

HERTFORDSHIRE COUNTY COUNCIL

CABINET

MONDAY 23rd JULY AT 10.00 A.M.

EXECUTIVE COMMITTEE

MONDAY 23rd JULY AT 2.15 PM

BEST VALUE PERFORMANCE PLAN AND THE MEDIUM TERM FINANCIAL FORECAST: 2002/03 - 2005/06

Report of the Finance Director and Assistant Chief Executive

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Executive Members: David Beatty - Resources
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1. Purpose of the Report

1.1 The report sets out the Medium Term Financial Forecast (MTFF), the process and timetable for producing the Best Value Performance Plan (BVPP) and provides the links between performance planning, finance and consultation issues. It also reports the findings of the District Auditor on the 2001/02 Performance Plan.

2. Summary and Conclusions

2.1 The report outlines:

- i) the development and production of the Best Value Performance Plan
- ii) the consultation requirements for the Best Value and modernisation agendas, including an evaluation of the approach adopted in 2000/01 and proposals for an alternative approach.
- iii) the Medium Term Financial Forecast as a financial context for consideration of the 2002/03 budget. The financial forecast is important in ensuring the BVPP consultation and publication is carried out within an agreed and deliverable budget strategy.

2.2 The information in the report can be used to assist members in the development of the BVPP and the budget strategy during the summer. The

BVPP needs to be published in March 2002 and the deadline for finalising the budget is February 2002.

2.3 Owing to the urgency of this matter it has not been possible to put the matter to a meeting of the Resources Prosperity Partnership & Consultation Select Committee . Comments have been invited from the Select Committee Spokesman. Any comments received will be reported to the Cabinet.

2.4 The key decisions for Members at this stage are:

- i) Best Value Performance Plan, Consultation and Budget timetable.
- ii) The response to the District Audit report on the council's BVPP for 2001/02.

Background

3. Process and Timetable for Publication of the Best Value Performance Plan

- 3.1 This is the third year in which the county council has to produce a Best Value Performance Plan, which covers all its activities, sets targets for performance and sets out the council's priorities for the future, as well as being a vehicle for reporting outcomes of the Best Value Reviews.
- 3.2 It has been agreed that such issues should be addressed in conjunction with resources available to deliver targets and priorities, and aimed to bring together the consideration of the plan with the resource budgets for capital and revenue.
- 3.3 A central element in this approach is that links are made between promises, service objectives and service plans. Equally performance information, review information and service pressures would feed back to members to aid the setting of corporate priorities. In addition the financial implications of performance targets (over 250 of which are reported in the Performance Plan) are considered as part of this process.
- 3.4 Moreover, the plan and budget cycle would link with the strategy for consultation and be informed by the public consultation on council priorities and council tax proposals that took place last autumn.
- 3.5 The Plan for 2001/02 has now been audited by District Audit. The Best Value Audit Report (Annex 3) made a number of recommendations of which three are statutory and require a response from HCC within 30 days of the publication of the plan. These and our proposed responses are:

- i) *“The Council should ensure that all appropriate BVPI data is included.”*

We will ensure that all appropriate BVPIs are included and that targets and estimates are provided for each Performance indicator

- ii) *“The Council should ensure the BV review programme prioritises the weakest performing services and corporate targets.”*

The initial 5 year programme was based on:

- Prioritisation by individual departments of services for review using their own assessment.
- Packaging of reviews to ensure most reviews were cross-service or functional or thematic.
- Ensuring that the schedule of reviews fitted into the existing programme of improvement and change (HertsConnect, Herts Direct, Children, Schools & Families/Adult Care Services etc).
- Taking account of opportunities for joint reviews with Districts. In developing next year's programme account will be taken of performance data from the BVPP.

- iii) *“The Council needs to take a more robust approach to producing PI information.”*

We will ensure a more robust approach to producing PI information. This will include guidance on calculating estimates and setting targets and on the evidence necessary to justify data. We will also provide further commentary for data given, develop greater independent verification of the data given and further develop the system of responsible officers so that the named officer can explain the data. We will enhance the system for collection of data to reinforce these points.

3.6 Within the last year significant improvements have been made to improve the performance management and planning processes. These include:

- The reporting of performance against performance targets on a quarterly basis which gives members and officers better information about good and less good performance, provides early warning of need to take remedial action, allows comparison with other high performing authorities, enables accountability and stimulates improvement.
- Members and chief officers are able to make stronger links between promises, service priorities and financial demands. The arrangement of the performance plan to reflect this.
- A much stronger corporate and service planning process is being implemented, and the dissemination of good practice throughout the authority and effective responses to key corporate initiatives.

4. Consultation

4.1 The BVPP consultation process will follow the programme agreed last year, in that we will run a series of issues groups based on representative samples of residents in Hertfordshire; followed by the Citizens Panel indicating Panel members priorities, against which the Promises can be evaluated. The Panel will also be asked to respond to identify its members views on council tax levels.

4.2 In our publication of the Plan summary in Hertsdirect, we asked for comments from the public. The response we received has been limited, but we will also incorporate this work into our consultation analysis. Statutory agencies also received copies of the Plan and where they comment, we will include this response. In our consultation work this year we will also ensure that we use opportunities to gain feedback about the 2001/2 Plan.

4.3 Member commitment to communication with the public and the introduction of the Herts Direct newspaper has proved beneficial to the BVPP process. As well as increasing public awareness of HCC priorities, the approach encouraged feedback on the plan and summary document. It also meets the statutory requirements for the BVPP particularly as the targeting of every

household was supplemented by specific targeting of hard to reach groups. A similar approach will be adopted for 2002.

- 4.4 In line with the principles of best value, the county council will need to demonstrate that it has subjected its core priorities to further consultation before publication of the next BVPP in April 2002.
- 4.5 District Audit raised concerns about the production and distribution of the summary BVPP in 2000. In 2001 we addressed these by using the April edition of Herts Direct as the summary. This meant that we were able to target every household and this was supplemented by specific targeting of hard to reach groups. A similar approach will be adopted for 2002.
- 4.6 In line with the principles of best value, the county council will need to demonstrate that it has subjected its core priorities to further consultation before publication of the next BVPP in April 2002.

5. Medium Term Financial Forecast

- 5.1 Details of overall SSA increases for 2002/03 and 2003/04 were included in the July 2000 Comprehensive Spending Review and these have been used in this report to provide a forecast of the council's resources in future years.
- 5.2 At this stage it is not known whether the methodology freeze on the SSA will be extended for 2002/03 or whether changes will be made. Until more is known resource projections included in this report are based on the continuation of the existing SSA methodology.
- 5.3 This report brings together spending and resource estimates with background information to support members in the development of the budget strategy. The detailed MTFF is attached at Annex 1.
- 5.4 The financial forecast is based on the following assumptions:
 - Non pay inflation at 2.5% and pay inflation at 3.5% per annum.
 - Standard Spending Assessments (SSAs) for 2002/03 and 2003/04 will increase in line with the Government's July 2000 Comprehensive Spending Review, this represents a 5.3% increase for the county council in 2002/03, and 5.9% in 2003/04. Until further information is available it is assumed that SSAs in 2004/05 and onwards will increase by 5% for Education and 2.5% for all other services.
 - It is estimated that the county council will receive £7.2 million of new Personal Social Services Grants in 2002/03, of which it is assumed £6.0 million may be applied to the demographic/volume pressures experienced by Adult Care Services and Children, Schools & Families.
 - Use of £3.3 million of capital resources to support annual provisions included in the revenue budget.
 - No usable reserves at 31 March 2002.
 - A collection fund surplus of £3.1 million.

- An increase of 0.8% in the taxbase for 2002/03.
- The methodology for calculating council tax benefit subsidy costs will be the same as last year.
- A Government built in increase in council tax at Standard Spend of 4.8% for county councils.

5.5 Based on these assumptions, the MTFE indicates that if the existing policy of passing on the increase in Education SSA to Education were to continue and if the spending on all other services were only increased by inflation (base budget), then the council tax would increase by 5.6% in 2002/03. This would allow Education to accommodate the pressures of £9.5 million which have currently been identified and provide scope for £3.1 million of Education growth.

5.6 Each additional £1 million of spending would increase council tax by 0.4%. If all of the pressures which other services have identified at this stage were included in the budget (an additional £7.2 million net of Social Services grants) this would increase the council tax in 2002/03 by a further 2.9% to 8.5%.

5.7 In its Best Value Performance Plan the council promised to achieve 2.0% efficiency savings each year. As in previous years, some of these efficiencies will represent service improvements rather than cash savings. If 1.0% cashable efficiency savings are identified in services other than Education this would produce £3.0 million of savings which is equivalent to a 1.2% reduction in the council tax.

5.8 The key figures are summarised on the table below and shown in more detail in Appendix 2 of Annex 1.

Table 1 – Summary of Key Figures

	2002/03	2003/04	2004/05	2005/06
	£m	£m	£m	£m
Base Budget (adjusted 2001/02 budget plus inflation)	871.0	908.7	936.4	964.1
Additional Education Spending if SSA increase is passed on	12.6	16.4	27.1	39.3
Projected SSA	850.2	900.5	937.1	975.3

5.9 Considerable uncertainties remain which could impact on the resource and expenditure forecasts, including the outcome of the Government Review of Revenue Grant Distribution and the Education Funding Review, transfers of function, the collection fund surplus and inflation.

- 5.10 The level of increase which will be allowed by Government without an authority's budget being called in or capped is not known, although it is expected that Government action will be dependent on cumulative council tax and budget requirement increases over previous years and the increases of other local authorities.
- 5.11 General reserves at March 2002 are estimated at £12.8 million. This is close to the minimum prudent level and decisions about the use of reserves should be deferred until later in the budget process.
- 5.12 At this stage there is no new information available to change the capital resource assumptions underpinning the approved three-year Capital Programme.

6. Best Value Performance Plan (BVPP) and Budget Timetable

- 6.1 A proposed summary timetable for the BVPP, consultation and budget process is attached at Annex 2.

7. Financial Implications

- 7.1 There are no additional financial implications in respect of the budget, consultation and BVPP compared to last year.

Background Information referred to by the Authors: -

Bank of England Inflation Report, May 2001.

Comprehensive Spending Review: Statement from the Chancellor, 18 July 2000.

County Council Resource Budget 2001/02 to 2004/05, Item 7, County Council, 15 February 2001.

County Council Revenue and Capital Budget Monitor 2000/01 – Provisional Outturn Report, this agenda.

Hertfordshire Best Value Performance Plan 2001/02.

March Budget Statement, HM Treasury, 7 March 2001.

LIST OF ATTACHMENTS TO THE REPORT

ANNEX 1 - Medium Term Financial Forecast 2002/03 to 2005/06

Section 1:	Background
Section 2:	Base Budget
Section 3:	Technical Adjustments
Section 4:	Inflation
Section 5:	Efficiency Savings
Section 6:	Pressures for Change
Section 7:	Revenue Resources
Section 8:	Council Tax
Section 9:	Capital Expenditure and Resources
Section 10:	Reserves
Section 11:	The Way Forward
Appendix 1:	Forecast Revenue Base Budget 2002/03 and Identified Pressures for Change
Appendix 2:	Summary Revenue Base Budget Forecast 2002/03 to 2005/06 and Identified Pressures for Change
Appendix 3:	Glossary of Terms

ANNEX 2 – Best Value Performance Plan, Consultation and Budget Timetable

ANNEX 3 – District Audit Report

District Audit Best Value Audit Report 2001/02.

MEDIUM TERM FINANCIAL FORECAST 2002/03 TO 2005/06**1. Background**

- 1.1 The report identifies the expenditure pressures facing the authority and includes projections of SSA and capital resources over the next four years. The aim is to place the expenditure pressures, which are expected to arise over the medium term, in the context of the available resources, and assess the possible impact on the council tax level. Over the next few months, members will need to form a view on the level of resources, develop a strategy for a balanced budget and determine BVPP targets and promises.
- 1.2 The resource estimates presented in this report reflect the expenditure plans announced by the Government in the July 2000 Comprehensive Spending Review, after adjusting for changes in function. The Government's plans for changes to the Local Government Finance System will become clearer during the year once the White Paper on Local Government Finance is published later this year.
- 1.3 Both expenditure and resources will be updated as information becomes available later in the year and included in future MTFE reports.

2. Base Budget

- 2.1 A summary of the base budget forecast for 2002/03 to 2005/06 is included in Appendices 1 and 2.
- 2.2 The base budget incorporates technical adjustments to the 2001/02 original budget, together with inflation. These are analysed in sections 3 and 4 respectively.

3. Technical Adjustments

- 3.1 The revenue forecast incorporates a number of technical adjustments to the base budget. These mainly relate to major changes in function, where the Government will adjust the funding system. The major items are:
 - a) In 2001/02 the authority received £8.4 million of new Social Services Specific Grants. The expenditure funded by these grants in 2001/02 will continue in future years and so the budget has been increased by this amount. It is estimated that the authority will receive £7.2 million of new Social Services Specific Grants in 2002/03, of which £2.4 million relates to Children, Schools and Families and £4.8 million to Adult Care Services. It has been assumed that £6.0 million of these new Social Services Grants may be applied to support the demographic and volume growth experienced by these services.

- b) The transfer of funding for Post 16 Care Leavers from the Personal Social Services SSA to specific grant took effect from 1 October 2001. The Children, Schools and Families base budget has been reduced by £1.8 million to reflect the full year effect of this change.
 - c) The funding for the Registration and Inspection Units (currently part of the Adult Care Services) will transfer from local authorities to the National Care Standards Commission on 1 April 2002. The Adult Care Services base budget has been reduced by £0.3 million to reflect this.
- 3.2 The funding for sixth forms will be transferring to the Learning and Skills Council from 1 April 2002. However, details are not yet available on how much the Education SSA will be reduced to take account of this or the precise areas of our expenditure which will be transferring. The impact of this change will be incorporated into future MTFF reports when more information is known.

4. Inflation

- 4.1 Inflation represents the major expenditure pressure on the authority. The Government's price inflation target continues to be 2.5% and current Bank of England projections indicate that the most likely path for inflation is to rise from its current level of 2.4% (May 2001 RPIX inflation index) and remain close to the 2.5% target over the next two years.
- 4.2 The inflation forecast incorporated in this report assumes underlying price inflation at 2.5% for 2002/03 and subsequent years.
- 4.3 With similar inflation targets, pay awards this year have been 3.5% and above and an estimate of pay inflation at 3.5% has been assumed for 2002/03 and subsequent years.
- 4.4 Inflation plus the full year effect of the 2001/02 pay awards adds an additional £27.7 million to the base budget in 2002/03, rising to £110.8 million by 2005/06. A detailed review and estimation of price inflation for 2002/03 will be carried out over the summer and incorporated in future MTFF reports.
- 4.5 Landfill tax will increase by £1 per tonne in 2002/03 as part of the five year programme of annual increases announced by the Chancellor in March 1999. This is estimated to increase the council's costs by £0.6 million per annum between 2002/03 and 2004/05. Other areas of exceptional inflation will be identified over the summer and incorporated into the next MTFF report.
- 4.6 A 0.5% variation in inflation against the forecast would increase or reduce costs by £3.9 million in 2002/03.

5. Efficiency Savings

- 5.1 In its Best Value Performance Plan the council sets out its aim to achieve efficiency savings of at least 2.0% each year through a combination of cash savings and improvements in services achieved without increasing costs
- 5.2 If 1.0% cashable efficiency savings are identified in services other than Education this would produce £3.0 million of savings which is equivalent to a 1.2% reduction in the council tax.

6. Pressures For Change

- 6.1 Services have identified pressures for change costing an estimated £22.7 million in 2002/03, rising to £53.2 million by 2005/06 (see Appendix 2). Of these £9.5 million relate to Education in 2002/03, rising to £17.3 million by 2005/2006. The main pressures which have been identified by services are outlined below.

6.2 Demographic / Volume Growth

The largest expenditure pressure is demographic/volume growth, which is estimated at £8.2 million in 2002/03 rising to £28.0 million by 2005/06. This includes:

a) *School Pupil Numbers*

Pupil numbers are expected to increase by 0.6% in 2002/03 at a cost of £3.4 million rising to £8.6 million in 2005/06. This forecast is provisional and an updated forecast will be prepared in October and reflected in later MTFE reports.

b) *Children and Families Client Numbers*

The provision for increased client numbers is estimated to cost £1.1 million in 2002/03 rising to £4.4 million in 2005/06. It has been assumed that these demographic pressures will be met from new Personal Social Services Specific Grants in 2002/03.

c) *Adult Care Services Client Numbers*

The provision for increased client numbers is estimated to cost £2.9 million in 2002/03 rising to £11.4 million in 2005/06. It has been assumed that these demographic pressures will be met from new Personal Social Services Specific Grants in 2002/03.

d) *Waste Generation/Road Lengths/Bus Contracts*

The growth in waste generation is estimated to increase costs by £0.8 million per annum from 2002/03 rising to £3.0 million in 2005/06. A rise in road lengths to be maintained and the number of locations requiring supported bus services (due to new housing developments) are forecast to increase costs by a further £0.1 million in 2002/03 rising to £0.6 million by 2005/06.

New Legislation

6.3 The implementation of new legislation and regulations is estimated to produce increase in costs of £3.6 million in 2002/03, rising to £4.0 million in 2005/06. The main reasons for the increase are an increase in the employers contribution rate to the Teachers Pension Scheme (£2.3 million), the extension of criminal records checks to governors and non teaching staff in schools (£350,000), meeting the requirements of the Countryside Bill/Rights of Way Act (£350,000) and a reduction in client contributions in Adult Care Services following an increase of capital limits from £16,000 to £18,500 from 1 April 2001 (£240,000).

6.4 A number of other legislative changes are expected to impact on Adult Care Services, for example free nursery care, domiciliary care charging and the NHS Plan. At this stage the information available does not suggest that there will be any additional costs. The position will be updated in the next MTF report.

6.5 Other Service Pressures

Other service pressures increase expenditure by £9.5 million in 2002/03 rising to £16.4 million in 2005/06. These include:

a) *Single Status*

As part of the implementation of the national single status agreement, the assimilation of former manual workers onto the existing Hertfordshire County Council grading structure is expected to take effect from 1 November 2001. At this stage it is projected that the cost will be £1.5 million in 2002/03, rising to £1.9 million in 2005/06.

b) *Employers' Pension Contributions*

The outcome of the 2001 actuarial valuation will not be known until January 2002. However, at this stage changes are not expected to the planned increase in employers contributions arising from the 1998 valuation. This will produce an increased cost of £1.4 million in 2002/03 rising to £4.2 million in 2005/06.

c) *Increments*

These are expected to increase costs by £1.0 million in 2002/03 rising to £2.2 million in 2005/06.

d) *Remaining Other Service Pressures*

These are expected to cost £5.6 million in 2002/03, rising to £8.1 million in 2005/06. These pressures include the revenue effects of capital, capital financing costs, capital payback, increased requirements for home to school transport, additional days in the school year and a highway tree management survey.

Previous Policy Decisions

- 6.6 The full year effect of previous budget decisions is to produce a net cost of £2.4 million in 2002/03. The main items are: the full year effect of 2001/02 residential placement growth and grant schemes (Adult Care Services: £2.0 million and Children, Schools and Families £0.1 million); Early Years Curriculum Policy (£0.3 million); home tuition for excluded pupils (£0.2 million) school reorganisations (savings of £0.3 million). The full year effect of previous efficiency savings will also produce savings of £1.0 million in 2002/03.

7. Revenue Resources

- 7.1 The level of revenue resources is dependent on revenue support grant (driven by the SSA), council tax income and specific revenue grants. Council tax is discussed in section 8 of this report.
- 7.2 In 1999 the Government commenced a three-year review of the Revenue Grant Distribution System. During the period of the review no changes have been made to the SSA methodology.
- 7.3 At this stage it is not clear whether the SSA formula freeze will be extended for a further year and it is possible that some changes may be made in 2002/03. The main change likely to affect the 2002/03 SSA is the outcome of the Education Funding Review. The details of the transfer of sixth form funding to the Learning and Skills Council will also not be available until this review has been completed. If changes are to be made to the 2002/03 SSA, consultation on the options would be expected prior to the announcement of the provisional settlement in November.
- 7.4 The Area Cost Adjustment, which accounts for £87 million (10.7%) of the council's SSA for 2001/02, is being considered within both the Review of Education Funding and the general Review of Revenue Grant distribution. Any change in the treatment of the Area Cost Adjustment would represent a considerable threat to the authority's resources.

- 7.5 As no information about possible changes is available at this stage, the resource estimates included in this report are based on the existing SSA figures and the increases announced in the July 2000 Comprehensive Spending Review. This gives a forecast SSA for 2002/03 of £850.2 million, an increase of 5.3%. The impact of data changes, including the annual update of the Area Cost Adjustment factors, on HCC's SSA is uncertain at this stage. Information on the estimated impact of some of the data changes may be available from the Local Government Association in the autumn.
- 7.6 In 2001/02 £7.7 million of Social Services Specific Grants were applied to pressures. It is estimated that the county council will receive £7.2 million of new Social Services Grants in 2002/03, of which £6.0 million will be applied to meet volume/growth pressures in Children and Families and Adult Services. The balance of the grants would be available to meet any additional pressures that may arise in Children and Families.
- 7.7 The 2001/02 Local Authority Finance settlement introduced a floor and ceiling for the increase in central support received by any authority. In order to help pay for the floor, central support for all authorities was scaled back by a fixed proportion and Hertfordshire County Council's central support was reduced by £1.3 million. The impact of this on County Council's resources for 2002/03 will not be known until the provisional settlement is announced, but for the purposes of this report it is assumed that the floor and ceiling mechanism will continue and the same amount of central support will be lost as last year.
- 7.8 The distribution of funding across SSA subblocks is not a constraint on the discretion the County Council has in setting service budgets. However, the comparison of service budgets to SSA has become an important consideration, especially in Education. The 2001/02 budget continued the existing policy of setting the Education budget £0.6 million above SSA.
- 7.9 The County Council's budget publications for 2001/02 included the presentation of the figures on a best value basis. This was required in order to comply with the CIPFA Best Value Accounting Code of Practice which aims to ensure that costs are calculated in a consistent and comparable way by all local authorities. The code defines which overheads should be allocated to services and which should be held centrally and also requires that capital charges are allocated to services in order that the total cost is reflected. The budget figures included in this report are on a best value basis but excluding capital charges which will not be allocated to services until later in the budget process. The impact of this change in the accounting presentation of the figures is that if the increase in Education SSA is passed to Education the Education budget would now be £2.7 million above the Education SSA.

- 7.10 If the existing policy of passing on the increase in Education SSA to Education were to continue in 2002/03, this would allow additional spending above the base budget of £12.6 million for Education. This would allow the identified pressures of £9.5 million to be accommodated and also provide scope for £3.1 million of growth.

8. Council Tax

- 8.1 Over recent years the Government has funded an increasing proportion of local authority spending through the council tax. This report assumes that the increase in council tax at Standard Spend of 4.8% built in by the Government for county councils in 2001/02 will continue in 2002/03.
- 8.2 The level of council tax is dependent on the level at which the budget is set relative to the SSA. Setting the budget 1% or £8.5 million above SSA produces an additional 3.4% increase in the level of council tax. This is above the council tax increase built in by the government in setting their level of central Government support for local authorities.
- 8.3 The level of increase which will be allowed by Government without an authority's budget being called in or capped is not known, although it is expected that Government action will be dependent on cumulative council tax and budget requirement increases over previous years and the increases of other local authorities. No authorities have been capped by the Government in the previous three years.
- 8.4 HCC's council tax increase in 2001/02 (6.0%) was lower than the county council average of 6.3%. HCC's increase in 2000/01 was 6.5% compared to an average 6.7% for all county councils. Information on proposed increases for other authorities for 2002/03 will not be available until later in the year.
- 8.5 In 2001/02 the county council will receive a collection fund surplus of £3.1 million from the district councils. The level of the collection fund in 2002/03 will not be known until January 2002 and in this report it has been assumed to remain at the same level as in 2001/02. The taxbase has been assumed to increase by 0.8%.
- 8.6 If the surplus on the collection fund were to reduce in 2002/03 it would lead to a further increase in the level of council tax up to a maximum of 1.1% if there were no collection fund surplus at all.
- 8.7 Council tax increases above a guideline set by the government will require the council to contribute towards the cost of the extra council tax benefit payments. In 2001/02 the guideline council tax for Hertfordshire County Council was £608.05. The details of the calculation for the Council Tax Benefit Subsidy Scheme will not be known until later in the year. This report assumes that the methodology will be the same as last year.

- 8.8 On the basis of the assumptions outlined above and if the 2002/03 budget were set with the increase in the Education SSA passed to Education and with all other services at the level of the base budget, the council tax increase would be 5.6%. This would result in a contribution to council tax benefit subsidy of £2.2 million (£1.9 million in 2001/02).
- 8.9 Each additional £1 million of spending would increase council tax by 0.4%. If all of the pressures which services have identified at this stage were included in the budget the council tax increase in 2002/03 would be 8.5%. Continuing on the same basis the council tax increases in 2003/04 to 2005/06 would be 3.8%, 7.7% and 6.6% respectively.

9. Capital Expenditure and Resources

- 9.1 In February the county council agreed a three-year capital programme based on the estimated level of available capital resources shown in Table 2 below. It was assumed in setting the 2001/02 budget that £3.3 million of available capital resources will be applied each year to fund annual provisions, which were previously funded from the revenue budget.

Table 2 – Estimated Capital resources

	2001/02 £m	2002/03 £m	2003/04 £m
Estimated Capital Resources	16.4	16.1	16.4
Less funding of annual provisions	3.3	3.3	3.3
Resources available to support the County Funded Programme	13.1	12.8	13.1

- 9.2 Estimated capital resources include estimates of future borrowing approvals and capital receipts. At this stage there is no new information available to update the above estimates beyond 2001/02 and figures are not expected to be available at local authority level for 2002/03 before December.
- 9.3 A new mechanism for the allocation of Government credit approvals, known as the Single Capital Pot, will be introduced from 1st April 2002, partly based on an assessment of the quality of the council's capital strategy and capital asset management plan. This is the subject of a separate report elsewhere on this agenda. It is too early to predict the impact for Hertfordshire.

10. Reserves

- 10.1 The projected general reserves position as at 31 March 2002 is £12.8 million. This is close to the minimum prudent level. The final level of reserves will be dependent on under/overspends in the current year. At this stage it is prudent to assume that no reserves are available to support the budget in future years.

11. The Way Forward

- 11.1 Members will now need to build on this financial forecast in order to agree budget strategies for final budget decisions early next year. The provisional SSA will be announced at the end of November at which time an updated resource and expenditure projection will be incorporated into the budget forecast. The impact of the half-yearly budget monitor will also be available at this stage.

FORECAST REVENUE BASE BUDGET 2002/03 AND IDENTIFIED PRESSURES FOR CHANGE

	Children, Schools & Families Education £ million	Children, Schools & Families Other £ million	Adult Care Services £ million	Environment £ million	Protection Services £ million	Community Information £ million	Corporate Services £ million	Central Items £ million	Total £ million
Original Budget 2001/02	503.9	44.7	135.8	67.7	32.1	16.7	9.5	26.6	837.0
Technical Adjustments 2001/02	(0.1)	0.2	(0.3)	0.0	0.0	0.0	0.4	(0.2)	0.0
Adjusted Budget 2001/02	503.8	44.9	135.5	67.7	32.1	16.7	9.9	26.4	837.0
Technical Adjustments 2002/03	0.0	0.5	5.8	0.0	0.0	0.0	0.0	0.0	6.3
Adjusted Budget 2002/03	503.8	45.4	141.3	67.7	32.1	16.7	9.9	26.4	843.3
Inflation (pay and non-pay)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.7	27.7
Base Budget	503.8	45.4	141.3	67.7	32.1	16.7	9.9	54.1	871.0
Pressures for Change:									
Previous Policy Decisions	0.1	0.2	2.0	0.0	0.0	0.0	0.1	0.0	2.4
Previous Policy Decisions – FYE of previous efficiencies	(0.3)	(0.1)	(0.5)	0.0	0.0	(0.1)	0.0	0.0	(1.0)
Legislative Changes	2.7	0.0	0.3	0.6	0.0	0.0	0.0	0.0	3.6
Demography	3.4	1.1	2.8	0.9	0.0	0.0	0.0	0.0	8.2
Other Pressures	3.6	1.1	1.3	0.8	0.6	0.6	0.4	1.1	9.5
Total Pressures	9.5	2.3	5.9	2.3	0.6	0.5	0.5	1.1	22.7
Personal Social Services Grants	0.0	(1.2)	(4.8)	0.0	0.0	0.0	0.0	0.0	(6.0)
Pressures net of Grants	9.5	1.1	1.1	2.3	0.6	0.5	0.5	1.1	16.7

FORECAST REVENUE BASE BUDGET 2002/03 TO 2005/06 AND IDENTIFIED PRESSURES FOR CHANGE

EXPENDITURE:	2002/03	2003/04	2004/05	2005/06
	£ million	£ million	£ million	£ million
Original Budget 2001/02 (less one off expenditure)	837.0	837.0	837.0	837.0
Technical Adjustments	6.3	16.3	16.3	16.3
Inflation	27.7	55.4	83.1	110.8
Base Budget	871.0	908.7	936.4	964.1

Education Pressures for Change:

Previous Policy Decisions	0.1	0.1	0.1	(0.1)
Full Year Effect of Previous Efficiencies	(0.3)	(0.5)	(0.6)	(0.6)
Legislative Changes	2.7	2.4	2.4	2.4
Demography	3.4	6.0	7.6	8.6
Other Service Pressures	3.6	5.1	6.4	7.0
Total	9.5	13.1	15.9	17.3

Pressures for Change identified for Other Services

Previous Policy Decisions	2.3	3.9	5.6	7.2
Full Year Effect of Previous Efficiencies	(0.7)	(1.2)	(1.6)	(1.8)
Legislative Changes	0.9	1.1	1.3	1.6
Demography	4.8	9.7	14.5	19.4
Other Service Pressures	5.9	7.7	9.6	9.5
Total	13.2	21.2	29.4	35.9
Personal Social Services Grants	(6.0)	(6.0)	(6.0)	(6.0)
Total Other Service Pressures net of grants	7.2	15.2	23.4	29.9

GLOSSARY OF TERMS

ANNUAL PROVISIONS

Capital expenditure on minor capital works, of a non-routine nature, such as repairs and refurbishment schemes. These are generally funded from the revenue budget.

BASE BUDGET 2002/03

The original budget 2001/02 plus technical adjustments and inflation.

BORROWING APPROVALS

A general term that covers both Basic Credit Approvals (BCAs) and Supplementary Credit Approvals (SCAs). Credit approvals are issued to local authorities by Government departments and define each year the amount of capital expenditure that may be met by borrowing and the level of borrowing itself. BCAs may be used for any capital purpose whilst SCAs are issued for a specific purpose.

BEST VALUE BUDGET

The budget adjusted to incorporate the requirements of the CIPFA Best Value Accounting Code of Practice (BVACOP), to allow greater consistency between authorities for Best Value comparisons.

CAPITAL CHARGES

A charge covering fixed assets used in the provision of the service.

CAPITAL EXPENDITURE

All expenditure on the acquisition, creation or enhancement of (fixed) assets.

CAPITAL PROGRAMME

The Council's three-year plan for capital expenditure on both major capital schemes and minor capital works.

CAPITAL RECEIPTS

Proceeds from the sale of land, buildings or other capital assets. Capital receipts are used to repay the debt outstanding on assets financed from loans, and to finance new capital expenditure. The receipts cannot be used to finance revenue expenditure.

CAPPING

The process where the Government limits an authority's budget requirement because it is deemed excessive or deemed to be an excessive increase over the previous year.

COLLECTION FUND SURPLUS/DEFICIT

A surplus/deficit arising from either more or less council tax than expected being collected by the district councils.

COMPREHENSIVE SPENDING REVIEW (CSR)

The public expenditure planning process introduced by the government in 1997 to replace the system of annual public expenditure surveys. Each CSR covers a three year period. The last CSR was in July 2000 and the next one is due in 2002.

COUNCIL TAX

A local tax set by local authorities in order to meet their budget requirement. The tax is paid on most residential properties in a local authority's area and properties are valued within eight valuation bands (A-H).

COUNCIL TAX BENEFIT SUBSIDY

Assistance provided to adults on low incomes to help them pay their council tax bill. Below a guideline increase in council tax the cost to local authorities is largely met by government grant, but above the guideline increase authorities must contribute to the additional cost of council tax benefit on a sliding scale up to 100%.

COUNCIL TAX AT STANDARD SPENDING (CTSS)

The level at which the Band D council tax would be set if the authority set its budget at the level of its Standard Spending Assessment.

DEMOGRAPHY

Used in context of pressures for growth on the budget, resulting from changes in the population if the cost of care per person is not changed year to year.

DIRECT REVENUE FINANCING (DRF)

Resources provided from the revenue budget to finance the cost of capital projects.

FINANCING CHARGES

Charges borne by the revenue budget to meet the cost of financing the council's capital expenditure. These charges include the principal and interest elements of loans outstanding, leasing rentals and direct revenue financing.

FULL YEAR EFFECT (FYE)

The impact of a previous policy decision implemented part way through the year on future spending that has not been allowed for in the base budget.

GROWTH

Additional expenditure which increases the quality or volume of service.

INFLATION

The additions made to the budget each year to take account of pay and price increases. Pay inflation includes the additional cost of the previous year's pay awards and any part year cost of the budget year's awards.

LOCAL GOVERNMENT FINANCE SETTLEMENT

The annual determination of local authority spending made by the Government and debated by Parliament. It includes details of the amount of central Government support for spending and how it will be distributed amongst local authorities.

ORIGINAL BUDGET 2001/02

The original estimated cost of services for the financial year from April 2001 to March 2002.

PRESSURES FOR CHANGE

Those items required to achieve the same level of service as last year, including demography, new legislation, increments, and increased employer's pension contributions.

PREVIOUS POLICY DECISIONS

The additional costs or savings falling on the new budget arising from decisions taken in previous budgets.

RECHARGES

The transfer of costs from one account to another. Part of the cost of Central Services is recharged/transferred to the service departments that use them, e.g. The cost of legal work completed by County Secretary's for Education will be recharged to the Education budget.

RESERVES

Sums set aside to meet general revenue or capital expenditure needs in the future without being earmarked for any particular service or projects. Reserves offer scope for greater flexibility in financing future expenditure.

REVENUE BUDGET

An estimate of annual income and expenditure which sets out the financial implications of the council's policy for the year.

SPECIFIC GRANTS

Government grants to local authorities for particular projects or services.

STANDARD SPENDING ASSESSMENT (SSA)

Calculated by central government every year for each local authority. The total SSA for any authority represents the amount which the government says the authority needs to spend in order to provide a standard level of service.

TAX BASE

A measure of the ability to raise council tax in the county. It is the sum of estimates made by finance offices in district councils of the number of Band D equivalent properties on which council tax is expected to be paid.

TECHNICAL ADJUSTMENTS

These refer to changes relating to transfer of function, change in funding, or changes in responsibility between departments.

**BEST VALUE PERFORMANCE PLAN, CONSULTATION AND BUDGET
TIMETABLE**

2001		
23 July	Cabinet	Notes MTFF.
October		Consultation on promises.
Mid to End October		BVPI monitoring data available for quarters 1 and 2.
Late November		Provisional SSA announcement.
Mid December		Capital settlement.
17 December	Cabinet	Agree budget recommendations based on Portfolio Holder/officer reports. Consider initial draft BVPP.
2002		
January	Select Committees	Review proposed budgets put forward by cabinet. Scrutiny of BVPP particularly looking back at performance for the year – with performance data available.
24 January	Resources Select Committee	Review the resource assumptions that underpin the budget strategy and the BVPP.
28 January	Cabinet	Agrees recommended budget. Agree draft BVPP.
14 February	County Council	<ul style="list-style-type: none"> – Agrees budget – Agrees BVPP – Agrees a resolution for a mechanism covering late changes to content – Agrees council tax.
31 March		BVPP published. Budget book sent to print.
April		County Council newspaper distributed, incorporating BVPP summary.

BEST VALUE AUDIT REPORT 2001/02

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