HEREFORDSHIRE COUNCIL

REVENUE BUDGET 2005/06

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET **27TH JANUARY, 2005**

Wards Affected

County-wide

Purpose

To consider further the parameters for the preparation of the Revenue Budget 2005/06 in the light of recommendations from the Budget Panel.

Key Decision

This is not a Key Decision. The final decision will not be taken by Cabinet but by Council at its meeting on 11th March, 2005.

Recommendation

That consideration be given to the recommendation of the Budget Panel and the formulation of initial Revenue Budget proposals for 2005/06.

Reasons

Consideration of the recommendations of the Budget Panel is required which, together with the views of Strategic Monitoring Committee, will assist in the formulation of Cabinet's final recommendations to Council on 11th March, 2005.

Introduction

1. Initial consideration of the budget for 2005/06 has been heavily influenced by the need to make significant budget reductions with the dual purpose of containing the rise in council tax and providing some limited headroom for investment in key priorities.

2. The initial planning target of £5,000,000 was based on data from the Government's spending plans as provided in the Comprehensive Spending Review (CSR 2004). Subsequently, as reported to Cabinet on 16th December, 2004, the provisional Revenue Support Grant (RSG) Settlement, has seen substantial changes to the level of funding for local government with both increases in the level of RSG and specific grants.

3. It is important to emphasise at this stage that a significant element of the additional funding, in the order of £2.3 million or so is, on the basis of the announcements made, for only one year. Therefore, whilst this does mitigate the scale of budget reductions required to achieve an acceptable rise in council tax, the position should

be viewed as providing a longer planning timetable to achieve reductions rather than long term relief from the requirement to secure budget reductions.

4. A key point to highlight arising from the settlement, illustrated by the additional funding emerging in the few weeks prior to the formal announcement on 2nd December, 2004, is the Government's intention to see relatively low rises in council tax. Recent pronouncements from Ministers have emphasised the very real possibility of capping powers being used to curb excessive increases. As in previous years, however, capping criteria will not be announced in advance but the Government's stated desire to see increases averaging less than 5% emphasises its intent.

Aligning the Medium Term Financial Plan to the Corporate Plan

5. Cabinet recently agreed the Council's Draft Corporate Plan ('the Plan') for the period 2005-08. The Plan clearly sets out the Council's priorities and its direction of travel over the next three years. The Medium Term Financial Plan (MTFP) performs a vital role in resourcing the Corporate Plan and, in particular identifies unavoidable spending pressures and the potential impact on council tax.

6. The savings figure in future years within the MTFP is based upon limiting council tax rises to broadly Government guidelines and provides a guide to the level of resources the Council has available to deliver its priorities within the Plan. There are a number of important factors to be highlighted. There is highly unlikely to be any significant headroom in the budget over the period of the MTFP given:

   - the restrictions in raising revenue locally through capping, particularly in 2005/06.
   - the requirement to identify cash efficiency savings following the Gershon Review.
   - the ongoing pressures in the funding of care for older people and waste disposal and, the continued support for Education in line with Government targets.

7. It is imperative, therefore, for the corporate savings initiative to continue through the Service Improvement Programme (SIP); corporate procurement and reducing base budgets in line with the priorities set out in the Corporate Plan. Appendix 1 summarises the budget reductions considered by the Budget Panel.

8. The constraints within the MTFP demonstrate the need for flexibility in how the priorities within the Plan are funded. Three specific ways of doing this are;

   - the LPSA Performance Reward Grant will be received over the next two years and this is shown as funding improvement in Herefordshire Partnership priority areas.
   - the use of capital investment through both prudential and supported borrowing and this needs to be reflected in the capital strategy.
   - the prudent use of reserves and the flexibility accorded by the one-off changes in the current year's settlement to manage base revenue budget fluctuations over the medium term.

9. A number of priorities emerged from last year's budget considerations with a number of principles being established in setting the current year's revenue budget and the MTFP. These are as follows:

(a) 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 plan period.

(b) 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 wish to support that approach whilst recognising that that does create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics.

(c) 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.

(d) The Council has been postponing investment in Information and Communications Technology (ICT), 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.

(e) The Council needs to address its performance in relation to highways, transport, planning and waste. This will require prudent investment and the generation of that investment may require the Council to support significant changes in the pattern of provision.

(f) There is a need to continue to resource activity, which is of direct benefit to the community. Past 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 service then it needs to consider in some cases whether to continue to maintain the services at all in some areas.

(g) The Council needs to continue to strive for efficiency. It would be foolish to pretend with an organisation of the size of the Council, delivering the range and breadth of services that it does, it always maintains 100% efficiency. There is however a recognition that the amount which can be driven out by traditional approaches to improving efficiency are unlikely to be sufficiently significant to support the Council's medium-term financial plan. Cabinet has therefore agreed to look at two specific projects as an alternative to traditional approaches to economies and efficiencies. These approaches are now embodied in the work through the Service Improvement Programme and Procurement initiatives. That is not to say, however, that the traditional approaches would not continue.

The Service Improvement Programme (SIP) - this programme is intended to take a fundamental look at the way in which the Council operates. It will seek to address the prospects for savings by entirely changing operational process.

It is believed that there are significant opportunities for efficiency savings. Cabinet has agreed in principle to pursuing this approach, ensuring that savings generated are freed to support the Council's MTFP rather than individual Directorate and Departmental activity.

(h) Accommodation - the Council's current occupation of accommodation is inefficient both in terms of the actual occupation of space but also in terms of maintenance and loss of staff time. Again Cabinet has approved in principle a process for managing the accommodation requirements of the Council in a way that will be at least cost neutral and hopefully over the planned period will make a modest revenue return for reinvestment.

(i) In addition, Cabinet considered the extent it wishes to resource any additional borrowing required as a consequence of the Prudential Guidelines. The MTFP reflects a provisional spend of £5,000,000 per annum. The position will be reviewed annually.

10. The 2004/05 Revenue Budget substantially reflected these principles despite capping. In the light of the funding constraints now faced, however, the above principles have been revisited in Budget Panels over the last two months with a realisation that levels of revenue investment anticipated (i.e. £7,000,000 in total less £1,800,000 invested in 2004/05) may not be able to be maintained in all areas. The following paragraphs highlight the key issues for Cabinet's consideration.

Aligning the Medium Term Financial Process to Budget Policy

11. In determining its budget policy, the Council will need to take into account immediate factors outside the MTFP. 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.

(d) the level of the Council's general reserves and balances.

National outlook

12. Prior to considering local priorities as reflected in the Corporate Plan and associated MTFP, it is important to give consideration to the national outlook. The CSR 2004 sets out the Government's resource forecasts for local government for the three-year period 2005/06 to 2007/08. A detailed report has been considered by Cabinet but the following aspects are worth reiterating:

- Continued direction of resources towards Education and Social Care.

- Expectation of cost effectiveness savings to redirect to other service pressures (Gershon).

- Real terms reduction in Highways funding.

- Possible three-year settlements from 2006/07.

- Direct funding of schools.

- Transfer of Preserved Rights Funding Social Care to Review to mainstream FSS. (This transfer into the national funding stream is likely to result in a significant loss of revenue to the Council).

- The Balance of Funding Review led by Sir Michael Lyons, is due to report in December 2005 although it is too early to speculate on changes to the way local authorities are funded

Status and risks

13. Clearly the need to avoid capping is critical in the determination of the level of council tax for 2005/06 and predictably also in future years. 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 MTFP. The following paragraphs highlight the major issues to be considered.

14. The Council has maintained its steady improvement with regard to the Audit Commission's Corporate Performance Assessment (CPA) and the recent CPA announcement sees the Council consolidate its position as a "Good" authority. The Council has made progress on its service score for Environment but fallen back in its score for Education and Social Care (Children and Young People). The Council currently enjoys the maximum score for the "Use of Resources" and for this to continue, particularly having regard to the new CPA methodology for 2005 onwards, resources will need to continue to be directed in support of the Council's priorities

15. The CPA methodology is changing from 2005 onwards and, whilst still subject to consultation, is almost certain to involve the attainment of higher standards to maintain the Council's current classification. The Auditor's judgement, as currently proposed, will offer stronger judgements on financial planning and management, internal controls and financial standing. The mechanisms the Council has used to consult on and determine the level of resources will also be considered. The current development of the Corporate Plan and associated MTFP will be critical factors in the CPA and the Council will, therefore, need to ensure that resources continue to be directed accordingly.

16. The Council does, however, face significant risks in the following areas over the medium term.

    (a) The Social Care budget, which without ongoing investment would place the Council at risk with increased expectation, increasing number of clients and increased exposure to challenge. Continuing to press for the adoption of the 2001 census data is an important element of mitigating that challenge.

    (b) The difficulty of estimating the escalating costs of waste disposal and collection. There are a number of actions such as the need to re-negotiate the Waste Disposal PFI contract and the pressure of ever-increasing volumes of waste, 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.

(c) There is a need to address issues of levels of performance within Social Care (Children and Young People) which contribute to the annual star rating. This will now be reflected in the Joint Review of Children's Services.

(d) In relation to other service areas, national targets and standards, which are subject increasingly 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 funding provided in this year's settlement, it is asserted that it is highly unlikely that they will be made available next year. If not, that would place a further significant pressure on council tax in 2006/2007 and beyond.

(f) The Council is embarking on a major budget reduction exercise including SIP and Procurement savings. Significant reductions in budgets reduces the capacity to manage unforeseen budget pressures in year.

(g) Lack of affordable housing is impacting on spending on homelessness and may continue to put pressure on limited resources.

(h) Revenue Support Grant Clawback - the issuing of annual amending reports by the Office of the Deputy Prime Minister (ODPM) creates the potential for retrospective clawback of RSG as a consequence of changes to other authorities data.

(i) The markets supplying residential care and public transport increasingly require increases in charges/subsidy beyond inflation or services are withdrawn.

(j) Significant reductions in the Supporting People Grant are anticipated over the period of the Medium Term Financial Plan.

17. As previously reported, 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-dependent 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. The report to Cabinet on 24th February, 2005 will reflect this requirement.

Consultation results

18. These were considered as part of a detailed report to Budget Panel a summary of which is attached at Appendix 2.

Standstill budget

19. A key component of the Council's budgetary process in recent years, endorsed by Council last year in adopting the MTFP, 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.

20. 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. Preserved Rights Grant). The position reached is the total cost of providing current levels of service before taking into account service pressures, budget reductions or any other policy decisions. Standstill budgets for 2005/06 to 2007/08 are reflected in Appendix 3.

21. 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.

22. The net standstill budget for 2005/06 is £184,800,000 which, after RSG and Collection Fund surplus of £117,700,000, leaves a sum of £67,100,000 to be funded by council tax. The figure is before taking into account development pressures, e.g. Social Care and ICT and before any budget reductions and generates an increase in council tax of 4.6%.

The current year's budget and accumulated reserves and balances

23. A key factor linking the Council's budget and risk is the level of the Council's general reserves. An estimate of the position on reserves as anticipated at 31st March, 2005 is set out in Appendix 4.

24. The main features arising from this year's revenue budget which are relevant both in terms of the MTFP and the 2005/06 Budget specifically are:

- Demographic demand for older people's services.
- Waste Management – increasing costs and volumes.
- Reducing income – industrial estates and commercial property.
- Pressures on the homelessness budget.
- ICT Investment
- Grounds maintenance – adopted land etc.

25. The estimated level of general reserves at 31st March, 2005 is £5,000,000, i.e. £2,000,000 in excess of the minimum level of £3,000,000 approved by Council. Whilst the position will need to be reassessed on the basis of any further emerging issues and the Council's final budget proposals, the County Treasurer advises that a figure of £3,000,000 represents a valid and prudent reserve to maintain. A sum of £2,000,000 is, therefore, available on a one-off basis to support the Council's overall budgetary position. Once again, previous advice is reiterated that such a sum should

not be used in support of ongoing revenue expenditure, not least having regard to the impact on future years' council tax rises.

26. In addition to the sums represented above, it is forecast that the Council will retain some £1,100,000 as a consequence of underspendings resulting from delays in implementing revised Waste Disposal PFI contractual arrangements come the end of the financial year. Current indications from negotiations point to significant increases in costs, at least over the next few years, which although consistent with projections reflected in the MTFP would adversely impact on council tax, potentially by up to 1.5% - 2% from 2006/07 onwards. It is, therefore, recommended that the accumulated underspend is utilised to even out the call on the budget for the three-year period 2005/06 to 2007/08.

27. The overspending predicted for Social Care and Property Services are two areas which give rise to some concern despite ongoing efforts to contain expenditure within budgetary limits.

28. With regard to Social Care the significant efforts made in 2003/04, which saw the overspend reduce to £253,000 have been confounded by emerging pressures during the current year. It seems likely that, despite the rigorous management action applied to mitigate the position, an overspend in excess of £750,000 will result.

29. The position regarding Property Services has developed over the last few years as rent reviews and other factors has seen income levels fall. Additional resources of £197,000 provided as part of the 2004/05 budget has stabilised the position but an accumulated deficit come the year end of some £450,000 is anticipated. The Director of Environment has proposed reducing property maintenance by £200,000 a year as a means of addressing the position over the medium term.

30. Managing down these overspends against the backdrop of tight budgetary constraints over the period of the MTFP present a significant challenge. Cabinet may therefore wish to give consideration to the proposition that, given the relatively healthy position reported, general reserves are utilised to reduce the overspend to be carried forward at least in part. Clearly such an approach must be viewed as exceptional given the Council's current policy of carrying forward both over and underspending as detailed in financial regulations.

31. A further issue requiring consideration in the context of the Council's available reserves is the implementation of the Children's Act 2004. The appointment of an interim Director of Children's Services paves the way for the realignment of service provision within the Social Care and Education directorates. The process will require dedicated resources additional to those currently available, to develop a clear rationale for likely change and to implement new systems, procedures and staffing structures. The Director is currently preparing a report for Cabinet consideration and at this stage additional one-off costs in the order of £250,000 are anticipated over the next two years. Cabinet may consider it appropriate for this one-off cost to be met from reserves.

Conclusions

32. In reaching conclusions, it is important to refer to the outline strategy endorsed by the Budget Panel at the commencement of the process. Based on the information contained in the CSR 2004 in July, it was concluded that the Council faced the toughest local government finance settlement that it had seen in its relatively shortly life. On the figures then available, the Council faced a very significant funding gap

amounting to some £4 million in terms of maintaining a standstill budget and some £5 million if the Council was to make available £1 million for modest investments in the essential areas of older people and ICT.

33. It is important to emphasise that that preliminary work was based on a council tax level of 5.5% accepting that the Government's indication of levels of council tax increase were focused on "low single figures". That 5.5% council tax was itself below the level of council tax which could be anticipated from the CSR 2004 announcement.

34. As detailed earlier in this report, and reported to Cabinet on 16th December, 2004, the provisional local government finance settlement issued by the Office of the Deputy Prime Minister on 2nd December, 2004 was significantly better than that which could have been predicted from the CSR 2004 announcement in July. Those improvements, followed intensive negotiation between the Local Government Association (LGA) and Government over the intervening period. Whilst that relief is welcomed, as reported to Cabinet on 16th December, 2004, on the face of the announcement, there was the clearest possible indication that £3 million of the additional monies made available in support of the current year's settlement will not be repeated in 2006/07. There has been further opportunity to examine the detail and it is clear that applies both to the sum of £1.5 million addition made available through the late changes to the settlement and also to the proposal to postpone the technical adjustment in relation to the preserved rights expenditure (Social Care) which is currently funded by specific grants where the intention remains to transfer this into mainstream FSS funding, which may disadvantage Herefordshire to the tune of £0.8 million. There is, therefore, a total potential impact on the 2006/07 budget of £2.3 million.

35. There remains the possibility that as in the current year, there will be adjustments made to the underlying CSR 2004 announcement in relation to 2006/07 but the current very clear message is that similar adjustments next year are not in contemplation.

36. The other important factor to which to draw attention and which is easily overlooked as part of the Government's announcement, is that part of the additional monies made available is expected to be applied to drive down still further the levels of council tax which will need to be levied. The average national figure to which the Government is making reference in its announcements is 3.7% but employing exactly the same method of calculation for Herefordshire's own position then the predicted council tax increase in Herefordshire would be some 4.8%. Before the council tax is set in March, it will be important to look at the council tax rises being generated within the region, to look at those being generated by similar County authorities and to look at those being generated by similar Unitary authorities. Early indications are that council tax increases are more likely to be in 4% - 4.5% range and it clearly is a priority for the Council to avoid any risk of "capping" in the forthcoming financial year. At the same time, it is important particularly given the one off nature of much of the additional assistance in the current financial year, that the Council maintains the highest possible base because that will give the maximum flexibility in dealing with the challenges which are clearly set out in the supporting Appendix 3.

37. The other element to which it is necessary to draw attention is the approach to be taken to implementing the results of the triennial actuarial review of the Superannuation Fund. Provision had been made for the actuarial review on the basis of advice received from the Superannuation Authority and on the basis of the then advice from ODPM. That advice has more recently been amended and the

essence of the advice is that Superannuation Authorities may now adopt a longer-term approach in planning a recovery strategy for such funds nationally. In applying those new recommendations, stepped increases in contributions will now apply for the period 2005/06 to 2010/11. The consequence is that there is a reduction in the predicted provision in the current year's budget of £750,000 but the stepped approach to contributions mean that "saving" against the original budget will be eroded by some £200,000 per annum thereafter. In essence, therefore, the original estimates provided by the Superannuation Authority would have to be met as originally assessed but the revised advice allows those increases to be phased over a longer period.

38. The attention of Cabinet is drawn to the 2005/06 financial year where it would be possible, if the Council was to make no money available for growth, to maintain a standstill budget on the basis of the December settlement whilst generating a council tax increase of 4.6%.

39. However, it is important to draw attention to the consequences of such a strategy in terms of the 2006/07 budget. Based on the Government's current expressed intention and based on the information made available within the CSR 2004 announcement, then on the basis of the Government's plans there would be an anticipated council tax increase in 2006/07 of 5.5%, but if council tax was to be set at that level there would be an anticipated budget shortfall of £4.2 million. It is, therefore, important that the Council sets a strategy which does not lose the headroom in the recently announced settlement to support significant ongoing expenditure thus exacerbating the position which the Council would face in 2006/07 and beyond.

40. Cabinet need to formulate the principles which might underlie the Council's budget strategy for the forthcoming year. The following proposals are put forward for consideration.

- That in line with the view expressed by Cabinet on 16th December, 2004, Cabinet supports the retention of the targeted service savings of £3 million, amending that target by reference to the schedules enclosed at Appendix 1 as they see appropriate. It is that sum of money that would provide the base budget provision for much needed investment in older care and ICT and that will enable any reduction in Council tax below the predicted level of 4.8% which the Council wishes to make.

- The Council has to demonstrate the 2.5% efficiency review savings of which 1.25% must be cashable. In support of that, the Council has established the Service Improvement Programme and is commissioning further work on procurement. There is a targeted sum of £2 million attributed to those programmes. It was always seen as being difficult to achieve a full year's effect of those targeted savings in 2005/06. It is essential, however, to maintain the momentum of that programme. The target could be revised, however, to ensure that the full year effect of the proposed £2 million reductions could be secured for the financial year 2006/07. That should not be allowed to take the pressure off maximising the returns in 2005/06 (which will be necessary in part to meet the efficiency target) and this in turn could free up additional monies in year for further investment.

- Such a strategy would produce a sum significantly in excess of the targeted investment of £1 million and Cabinet would need to consider carefully how much of that additional sum should go in support of the priorities identified in the Council's MTFP and Corporate Plan. This is a difficult balance to strike. The currently identified gap for 2006/07 is over £4 million and it is anticipated that the Council would wish to avoid a situation where it invests in 2005/06 only to have to disinvest in 2006/07. The issue for Cabinet to address would be how far it wished to take the longer term view in terms of using those monies to even out the very significant burden that would otherwise be faced, particularly in 2006/07 but through to 2007/08. This needs to be specifically highlighted as part of the Council's budget strategy.

- This is a particularly difficult strategy for the Council to explain to the public. It depends on the Government holding to the three year projection contained in CSR 2004 for the full period. The uncertainties which surround CSR 2004 are as follows:

  - Will the Government maintain its current indicated stance of not replacing the one-off funding in the current year (estimated value £2.3 million) as part of the 2006/07 settlement?

  - At what stage with the Government eventually utilise fully the 2001 Census Data with the consequential gain to this Council? There is increasing pressure on the Government to do so, particularly as authorities like Herefordshire are compelled to contribute retrospectively from their budget towards the selective application of the 2001 Census Data which disadvantages Herefordshire. (paragraph 16(h))

  - What is the likely impact and timing of the Lyons Review on the funding of Council expenditure?

  - What is likely to be the impact of the recently announced approach to three year settlements?

41. Cabinet will wish to consider very carefully the balance between anticipating the formally announced Government's expenditure plans and the very significant uncertainties detailed in the previous paragraph. It might be seen as too cautious given the balance which needs to be struck between much needed investment and future financial stability.

42 The issue of the current levels of reserves held by the Council is detailed at paragraphs 23 - 31 and Appendix 4. The reserves currently held by the Council are at historically high levels set against the Council's established policy of maintaining a minimum prudent reserve of £3 million. Reserves could appropriately be used to assist in support of non-recurring expenditure.

43. There are a number of areas in which Cabinet may wish to consider the application of reserves.

44. Whilst maintaining the pressure on the in-year management of the Social Care budget, there would be the opportunity for the first time for many years to apply reserves to enable Social Care to start the financial year 2005/06 without any budget deficit. That would have to be coupled with a real commitment to new disciplines to ensure that the budget in 2005/06 was managed in a way that enabled it to meet the principles which have become established in other Directorates.

45. A similar approach might be pursued in relation to the Property Services budget. Once again, it would have to be firmly tied in to new approaches to budgetary control.

46. There is a clear case already identified for funding the Change Team required to introduce the required measures into the new Children's Services Directorate from within reserves. This would quite possibly be over more than a single financial year.

47. Again reserves could be used to support the Service Improvement Programme and Procurement Programme through an invest to save approach.

48. Finally, with the pressures of job evaluation and the need for Human Resources support for major change programmes, there would be the opportunity to provide temporary financial support for the Human Resources Division prior to the Cabinet considering final proposals for the structuring of that Division.

Council Tax

49. The final decision on council tax is clearly a matter for Cabinet to recommend to full Council at its March meeting. There are very important service and local political considerations to be taken into account. As previously outlined in the report, the balance to be struck is between maintaining the Council's spending base in the current financial year, providing prudently for the major challenge which on the basis of the Government's announcements would be faced in 2006/07, making judgements about the Government's approach to council tax capping in the forthcoming year and a prudent consideration of the council tax payer. It is for Budget Panel to make an initial recommendation to Cabinet and it may wish to do so by expressing a view on a specific figure or by indicating a range of likely council tax levels.

50. In terms of the Council's 2004/05 budget when the Council was both designated and capped, then the Chief Executive and County Treasurer would clearly advise that the council tax increase should not exceed that arrived at by the Government's own calculation, namely 4.8%. There is a cogent argument for "playing safe" given the circumstances which were encountered in 2004/05. It will be important to continue to monitor likely council tax levels in comparator authorities.

51. On the basis of current information, the Chief Executive and County Treasurer would commend a guideline of between 4% and 4.5%. Conscious of the importance of maintaining the council tax base, the current recommendation would centre around the higher end of that range.

52. That recommendation is made not because of the pressures on expenditure in the financial year 2005/06 but to protect as far as possible the budget position for 2006/07.

Recommendations of Budget Panel

53. Having met on a number of occasions during late 2004, Budget Panel considered the foregoing report on 17th January and has made the following recommendations for Cabinet's consideration:-

- That the securing of targeted service savings, as set out in paragraph 40 above, be endorsed, particularly having regard to the need to achieve 'Gershon' efficiency targets.

- That Cabinet note the outcome of the Public Consultation exercise.

- That work continues to secure Service Improvement Programme and Procurement savings.

- That the RSG Settlement be noted but with concern that on the basis of the accompanying advice from government the significant additional resources provided for 2005/06 are unlikely to be repeated in future years.

- That the potential clawback of grant, referred to in paragraph 16 (h), be noted with concern.

- That the application of reserves referred to in the report be supported.

- That, having regard to the potential capping position, Cabinet refers its budget proposals to Strategic Monitoring Committee indicating that at its final meeting on 24th February, 2005 it would intend to recommend to Council a Council Tax increase of between 4% and 4.5%.