schemes	189
Borrowing budget for existing capital programme	(1,056)
Growth in New Homes Bonus	(654)
Education support grant	(2,085)
Increase general reserves	2,000
Other movements	454
Root and Branch savings	(9,142)
<b>2013/14 Net Budget Requirement</b>	<b>150,297</b>

- 10.27 It is important to note that the 2013/14 budget has not increased in terms of overall funding despite moving from £143.359m in 2012/13 to £150.297m in 2013/14. The “increase” represents money moving from specific grant in 2012/13 to general grant funding in 2013/14. In fact at the point of transfer between sources central government cut the amount we receive.
- 10.28 The detailed budgets are still being worked through as the delivery plans for Root and Branch reviews are firmed up and other budget adjustments are allocated to specific cost centres. Although subject to further refinement Appendix C illustrates the provisional budget in more detail.

## 2013/14 Budget Pressures

- 10.29 The draft budget recognises a number of pressures and initiatives as well as responding to the need to protect the Council's financial standing and manage corporate financial risks. It also ensures the Council's balances and reserves are appropriate.
- 10.30 As part of the budget process the scale and extent of pressures faced by directorates was reviewed. The outcome is that in 2013/14 £5.18m is recognised as additional financial pressure (ie money we know we must spend but which is not in the 2012/13 budget) with a further £5.33m in 2014/15.
- 10.31 The following table indicates the areas and amounts where budget additions are included.

<b>Directorate</b>	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Adult services	2,500	5,596
Children's' safeguarding	650	0
Commissioning and transformation support	700	0
Procurement costs (incl public realm)	400	(135)
Local Development Framework (LDF)	430	(310)
Relief road feasibility	500	175
<b>Total</b>	<b>5,180</b>	<b>5,326</b>

- 10.32 It is important that the budget makes provision for known or estimated requirements. It includes provision for demographic and inflation changes. The overall inflation uplift includes provision for a 1% pay award for 2013/14 whilst noting this is a matter for national negotiations.
- 10.33 In addition to the pressures outlined in 10.31 the budget strengthens the base budget in some key areas. The most significant areas (excluding the items in budget pressures table) are outlined below.

	<b>£m</b>
Waste Management Reserve Addition	0.250
Whitcross PFI Requirement	0.075
West Mercia Income reduction	0.374
New Capital Funding requirement	0.189
Investment Income Reduction	0.153
Management of Change Provision	1.000
Council Tax Support Grant for Parishes	0.289
General Reserves	2.000
<b>Total</b>	<b>4.330</b>

10.34 The pressures in Adult Services have previously been reported. These are driven by three challenges:

- An increase in demand associated with our ageing population and changing expectations
- A reduction in the growth of public funding for health and social care
- Increasing chronic health conditions meaning more people requiring long term, complex care and support

10.35 The proposals in the budget require a comprehensive approach to vulnerable adults of all ages, changing the way resources are invested over time, and enabling individuals and communities to do more to help themselves remain healthy, independent and involved with a good quality of life.

10.36 The outcomes these changes are set to achieve are:

- Greater engagement of vulnerable adults as partners in planning how they will live an active, independent life
- Better health and well-being through better practical self-help services and support and access to information, leisure, transport, appropriate housing and social opportunities
- Improved ability to cope with social opportunities
- Improved ability to cope with crisis and transitions through reablement, community support, avoidance of admissions to hospital or residential care and timely discharge from hospital
- Extended use of community based housing and support

### **Root and Branch Review Programme**

10.37 The Root and Branch Review Programme has been developed to respond to the many challenges that the Council and other public services are facing over the next decade. The Programme forms part of the Rising to the Challenge Programme, closely linked to the Better Services workstream. The Review Programme was incorporated into the Council's Medium Term Financial Strategy agreed at Council on 3 February 2012. The Reviews seek to deliver the Council's Vision as set out in the Corporate Plan and will also help to shape the future vision of Herefordshire 2020.

10.38 The aims, scope and methodology for the Reviews were approved by Cabinet on 5 April 2012 in the form of a Project Mandate. The overall aims of the Programme are to:

- Redefine the role of Herefordshire Council and other public services
- Set out the priorities for the next decade
- Rebuild budgets, with clear links between spend and results

10.39 The programme consists of twelve reviews (based on cross cutting themes) with four reviews in each phase and each phase lasting six months.

10.40 All reviews use the same gateway methodology to ensure rigour, challenge and consistency. The process includes the following stages and identifies key questions which have been asked as part of the process.

- **Discovery** - What is the core purpose of the service or function? Are we good at delivering the service? How do we compare against other local authorities or organisations?
- **Challenge** - What would be the impact if we didn't provide the services? Who else could provide the service?
- **Options** - What are the different delivery model options for the services? Is there an option to stop providing this service altogether? What would be the impact of any changes to the services?
- **Proposal** – What are the key changes? What would be the benefits of the change? What do we need to do to deliver the change?

10.41 Recommendations from the Phase 1 Reviews were approved by Cabinet on 11 October 2012 and Delivery Plans have been produced and are being implemented.

10.42 In November 2012, it was decided to accelerate the Phase 2 and 3 Reviews to ensure that proposals were made to inform the Medium Term Financial Strategy and, in particular, the budget for 2013/14 in view of the cuts in Government funding and the increased pressures in Adult Social Care.

10.43 Appendix B contains a position statement for each of the 12 Reviews, including further information about how the proposed savings are to be made and the service impact. These statements also set out what further work is required on each Review following the accelerated process. This is important for several reasons:

- To allow further engagement with Members, employees and partners on the proposals
- To conclude work on options for 2014/15 and 2015/16
- To produce any further recommendations on our future policy and approach in the Review areas
- To ensure that the original aims of the Root and Branch Programme are met

### 2013/14 Budget and Savings

10.44 The financial planning process has been closely linked with the delivery programme for the Root and Branch programme.

10.45 Our budget planning assumptions were based on the targets agreed as part of the programme and the following indicates reductions by each of the 12 reviews. The Older Peoples review is recycling its budget savings to help deliver financial balance in this area.

<b>ROOT AND BRANCH REVIEW</b>	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>
Housing, Environment and Regulatory Services (HERS)	773	186
Street Scene	300	1,417
Customer Services	509	0
Vulnerable People	4,210	500
Travel and transport	252	861
Safer and Stronger communities	178	97

Environment	500	250
Learning and Skills	30	0
Living and wellbeing	500	500
Herefordshire 2020	1,540	0
Children and Young People	350	0
Older People's	0	0
<b>TOTAL</b>	<b>9,142</b>	<b>3,811</b>

10.46 A schedule setting out the Root and Branch savings is contained in Appendix B.

### Assuring Delivery

10.47 The report to Cabinet in October 2012 stated that, just as the Root and Branch programme is intended to be radical and challenging in approach, so should be delivery. This is essential given the scale of the change that we have to deliver, the size of the savings, the tight timescales that we face and the inevitable risks to delivery.

10.48 Accordingly, the concept of *excellence in service delivery* alongside these reviews was agreed, including assuring delivery, linking finance to outcomes and dynamic communications.

10.49 The Leadership Team have developed this objective and are putting in place a number of changes to address the delivery challenges highlighted above:

<b>Delivery Challenge</b>	<b>Assurance</b>
Leadership	<ul style="list-style-type: none"> <li>• New Leadership Team Delivery Board in place from February 2013</li> <li>• Monthly meetings to focus on overall delivery plan, track progress, provide challenge and take decisions about resources/priorities</li> <li>• Monthly review of Directorate Delivery Plans at DMTs</li> <li>• Monthly update to Cabinet</li> </ul>
Delivery Plans	<ul style="list-style-type: none"> <li>• Delivery Plans for each project linked to change/savings</li> <li>• Standard format based on learning about "what good delivery looks like"</li> <li>• Plans include: actions and milestones, accountabilities, cross council contribution, resources and risks</li> <li>• Sign off by Assistant Directors/Directors/Chief Finance Officer</li> <li>• Delivery Plans inputted to P+ system</li> </ul>
Programme Management	<ul style="list-style-type: none"> <li>• Master programme plan for all delivery plans (currently circa 140) maintained jointly by the corporate programme office and corporate finance team</li> <li>• Highlight reports and action required reported to Delivery Board, Directors and Chief Finance Officer</li> </ul>

Capacity and capability;	<ul style="list-style-type: none"> <li>• Resource requirements assessed in delivery plans</li> <li>• Skills and knowledge will be reallocated across the Council by Leadership Team to deliver agreed priorities</li> <li>• This will require decisions about stopping or deferring other things to focus on priorities</li> <li>• Additional external capacity and expertise will be brought in on business case basis as required</li> </ul>
Profiling savings	<ul style="list-style-type: none"> <li>• Savings will be profiled month by month to allow monitoring and early identification of any risks to delivery</li> <li>• Assurance statements will be linked to monthly budget monitoring reports</li> <li>• Process will be supported by Internal Audit</li> </ul>
Performance management	<ul style="list-style-type: none"> <li>• Accountabilities for delivery will be built into individual objectives for senior managers and performance managed as part of monthly 1:1s</li> <li>• New competency framework is being introduced to improve appraisals and individual development</li> </ul>
Risk management	<ul style="list-style-type: none"> <li>• Delivery plans include key risks to delivery with mitigation</li> <li>• Programme plan for the Delivery Board includes overall assessment of risks, linked to the corporate risk register</li> </ul>
Contingency planning	<ul style="list-style-type: none"> <li>• Further options for in year savings will be developed from March onwards to provide mitigation against slippage if necessary and/or pump priming delivery</li> </ul>
Communications	<ul style="list-style-type: none"> <li>• Monthly updates to employees from the Delivery Board</li> <li>• Change Champions network will be used for informal feedback</li> <li>• Updates to Members through the quarterly Cabinet performance report</li> </ul>

10.50 Cabinet is asked to note the actions put in place by the Leadership Team to assure delivery of savings and to identify any other areas where assurance needs to be increased. Cabinet may wish to request the Overview and Scrutiny Committees to play a role challenging and assuring delivery.

### **Reserves and Balances**

10.51 The Council's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks. This approach has been adopted to reduce the need for a high level of General Fund balance.

10.52 The need for and level of specific reserves as well as the approach to General Fund balances is reviewed annually as part of the budget setting process. The current policy is to hold 3% (£4.5m) of General Fund balances.

10.53 In the 2012/13 budget process Cabinet was advised of the need to put in place appropriate budget contingency over the medium term. As a result, the 2013/14 budget includes a £2m addition to the General Fund reserve. This is required for the following reasons: the continuing pressure on the financial resilience of the Council given demand led pressures in

People's Services, the achievement of budget savings and continuing central government funding reductions. This assessment reflects good practice by using a risk based approach when setting the required level of reserves.

- 10.54 The Council also maintains reserves set out for specific purposes. A full list of reserves is at Appendix D.
- 10.55 As indicated it is the intention to continue to strengthen the reserves position in the medium term. A Council's financial health and resilience can be assessed as its level of General Fund Reserves and Specific Reserves. This is a matter that full Council is required to consider advice on from the Council's Section 151 Officer (Chief Finance Officer) as part of budget setting.

### Capital Programme Proposals

- 10.56 The Council's capital programme has been largely funded by grants from Central Government with borrowing, capital receipts and revenue contributions to capital making up the difference. The government is still making some capital grant allocations and the report to Cabinet on 17 January outlined the grants to be received in 2013/14. The following represent the capital schemes proposed as part of the 2013/14 budget.
- a. **Yazor Brook Flood Alleviation** – this is for remedial works to stabilise the river bank and floodplain following the completion of the grant funded flood alleviation scheme. The bid represents the worst case scenario with actual costs dependant on the solution and liability determinations. The scheme totals £450k.
  - b. **Garrick House multi-storey car park**– this is the second part of the previous approved bid to complete the enhancement works underway to prolong the assets safe use. This does not include the installation of pay on foot. The scheme totals £500k.
  - c. **Blackmarston School** – this is towards the cost of the construction of a substantial extension and significant internal remodelling of the current building mainly funded by grant monies. The scheme will remove all temporary accommodation from the site. The scheme totals £638k.
  - d. **Leominster & Stretton Sugwas Landfill Sites** – bid to fund pumps and a monitoring system to manage the sites better to maintain remediation measures required. The scheme totals £55k.
  - e. **Leominster Primary School** – towards the costs of a new build combining the junior and infants school which is mainly a grant funded scheme. The scheme totals £205k.
  - f. **Traveller Sites Accommodation Units** – improvement works to the 43 accommodation units at the traveller sites that are in very poor condition so that the Council meets the statutory obligation to provide accommodation of minimum standard. Full cost recovery is reflected in rent levels. The scheme totals £430k.
  - g. **Backlog Maintenance** –an allocation is needed for backlog maintenance works on the Council's residual property holding which will improve energy efficiency and reduce Health and Safety issues. The allocation will also be available for the council's smallholdings estate. The scheme totals £600k.
  - h. **Funding to support Car Parking Strategy** – As part of the overall review of car parking there is likely to be a requirement to change the location of car parks in Hereford. This will also link to the emerging sustainable transport policy and options for its delivery. The scheme will require detailed costing but a capital allocation of £2m is proposed for inclusion but will be subject to further review.



## Self-financed Capital Schemes

10.57 The following are self-financed capital schemes not requiring additional long term revenue budget to meet the cost of borrowing. However they will still need to be included in the programme for agreement.

- (a) **Rotherwas Enterprise Zone** - £1.066m of costs to provide serviced deployment plots to inward investors to be funded by the capital receipts generated. The scheme will have access to up to £5m. Recovery of costs will be sought from the uplift in business rates. Alongside capital receipts there will be business rate income generated by the site, expected from 2014/15. The use of these funds are to be approved by the Marches LEP which has agreed that the related enterprise zone revenue costs incurred will have first call on this funding resource. There is likely to be a requirement to cash flow this scheme in the short term and it is estimated that the spending profile will be over three years with capital receipts for the plots reducing borrowing.
- (b) **LED street lighting** is a self-financing bid for the expansion of the current programme to all public lighting across the County funded by energy costs saved. Salix interest free loans will also be used to part fund the capital cost. This scheme will contribute to the Council's commitment to reduce CO2 emissions. This will require a reduction in revenue budgets to fund the borrowing.
- (c) **Solar photovoltaic panels** is a self-financing bid for the insulation of solar panel at 36 sites funded by reduced energy costs, community investment is also being sought and the investment will result in the avoidance of future levies. This will require a reduction in revenue budgets to fund the borrowing.

10.58 If the above schemes are agreed (and assumed to be funded) then £13.8m of capital expenditure will require funding. This splits into two funding sources with £8.9m of the total being self funded with the required revenue budget for borrowing of £133k in 2013/14 rising to £388k in 2015/16 from savings that the schemes generate.

10.59 This leaves a balance of £4.9m for schemes requiring additional revenue funding to meet borrowing costs. This requirement is £189k in 2013/14 rising to £382k in 2015/16.

10.60 Agreement of the proposed schemes will not breach the Council's prudential indicators for borrowing contained in the Treasury Management Strategy within the MTFs.

10.61 In addition to the above the Buttermarket will be subject to further feasibility studies and this may require a capital programme addition in the future.

## 11. Community Impact

11.1 The budget proposals are intended to support delivery of the Corporate Plan agreed by Council in November. The agreed plan reflects two broad priorities: supporting the development of a successful economy, and improving quality of life for the people of Herefordshire. For the latter a particular emphasis is placed on ensuring public services are prioritised to meet the needs of the most vulnerable within our communities (i.e. those in need of services to maintain their independence or stay safe) whilst enabling an improved quality of life for the wider population which is less reliant upon existing models of public sector service delivery. The plan was also strengthened from a public health perspective, prioritising the need to reduce social inequalities, increase prevention and encourage greater independence.

## **12. Equality and Human Rights**

- 12.1 Reducing inequalities are clearly articulated outcomes within the corporate plan, and the budget proposals are intended to support delivery of the corporate plan. The council's budget and charging principles reflect the need for fairness and support the targeting of resources towards those in most need. Where budget proposals are made which require a change to the service being delivered equality impact assessments will be undertaken as an integral part of the planning and implementation of such proposals.

## **13. Financial Implications**

- 13.1 The financial implications of the report are covered in the contents.

## **14. Legal Implications**

- 14.1 When setting the budget it is important that Councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and Council Tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
- 14.2 The Local Government Finance Act 1992 requires a Council to set a balanced budget. To do this the Council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure. The Act also covers the legal issues around Council Tax setting.
- 14.3 Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under Local Government legislation.
- 14.4 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.
- 14.5 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 (the statement is contained within the MTFS at Appendix A). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the Chief Finance Officer's statutory report. If they do not they must provide clear reasons for not following the professional advice put forward by the Chief Finance Officer.

## 15. Risk Management

- 15.1 The position outlined in the report indicates the state of national 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 requires a significant level of savings. There is a risk of slippage should unforeseen delays occur. Directorates' plans for delivery of savings will need robust management, and action plans to ensure delivery. Contingency plans will form part of the process with regular monitoring by Directors and through the Leadership Team and Delivery Board.
  - b. **Local Government Resource Review:** 2013/14 sees one of the most significant changes to funding for local government. The proposal to allow councils to retain a proportion of business rates rather than contribute all rates to the national pool creates risk if the level of rates income reduces. 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 with regular monitoring by Directors and through the Leadership Team.
  - e. **Council Tax Base:** the level of Council Tax income is directly related to the number of properties that are required to pay Council Tax. The number of properties will be monitored over the year along with levels of payment.
  - f. **Local Council Tax Reduction:** from April 2013 Council Tax benefit is abolished and it has been replaced by a locally determined Council Tax Reduction Scheme. This transfer of responsibility has been accompanied by a 10% cut in funding. Council in November 2012 agreed a new local scheme that met government's requirements of protecting those aged 65 and over as well as other factors. The new scheme was carefully designed and subject to consultation and aims to ensure expenditure is within the reduced government funding received by the Council. This was required because any demand for support within our policy must be met. A clear risk for 2013/14 is that the Council's level of payment to individuals may increase if the economy deteriorates and employment reduces.
  - g. **Business Rates Changes:** the new arrangements from April 2013 for localisation of Business Rates means that the Council will keep 50% of growth in Business Rates from April 2013. However, a key risk is that the Council will also have to manage 50% of loss in business rate income. In previous years the national business "pool" absorbed all such charges.

## 16. Consultees

- 16.1 The views of residents and the community have been captured and incorporated into the evidence base which was used to inform the development of the Corporate Plan. In addition the recent 'Your Community, Your Say' engagement process began with the Quality of Life survey; a postal survey to 4,125 households in the county, which achieved a response rate of 33%. The key findings of the survey informed a further phase of locality based engagement events held during Autumn 2012. The consultation process was set within the context of significant financial cuts resulting in major changes in the way that public services are commissioned and delivered; residents were provided with a range of opportunities to have their say, including:
- A series of open public meetings in each locality area
  - Targeted workshops with minority ethnic groups, young people, people with disabilities and other demographic and geographic 'gaps' identified during the process
  - Enlisting support from organisations working with 'seldom heard' individuals / groups
  - Recruiting Community Researchers & Young Researchers
  - An online discussion forum
  - A YCYS Facebook page
  - A @haveyoursay\_ Twitter account
- 16.2 The focus across these consultation streams was the collection of qualitative information from residents to help the council understand and explore:
- Whether the council are focusing on the right priorities
  - Whether the council are providing the services people believe are needed
  - Which services matter most to the residents of Herefordshire and which are less important
  - How services could be delivered differently.
- 16.3 This stage of the process involved 21 events and engaged over 1,400 residents.
- 16.4 The key findings from this consultation (available on the website at [http://www.herefordshire.gov.uk/community\\_and\\_living/62347.asp](http://www.herefordshire.gov.uk/community_and_living/62347.asp)) have been taken into account in identifying budget proposals as part of the Root and Branch Review programme.
- 16.5 In light of the severity of the cuts in government funding which were published on 19 December combined with the known financial pressures, a further, time limited consultation was held regarding particular proposals to reduce service delivery in some areas. This consultation, which ran between and 31 January 2013, was designed to provide the greatest opportunity for residents, businesses and organisations in the county to make their views known. The final findings of this consultation will be reported to Cabinet to ensure that the feedback is used to inform the decision-making.
- 16.6 The Overview & Scrutiny Committees will be consulted on 1 February 2013 and views will be reported to Cabinet at the meeting.
- 16.7 The Council has consulted separately with parishes, business community representatives and the Voluntary Sector.

## **17. Appendices**

A. Draft Medium Term Financial Strategy

B. Root and Branch Review Programme summaries including information on savings

C. Draft Budget for 2013/14

D. List of Reserves

## **18. Background Papers**

18.1 None identified.