Foreword by the Leader & Cabinet Member (Resources)

Herefordshire Council is determined to provide a sound basis for sustainable improvements in services and a better quality of life for the people of Herefordshire. Excellence in financial planning and management is vital to achieving this.

The world of local government finance is complex and changes at an ever-increasing pace. In the last 12 months alone we have seen the following:

- introduction of three-year revenue and capital grant settlements;
- a new grant distribution system;
- introduction of Dedicated Schools Grant;
- postponement of domestic property revaluation;
- changes to the terms of reference and timetable for the Lyons Inquiry;
- postponement of the 2006 Spending Review to be replaced by a second Comprehensive Spending Review in 2007;
- radical proposals for changes in the housing benefit system; and
- the CPA Harder Test including the Use of Resources assessment.

The wider context for local government is also likely to change rapidly too. We know the Government has proposals for reorganising many of our strategic partners, is showing increasing interest in city regions and has renewed interest in structural reform of the two-tier areas of local government.

In setting our longer-term strategic objectives for meeting the needs of our community, we need to be mindful of the impact these changes might have for us locally. Our service improvement aspirations have to be realistic in terms of the challenges ahead.

This version of the Medium Term Financial Management Strategy (MTFMS) has been updated in the light of consultation feedback since Cabinet approved the draft document in July. It aims to pull the strands together – many of which we have discussed in recent months as we have considered and approved the Herefordshire Community Strategy, the Council's Corporate Plan 2006 - 2009 and its Annual Operating Plan and budget for 2006/07 – making sense of them for Herefordshire.

Our MTFMS will provide the financial context for making sure our service improvement aspirations are affordable and sustainable into the future. It will also provide a framework for making sure our cash resources follow corporate priorities as reflected in our medium-term financial plans. We hope it provides a comprehensive view of the proposed way forward for Herefordshire Council's strategic financial management.

Cllr Roger Phillips	**Cllr Mike Wilson**
Leader of the Council	**Cabinet Member (Resources)**

Foreword by the Chief Executive & Director of Resources

The Leader and Cabinet Member (Resources) have described a rapidly changing and increasingly complex context for local government at a time when public spending is under pressure, the Government is seeking a step change in the pace of public service reform and customer expectations are rising.

As a public body, Herefordshire has special accountabilities for the stewardship and use of public money and for ensuring financial stability and sustainability into the future. We can no longer rely on an annual budget process to guarantee Herefordshire's long-term financial health. Year-on-year changes at the margin to match budgeted income and expenditure will not support the transformation in services we aspire to achieve, the Government is seeking and, most importantly, our communities deserve.

The introduction of 3-year financial settlements for local government means we now have the best ever opportunity to make realistic long-term budget plans that link directly to corporate and service priorities. The Medium-Term Financial Management Strategy (MTFMS) will form an important part of our financial governance and leadership arrangements. It will set out our approach to strategic financial management, concentrating on longer-term financial planning in support of longer-term corporate and service priorities.

The MTFMS will also help promote the change in Herefordshire's financial management culture that the Director of Resources has instigated since her arrival in November 2005.

Whilst the Director is responsible and accountable for leading and advising on financial issues, all managers have a collective responsibility for financial management, including efficiency review and Value for Money, and treating cash as a corporate resource. The 'non-negotiables' in the job descriptions of all our Heads of Service underline this responsibility at Director and Senior Management Team level.

Financial management isn't something that just accountants do. Quite simply, it is part of everyone's job and is a critical success factor for the Council.

Neil Pringle
Chief Executive

Sonia Rees
Director of Resources

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1. Executive Summary

Herefordshire Council's first comprehensive Medium-Term Financial Management Strategy (MTFMS) sets out how it intends to maintain financial stability, support key investment, allocate resources, deliver improved Value for Money and manage risk as we face up to very challenging times for local government.

The strategy supports the new financial culture for the authority, in which everyone strives for a greater shared understanding of the pressures and opportunities the Council is working to address. Financial objectives and policies are no longer something that is only of interest to accountants but to all colleagues concerned with service delivery and improvement.

Public service reform is high on the government's agenda, with local providers required to work together more closely than ever before to achieve efficiencies, ensure social justice and remove social divisions. Local government will be expected to lead their communities, encouraging citizens to have a greater say in how services are delivered. There may be significant changes to local government financial systems, but there will be no more cash.

Herefordshire is an under-resourced council, stretched to deliver services throughout a large, sparsely populated area. Our government funding is 20% lower per head of population than the average for similar authorities and we have a lower than average Council Tax too. Capital resources are also limited. Despite this, the Audit Commission has judged Herefordshire to be a 3-star authority that provides good services at good value. Our financial performance, administration, management and systems are also judged to be good, and we have a healthy level of reserves and a strong balance sheet.

Sound financial governance will be vital as we enter the most challenging period the Council has faced since in came into being. Our key financial objectives for improving our service and financial performance are to continue to ensure that budget plans are realistic and support corporate priorities, to maintain an affordable Council Tax, to protect the vulnerable, to deliver services within budget and to ensure an integrated approach to service and financial planning in full consultation with key stakeholders.

The MTFMS encompasses revenue spending, capital investment, efficiency improvement and treasury management in order to achieve these objectives, ensuring complete transparency about what is and what is not resourced. The factors that will underpin the Council's ability to maintain its current financial standing into the future and achieve its service improvement aspirations are strong corporate working supported by open book accounting, good financial management systems and practices and the successful and timely delivery of the business transformation programme. The MTFMS shows how important successful delivery of the Herefordshire Connects programme will be to both service and financial stability over the medium-term.

2. Introduction

2.1 Background

2.1.1 This is a comprehensive Medium-Term Financial Management Strategy (MTFMS) for Herefordshire covering the financial years 2007/08 to 2010/11.

2.1.2 The MTFMS sets out Herefordshire's key financial aims and objectives and how it intends to manage its financial affairs in order to maintain financial stability over what is expected to be a very challenging period for local government.

2.1.3 The development of the MTFMS forms part of Herefordshire's new integrated corporate, service and financial planning cycle. This cycle is designed to ensure that corporate and service plans are developed in the context of available resources and that those resources are allocated in line with corporate priorities.

2.1.4 The MTFMS will be reviewed annually at the start of the integrated financial and service planning cycle. Any material changes to the assumptions made will be reported in the routine Integrated Performance Reports produced for Cabinet at the end of months 4, 6, 8 and 10.

2.2 Aim

2.2.1 The MTFMS aims to ensure that the Council has a stable and sustainable financial basis for supporting investment in its strategic objectives.

2.3 Purpose

2.3.1 The purpose of this strategy is to show how the Council's cash resources will be used to support achievement of the objectives set out in the:

- Herefordshire Community Strategy;
- Local Area Agreement (LAA),
- Local Public Service Agreement (LPSA2);
- Corporate Plan;
- Overall Performance Improvement Plan; and
- Annual Operating Plan.

2.4 Objectives

2.4.1 The objectives of the MTFMS are to:

- define the financial context for future service improvement decisions;

- set a baseline for reviewing resource availability & financial performance;
- establish and maintain a balanced budget;
- ensure corporate priorities drive the allocation of cash resources;
- promote strong financial governance at all levels within the Council;
- manage risks by keeping reserve funding and debt at appropriate levels;
- plan for Council Tax increases in line with national guidance; and
- provide a focus on delivering improving efficiency & Value for Money.

2.5 Coverage

2.5.1 The MTFMS contains:

- an overview of the financial outlook for local government and how we expect that to impact on Herefordshire;
- a revenue budget strategy that sets out how we will achieve improving efficiency and Value for Money;
- a medium-term financial plan for the revenue account;
- a capital strategy incorporating proposals to establish a corporate landlord role & corporate prioritisation of investment decisions including ICT;
- a medium-term capital investment plan;
- a treasury management strategy setting out our view of likely interest rate movements, timing of investment and borrowing decisions, how we will deal with risk in our treasury management activities & our view on affordable debt limits; and
- a detailed financial risk assessment that shows the major areas of financial uncertainty, their likelihood of occurrence, their potential impact & how we propose to mitigate those risks.

2.6 Summary

2.6.1 Herefordshire has made significant progress establishing a new general and financial management culture. The top-level management board now takes a much more corporate approach. The financial management culture is fast developing to follow suit.

2.6.2 Our accountants and service managers need to have a high-level understanding of the overall policy and financial context within which Herefordshire works. This sets the scene for the MTFMS and the resulting medium-term financial plans that they will have to work within. Greater shared understanding of the pressures the Council as a whole faces underpins achievement of corporate service improvement and financial objectives.

3. National Policy Context

3.1 Introduction

3.1.1 Change in the public sector has been extensive in recent years and this trend is set to continue for the foreseeable future. It is important to set the MTFMS in the context of the changing policy context at national level so we have the financial capacity and flexibility to deal with the change as it happens.

3.1.2 Three key discussion papers on the future direction of local government and public services have been published in recent months that could have corporate implications for Herefordshire. These are:

- National Prosperity, Local Choice and Civic Engagement (Lyons Inquiry);
- Closer to People and Places – a New Vision for Local Government (Local Government Association); and
- The UK Government's Approach to Public Service Reform (Prime Minister's Strategy Unit).

3.1.3 A brief summary of these papers is provided below in sections 3.2 to 3.4 respectively.

3.1.4 A green or white paper is currently anticipated in October 2006 from the Secretary of State for Communities and Local Government on Local Government Review. A short assessment of what might emerge is given below in section 3.5.

3.1.5 Finally, this section of the MTFMS identifies the key national policies that are likely to impact on service delivery. These are listed in section 3.6.

3.2 National Prosperity, Local Choice and Civic Engagement

3.2.1 Sir Michael Lyons published his latest thinking on the future role and function of local government on 8th May 2006.

3.2.2 In his report, Sir Michael argues for a system of local government for the 21st century that can manage increasing pressures on public expenditure, increase satisfaction and build more prosperous communities. Greater local choice and not more central control is needed to achieve this.

3.2.3 He also argues that local government should be given greater freedom to place-shape – where local government takes responsibility for the well being of an area and the people who live there, promoting their interests and their future.

3.2.4 Sir Michael sets out a challenge for central government to clear the space for effective place shaping by setting fewer and better-focused targets and reducing supervision of local government by central government. It should also clarify the roles of central and local government, based on a realistic assessment of who is best placed to do what, and allow greater local influence over public services.

3.2.5 In addition he challenges local government to further raise its game, building on recent improvements to tackle the challenges of promoting effective local choice and energetic place shaping. This requires stronger leadership, closer engagement with local residents, effective partnership working with other services and the business community, and a consistent commitment to efficiency and cost effectiveness.

3.2.6 Sir Michael concludes his report by saying that a programme of reform is needed to achieve the benefits of devolution he sets out in his paper and to enable local authorities to undertake their role as place-shapers. The roles and responsibilities of central and local government must be clarified, local accountability must be improved and local government must build its confidence and capability, including developing its skills, leadership and self-confidence.

3.2.7 Sir Michael is continuing to work on both the function and funding elements of his Inquiry. He is planning to make his final report to Ministers in December 2006 ahead of the Comprehensive Spending Review planned for 2007. He has stated that this further work will include:

- the extent to which there may need to be a greater flexibility in funding – including charging for services - in order for place-shaping to happen effectively, and the different options which might be available to deliver such flexibility;
- the extent to which local accountability might be enhanced by a clearer link between function and funding – and the constraints on such an approach;
- the fairness of the funding system and the relationship between equalisation of resources and the incentives facing local authorities; and
- the role and future of Council Tax.

3.3 Closer to People and Places – a New Vision for Local Government

3.3.1 Launched on 22nd May 2006, this Local Government Association (LGA) publication sets out a radical new vision for how power should be removed from Whitehall and put into the hands of local people, voluntary organisations and local councils.

3.3.2 The report calls for a series of sweeping changes to local government and wants a 'clamour for change' by local people to help make this happen.

3.3.3 The LGA sets out 3 objectives to:

- secure more fundamental improvements in public services and make better use of public money;
- improve the quality of life and economic performance of cities, towns and villages; and
- give people greater power and influence over their lives, their services and the future of the places where they live.

3.3.4 The LGA argues that these objectives are shared with government and that they will only be achieved through a new system of government that offers local people more power and influence in public decisions, greater choice and a stronger voice in service delivery.

3.3.5 The LGA paper describes a new governance system that:

- enhances councils' place-making role;
- joins together the totality of public services in an area;
- designs services around users;
- realises the economic potential of our cities, towns and villages;
- provides more visible, accountable and democratic leadership with strong local performance management and accountability;
- ensures greater Value for Money and efficiency; and
- reforms the balance of funding.

3.3.6 The LGA puts forward the following proposals to support their new vision for local government:

- streamlining the plethora of targets, specific grants and financial bid systems with an agreed list of some thirty national outcomes which local government will take responsibility for delivering with its Local Area Agreement (LAA) partners;
- replacing the 'power' for economic, social and environmental well-being with a 'duty';
- developing the next generation of LAAs, backed by a 'duty' for partners to co-operate, to join together the totality of public services and resources in an area to deliver improved outcomes, better access to services and efficiency savings;
- developing Metropolitan Area Agreements, City Area Agreements and Shire Area Agreements alongside the next generation of LAAs;
- strengthening neighbourhoods through devolution from local authorities, together with an enhanced role for local council members; and
- a clear commitment to and timetable for the re-balancing of local government funding.

3.3.7 In summary, the LGA supports the government's ambition to modernise public services. It is arguing strongly for the freedom and flexibility to do this, recognising that local government needs to respond by being more innovative, enterprising and efficient.

3.4 The UK Government's Approach to Public Service Reform

3.4.1 The Prime Minister's Strategy Unit published a discussion paper on 6th June 2006 describing the government's proposed approach to public service reform. The paper is not, it says, intended to be the government's final word but to help improve understanding of the bigger picture on reform and stimulate further discussion.

3.4.2 The government recognises that public services in the UK, in common with many other countries, face major challenges from social, economic and technological changes and from major changes in public attitudes and expectations. It notes that other countries in Europe and elsewhere are pressing ahead with reform to deal with these challenges.

3.4.3 The discussion paper says that the government has substantially increased investment in public services since 1997, giving examples of improvements in education, health, crime reduction and other areas alongside an ambitious programme of reform.

3.4.4 But, the discussion paper goes on to explain, increased spending on its own is not enough to ensure improvements. The government believes that reform is needed to ensure that existing resources are used effectively and to ensure increased investment results in better services and improved outcomes.

3.4.5 The paper describes the government's vision as being one in which public services are:

- citizen-centred and responsive;
- universal and accessible to all and (in the case of core public services such as schools and healthcare) free at the point of use;
- efficient and effective, offering value for money for the tax-payer;
- equitable, helping to reduce social exclusion and improve the life changes of the disadvantaged;
- excellent (high quality); and
- empowering and involving citizens.

3.4.6 The discussion paper then sets out how the government intends to approach the reform of public services. The reform will be driven by a combination of:

- pressure from government (top down performance management);
- greater pressure from citizens (choice and voice);
- greater competition and contestability in the provision of public services; and
- measures to build the capability and capacity of civil and public servants and central and local government.

3.4.7 The government's intention is that these 4 elements will combine to create a self-improving system within which incentives for continuous improvement and innovation are embedded to provide better public services for all.

3.5 Local Government Review

3.5.1 The government's original intention prior to the Prime Minister's Cabinet reshuffle on 5th May 2006 was to publish a white paper on Local Government Review in the summer. As a result of that reshuffle, Ruth Kelly took on the newly created post of Community and Local Government Secretary.

3.5.2 The Prime Minister identified the following priorities for the new Department for Communities and Local Government (DCLG):

- developing the work started whilst at the Department for Education & Skills on social mobility and economic inclusion;
- developing the work started by the Office of the Deputy Prime Minister on local government reform by bringing forward a radical, devolutionary White Paper and subsequent Bill with more powers for local neighbourhoods and new models of accountability and leadership;
- working with Sir Michael Lyons to deliver a practical, workable solution for local government finance in the Comprehensive Spending Review for 2007 (CSR07);
- delivering the government's policy in response to the Barker review of housing supply;
- building on the work Kate Barker is currently doing on land use planning to identify further proposals for reform of the planning system; and
- producing an action plan to respond to the Women & Work Commission's recommendations on further measures for tackling gender inequality.

3.5.3 The Prime Minister asked the new Secretary of State to report her preliminary assessment of the key challenges across her Department, including the key milestones and risks in each area, by the end of June. He reminded Ms Kelly that her plans needed to be set in the context of lower growth in funding than in recent years, pointing out that the zero-based and efficiency reviews already underway in preparation for CSR07 would be a key critical input.

3.5.4 The current view is that the White Paper on Local Government Review due to be published in October 2006 would have a strong theme on localism. It is anticipated that the Secretary of State for Communities and Local Government will show a renewed interest in making the 2-tier system work in shire areas – if only because Her Majesty's Treasury was nervous about the cost of changing existing structures when the rate of growth in public spending needs to reduce.

3.6 Other Government Policy Initiatives

3.6.1 This section of the MTFMS sets out in headline detail only the top 4 or 5 government driven initiatives that will impact on service delivery in each of our Directorates.

Adult & Community Services

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

- **Public Service Trust** - the Council will explore further joint working arrangements between health and social care services in Herefordshire in the context of the recent Primary Care Trust reorganisation and proposals set out in the White Paper - Our Health, Our Care, Our Say;

- **Housing Related Funding** – responding to the government's changed approach to funding for the Supporting People Programme and allocating capital resources for housing renewal to focus resources on affordable housing; and

- **City Region Proposals** – responding to government proposals for the establishment of a City Region for the West Midlands based on the metropolitan areas - the governance and funding arrangements will have implications for the non-metropolitan areas.

Children & Young People

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

- **Every Child Matters Change Programme** – will require extra effort to put reforms in place by 2008;

- **Youth Matters Change Programme** – will require strengthened links to Youth Council and new service approaches;

- **Education & Inspections Bill** – will require new relationships with schools;

- **Dedicated Schools Grant** – the precise details of how this new grant will operate and its impact on non-schools services are still emerging. The grant covers both individual schools budgets and support services provided for schools such as SEN support services giving schools much greater choice on how to procure such services. Over spends on DSG will be carried forward to count against the following year's grant allocation. Under spends will have to be returned to the Department for Education & Skills. Efficiency gains within DSG whether through procurement savings, the Herefordshire Connects programme etc. can be kept within DSG and will be essential to help offset reductions in DSG from falling pupil numbers.

- **E-learning, E-admissions, Integrated Children's System and Information Sharing Index** – will require transformation of service arrangements and links directly to the Herefordshire Connects programme; and

- **Safeguarding Guidance & Looked After Children Green Paper (Autumn 2006)** – will require new arrangements and targets to be resourced.

Corporate & Customer Services (including Human Resources)

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

- **Unification project for Registration Services** – potential for significant changes in existing service delivery arrangements;

- **Further development of the LAA framework** – with potentially both corporate and directorate implications;

- **Support services** – ensuring all support services are adequately resourced to provide the level of service needed to achieve national and local priorities;

- **Adult & Children's Services Workforce Strategies** – the requirement to develop integrated strategies with health;

- **Welfare to Work Reforms** – ongoing requirement including reducing the numbers of people on benefit by providing work;

- **Local Government Pension Scheme** – advising both employer and employee on proposed changes;

- **Changes in employment legislation** – including new age and disability discrimination regulations; and

- **National Skills Agenda** – new frameworks for social work and priority training for minimum skills standards.

Environment

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

- **Landfill Diversion** – targets increasingly more challenging requiring either increased resources and / or radical changes to service delivery;

- **Respect Agenda** – community safety including anti-social behaviour, cleaner neighbourhoods and improvements to the street scene:
- **Transport Innovation** – funding based on innovative proposals to relieve congestion, create better integrated transport provision and in particular better quality bus services and national concessionary travel;

- **Reform of the Planning System** – roll-out of the local development framework and proactive response to further proposals for change from the government; and

- **Improving Road Conditions** – government targets require sustained and increasing investment.

Resources

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

- **Reform of the local government finance system** – will affect billing services;

- **Comprehensive Spending Review 2007** – extra demands on the Resources Directorate to provide leadership in strategic property asset and financial management;

- **Green Paper on Welfare Reform** - Local Housing Allowances will impact on benefit services;

- **Gershon efficiency gains** – increasing pressure on back office services to make significant and demonstrable efficiency gains;

- **National Procurement Strategy for Local Government** – increasing need to deliver key milestones in the Council's procurement strategy; and

- **Use of Resources Assessment** – increasing pressure to demonstrate the effectiveness of the Council's overall governance arrangements.

3.6.7 This section has highlighted the host of changes we can expect at service level in addition to those that Herefordshire will have to deal with as a corporate organisation.

3.7 Summary

3.7.1 The evidence is that radical public service reform is likely in the medium-term. It is clearly high on the government's agenda and that of the Local Government Association.

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

- the agenda will accelerate the move to greater localism, not just to local authorities but also to the individual neighbourhoods within them;
- integral to this will be an even stronger expectation, amounting to a requirement, that public services in an area will deliver measurable improvements by working together to a common agenda;
- there may be more powers and duties underpinning local government's community leadership and well-being responsibilities;
- greater freedom for local government will have to be matched by more effective systems of performance management;
- achieving quality, efficiency and Value for Money in service provision will be a high priority;
- services will need to be citizen-centred and service users will have a greater say in the design of services;
- more will be done to ensure social justice and close the widening social divisions;
- significant change in the local government finance system is likely with the balance of funding under review and the future of Council Tax in question; and
- greater pooling of resources as LAAs is developed.

3.7.3 The government is determined to set a very challenging agenda for public service improvement and local government will be expected to play its part. We will need to acquire the skills and capacity needed to deliver improvements in outcome that exceed the lower level of new investment we can expect from 2008/09 onwards.

4. National Financial Context

4.1 Introduction

4.1.1 This section of the MTFMS sets out the financial context at national level for local government. It describes what we expect to happen in the build up to the Comprehensive Spending Review 2007 and identifies the national spending pressures for local government.

4.2 National economy

4.2.1 The UK economy has shown significant growth stability over the last 10 years. However, there are differing views as to whether this stability can be maintained over the medium-term.

4.2.2 The Chinese economy continues to grow. The US economy remains strong and the European economies, Germany in particular, are showing promising signs of growth. Oil prices have stabilised. The unsettled political situation in the Middle East has been of less concern to global markets of late but the situation remains volatile.

4.2.3 At home, UK economic growth has been steady. The housing market appears to have entered a growth phase after a period in which house price increases had slowed. It remains to be seen whether this trend will continue or it is a blip.

4.2.4 UK inflation has been held within Bank of England parameters for several years now and there are no immediate signs of substantial change. Interest rates continue to remain stable and again there is currently no reason to assume a substantial change here either, although the risk is to the upside.

4.2.5 Having taken global and domestic economic factors into account, this MTFMS assumes that the UK economy will continue to grow albeit at a slower rate than official forecasts.

4.3 Comprehensive Spending Review 2007

4.3.1 In July 2005, the Chief Secretary to the Treasury announced that the government intended to launch a second Comprehensive Spending Review (CSR) report in 2007 to identify what further investments and reforms were needed to equip the UK for the global challenges of the decade ahead.

4.3.2 A decade on from the first CSR, CSR07 will represent a long-term and fundamental review of government expenditure. It will cover departmental allocations for 2008/09, 2009/10 and 2010/11, with allocations for 2007/08 held to the figures included in the 2004 Spending Review.

4.3.3 The Chancellor of the Exchequer's budget paper for 2006 set out how the government planned to prepare for the CSR07. The programme will include:

- an examination of the key long-term trends and challenges that the UK faces including:
    - demographic and socio-economic change;
    - globalisation;
    - climate and environmental change;
    - global uncertainty; and
    - technological change.
- plans for a national debate about how public services should respond to the long-term challenges facing the UK;
- a series of reviews that will inform the CSR in the areas where cross-departmental collaboration and innovative solutions are required to meet these challenges;
- further details of the next phase of the government's Value for Money programme including a progress report on asset disposals and a review of opportunities for transforming service delivery; and
- early spending settlements for the Department for Work and Pensions, HM Revenue & Customs, Cabinet Office and HM Treasury Group which will see their department Expenditure Limits fall by 5% per year in real terms over the CSR period, releasing over £1.8bn in total for re-investment in front-line public services.

4.3.4 HM Treasury published a paper in late July 2006 entitled "Releasing the Resources to meet the challenges ahead: Value for Money in the 2007 Comprehensive Spending Review. This paper set out the scope of the "cross-cutting" themes that will be used to inform CSR07:

- Supporting housing growth;
- Supporting sub-national growth;
- Increasing fairness and social justice;
- Strengthening security; and
- Working with the third sector.

4.3.5 Sir David Varney is leading a review on transforming services as part of the Value for Money programme on behalf of HM Treasury. It is expected to report towards the end of 2006 with an announcement in the pre-budget report. The Varney Review will examine:

- the potential of electronic service delivery;
- raising the quality of service provided by call centres;
- identify opportunities for "one-stop shops"; and
- improve processes for handling identity.

4.3.6 The government has set some of its own departments very challenging cash limits ahead of CSR07 as part of its preparations for the spending review. This demonstrates the resolve at national level to extract more public service output and improved outcomes from fewer resources.

4.3.7 The level of efficiency savings that local government has achieved will be a significant issue for CSR07 too. There is some concern that local government may be penalised for the success of delivering their efficiency savings targets in the current SR period a year early. Local government is likely to have limited success in resisting increases in these targets given this background. The HM Treasury's 'Releasing the Resources' document (paragraph 4.3.4 refers) talks in terms of potential savings of at least 2.5% being achievable.

4.3.8 There are clear messages in the preparatory material for CSR07 for local government as fiscal constraints at national level tighten. Real terms growth in public spending has averaged around 5% a year for the last 10 years and it cannot continue. On top of that, as we shall see below, the government's public spending priorities are in areas of the public sector other than local government, and local government has spending pressures of its own to deal with.

4.4 National Spending Priorities & Pressures

4.4.1 The Chancellor's budget for 2006 gave a clear indication of the government's public service spending priorities in dealing with the challenges ahead it has identified for the UK (paragraph 4.3.3 refers).

4.4.2 On top of big real terms increases already promised for the National Health Service, the 2006 budget redirected resources to government priorities in the following key areas:

- additional revenue and capital resources were found for schools;
- extra money was found to speed up the programme to recruit more community support officers;
- the Home Office was given assurance that it would have its resource base protected throughout the period covered by CSR07;
- a commitment was made to find new cash from within existing public spending plans to give our athletes the best chance of success in the British Olympics in 2012; and
- a significant sum of money was set aside to help meet the cost of international commitments.

4.4.3 Meanwhile, at national level, local government is experiencing a range of spending pressures. The latest spending pressures survey published by the LGA in November 2005 identified a £2.2bn 'black hole' in local government finances due to:

- new legislative and government policy demands that are either unfunded or only partially funded;
- growth in demand for older people and adult services generally as our population ages;
- rising costs in a range of services including:
    - children's services;
    - waste management and street cleansing;
    - anti-social behaviour;
    - housing;

- pensions; and
- transport.

4.4.4 The government is expected to assume 2% pay inflation per year for the period of CSR07. It is concerned about the increases in pay costs over the last 3 years revealed by the statutory expenditure returns the public sector is required to make each year. This is being investigated. Much of it can be explained by inaccurate completion of the returns, increases in pension costs, changes in the rules for accounting for pensions, cost of living awards and investment in new staff. However, a significant amount is unexplained and the inference is that the government's additional investment in public services has been spent on enhancing salaries. This is an area of spending the government is likely to keep under close scrutiny.

4.4.5 The government set some of its departments spending plans for 2008/09 to 2010/11 ahead of CSR07 (paragraph 4.3.3 refers). This included the Department for Work & Pensions (DWP). The DWP has already announced that their budget for providing Housing Benefit and Council Tax Benefit administration subsidy to local authorities be reduced by 5% in real terms over the period of the CSR07, mirroring the reduction in their Departmental Expenditure Limit imposed by the government.

4.4.6 The government has promised further change for Concessionary Fares with a new national scheme from 2008. It has promised to set aside £250m nationally in 2008/09 to pay for the new scheme. At present it is not certain how this funding will be allocated to local authorities or whether it will be sufficient to meet set-up costs. It is not clear how the ongoing costs of the new scheme will be funded either.

4.4.7 Local government also needs to consider how it maintains service improvement initiatives that the government currently supports by specific grant. Examples include Implementing E-government Grant (IEG) and Planning Delivery Grant (PDG) but there are many others including services already under pressure such as social care (e.g. transfer of Preserved Rights Grant into mainstream formula grant). This is an increasing problem as the percentage of funding that arrives as a specified rather than a general grant has grown to around 60% of the total following the introduction of Dedicated Schools Grant in April 2006.

4.5 Summary

4.5.1 Current expectations are that CSR07 will be challenging for local authorities with budget reports suggesting there is likely to be limited scope for real terms spending increases. Local government will have to make a very strong case through the LGA and other professional bodies if it is to obtain any additional resources. It must be prepared to prioritise and propose innovative solutions to mitigate its spending pressures.

5. Herefordshire's Policy Context

5.1 Introduction

5.1.1 This section of the MTFMS describes the local policy context for Herefordshire. Our priorities are closely aligned with the government's priorities for public services as described in section 3. We consult widely with our residents and other stakeholders to ensure we deliver national policy objectives in a way that best meets local need.

5.1.2 The vision for Herefordshire and how it will be achieved are set out in the *Herefordshire Community Strategy (HCS) 2006 – 2020*. This has been developed, and will be delivered, by *The Herefordshire Partnership*, which comprises the Council and its major partner organisations across the public, private and voluntary and community sectors.

5.1.3 The Council's 3-year Corporate Plan sets out what the Council will do to fulfil its contribution to delivering the HCS (as well as what the Council will do internally to be as efficient and effective as possible). The Council's Annual Operating Plan sets out, in more detail, what it will do each year to those ends. This is followed through in the plans for individual directorates and services, and then on to the plans of individual teams and the objectives and targets set annually for individual managers and their staff.

5.2 Herefordshire Community Strategy

5.2.1 The Herefordshire Community Strategy – A Sustainable Future for the County is the culmination of a major review in 2005 of the Herefordshire Plan. The Herefordshire Plan was first produced in 1999 with local groups, organisations and residents identifying their priorities for Herefordshire and reviewed in 2000 and 2003.

5.2.2 The HCS sets our aspirations for the County by 2020 and how they might be achieved. Each local authority must produce a sustainable community strategy that should be based on issues and priorities for local services, reflecting the views of local people, businesses and organisations. Where appropriate it should fit with regional and national priorities. Sustainable communities have been described as 'places where people want to live and work, now and in the future. They meet the divers needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life, They are safe, inclusive, well planned, built and run, and offer equality of opportunity and good services for all' (Office for the Deputy Prime Minister).

5.2.3 The HCS sets out a shared vision for the future of Herefordshire. This gives an idea of the sort of place that people would like it to be in 2020. If the outcomes identified in the HCS are achieved, the County will be much closer to achieving the vision.

5.2.4 The HCS also acts as Herefordshire's Local Agenda 21 Plan and Regeneration Strategy and is closely integrated with the emerging Local Development Framework for the County. It has also bee used to develop Herefordshire's Local Area Agreement.

5.2.5 To achieve the vision, organisations, groups and service providers work together in the Herefordshire Partnership, which is a non-statutory, voluntary partnership often referred to as a Local Strategic Partnership (LSP). Partners include:

- Chamber of Commerce Herefordshire and Worcestershire, and Business Link West Mercia;
- Herefordshire Association of Local Councils;
- Herefordshire Council;
- Herefordshire Primary Care Trust;
- Learning & Skills Council, Herefordshire and Worcestershire;
- Voluntary Organisations; and
- West Mercia Constabulary.

5.2.6 In addition, many other groups and organisations are involved in the Herefordshire Partnership and contribute to achieving the vision. Examples include Advantage West Midlands and the Government Office for the West Midlands.

5.2.7 The HCS consists of:

- **One vision** – Herefordshire will be a place where people, organisations and businesses working together within an outstanding natural environment will bring about sustainable prosperity and well being for all;
- **Five guiding principles** - to:
    - realise the potential of Herefordshire, its people and communities;
    - integrate sustainability into all our actions;
    - ensure and equal and inclusive society;
    - build on achievements of partnerships working and ensure continual improvement; and
    - protect and improve Herefordshire's distinctive environment.

- **Outcomes covering the 4 themes** – which are:
    - economic development and enterprise;
    - healthier communities and older people;
    - children and young people; and
    - safer and stronger communities.
- **Performance indicators** – to measure progress towards the outcomes; and
- **A single action plan** – a plan of activities that will deliver the vision.

5.2.8 The HCS will be implemented through many organisations, networks, sectors and groups working together to co-ordinate their activity, reduce duplication and provide joined up services. This will happen through the Herefordshire Partnership and a single 3-year detailed action that will be updated each financial year.

5.3 Herefordshire Corporate Plan & Annual Operating Plan

5.3.1 Herefordshire's Corporate Plan for 2006 – 2009 sets out the Council's objectives for the next 3 years in support of the Herefordshire Community Strategy.

5.3.2 Herefordshire Council's medium-term objectives are as follows:

- to maximise the health, safety, economic well-being, achievements and contribution of every child including those with special needs and those in care;
- to build on the already strong performance of the county's schools and continue to improve the achievement of pupils;
- to enable vulnerable adults to live independently and, in particular, to enable many more older people to continue to live in their own homes;
- to protect the environment, including by producing much less waste, recycling much more of what remains and significantly reducing carbon emissions;
- to improve transport and the safety of roads, including further reductions in the numbers of people killed or seriously injured;
- to sustain vibrant and prosperous communities including by securing more efficient, effective and customer-focussed services, clean streets, tackling homelessness and effective emergency planning;
- to promote diversity and community harmony and strive for equal opportunities for all the people of Herefordshire, regardless of race,

religion, disability, sex, sexual orientation, geographical location, income or age; and
- to develop its community leadership role, working with partners to deliver the Herefordshire Community Strategy, including the Local Area Agreement with government.

5.3.3 To make these things possible, Herefordshire's organisational priorities are to:
- streamline its processes, assets and management structures, and secure significant efficiency savings, so as to keep down Council Tax increases and invest in priority service improvements;
- ensure that its essential assets, including schools, other buildings, roads and ICT are in the right condition for the long-term const-effective delivery of services, and ensure business continuity in the face of emergencies;
- better understand the needs and preferences of service users and Council Tax payers, and to tailor services accordingly;
- recruit, retain and motivate high quality staff, ensuring that they are trained and developed so as to maximise their ability and performance; and
- embed corporate planning, performance management and project management systems so as to continue to drive up service standards and efficiency.

5.3.4 Each year, Herefordshire also adopts an Annual Operating Plan that sets out what it is going to do that year to achieve the objectives set out in the medium-term Corporate Plan.

5.4 Herefordshire's Overall Performance Improvement Plan

5.4.1 The Audit Commission introduced revised and significantly more demanding arrangements for corporate performance assessment in 2005: *CPA – The Harder Test*. All upper tier councils' scores under the old system are protected until all have been through *The Harder Test*. Herefordshire's score is currently protected at 3 (out of a possible 4).

5.4.2 However, under the new arrangements, the Council was given an overall Comprehensive Performance Assessment score of 2 and was adjudged to be improving adequately. It also adjudged us overall to have maintained services at the same level as in the previous year, notwithstanding the lower scores under this tougher regime awarded to Benefits, Environment and Use of Resources. It was the first year that Herefordshire had failed to keep pace with its ambitious plans for improvement.

5.4.3 The previously separate scores for Education and Children's Social Care have been replaced with an overall score of 2 for Children & Young People, with education services seen as good but social care judged to be inadequate, substantially owing to concerns about the Council's arrangements for safeguarding vulnerable children. Following a Department for Education & Skills (DfES) review in May 2006, safeguarding practice systems are now considered sound and to be resulting in improved outcomes for children.

5.4.4 Housing, Culture and Adult Social Care maintained their service scores.

5.4.5 The Commission for Social Care Inspection (CSCI) assessed the Council as providing a no-stars service, serving some adults well, with uncertain capacity for improvement; and not serving children well, with poor capacity for improvement.

5.4.6 Against this background, the Council has drawn up a comprehensive Overall Performance Improvement Plan (OPIP), to become an excellent Council within 3 years, improving external assessment ratings as a welcome by-product of that ambition. A new Performance Improvement Cycle that fully integrates corporate, service and financial planning, coupled with greatly strengthened performance management arrangements has been put in place to achieve this. The OIP summarises the Council's key objectives for the year including our response to the 2005 CPA and JAR inspections.

5.5 Herefordshire's Business Transformation Programme

5.5.1 Herefordshire has embarked on a massive and ambitious programme of change to improve services and deliver the financial capacity needed invest in key priorities for the future.

5.5.2 The overall change programme is managed by a Business Transformation Board lead by the Chief Executive and including the Director of Corporate & Customer Services, the Director of Environment, the Director of Resources and the Change Manager. This Board is responsible for delivering the overall change programme within budget and on time, and for ensuring benefits are maximised and achieved.

5.5.3 The business transformation programme is complex and currently consists of 4 main inter-linking programmes, each managed by its own board arrangements in line with Prince 2 project management methodology. These 6 main programmes are the:

- 'Herefordshire Connects' programme;
- Customer Services Strategy;
- Children & Young People programme;
- Adult & Community Services programme;
- Pay & Workforce programme; and
- 'The Big Move' – our office accommodation strategy.

5.5.4 'Herefordshire Connects' is the Council's strategic transformation programme. Approved in April 2006 and now in the early stages of procurement, it will address the service improvements (including those required by central government) recognising future financial constraints. It will involve substantial investment in staff and support systems in order to revolutionise the delivery of Council services to improve quality, efficiency and Value for Money.

5.5.5 The vision is for every local citizen to have considerably improved access to services and information, at a time and a location that is convenient to them, by a means that most suits them, so they can communicate with a single point of contact, who is trained and empowered to respond effectively to their request across the full range of Council services. The programme will transform the Council's performance, helping us all to work more closely together, supporting service areas to focus on delivery and developing customer-facing staff and services.

5.5.6 The Herefordshire Connects programme is an integrated programme of change across the Council structure around 3 key work streams:

- **Integrated Customer Services** – a simple, multi-channel way of interacting with citizens using an electronic records and document management system to ensure that the right information is immediately available;

- **Integrated Support Services** – an integrated capability covering finance, procurement, HR and asset management; ensuring data is only entered into the system once and the timely availability of accurate information; and

- **Corporate Performance Management** – a cross-Council corporate performance management framework linking the planning of budgets, other resources and activities to the achievement of specified outputs and outcomes including performance indicators for different levels of the authority.

5.5.7 The outline financial appraisal for the programme is promising with the likelihood that significant revenue benefits will accrue from 2007/08 onwards (paragraph 7.4.3 refers). This is perfect timing in terms of the CSR07 given that a tight, 3-year financial settlement starting from 2008/09 is expected.

5.5.8 The Herefordshire Connects programme is a bold, inventive plan that will need to be well managed and delivered quickly for success. Making sure the benefits of the programme are realised and re-directed towards the Council's key priorities will also be essential for success.

5.5.9 As mentioned in paragraph 5.5.3, there are other complementary projects running along side the Herefordshire Connects programme.

5.5.10 One of the key themes of the Herefordshire Connects programme is improving customer interfaces and improving customer information management. This will be delivered through our Customer Services Strategy by improving access to services by extending our Info and Info by Phone services

5.5.11 The recent JAR review highlighted the need to improve customer interfaces and customer information management as a particular issue for Children & Young People. It is therefore included in the overall business transformation programme as a separate programme area.

5.5.12 The Council originally approved an Accommodation Strategy in May 2005. It approved an updated business case in May 2006 and put both the revenue and capital budget in place to implement the strategy. It became clear at the end of September 2006 that the full 2-phase plan for occupying Plough Lane with the option to extend the building was no longer available as the landlord had revised its plans for the site.

5.6 Summary

5.6.1 This section of the MTFMS shows how the Council's objectives and targets cascade down the organisation to ensure we work as one organisation with all parts pulling in the same direction.

5.6.2 Herefordshire Connects is crucial to the Council's future success. It is an ambitious plan to:

- make a step change in the improvement of services in terms of quality, efficiency and Value for Money; and
- create the financial capacity to be able to continue to invest in services given the gloomy financial outlook for local government from April 2008.

5.6.3 Herefordshire is about to enter perhaps the most challenging period it has faced since it came into being in 1998 with demands all round for improvement at a time when cash resources are likely to reduce in real terms. The financial settlement for local government in 2007/08 is likely to be the worst since 1997. Sound financial governance will be essential to ensure the Council's continued financial health.

5.6.4 The next section of this MTFMS sets out the financial context at the local level before moving on in the following section to describe the Council's approach to strategic financial management during this difficult period.

6. Herefordshire's Financial Context

6.1 Introduction

6.1.1 This section of the MTFMS describes Herefordshire's financial position in some detail. It is important to set the scene locally before considering the best approach to the high-level management of the Council's financial resources to ensure cash follows priorities.

6.2 Relative Funding Position

6.2.1 As our inspectors have acknowledged, government funding per head of population in Herefordshire is significantly below the average for all-purpose authorities. The inspectors noted that our funding per head of population was 8% below the average in our last Corporate Assessment report.

6.2.2 Updating the position for the 2006/07 settlement figures reveals that the gap in funding has widened. The figures for this year are as follows:

- Formula Grant per head of population is £259 – 21% below the unitary authority average of £329;
- Formula Grant plus Dedicated Schools Grant per head of population is £698 – 19% below the unitary authority average of £862; and
- Dedicated Schools Grant per head of population is £439 – 18% below the unitary authority average of £533.

6.3 Reserves

Revenue Reserves

6.3.1 Herefordshire has 2 main sources of reserve funding to support its day to day spending that is recorded in the revenue account – the General Fund balance and Specific Reserves. As the titles suggest, the latter are held for a specific purpose whilst the former could be considered a general contingency.

6.3.2 The following table shows the balance on the General Fund and the level of Specific Reserves at the end of the last 3 financial years:

(All figures £000k)

Balance as at:	General Fund	Specific Reserves		Total
		Schools	Other	
31st March 2004	9,847	6,845	2,562	19,254
31st March 2005	14,491	8,919	2,325	25,735
31st March 2006	14,525	8,739	5,203	28,467

6.3.3 There are a number of important points to note about the figures in this table:
- a significant proportion of the Specific Reserves belong to our schools and cannot be used to help pay for non-schools services;
- the General Fund balance at 31st March 2006 includes £2.8m of budgets carried forward into the current financial year leaving £11.7m that is uncommitted; and
- the large increase in Other Specific Reserves as at 31st March 2006 is due to the creation of a specific reserve of £1.928m for the Herefordshire Connects programme.

6.3.4 The Council does not currently have a comprehensive policy on the level of reserves it holds other than requiring a minimum balance of £3m on the General Fund. This policy has not been reviewed since 1998 and the Council's overall budget and financial risks have altered somewhat since then.

6.3.5 The policy on the minimum acceptable balance on the General Fund should be considered in the context of the Specific Reserves held. The greater the range of financial risks adequately covered by Specific Reserves, the lower the minimum balance required on the General Fund can be. At £3m, the Council's policy on the minimum General Fund balance is at the low end of the range recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA).

6.3.6 Section 7.3 of the MTFMS gives further consideration to an appropriate policy on general and specific reserves to ensure revenue cash resources are used effectively in support of corporate objectives.

Capital Reserves

6.3.7 There is one capital reserve that represents cash available to support spending on the creation or enhancement of assets that is recorded in the capital account. It is known as the Usable Capital Receipts Reserve.

6.3.8 The table below shows how the balance on the Useable Capital Receipts Reserve has changed over the last 3 financial years.

(All figures in £000k)

Financial Year	Balance at start of year	Income from sale of assets (capital receipts)	Capital receipts used to pay for capital spending	Balance at end of year
2003/04	18,908	5,301	4,245	19,964
2004/05	19,964	2,654	4,327	18,291
2005/06	18,291	3,876	2,097	20,070

6.3.9 Important point to note is that £15.9m of the £20m of Useable Capital Receipts at the end of 2005/06 have been committed to help pay for approved capital projects leaving just £4.1m as yet unallocated.

6.3.10 The Council agreed a strategy for disposing of surplus assets as part of the Accommodation Strategy. Capital receipts will be generated over the medium-term as these assets are vacated and sold but they will be used to reduce the potential borrowing requirement for the project to rationalise office accommodation.

6.3.11 The Council has set the Smallholdings Estate an annual target of realising £1m capital receipts. This policy ensures a steady but modest stream of new capital receipts each year.

6.3.12 The Council adopted a policy of sharing capital receipts equally between the corporate pot of capital receipts and the Directorate that 'owned' the assets sold in 1998. This was designed as an incentive to Directorates to rationalise their asset holdings as they shed the direct revenue cost of running the property and gained additional capital resources.

6.3.13 Section 7.3 of the MTFMS gives further consideration to an appropriate policy on the allocation of capital receipts to ensure capital cash resources are used effectively in support of corporate priorities.

6.4 Trends in Outturn

Revenue Overview

6.4.1 The table below compares the actual use of General Fund balances compared to planned use for the last 3 financial years.

(All figures in £000k.)

Financial Year	Planned use of General Fund balances [1]	Actual use of General Fund balances [2]	Improvement in financial performance [3]
31st March 2004	(2,942)	3,479	+6,421
31st March 2005	(3,176)	4,644	+7,820
31st March 2006	(4,063)	34	+4,097

Notes

1 – brackets means there was planned contribution from the General Fund balances to the revenue account – a top-up from the general contingency to get the budget to balance for the year.

2 – no brackets means that there was actually a surplus on the revenue account of the year that was used to top the general contingency.

3 - a plus sign means actual financial performance was better than planned.

6.4.2 The table in the preceding paragraph show that there is potentially some – albeit reducing – latent financial capacity in our base budgets for revenue spending. This suggests that we still have more work to do to encourage service managers to behave more corporately and treat their cash allocations as a corporate rather than service resource. It also suggests that services can manage within existing resources despite the lengthy 'wish lists' that develop when asked to identify service pressures.

Directorate Revenue Outturns

6.4.3 The overview shows that the Council's income exceeded its spending in each of the last 3 financial years. Overall financial performance has therefore been good but this masks the fact that a small number of key budgets have not performed so well.

6.4.4 Service area under spends in 2005/06 amounted to £3.72m. Every Directorate except Adult & Community Services was able to identify under spends compared to budget that more than matched their over spends.

6.4.5 The Adult & Community Services Directorate over spent by some £1.6m due to pressures in Adult Social Care services (Learning Disabilities, Mental Health & Physical Disabilities) and Homelessness services. Part of the over spend for the year was due to the budget deficit carried forward from 2004/05 being written off.

6.4.6 Whilst in overall terms the other Directorates were under spent compared to budget at the end of the financial year, their outturn position was a mix of under and over spends. There appears to be little pattern to the areas under spending from year to year as a basis for considering redirection of resources. Directorate budget management plans need to ensure budget is allocated accurately each year to avoid repeated under and over spends being reported simply because the budget isn't in the right place.

Capital Outturn

6.4.7 The Council maintains as a minimum a full 3-year rolling capital programme that is fundamentally linked to the Council's strategic plans and estimated sources of capital funding.

6.4.8 The following table compares the final capital budgets for the last 3 financial years to actual spend.

(All figures in £000k)

Financial Year	Original capital budget	Capital outturn	Over / (under) spend for year
2003/04	32,839	31,866	(973)
2004/05	40,100	33,198	(6,902)
2005/06	37,131	31,845	(5,286)

6.4.9 Slippage in the Council's capital spending programme is managed to ensure that conditional funding resources have not been lost and that the use of available resources has been maximised.

6.4.10 A delay in incurring capital spending and taking up planned new borrowing due to slippage in the capital has a direct impact on the revenue account. Extra investment income may be earned as cash sits longer than anticipated in the Council's bank account and interest payments may not be incurred as early as anticipated. The overall effect is therefore positive and often helps explain better performance on the revenue account.

6.5 Local Spending Pressures

6.5.1 The outturn position for 2005/06 provides evidence of Herefordshire's spending pressures for the future, many of which reflect the national trends identified in section 4.4 of the MTFMS.

6.5.2 The key concern is the Adult Social Care service budgets. The base budget funding position for these services in 2006/07 was enhanced with real terms growth for at least the 3rd successive year in a row. However, we recognise there is more we need to do. The forecast at month 4 of the 2006/07 financial year is that this budget will over spend by some £3.4m this year if the status quo in terms of service delivery arrangements is maintained.

6.5.3 The Children's Social Care budgets are of concern too. They were less over spent than anticipated in 2005/06 but were forecast to break even in the month 4 budget monitoring report for 2006/07.

6.5.4 Research is being carried out into the impact that Herefordshire's ageing population and other factors will have on demand for social care services and the options for the patterns and levels of services needed to meet them. A report is anticipated in October that will help inform decisions on future base budget provision for these services.

6.5.5 A social care contingency fund of £1.3m was established for 2006/07 in the event that the Adult and Children's social care budgets over spent. This clearly will not be sufficient given current projections of a combined over spend of £3.4m.

6.5.6 The Homelessness budget has been in crisis but the position – both in terms of service and financial performance - is steadily improving since the service was taken back in-house from Herefordshire Housing. Although early days in the financial year, the current forecast is that this budget will not over spend this year and that it will manage with planned base budget reductions into the future.

6.5.7 Other budgets that showed signs of strain in 2005/06 included:
- street cleansing;
- public toilets;
- winter road maintenance; and
- administrative buildings.

6.5.8 Other spending pressures that need consideration include:
- waste disposal – the Specific Reserve for this issue stands at £1.366m but needs review as the date for agreeing changes to the original PFI contract continues to slip and waste tonnages continue to grow;
- contingent liabilities – there is no provision for these items of expenditure which could cost up to £620k if the liability was confirmed (the Statement of Accounts for 2005/06 refers).

6.6 Summary

6.6.1 Herefordshire is not a well-resourced council but despite this it has been judged as providing services that represent good value. Government grant systems attempt to make allowance for the additional cost and complexity of delivering services in a sparsely populated area but do not do enough for councils like Herefordshire where its sparse population is more evenly distributed throughout the area. Many sparsely populated councils – such as Cornwall, Devon or Cumbria – have great tracts of land that people just do not live in.

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

6.6.3 The MTFMS thus far has set out the national and local policy and financial context for Herefordshire. Having set the scene, it is now possible to consider in section 7 the detail of a proposed high-level, medium-term financial management strategy to ensure that we preserve our financial health through a period in which we plan significant service improvements whilst financial support from the government reduces in real terms.

7. Financial Management Strategy

7.1 Introduction

7.1.1 Herefordshire's MTFMS supports all of Herefordshire's other resource management and service delivery strategies. The detailed financial implications of all those strategies are dealt with in the supporting papers and decisions for those strategies. The intention is not to repeat that information in this document, but to focus on an overall financial strategy for the Council in terms of setting clear corporate financial objectives and establishing a universal set of 'ground rules' for developing future service delivery proposals over a 3-year period that will also demonstrate progress on cross-cutting themes.

7.1.2 This section of the MTFMS therefore sets out to describe Herefordshire's corporate financial objectives given the national and local context and its financial management strategies for:

- Revenue spending;
- Capital investment;
- Efficiency review and improving Value for Money; and
- Treasury management.

7.1.3 Active risk management is a key component of the Council's corporate governance arrangements. This section of the MTFMS therefore sets out the key corporate and financial risks the Council will be monitoring to ensure it stays on course to deliver its overall objectives.

7.2 Corporate Financial Objectives

7.2.1 Herefordshire's corporate financial management objectives are to:

- ensure budget plans are realistic, balanced and support corporate priorities – especially those that protect the vulnerable in our communities;

- continue to develop centres of excellence for financial administration and management – in line with the principles supporting the future shape of the Resources Directorate;

- maintain an affordable Council Tax – the Medium Term Financial Resource Model (MTFRM) assumes a sub-5% increase in line with that for 2006/07;

- manage spending within budgets – Directorates are required as a 'non-negotiable' to manage outturn expenditure for each financial year within a 1% margin of their base budget;

- ensure sustainable balances, reserves and provisions – within a reasonable limit consistent with the corporate financial risks without tying up public resources unnecessarily;

- create the financial capacity for strategic priorities for service improvement through the Herefordshire Connects programme;

- support a prudent level of capital investment to meet the Council's strategic requirements;

- maintain a strong balance sheet position;

- deliver year on year efficiency and Value for Money improvements;

- ensure an integrated approach to corporate, service and financial planning in full consultation with key stakeholders;

- ensure a whole-life costing approach is taken to both revenue and capital spending decisions;

- maintain the current Use of Resources score in the 2006 inspection advancing to excellent in the 2007 inspection; and

- develop the 3-year Medium Term Financial Resource Model into 3-year indicative cash limits for Directorates by March 2007 (the cash limits will be subject to continual review to take into account the changing financial context and in particular the latest financial appraisals for the Herefordshire Connects programme).

7.3 Financial Management Strategy for the Revenue Account

7.3.1 This section of the MTFMS sets out Herefordshire's financial management proposals for achieving the corporate financial objectives outlined above.

Managing the General Fund Balance & Specific Reserves

7.3.2 Herefordshire's General Fund balance at the start of 2006/07 was £14.5m with £11.7m available to spend. This is significantly in excess of the Council's policy to maintain a minimum balance of £3m. It is essential to set out the reasons for holding this money in order to achieve the corporate financial objectives for having reserves outlined in paragraph 7.2.1.

7.3.3 Herefordshire's financial management strategy is to maintain Specific Reserves to deal with the key corporate financial risks reducing the need for a higher level of General Fund balances. This strategy will ensure there is complete transparency about what is and what is not resourced for corporate financial risks that, if realised, would affect the Council's financial standing. It represents an 'open-book' approach to accounting.

7.3.4 With this end in mind, some new Specific Reserves will be created and existing ones enhanced to deal with the key financial risks the Authority is currently managing. The proposals are as follows:

- to increase the social care contingency by £1.7m, topping it up to £3m given the current forecast for outturn for 2006/07 is for a £3.4m over spend;
- to increase the winter road maintenance Specific Reserve by £392k, topping it up to £500k;
- to increase the waste disposal Specific Reserve by £634k, topping it up to £2m;
- to incorporate the Initiatives Fund (£433k) in the Invest to Save Specific Reserve and top up by a further £639k so there is a total of £3m available for Invest to Save initiatives - £1.928m of which has already been earmarked for the Herefordshire Connects programme (see paragraphs 7.3.37 – 7.3.38);
- to create a Specific Reserve of £300k so there is some provision in event the contingent liabilities identified in the Statement of Accounts for 2005/06 are realised;
- to create a Specific Reserve of £200k to separate the remainder of the £250k reserve set up for the Children's Services Change Team from the General Fund balance; and
- to create a budget management Specific Reserve of £1.1m so that there is money set aside in the event that Directorate budgets (excluding schools and social care) are 1% over spent at outturn compared to their base budget.

7.3.5 Directorates will be expected to manage budget pressures within their overall requirement to deliver an outturn no more than 1% higher than budget. It is recognised that this target will not be achieved in the short-term for social care services – particularly adult services. A contingency fund has been set up to deal with this situation for 2006/07 whilst an assessment of the ongoing level of base budget investment is carried out. The budget management Specific Reserve will only be used in exceptional circumstances when Directorates are able to demonstrate they did all they could reasonably have been expected to do to manage the position.

7.3.6 The need for the range and level of Specific Reserves and the policy for minimum General Fund balances will be continually reviewed as part of the financial planning, monitoring and outturn processes. The strategy described here provides cover for the key corporate financial risks.

Managing a balanced budget

7.3.7 Over the years Herefordshire has sought to ensure that all services are adequately funded given available resources. Keeping up with increasing demand for services – particularly in social care – has been difficult but Herefordshire can show that it has consistently provided real terms growth for these services over the years and although it recognises more will be needed to meet future demand.

7.3.8 There are a number of more minor base budget issues that need addressing if strategic priorities are to be achieved. This financial management strategy suggests they are tackled as follows:

- **Queenswood Park** – restore £25k base budget reduction in anticipation of a Cabinet decision to reverse its policy to introduce charges for parking: the shortfall will be met from balances in 2006/07 but will be included in the Medium-Term Financial Resource Model from 2007/08 onwards (reducing the General Fund balance for the year by a corresponding amount);

- **Procurement & Efficiency Review** – increase the staffing budget by £55k a year starting from 2007/08 to reflect the full-year cost of this new Key Manager post: the shortfall will be met from balances in 2006/07;

- **Herefordshire Matters** – correct base budget omission by adding £50k to base budget from 2007/08 onwards to support future publications: the shortfall in 2006/07 will be met from balances;

- **Chief Executive's Development Fund** – add £150k to base budget from 2007/08 onwards: the shortfall in 2006/07 will be met from balances;

- **Housing Benefit & Council Tax Benefit (HB / CTB) Administration Subsidy** – reduce anticipated grant income by £150k a year starting 2007/08 to reflect the 5% real terms reduction announced by the DWP;

- **Service Level Agreements** – set aside £100k from 2007/08 onwards for allocation in the event the proposed review of support services to check we have sufficient capacity in key priority areas such as performance management and to improve recharging mechanisms leads to base budget pressures: any pressure in 2006/07 will be met from balances;

- **Whitecross PFI Scheme** – shortfall on amount included in Financial Resource Model for 2006/07 of £380k to be met from balances; and

- **ESG (Herefordshire) Ltd** – increase base budget provision by £225k a year from 2007/08 for 3 years to take total up to £350k so funding is in place for Herefordshire to contribute 50% of the running costs to support the approved business plan.

7.3.9 The strategy for managing General Fund balances, Specific Reserves and for ensuring a balanced budget will increase the level of Specific Reserves held by £4.965m. There will be approximately £4.93m left in General Fund balances at the end of the 2006/07 financial year after allowing for budget carry forwards already approved and the measures proposed for delivering a better balanced budget. This represents a satisfactory level of General Fund balances, providing some headroom above the £3m minimum to provide cash flow cover and for unforeseen contingencies.

7.3.10 The impact on General Fund balances in 2006/07 is illustrated in the following table:

	£000	**£000**
General Fund balance on 1st April 2006		14,525
Less items in paragraph 7.3.4 – managing the General Fund balance and Specific Reserves		
Social care contingency	1,700	
Winter roads maintenance	392	
Waste disposal	634	
Invest to save	639	
Contingent liabilities	300	
Children's Services Change Team	200	
Budget management	1,100	
Sub Total		-4,965
Less items in paragraph 7.3.8 – managing a balanced budget		
Queenswood Park	25	
Procurement & Efficiency Review Manager	55	
Herefordshire Matters	50	
Chief Executive's Development Fund	150	
HB / CTB Administration Subsidy	150	
Service Level Agreements (up to)	100	
Whitecross PFI Scheme	380	
Sub Total		-910
Less other items		
Carry forward budgets from 2005/06	3,720	-3,720
Sub Total		
General Fund Balance on 31st March 2007		4,930

Managing financial performance

7.3.11 Maintaining strong financial control is a prerequisite to achieving the Council's corporate priorities and the integrity of the MTFMS. Good systems and procedures are in place for reporting on financial performance as part of the Integrated Performance Reporting framework.

7.3.12 Non-financial information was incorporated into the routine bi-monthly financial performance reports that form part of the Integrated Performance Report in month 4 of 2006/07. This will help us track Value for Money improvements and also help highlight areas that are performing to the standard required and have spare financial capacity that could be reinvested in another corporate priority.

7.3.13 Routine budget monitoring reports will also be reviewed to ensure each Directorate can monitor both the 'controllable' elements of their budget as well as overall financial performance. The latter is important for external benchmarking activities to demonstrate Value for Money is being achieved.

7.3.14 Certain types of income and expenditure budgets are classified as 'non-controllable'. In the main, these are budgets that are allocated to Directorates on a recharge basis (e.g. support service recharges, insurances). The support service provider will exercise the budgetary control for these services.

Managing budget carry forwards

7.3.15 The Council's Standing Orders have recently been amended to ensure the cash resource redeployed through the year-end budget carry forward arrangements is allocated in line with corporate priorities whilst maintaining as much flexibility as possible for Directorates.

7.3.16 Budgets are now only carried forward if there in an under spend on the Consolidated Revenue Account and at Directorate level. Such under spends are top-sliced if necessary to ensure corporate priorities and financial risks are funded. Budget carry forwards can only be used to fund one-off spending.

7.3.17 Budget carry forwards on support service and other recharged items will not be permitted. Budget carry forwards on income budgets such as car park charges, planning fees and investment property income will not generally be permitted either.

Managing Directorate base budgets

7.3.18 Base budget needs to be in the right place at Directorate level as well as the corporate level to support effective financial management and to avoid repeated over spends in one area being consistently offset by under spends in others.

7.3.19 A virement process that allows the transfer of resources between budget headings is in place. This financial management strategy will actively encourage Directorates to use this facility to ensure there is an 'open book' approach to accounting at Directorate level, ensuring such virements support corporate priorities.

Managing growth and inflationary pressures

7.3.20 The government is planning on 2% pay inflation over the medium-term. This will be reflected in Herefordshire's MTFRM. Salary budgets and budgets linked to salary payments have been uplifted by this amount. The budgets for employers' superannuation contributions will be uplifted by the planned percentage increase for each year based on the latest actuarial advice. Indirect employee costs will not be uplifted for inflation.

7.3.21 The Medium-Term Financial Resource Model (MTFRM) at Appendix A shows the inflation on staff costs and income budget heads identified by the service accountants for the next 4 financial years. These figures are summarised in the table below:

INFLATION	**2007/08 £'000**	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**
Staff and Pay	1,196	1,225	1,210	1,280
Income	(797)	(817)	(837)	(858)

7.3.22 Resources available are not sufficient to provide for growth and inflationary pressures in addition to those detailed above. However, as outlined in paragraph 6.4.1, the Council has consistently performed significantly better in financial terms than the budget plan, demonstrating there is financial capacity to deal with such pressures. The financial strategy for managing non-pay growth and inflation is for the Corporate Management Team to manage this pressure within existing resources. This is a tough but achievable challenge for CMB given past financial performance that is included in the 3-year planning guidance.

Managing income

7.3.23 Setting challenging but attainable income targets is an essential element of Herefordshire's MTFMS. To achieve corporate financial objectives, income targets included in approved budget plans need to be realistic. The current approach of assuming all fees and charges income will increase by the rate of inflation each year is not sustainable into the future for planning fees, car parking charges and investment property income.

7.3.24 Income budgets for these services will not be inflated (other than to reflect anticipated increases in demand for the service) if the Council has no plans to review the charges or there is no legal requirement to do so. Similarly, these income budgets will be revised downwards where there is clear non-financial information to evidence a decline in demand for the service.

7.3.25 The corollary to this new approach is that any surplus on the planning and car park income budgets will be treated as a corporate resource. Any under achievement, providing the Directorate has taken appropriate mitigating action, will be a corporate rather than a Directorate problem.

7.3.26 All other budgets will be increased by inflation and Directors will be expected to review all their fees & charges annually as part of the business planning cycle to ensure they comply with relevant corporate priorities and policies (e.g. diversity and social inclusion).

7.3.27 Government funding to support Herefordshire is effectively fixed for the medium-term given the advent of multi-year settlements. Scope to increase Council Tax is likely to remain limited by government capping rules. One way to achieve the corporate financial objective to create additional financial capacity is to maximise potential income and generate income from new sources.

7.3.28 The MTFMS for income generation is therefore to:

- ensure income budgets reside with the client service where the service is responsible for determining service strategy;

- adopt an entrepreneurial approach to generating income from investment properties, commercial properties and trading activities with risks being managed in line with the Council's risk management procedures;

- focus on debt collection by setting targets for improvement;

- consider the scope for higher levels of charging for services especially where there is clear evidence that Herefordshire attracts much lower levels of income than comparator authorities; and

- investigate new freedoms to charge for services.

Managing partnership resources

7.3.29 Herefordshire welcomes the opportunity to work with strategic partners to improve outcomes. But, in order to achieve its corporate financial management objectives, we will always seek to ensure:

- the financial viability of partners before committing to an agreement;

- there is clarity of respective responsibilities and liabilities;

- the accounting arrangements are established in advance of operation;

- the implications of terms and conditions on any associated funding are considered in advance of operation.

Managing staffing budgets

7.3.30 It is vital that the council has employees with the right skills, knowledge and abilities. The MTFMS makes the link between investing in people and improves services to the community. Improvements to workforce planning and establishment control will help to ensure that we have a much more reliable source of information as a basis for agreeing employee and training budgets. In addition, capacity will be built and value added by working with key partners.

Managing external funding

7.3.31 External funding provides another opportunity to increase financial capacity. The MTFMS will be to actively pursue such opportunities, including Public Finance Initiative (PFI) funding, providing that:

- match funding requirements are considered in advance;
- they support corporate priorities;
- they do not conflict or distract from corporate priorities;
- they have no ongoing commitment that cannot be met by base budget savings; and
- they do not put undue pressure on existing resources.

Managing Developer Contributions

7.3.32 This is another source of external funding that can be secured through the planning system. It may be possible to secure funding to support the cost of day-to-day services (e.g. commuted sums for maintenance of public open spaces). Support for capital infrastructure can also be achieved in this way (e.g. developer contributing to cost of new access roads).

7.3.33 The MTFMS is to maximise the potential for increasing financial capacity and / or managing growth in volumes through s106 agreements. This will involve a much more commercial and co-ordinated approach to such opportunities. The Interim Head of Asset Management & Property Services will be tasked to review and improve current arrangements as a short-term priority.

Managing increases in demand / volumes

7.3.34 The policy context sections of this MTFMS describe the pressures of increasing demand in certain key services such as social care, homelessness and benefits. With finite resources available, it is not possible to keep adding to the base budget as demand grows. Volumes are increasing in some services too – e.g. maintenance of public open spaces.

7.3.35 Herefordshire will seek to discharge all its statutory responsibilities to service users. To achieve the corporate financial objectives that underpin the achievement of corporate priorities, service managers will actively seek to contain increases in demand or volume to mitigate the financial consequences.

Managing Invest to Save initiatives

7.3.36 This financial management strategy makes proposals for turning the Initiatives Fund into Invest to Save money, and topping the latter up to £3m so there is just over £1m available for Invest to Save initiatives outside of the Herefordshire Connects programme. This money will be allocated to projects that support the Council's corporate priorities and complement projects within the business transformation programme.

7.3.37 Invest to Save projects may deliver base budget savings to improve Value for Money in the bidding service area. In such cases, there will be a requirement for the service area to make a permanent base budget reduction. Invest to Save projects may also be used to manage increasing demand or volumes so as to minimise the impact on the base budget. In these cases, the bidding service area will be required to show how existing performance standards will be at least maintained or even improved.

Managing Value Added Tax (VAT)

7.3.38 To preserve financial capacity, Herefordshire will continue to actively manage business activity that is classed as 'exempt' under current VAT legislation to ensure that the partial exemption limit is not breached. We are allowed to reclaim the VAT on exempt business activities providing it does not exceed 5% of our total VAT liability. If we breach the 5% limit, HM Customs & Revenues will expect us to hand over the VAT on exempt activity too – approximately £750k a year.

7.3.39 VAT is a particularly specialised field within the accountancy profession and we supplement in-house resources with external consultancy support when needed. The Financial Policy Team will continue to ensure service managers are aware of the circumstances that represent greatest financial risk in terms of the Council's overall VAT liability so they can seek the specialist advice.

7.4 Medium-Term Financial Resource Model (MTFRM)

7.4.1 The MTFRM is designed to provide an assessment of the overall resource availability for the revenue account over the medium-term. This sets the financial context for the corporate and service planning so that the two planning processes are fully integrated. It covers the period from 2007/08 to 2010/11 – the final year of the current 2-year settlement and the following 3-year period that will be covered by CSR07.

7.4.2 The MTFRM shown in Appendix A takes into account the corporate financial objectives and MTFMS proposed in this document. It also makes a number of other assumptions. These are summarised below to ensure the financial planning process is open and transparent:

- **Herefordshire Connects** – the MTFRM reflects the outline financial appraisal approved by Cabinet in April 2006 and will need to be updated as the programme develops and the financial appraisal is refined;

- **Accommodation Strategy** – the MTFRM reflects the latest financial assessment approved by Cabinet in May 2006;

- **Customer Services Strategy** – the MTFRM assumes a cost neutral position in line with the strategy agreed in August 2005;

- **Capital Investment** – the MTFRM reflects the revenue implications (cost of prudential borrowing) of the capital programme approved by Council in March 2006 plus slippage from 2005/06 approved by Cabinet in June 2006;

- **Whitecross PFI Scheme** – the MTFRM includes an additional £451k in 2007/08 only to meet the initial costs of this project;

- **Formula Grant** – the MTFRM reflects known transfers in or out of Formula Grant (e.g. Preserved Rights Grant being transferred in to Formula Grant without a corresponding increase), the indicative 2.4% increase for 2007/08 and a cash standstill in following years given the pessimistic view on the CSR07 for local government;

- **Dedicated Schools Grant** – the MTFRM reflects the indicative 4.3% increase for 2007/08 and assumes a 2% increase in following years;

- **Second Local Public Service Agreement (LPSA2**) – the MTFRM reflects the investment in LPSA2 approved by Cabinet and assumes receipt of 75% of the potential Reward Grant (i.e. £3.292m, 50% of which will be revenue and will be received in 2 equal instalments in 2008/09 and 2009/10);

- **Employers' superannuation costs** – the MTFRM includes increases in employers' contributions rates in line with latest actuarial advice. This does not allow for the fact that the 'Rule of 85' arrangements for deciding whether someone retiring before their 65th birthday should have their pension benefits reduced will not be removed until 31st March 2008 (previous expectation was that it would be removed on 1st October 2006). This change will delay the improvement in the pension funding position and may lead to further actuarial adjustment to recover the shortfall if significant;

- **Interest Rates** – the MTFRM reflects interest rate assumptions for investment income and new borrowing costs in line with the

Treasury Management Strategy approved by Council in March 2006;

- **National Taxation** – the MTFRM assumes there will be no significant change to national taxation systems;

- **Local government finance system** – the MTFRM assumes the status quo with no change to the grant distribution system, Council Tax or National Non-Domestic Rates;

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

- **Local Authority Business Growth Incentive Grant** – the MTFRM makes no assumptions about future grant income as it is very difficult to predict the amounts that may be involved and, as alternative arrangements are proposed to fund corporate economic development priorities upfront (e.g. supporting ESG (Herefordshire) Ltd), any income will be used to replenish reserves and balances;

- **Council Tax Income** – the MTFRM assumes 1% a year growth in the Council Tax base, 4.7% a year increases in Council Tax each year and a surplus on collection of £500k in 2007/08 reducing to £300k a year thereafter; and

- **Public Service Trust** – no allowance has been made for potential one-off costs associated with setting this organisation up or the cashable efficiency gains it will deliver as no Cabinet decisions have yet been taken.

7.4.3 The MTFRM sets the overall financial context for corporate and service planning and the detailed budget work prior to setting the Council Tax. Given the assumptions outlined above, the following table summarises the potential financial capacity in the revenue account:

(All figures in £'000s)

	2007/08	**2008/09**	**2009/10**	**2010/11**
Potential revenue capacity				
Base Budget –	6,590	2,440	4,585	3,780
Cumulative capacity –		9,030	13,615	17,395
Herefordshire Connects benefit realisation target:				
Base Budget –	5,800	4,800	800	350
Cumulative benefit -		10,600	11,400	11,750

7.4.4 The above table shows quite clearly that the Herefordshire Connects programme will have a major role to play in releasing cash from business processes to reinvest in service and capital investment priorities. The emerging priorities identified by Directors in developing their 3-year service proposals (in no particular order) are as follows:

- Children & Young People;
- Schools;
- Adult Services;
- Homelessness;
- Edgar Street Grid;
- Rotherwas Futures;
- Accommodation Strategy;
- Waste & recycling;
- Herefordshire Connects; and
- Corporate capacity.

7.4.5 The MTFRM provides an indication of the likely level of available resources - given the assumptions identified in paragraph 7.4.2 - for re-investment in the emerging corporate priorities. Potential capacity within the revenue account is as follows:

	2007/08	2008/09	2009/10	2010/11
Potential revenue capacity Base Budget – Cumulative capacity –	 6,590	 2,440 9,030	 4,585 13,615	 3,780 17,395

7.4.6 The above table demonstrates that we can afford to add approximately £6.59m to the base budget in 2007/08 given current planning assumptions, but that there will be a pinch-point in 2008/09 with only approximately £2.44m additional financial capacity likely to be available. Any additional growth will have to be managed within the overall resources available. There will also be a £1m Invest to Save pot available as outlined in paragraph 7.3.4. The model indicates there will be an improved position in 2009/10 and 2010/11 (up to an additional £4.58m and up to £3.78m respectively).

7.4.7 The MTFMS seeks to maximise the opportunity a higher level of financial capacity for one-off additions to the budget in 2007/08 presents to do two things:

- ensure there is some capacity for budget additions in 2008/09 where currently there is none; and
- cover the risk that the cashable benefits resulting from the Herefordshire Connects programme start to flow later than indicated by the outline financial appraisal for the programme agreed by Cabinet in April 2006.

7.4.8 The MTFMS assumes that the financial capacity of £6.59m indicated by the MTFRM in 2007/08 will be deployed as follows:

- £1.5m to provide additional financial capacity in 2008/09;
- £1.5m to cover delays in the Herefordshire Connects benefits realisation programme; leaving
- £3.59m to provide financial capacity for base budget additions in 2007/08.

7.4.9 It is important to note that the minimum cashable savings anticipated from the Herefordshire Connects programme remains a minimum of £11.75m – benchmarking suggest this figure may prove over-conservative. The £1.5m set aside is intended only for smoothing timing differences over financial year-end. This cash will be released for investment in services when no longer required to provide cash flow cover for the Herefordshire Connects programme.

7.4.10 To summarise, the MTFRM looks at the totality of the revenue account and identifies indicative cash limits at the corporate level. As the new Performance Improvement Cycle beds in it will be possible to develop indicative medium-term cash limits for Directorates. These will be in place for March 2006/07 covering 2007/08 to 2010/11 and will be updated to reflect known changes in the financial environment – particularly as the financial appraisal for the business transformation programme develops.

7.5 Financial Management Strategy for Capital Investment

7.5.1 Capital resources for the future are also likely to be very constrained.

7.5.2 Herefordshire only has £4.1m of unallocated useable capital receipts. There are only modest expectations for new capital receipts that haven't already been earmarked for approved capital investment plans. If we are successful in securing 75% of the potential Performance Reward Grant for LPSA2, then a further £1.646m of as yet unallocated capital grant will be available – half due in 2008/09 with the rest due in 2009/10.

7.5.3 The MTFRM for the revenue account reflects the new borrowing requirement implied by the Treasury Management Strategy (see section 7.8) to support the capital programme. It also reflects the new borrowing requirement identified in the outline financial appraisal for the Herefordshire Connects programme and the latest financial appraisal for the Accommodation Strategy.

7.5.4 Potential capacity in the revenue account to absorb the revenue implications of yet more borrowing is limited as can be seen from the table in paragraph 7.4.3. The problem is compounded by the fact that revenue cost of government infrastructure capital spending allocations (e.g. LTP) is no longer supported in full through Formula Grant. This funding used to be protected from the floors and ceilings arrangement within the grant distribution system but this is no longer the case with the distribution system introduced for 2006/07.

7.5.5 This leaves limited capacity in the revenue account to accommodate new projects unless ongoing efficiency savings can match the additional borrowing costs. This is a problem because there are a number of projects that are likely to be a high priority for the Council such as:

- the Rotherwas Relief Road (approximately £6m funding shortfall assuming LTP is awarded);
- the Ross Flood Alleviation Scheme (although responsibility for this may pass to the Environment Agency);
- repairs, maintenance and enhancement of corporate assets such as property assets and ICT;
- investment in property assets needed to deliver the changes needed in adult social care; and
- ICT Strategy to support the Business Transformation programme.

7.5.6 The Council has an Asset Management Plan and Capital Strategy that has been given top marks by the Government Office for the West Midlands. These documents need fine-tuning to help address the impact of there being a scarcity of capital resources.

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

- maximising developers' contributions as outlined in the financial management strategy for the revenue account;
- effective project management of capital schemes to ensure they stay within budget;
- creating the capacity to implement the property review arrangements set out in the Asset Management Plan to see what further opportunities there are for rationalising property assets and releasing resources (capital and revenue);
- maintaining our successful track record for innovative capital investment schemes – e.g. the Whitecross PFI project and the Edgar Street Grid redevelopment project; and
- attracting external funding such as the recent £25m grant allocation under the government's Building Schools for the Future programme.

7.5.8 The financial management strategy for capital investment also focuses on making sure the available resources are allocated in line with corporate priorities. To achieve this we will:

- treat property assets as a corporate resource and move to a corporate landlord arrangement to provide greater flexibility in matching property assets to service needs;
- remove the Financial Regulation that allows services to take a 50% share of the sale proceeds of any assets in their ownership;
- ensure that corporate assets (including property assets and ICT infrastructure) are not neglected;
- develop a corporate approach to maintaining and developing corporate asset;
- reallocate existing resources in Directorate base budgets used for this purpose to boost the corporate maintenance fund;
- allocate the corporate asset development and maintenance using the existing Scheme Selection & Prioritisation Process.

7.6 Medium-Term Capital Plan

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

7.6.2 The following table summarises the capital investment programme for 2006/07 approved by Council in March 2006 updated for slippage from 2005/06 and subsequent Cabinet decisions on the Accommodation Strategy and the Herefordshire Connects programme. The table sets out the updated position as reported in the 31 July 2006 capital monitoring statement.

Directorate	**Total Budget**	**Funded by:**				
		Direct Revenue Financing	**Supported Capital Expenditure**	**Prudential Borrowing**	**Capital Receipts Reserve**	**Grants & Other**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
A & CS	18,012	-	217	3,800	5,688	8,306
C & YP	11,544	96	2,459	2,000	2,715	4,274
C & CS	12,245	-	-	11,975	-	270
Environment	13,633	-	10,476	2,447	77	633
Resources	5,237	-	-	3,269	1,969	-
Total	**60,671**	**96**	**13,152**	**23,491**	**10,449**	**13,483**

7.7 Efficiency Review & Value for Money

Efficiency Review

7.7.1 Herefordshire's strategy for securing efficiency gains is to seek continual improvement in the productivity of all our resources – people, land & property, ICT and cash. To us this means getting more from the same amount of resource or achieving the same results with less and targeting the capacity released at our highest priorities.

7.7.2 Our strategy is **not** to cut services but to keep improving those that matter most to our community. Our corporate plan for 2006 – 2009 sets some ambitious targets for service improvement that can only be achieved with a robust MTFMS and MTFRM in place.

7.7.3 We use the following mechanisms for identifying and delivering efficiency gains:

- the MTFMS and MTFRM supports our corporate priorities and included ongoing efficiency savings that will be delivered through the business transformation programme;

- whenever there is staff turnover the opportunity is taken to review the provision of that service – this may include not replacing the member of staff, reallocating the duties or changing the way the service is provided;

- service managers can transfer certain amounts and types of budget between items giving them flexibility to react to external changes and improve the delivery of services to their customers;

- our annual Directorate plans set out the service changes that will be made in the coming year to achieve improved performance within budgetary constraints;

- task and finish scrutiny teams carry out best value style review on service areas that the Council wishes to develop; this approach ensures that providing Value for Money is an integral part of every service review;
- proposals to add expenditure to the based budget – revenue or capital – are management through an annual scheme selection and prioritisation process designed to ensure we invest our resources effectively in our highest priorities.

7.7.4 Herefordshire has a good track record for delivering on its 2.5% overall Gershon efficiency gains target as can be evidenced in its Annual Efficiency Statements. Assessment of the current policy and financial landscape at national level as outlined in the earlier sections of this document suggest that the current efficiency gain targets are likely to get more challenging in the near future.

7.7.5 We think this will be coupled by an increased focus on procurement activities. As a result, Herefordshire will shortly be appointing to a new post of Procurement & Efficiency Review Manager. This post will be located in the Resources Directorate and will have a key role to play in embedding corporate procurement policies across the Council. The post holder will also be working alongside the Herefordshire Connects programme, supporting the procurement elements of the integrated back office work stream. The final aspect of this person's job will be in developing simple systems for reviewing and reporting on the Gershon efficiency agenda.

7.7.6 Given our pessimistic view of funding for local government funding over the period covered by CSR07, and the fact that the government has already moved to increase efficiency targets for some of its own departments, our plans are geared to delivering a significantly higher level of efficiency gain.

7.7.7 Our aim is to demonstrate if required cumulative cashable efficiency savings over the 4-year period covered by the MTFRM of £11.55m – that's 1.25% of the current baseline for the first year and 2.5% of the current baseline for the following 3 years. We will be able to achieve this through the Herefordshire Connects programme. It will deliver at least £11.75m of cashable efficiency gains in that 4-year period based on outline financial appraisal approved by Cabinet in April 2006.

Value for Money (VfM)

7.7.8 Herefordshire is committed to routinely using VfM information and benchmarking data to review and challenge VfM throughout services and corporately, supporting continuous service improvement and the drive for efficiencies. This is an integral component of the new Performance Improvement Cycle.

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

- ensuring service managers deliver the outputs and outcomes agreed for their service area within budget – managing within budget is a key responsibility for all budget holders embedded in our staff review and development procedures;
- establishing the corporate Procurement & Efficiency Review Manager post described above;
- integrating corporate, service and financial planning processes;
- planning over the medium-term as well as the short-term;
- developing our routine financial performance monitoring reports for Cabinet to include VfM reviews;
- benchmarking our costs and activities with other authorities;

- through internal and external audit reviews; and
- through scrutiny reviews.

7.7.10 Herefordshire was judged to be offering Council Tax payers good value for money in the 2005 Use of Resource assessment scoring 3 out of 4 on the Value for Money Key Line of Enquiry.

7.7.11 Our overall Comprehensive Performance Assessment rating is good too. We achieve this despite being the most sparsely populated upper tier authority in the country, despite our government funding being 20% lower per head of population from the government than the average for similar authorities, and despite having a lower than average Council Tax compared to similar authorities. The Audit Commission Value for Money profiles show that our spending on services is just above bottom quartile.

7.7.12 We will shortly be submitting our 2006 self-assessment as a basis for our external auditor to make his judgement on our Use of Resources score. We will be concentrating on demonstrating that planned improvements in response to feedback from our auditors on the 2005 assessment have been made and are embedded.

7.7.13 A key development is including non-financial performance information in our routine financial performance monitoring reports as described in paragraph 7.3.11 et al.

7.8 Treasury Management Strategy

7.8.1 The Council is required to approve an annual treasury management strategy each year as part of the budget setting process. Herefordshire's Treasury Management Strategy for 2006/07 complies with the detailed regulations that have to be followed.

7.8.2 The Treasury Management Strategy is a key element of the overall financial management strategy. It supports achievement of several corporate financial objectives, including creating financial capacity within the revenue account as it aims to optimise investment and borrowing decisions.

7.8.3 It is not necessary to include the full Treasury Management Strategy in the MTFMS although the two documents do complement each other. It is provided at Appendix C for information.

7.8.4 In summary, the Treasury Management Strategy sets out the Council's strategy for making borrowing and investment decisions during the year in the light of its view on future interest rates. It identifies the financial institutions the Council will place money with and the limits for each counter party. On the borrowing side, it deals with the balance of fixed to variable rate loan instruments, debt maturity profiles and rescheduling opportunities.

7.8.5 The Treasury Management Strategy also sets the Prudential Code limits for the year. These limits define the framework within which the Council self-regulates its borrowing based on long-term affordability. These link back to the overall size of the capital investment programme and the MTFRM.

7.9 Key Corporate & Financial Risks

7.9.1 Herefordshire sees risk management as an essential element of the corporate governance framework. We have done much in recent months to promote our corporate Risk Management Strategy with our Audit Committee, councillors, Corporate Management Board, Directorate Management Team and our Senior Management Team.

7.9.2 All formal reports include a risk management assessment. The Cabinet receives regular updates on the corporate risk register following review by CMB as part of our Integrated Performance Reporting arrangements.

7.9.3 Corporate Management Board and Directorate Management Teams can demonstrate that their risk registers are regularly reviewed. Risks are regularly discussed in performance review meetings at all levels although at lower levels they might not be recognised as such.

7.9.4 The most recent update of the Corporate Risk Register (reviewed by Corporate Management Board in June 2006) is provided for information at Appendix D.

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

7.9.6 Council considered a full financial risk assessment of its budget plans for 2006/07 before setting its budgets and Council Tax for the year in March. This is included at Appendix E.

7.9.7 Many of the financial risks identified at that time have been addressed through the outturn process for 2005/06 or are addressed by the financial management strategies proposed in this paper, demonstrating risk management in practice. The financial risk assessment will continue to be reviewed as part of routine performance reporting arrangements and as part of the budget planning process.

7.10 Summary

7.10.1 There are 3 key things that will underpin the Council's ability to maintain its current financial standing into the future and achieve its service improvement aspirations:

- strong corporate working supported by open book accounting;
- strong financial management; and
- successful and timely delivery of the business transformation programme.

7.10.2 The corporate financial objectives and financial management strategies set out in this section of the MTFMS all support these three pre-requisites, providing the financial ground rules within which medium-term service plans can be developed.

8. Decision Making, Consultation, Diversity & Review

8.1 Introduction

8.1.1 This section of the MTFMS describes the decision making and scrutiny process supporting the new integrated corporate service and financial planning process, sets out how we plan to consult on the proposals, considers the support it provides to cross-cutting themes and finishes by setting out how the MTFMS will be reviewed and improved for the future

8.2 Decision Making & Scrutiny Process

8.2.1 Cabinet will launch this draft version of the MTFMS on 13th July 2006 as a consultation document. It will however be used to inform the 'ground rules' that Directors will be asked to follow in developing their 3-year service delivery proposals over the coming month that will feed into the Corporate Plan for 2007 - 2010.

8.2.2 A members' seminar was held the following week to brief all councillors on the MTFMS, the key role it has to play in the new fully integrated performance improvement cycle and the nature of the ground rules being used to develop service delivery proposals.

8.2.3 A further members' seminar is planned for the Autumn to brief all councillors on the emerging Corporate Plan for 2007 – 2010, which is being developed well ahead of the detailed budget setting procedure and the start of the year to which it relates. This briefing session will be lead by the Director of Corporate & Customer Services and the Director of Resources to reflect the fact that corporate, service and financial planning has been integrated in the new performance improvement cycle. It will also involve workshops led by the each Director and the Head of HR, supported by their service accountant, to give all councillors the opportunity to ask questions at the more detailed level.

8.2.4 An updated MTFMS will be presented to the Strategic Monitoring Committee on 16th October 2006 so its comments are available to Cabinet when it approves the MTFMS on 26th October 2006. At both Strategic Monitoring Committee and Cabinet, the MTFMS will be considered alongside the emerging 3-year service proposals that will underpin the Corporate Plan for 2007 – 10.

8.2.5 Cabinet will consider the draft Annual Operating Plan for 2007/08, with budgets, in January 2007, with a view to approving them in February, subject to the budget and Council Tax for 2007/08 set by Council in March 2007.

8.2.6 The Strategic Monitoring Committee to meet and consider the proposals and give its views to Cabinet prior to corporate, service and financial plans being finalised. Briefings will be offered to Group Leaders and their groups.

8.2.7 The above timetable ensures maximum opportunity for every councillor to be fully briefed on the policy and financial context to the Council's improvement planning process. It is hoped it will allow members to offer both formal and informal opportunities to comment and influence the developing corporate, service and financial management strategies and plans – whether or not they have executive, scrutiny or corporate governance responsibilities.

8.3 Consultation & Communication

8.3.1 The Head of Communications has developed a communication strategy for the MTFMS (Appendix F refers) so that we do not lose this unique opportunity to ensure our staff and our partners understand the national policy context for local government and how that impacts on our approach to strategic financial management.

8.3.2 The communications strategy ensures two-way dialogue so the Cabinet is able to take the views of our customers, strategic partners, colleagues and trade unions (Unison) into account when it finalises the MTFMS on 26th October 2006.

8.4 Diversity & Equality

8.4.1 A key target in the Annual Operating Plan for 2006/07 is to achieve Level 2 of the Local Authority Equality Standard by the end of the year. Integral to this is the completion of our initial 3-year programme of equality impact assessments by September 2006.

8.4.2 The MTFMS is designed to support key corporate priorities and indirectly supports diversity and equality work in other service areas. An impact assessment of the MTFMS was completed by August 2006 in line with the corporate requirement.

8.5 Reviewing the MTFMS

8.5.1 This MTFMS sets the financial context for corporate and service planning and then the detailed budget work prior to setting the Council Tax. It is a living document as the detail of the strategic financial context within which we operate is subject to constant change.

8.5.2 The MTFMS will be formally reviewed and updated at least once a year. This will timed so as to integrate with corporate and service planning and to deliver the Council's budget and Council Tax report on time.

8.5.3 Updates to the MTFMS may be approved at other times of the year as a result of routine financial performance monitoring reports or as significant changes to any of the key assumptions underpinning the MTFRM are identified.

8.6 Summary

8.6.1 The MTFMS will be one of Herefordshire's key policy statements and as such will need to be formally approved by Council. Council will consider the Executive's recommendations following full consultation with the Scrutiny function and input from a wide range of stakeholders.

8.6.2 The MTFMS sets the financial context for corporate and service planning and then detailed budget work prior to setting the Council Tax. It describes how the Council will allocate its cash resources in support of corporate, service and organisational priorities, including crosscutting themes.

9. Conclusions

9.1 Robust financial management is the essential underpinning for the Council's determined drive for sustainable excellence in the deliver of services and, with its partners, securing a successful future for the county and a better quality of life.

9.2 This MTFMS is designed to achieve this in a much more demanding environment than any the Council has faced: one that combines unprecedented demands from service users and government, within equally unprecedented financial constraints. Meeting these twin challenges requires fundamental change in the Council's approach to financial management and the Council's constitution will need to be revised accordingly.

9.3 But the change will be more extensive than this. Fundamental cultural change will be needed. Accountants and service managers will need training and development support so they are equipped to make financial management work within the authority. Service managers will need reassurance that the new approach isn't a one-way street if they operate within the financial management framework now being established, and that there is still room for innovation.

9.4 With the increasing pressure to do more for less that is clearly set out in the early sections of this document, we have little choice but to accept the new way of working that the Herefordshire Connects programme will bring. The future is both exciting and challenging. The plan for change is ambitious and it will be fast but, working as one, this way forward gives us much greater control over our destiny as, if achieved, we will avoid the need for potentially painful cuts in service provision.

9.5 A final note: no document like this would be complete without the Treasurer's health warning! The MTFMS, and its supporting MTFRM, has been developed using the best available information as a basis for forecasting the future policy and financial context for the Council. A key corporate financial risk is that these assumptions, whilst appropriate at the current point in time, might need review as the future actually unfolds. The Corporate & Customer Services and Resources Directorates will continue to scan the policy and financial horizons, working together to update members and advise on policy changes as necessary.

Medium Term Financial Management Strategy (MTFMS)

APPENDIX A

Medium-Term Financial Resource Model	2007/2008 Budget £'000	2008/2009 Budget £'000	2009/2010 Budget £'000	2010/2011 Budget £'000
Base Budget	**118,285**	**123,484**	**127,613**	**132,191**
Inflation - Staff	1,196	1,225	1,210	1,280
Inflation - Income	(797)	(817)	(837)	(858)
	118,684	**123,892**	**127,986**	**132,613**
Other Items				
- Waste management - PFI Contract (net of £2m reserve)*	550	450	500	500
**additional £850k required in 2011/12 to restore net budget*				
- Whitecross PFI requirement (net of schools contribution)	451	0	0	0
- Part transfer of Preserved Rights grant into FSS	0	1,891	0	0
MTFMS changes per para 7.3.8				
- Queenswood Park	25	0	0	0
- Procurement & Efficiency Staff	55	0	0	0
- Herefordshire Matters	50	0	0	0
- Chief Executives Development Fund	150	0	0	0
- HB & CT Benefit Administration	150	0	0	0
- Support Services Review	100	0	0	0
- ESG	225	0	0	(225)
MTFMS changes per para 7.4.2				
- Herefordshire Connects - Revenue Costs	0	1,866	(566)	(280)
- Herefordshire Connects - Revenue Savings	(5,800)	(4,800)	(800)	(350)
- Accommodation Strategy - costs as above	(88)	(64)	(253)	0
- LPSA 2 Reward grant - 75% of Revenue element	0	(823)	0	823
Capital Financing Costs				
- Herefordshire Connects	1,336	1,086	(82)	(82)
- Accommodation Strategy	146	254	492	(133)
- Repayment of LGR SCA	0	(453)	(334)	(230)
- Rotherwas Futures	0	0	134	114
- Existing SCE(R) & Prudential Borrowing	860	1,874	529	498
Capacity to achieve desired Tax increase	**6,590**	**2,440**	**4,585**	**3,780**
TOTAL BUDGET	**123,484**	**127,613**	**132,191**	**137,028**

Assumptions

Council Tax increase	4.70%	4.70%	4.70%	4.70%
Assumed Pay and Price Increase:				
Employees	2.0%	2.0%	2.0%	2.0%
Employers pension contributions - additional on basic pay	0.6%	0.6%	0.5%	0.6%
Other Expenditure	0.0%	0.0%	0.0%	0.0%
Income (excluding Planning, Car Parking and Investment Property)	2.5%	2.5%	2.5%	2.5%
Assumed Formula Grant increase	2.4%	0.0%	0.0%	0.0%
Assumed Collection Fund Surplus (£'000)	500	300	300	300
Assumed Taxbase Increase	1.0%	1.0%	1.0%	1.0%
Dedicated Schools Grant b/fwd	78,151	81,511	83,142	84,805
Increase	3,360	1,630	1,663	1,696
Dedicated Schools Grant	**81,511**	**83,142**	**84,805**	**86,501**
DSG % increase	4.3%	2.0%	2.0%	2.0%

APPENDIX B

MEDIUM-TERM CAPITAL PLAN

	2006/07 Budget £'000	2007/08 Budget £'000	2008/09 Budget £'000	2009/10 Budget £'000
Children and Young People's Services	11,544	6,281	2,110	-
Resources	5,237	3,550	8,450	200
Corporate and Customer Services	12,245	11,903	1,500	-
Adult and Community Services	18,012	5,002	4,025	1,485
Environment Services	13,633	12,824	10,964	10,937
	60,671	**39,560**	**27,049**	**12,622**
Funded by:				
Supported Capital Expenditure (Revenue)	13,152	12,647	10,597	10,937
Prudential Code Borrowing	23,491	15,495	7,942	(1,300)
Unfunded	-	596	1,767	-
Capital Receipts Reserve	10,449	8,291	6,268	2,985
Revenue Contribution	96	-	-	-
Government Grants & Contributions	13,483	2,531	475	-
	60,671	**39,560**	**27,049**	**12,622**

Detailed above is the medium term initial capital programme. This is continuously updated as part of the capital monitoring process.

Major schemes include:

- Weobley High sports hall, Sutton Primary replacement school and Hunderton Junior and Infants school amalgamation (£8m scheme)
- Corporate Accommodation costs of £3.8m in 2006-07
- Herefordshire Connects ICT capital scheme costs of £8.5m in 2006-07 and £10.9m in 2007-08, plus additional ICT corporate voice and data network work of £2m in 2006-07
- Friar Street museum resource and learning centre Phase 3 works and High Town and High Street Hereford capital works
- Extra Care Housing development (£5.28m in 2006-07) and affordable housing grants capital schemes

APPENDIX C
TREASURY MANAGEMENT STRATEGY 2006/07

Not provided as part of the MTFMS document – Council papers for 10 march 2006 refer. Further copy available from Sonia Rees on request.

APPENDIX D

Corporate Risk	Risk Reference Number	Assessment of Risk (with NO control measures implemented)			Risk Controls Measures	Responsible Directors	Assessment of Residual Risk (with control measures implemented)		
		Impact (Severity)	Likelihood (Probability)	Priority Rating			Impact (Severity)	Likelihood (Probability)	Residual Priority Rating
Managing the reputational impact of the 'Staying Safe' rating being 'inadequate' in the JAR assessment and more importantly ensuring that arrangements for safeguarding the most vulnerable children.	CR1	4	4	High	Need to put in place measures to tackle the shortcomings against a planned and timed programme drawing in the assistance of better performing authorities as may be required. Draft JAR Action Plan reported to Cabinet on 25th May. External risk management experts engaged to preliminary assess level of risk in plan.	SF	4	3	High
Corporate spending pressures outweigh the level of resources available to meet them. Particular pressures prevalent in adult social care services.	CR2	4	4	High	Medium Term Financial Management Strategy identifies need for significant efficiency savings and use of reserves. Greater corporate resource allocated to identifying underlying budget issues in Social Care. Major project now underway aimed at estimating demand for social care and developing costed options for the service to meet them. Review report expected in August.	ALL/SR	4	3	High

Herefordshire Connects Programme does not go through robust investment appraisal and subsequent savings are not realised leading to service cuts.	CR3	4	4	High	Robust appraisals are carried out based on hard data, comparative and sensitivity analyses and deliverability. Strong corporate governance arrangements are already in place. Interim Change Manager appointed. Business Transformation Board created although Audit Commission has yet to sign off the new governance arrangements. Capacity issues will need to be addressed, particularly in HR.	NP	4	3	High
Failure to maintain CPA "3 star" rating and move from improving adequately to improving strongly	CR4	4	3	High	Capacity created at a senior level and adherence to the Overall Performance Improvement Plan agreed in March. Board to monitor progress set up under Director of Corporate & Customer Services. It requires effective implementation of the corporate planning and performance frameworks, including the full integration of financial planning.	ALL/NP	3	3	Medium
Business continuity management	CR5	3	4	High	Substantial capital investment made in ICT network and disaster recovery arrangements. Workshops held for all directorates and service continuity plans have been prepared and due for testing during the year in business critical systems and services.	ALL/NP	3	3	Medium
Continuity of Herefordshire Jarvis Services and successful partnering arrangements	CR6	4	3	High	Regular consultation held between senior management from both sides of the partnership.	GD	3	3	Medium

Corporate Capacity to deliver a range of changes the Council has embarked upon.	CR7	4	3	High	Programme Management, Clear Leadership and Senior Management Restructuring. Capacity issues identified within CPA inspection and will be part of Improvement Plan. A minimum of 20% of corporate directors' time will be spent on corporate issues.	NP	4	2	Medium
Successful implementation of Accommodation Strategy	CR13	4	3	Medium	Accommodation Board meets on a regular basis and communications made to staff on a regular basis. Resource commitments identified in MTFMS.	SR	3	2	Medium
Achievement of LPSA 2 targets and hence the Performance Reward Grant (PRG). Failure to manage future PRG will have a significant and detrimental impact on the Council's ability to invest in future performance gains in services.	CR8	3	3	Medium	LPSA agreement signed with government and monitoring to be undertaken within Annual Operating Plan and under umbrella of LAA. Funding has now been agreed by Cabinet and clear responsibilities communicated to Directors and managers involved in its delivery. CMB resolved to project manage LPSA2 to ensure clarity over accountabilities.	SF/GH/GD	3	3	Medium
Development of a Public Services Trust for Herefordshire	CR14	3	2	Medium	External assistance for the first phase of development has been secured.	GH	3	2	Medium
Delivery of Local Area Agreement	CR9	3	2	Medium	LAA has now been agreed and is part of the Integrated Performance Reporting framework.	JJ	3	2	Medium
Recruitment and retention of staff where there are national skills	CR11	3	3	Medium	Succession planning	ALL/DJ	2	2	Medium

shortages and including the impact of Job Evaluation. Ensuring consistent treatment of Equal Pay Claims					Utilise SRDs / implement career development posts and conclude job evaluation. 100% SRDs by the end of May. Centralisation of recruitment; Projects focussing on the recruitment and retention of young people; Implement market forces/supplement. Promote professional development support through training agreements and payment of professional fees. Develop secondment opportunities internally and with partners. · Improving leadership and management through a review of management development Promote pride in Herefordshire.				
Approach to Diversity: Risk of not achieving appropriate Level and not improving Standard.	CR12	3	3	Medium	Level 1 commitment signed off. Staff resource committed. Long term development plan in draft.	JJ	3	2	Medium

APPENDIX E

FINANCIAL RISK ASSESSMENT – MARCH 2006

Not provided as part of the MTFMS document – Council papers for 10 March 2006 refer. Further copy available from Sonia Rees on request.

APPENDIX F

COMMUNICATION PLAN

Audience	Messages	Channel
Citizens	The council has strong financial management But like every other council, needs to take prudent steps ahead of significant pressures on funding Herefordshire is not a well-resourced council and is stretched to deliver services throughout a large, sparsely populated area. The council is committed to keeping council tax as low as possible while protecting the vulnerable The council will be entrepreneurial in generating income from property, assets and trading activities.	<u>July 2006</u> Press release – promoting the medium term financial management strategy as it is endorsed by cabinet <u>August 2005</u> Herefordshire Matters – report on budget out turn for 2005/06 and reinforce messages on financial management and challenge (allied to adult services pressures) Web site – the strategy posted on the council's web site All subsequent communications – refer to key messages (avoid the media using the term 'cash strapped' or 'financially troubled'). <u>September 2006</u> Annual Review and Accounts (Summary) – promote financial stability but need to plan to address increasing demands <u>October 2006</u> Community forums – financial strategy as an item <u>November 2006</u> Herefordshire Matters – overview of the challenges the council needs to plan for financially – plus innovations for generating income <u>March 2007</u> Council Tax Leaflet – outline pressures faced by the council

Medium Term Financial Management Strategy (MTFMS)

Managers	The council is entering its most challenging period and good financial governance, systems and practice is vital. Sound financial management is a non-negotiable for every manager, in every part of the council. The new financial culture is for everyone to strive to understand and support the council in facing up to new budgetary pressures.	<u>July 2006</u> Leadership Forum – the financial non-negotiable to be presented and discussed by managers (as part of the eight non-negotiables) <u>August 2006</u> Senior Management Team – presentation on the new medium term financial strategy and workshop to determine how to engage managers effectively <u>September 2006</u> Intranet – financial guidance for managers to be produced and structured – promoted through First Press Online <u>October 2006</u> Leadership Forum – to take managers through the new strategy and promote the new financial management culture for the authority – key managers to be given a high level understanding of the strategy and the financial challenges the council faces - link the strategy to the business transformation project
Employees	The council, like every other council, faces serious financial challenges for the future but does so from a position of strength and a track record of sound financial management. Service improvement aspirations have to be realistic	<u>August 2006</u> First Press – key messages on the council's finances to go to every employee through the news leaflet in payslips and more details in the electronic version <u>September 2006</u> First Press – more detailed overview of financial challenges facing local government and the pressures on Herefordshire and how the strategy will address them Subsequent communications – the key messages about good financial management to be reinforced

Medium Term Financial Management Strategy (MTFMS)

Members	The council has strong financial management but like every other council, needs to take prudent steps ahead of significant pressures on funding The council is committed to keeping council tax as low as possible while protecting the vulnerable	<u>July 2006</u> Cabinet – paper launched as discussion document Service update – overview of strategy to be included
Partners	The authority offers good value for money and manages its finances well. Financial planning is done in full consultation with key stakeholders. Its financial performance, administration, management and systems are sound. It has a healthy level of reserves and its balance sheet is strong. The council will verify that partner organisations are financially stable, that responsibilities and liabilities are clear and that accounting arrangements are established in advance of operation.	<u>September 2006</u> Herefordshire Partnership – item on next board meeting Summary – overview of the strategy sent to all partner organisations with covering letter Workshop for partner organisations – outlining the wider economic environment, the challenges faced by the county and the council, and how the strategy addresses our ambitions for service improvement. New policies for working with partner organisations to be produced. Children and young people newsletter – article on the medium term financial strategy to be included Schools forum – item on financial management and how schools affected