

**HERTFORDSHIRE COUNTY COUNCIL**

**CABINET**

**MONDAY 16 SEPTEMBER 2002 AT 2.00 P.M.**

Agenda item No.

**10**

**BEST VALUE PERFORMANCE PLAN 2003/4 AND THE MEDIUM TERM  
FINANCIAL FORECAST: 2003/4 - 2006/7**

Report of the Finance Director and Assistant Chief Executive

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**1. Purpose of the Report**

- 1.1 This report sets out the Medium Term Financial Forecast (MTFF) 2003/4 – 2006/7 and the process and timetable for producing the Best Value Performance Plan (BVPP) and budget 2003/4. The report also considers options for consulting the public on the BVPP promises, spending priorities and council tax levels.

**2. Summary**

- 2.1 The report outlines the proposed process and timetable for production of next year's Best Value Performance Plan and budget. The required publication date for the BVPP will be June rather than April from next year onwards.
- 2.2 The report sets out the Medium Term Financial Forecast as a financial context for consideration of the 2003/4 budget. The financial forecast is also important in ensuring that the BVPP consultation and publication are carried out within an agreed and deliverable budget strategy.
- 2.3 The potential change in the County Council's funding which could result from the current consultation on Formula Grant Distribution ranges from a loss of £52 million to a gain of £14 million. Considerable uncertainties remain which could impact on the resource and expenditure forecasts, including the outcome of the Government's consultation on formula grant distribution, the impact of new legislation, the level of specific grants, transfers of function, the collection fund surplus and inflation. The figures shown in the report represent our best estimate at this stage. Both expenditure and resources forecasts will be updated as information becomes available later in the year and included in future MTFF reports. However, based on the latest evaluation of spending pressures and resource options, a council tax increase of between 5.4% and 12.9% may be required for a standstill budget (for all services except Education).

- 2.4 The report also considers options for consulting the public on the BVPP promises, spending priorities and council tax levels. If members wish to give all Hertfordshire residents an opportunity to comment on spending priorities before the budget is agreed, the most effective way of doing this would be to seek views in the October edition of the HertsDirect newspaper. If public consultation is carried out in October it will not be possible to inform the public of the council tax increase that is likely to be required to maintain a standstill budget. The public could, however, be informed of the estimated range of council tax increases likely to be required to maintain a standstill budget based on each of the Government's funding options. If members decide to postpone any consultation until there is greater certainty about Government funding levels, it will not be possible to carry out consultation using the HertsDirect newspaper. Instead, a more limited consultation exercise could be carried out with the 2,000 members of the Hertfordshire Citizens' Panel.

### **3 Conclusion**

The key decisions for members at this stage are:

- i) to agree the Best Value Performance Plan and Budget process and timetable;
- ii) to agree the process and timetable for seeking the public's views on the BVPP promises and spending priorities to inform next year's BVPP and budget;
- iii) to agree the content of a questionnaire to include in the October edition of the HertsDirect newspaper if members decide to proceed with this approach.

## Background

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

- 3.1 This is the fourth 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. New guidance has been issued concerning the content and audience for the BVPP. Next year's BVPP will need to include the improvement plan arising out of the Council's Comprehensive Performance Assessment. The guidance provides for greater flexibility in providing summary BVPP information.
- 3.2 It has been agreed that the matters set out in the BVPP should be addressed in conjunction with resources available to deliver targets and priorities, and aimed to bring together the consideration of the BVPP with the resource budgets for capital and revenue.
- 3.3 Appendix 1 sets out the proposed process and timetable for developing next year's BVPP and budget.

### 4. Medium Term Financial Forecast

#### 4.1 Revenue Resources

- 4.1.1 From 2003/04 the Government intend to abolish the current Standard Spending Assessments (SSA) and replace it with a new system for distributing general revenue grant. A consultation paper on the Formula Grant Distribution was issued on 9 July setting out possible changes to the distribution formulae and presenting 47 options for changes to the current formulae. From our initial examination of the options presented it appears that changes in Government funding for HCC could range between a loss of £52 million to a gain of £14 million (made up of both changes to SSA and underlying grant funding).
- 4.1.2 The following table shows the forecast range of Hertfordshire County Council's SSA for future years, taking into account the options for changes to the grant distribution formulae together with the increases in funding announced in the July 2002 Comprehensive Spending Review.

	2003/04 £m	2004/05 £m	2005/06 £m	2006/07 £m
Projected SSA	825 - 890	871 - 940	932 - 1,006	982 - 1,060

- 4.1.3 Under the current system of grant distribution the Government uses a 'floors and ceiling' approach where the Government annually sets both a lower and an upper limit to the increase in grant. In 2002/03 Hertfordshire's Revenue Support Grant was reduced by £2.6 million because of the 7% upper limit for the increase in central support. The lower limit was 4%. In the consultation paper the Government has stated its intention to continue to use floors and

ceilings in a similar way to 2002/03. However, the lower and upper limits will not be announced until the autumn.

- 4.1.4 The following table illustrates the estimated range for Hertfordshire County Council's floor and ceiling for future years assuming the same methodology and limits apply as in 2002/03.

	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Floor and ceiling	848 – 865	886 - 921	925 - 980	966 – 1,044

- 4.1.5 The expenditure and council tax projections shown in this report assume that any increase in the Government Education funding will continue to be spent on Education in line with the existing policy. However, at this stage it remains uncertain what the Government's stance will be on passporting Education funding and how this will apply in the context of the new formulae.

## 4.2 Revenue Expenditure

A summary of the expenditure forecast for 2003/04 to 2006/07 is shown in the below table and further detail is provided in the following sections. The figures shown are on a best value basis but excluding capital charges, which will not be allocated to services until later in the budget process. The range reflects early indications of pressures and uncertainties on the budget.

	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Estimated Expenditure	915 – 921	975 – 980	1,034 – 1,038	1,093 – 1,096

### *Technical Adjustments*

- 4.2.1 The revenue forecast incorporates a number of technical adjustments to the 2002/03 original budget. These mainly relate to changes in funding arrangements. The major items are:
- a) The ACS and CSF budgets have been increased by a total of £5.2m to reflect expenditure funded by Social Services Grants in 2002/03 which will continue in future years.
  - b) In 2001/02 and 2002/03 Adult Care Services received a specific grant "Building Care Capacity", which was targeted at freeing up hospital beds and reducing the number of delayed discharges. In order to meet the grant conditions local authorities had to enter into long term commitments. It is anticipated that the funding will be incorporated into the SSA in 2003/04 and so the budget has been increased by £3.6 million to reflect the additional ongoing costs.

## *Inflation*

- 4.2.2 Inflation for 2003/04 is estimated at £34.1 million. This assumes price inflation at 2.7% per annum, pay inflation at 3.5% per annum and also includes the impact of the change in the level of employers' national insurance from 2003/04. A 0.5% variation in inflation against the forecast would increase or reduce costs by £4.1 million in 2003/04. A detailed review and estimation of price inflation for 2003/04 is currently being undertaken and will be incorporated in future MTFE reports.

## *Pressures for Change*

- 4.2.3 Pressures for change have initially been estimated at between £13 and £19 million in 2003/04. The main pressures which have been identified at this stage are outlined below.

### Demographic / Volume Growth

The largest expenditure pressure is demographic/volume growth, which is estimated at £6 to £7 million in 2003/04. The main items within this are a provisional forecast of the increase in School Pupil Numbers (£1.8 million), increased numbers of looked after children (£1.2 million), increased client numbers in ACS (£3.4 million), the growth in waste generation (£0.7 million) and the rise in road lengths to be maintained (£0.1 million).

### New Legislation

The implementation of new legislation and regulations is estimated to produce increase in costs of between £3 and £7 million in 2003/04. The main reasons for the increase include the introduction of penalties for delayed discharges of older people from hospital, the SEN disability Act, Section 117 Mental Health Act, child witness interviewing and fairer charging policies for home care/non residential services in ACS. The main areas of uncertainty are around the impact of Social Services legislative changes and grants, the details of which are still to be confirmed.

### Previous Policy Decisions

The full year effect of previous budget decisions is to produce a net cost of £2.1 million in 2003/04. The main item is the full year effect of 2002/03 residential placement growth in Adult Care Services. The full year effect of previous efficiency savings will also produce savings of £0.5 million in 2003/04.

### Other Service Pressures

Other service pressures increase expenditure by £5 to £6 million in 2003/04. These figures include the increase in employer's pension contributions, capital financing costs, home to school transport, increments, the revenue effects of capital and capital payback.

## *Efficiency Savings*

4.2.4 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 £3.1 million of savings which is equivalent to a 1.0% reduction in the council tax. 1% efficiency savings are assumed in the expenditure and council tax forecasts shown in this paper.

### 4.3 Council Tax

4.3.1 In the Comprehensive spending review the Government have built in an overall increase in council tax in 2003/04 of 6.2%. Taking account of all the changes we are expecting, council tax increases are estimated in the ranges shown in the following table.

	2003/04 %	2004/05 %	2005/06 %	2006/07 %
Council Tax Increase	5.4 – 12.9	5.5 – 10.1	4.0 – 8.6	3.0 – 7.6

4.3.2 The level of increase which will be allowed by Government before they use their reserve capping powers is not known, although the Minister for of State for Local Government and the Regions has said that the Government will be looking at how effectively local authorities have engaged their local tax payers on future council tax increases.

### 4.4 Reserves

4.4.1 The projected general reserves position as at 31 March 2003 is between £13.3 million and £14.1 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.

### 4.5 Capital Expenditure and Resources

4.5.1 In February the county council agreed a three-year general capital programme based on the estimated level of available capital resources shown in the table below. Estimated capital resources include estimates of future borrowing approvals and capital receipts. At this stage there is no new information available to update the below estimates beyond 2002/03 and figures are not expected to be available at local authority level for 2003/04 before December 2002.

**Estimated Capital resources available to support the General Capital Programme, Annual Provisions and the Self Financing Programme**

	<b>General Programme and Annual Provisions</b>	<b>Self Financing Programme</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
2002/03	14.6	10.0	24.6
2003/04	14.6	30.9	45.5
2004/05	9.9	15.6	25.5

**4.6 The Way Forward**

- 4.6.1 The provisional SSA will be announced at the end of November/beginning of December at which time an updated resource and expenditure projection will be incorporated into the budget forecast. A proposed summary timetable for the BVPP, consultation and budget process is attached at Appendix 1.
- 4.6.2 Cabinet will need to decide whether to consult the public in October or wait until the provisional Local Government Settlement is announced in late November/early December.

**5. Consultation**

- 5.1 Under Best Value legislation, we are required to consult the public on the matters set out in the BVPP, including our core priorities (known as our promises). New guidance issued by the Office of the Deputy Prime Minister also recommends that local authorities seek the views of the public on spending priorities and council tax levels before taking final decisions on these matters.
- 5.2 In our publication of the BVPP 2002/3 summary in the April 2002 edition of HertsDirect, we asked for comments from the public. The response we received has been limited, but we will take account of the comments made in developing next year's BVPP. 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 June 2003.
- 5.3 In previous years, the County Council has consulted its Citizens' Panel on its proposed priorities by means of a postal survey and focus groups. The County Council has also taken soundings from the public at large on priorities by means of the HertsDirect newspaper. The views expressed by members of the public have helped to inform both BVPP promises and budget decisions, although the Council has not made an explicit link between service priorities and spending levels in previous consultation exercises.
- 5.4 Members may wish to seek the public's view on both priorities and spending levels this year. It would be possible to identify the service improvements that could be achieved if Council tax were to increase by, say, 3% more than that required for a standstill budget (which would include passing on any increase

in Government Education funding). A 3% additional increase would mean that a Band D Council Tax bill would increase by a further 45 p per week. It would also be possible to identify the service cuts that would have to be made if Council Tax was increased by 3% less than the amount required to maintain a standstill budget. For each of our services, the public could be asked whether they think the Council should make cuts, maintain the service at existing levels or make improvements. This would help to gain a greater understanding of the public's spending priorities as they would indicate their preferences with knowledge of the financial consequences. We are seeking Mori's advice on how to construct an appropriate questionnaire. The outcome of this research could help to inform budget and BVPP decisions this year and in future years.

5.5 Although we can be clear at this stage what the impact of service cuts and service improvements would be on Council Tax levels, we do not yet know what the level of Council Tax increase is likely to be to maintain a standstill budget. For this reason, members may wish to defer any public consultation until there is greater certainty about Government funding levels. However, there will not be sufficient time to consult the public by means of the HertsDirect newspaper if the October edition is not used for this purpose. As an alternative, consultation could be carried out at a later stage with members of the Citizens Panel.

5.6 When consultation with the Citizens Panel is carried out, it is suggested that Panel members are consulted on the BVPP promises generally, not just on spending priorities. As in previous years, focus groups of Panel members could be held to explore their views in more detail so that the Council gains a better understanding of the issues of most importance and concern to local people before the final decisions on the budget and BVPP are made.

## 6. Financial Implications

The financial implications of the medium term financial forecast will inform the budget-setting process. The costs of consulting the public are as follows:

Input and analysis of questionnaire returns by Mori based on:

5,000 returns	£6,400
10,000 returns	£11,900
15,000 returns	£17,400

Citizens Panel 12 page postal survey by Mori	£9,200
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Four focus groups of Citizens Panel members	£5,500
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Mori report on research findings	£2,500
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These costs would be met from the existing corporate consultation budget.

**Background Information referred to by the Authors: -**

Bank of England Inflation Report, May 2002.

Comprehensive Spending Review: Statement from the Chancellor, 15 July 2002.

County Council Resource Budget 2002/03 to 2005/06, Item 7, County Council, 14 February 2002.

County Council Revenue and Capital Budget Monitor, Item 2, Cabinet, 22 July 2002.

Chancellor's Budget Statement, HM Treasury, 17 April 2002.

Draft Circular on Best Value and Performance Improvement – a consultation paper (ODPM)

Council Tax Consultation – Guidelines for Local Authorities (ODPM)

## Appendix 1

### Proposed Budget, BVPP & Consultation Process and Timetable

<b>2002</b>		
August		Initial MTFF.
October		Possible public consultation on promises and budget in HertsDirect newspaper and with Citizens Panel.
Mid to end October		BVPI monitoring data available for quarters 1 and 2.
Late November/ early December		Government announces provisional finance settlement.
Mid December		Capital Settlement.
16 December	Cabinet	Agree budget recommendations based on portfolio holder/officer reports. Considers initial draft BVPP.
December/ January		Possible public consultation on promises and budget with Citizens Panel.
<b>2003</b>		
14 – 22 January	Scrutiny Committees	Review proposed budgets put forward by Cabinet.
23 January	Resources Scrutiny Committee	Review the resource assumptions that underpin the budget strategy and the BVPP.
27 January	Cabinet	Agree recommended budget.
10 February	Cabinet	Version of BVPP with estimated data. Summary BVPP.
13 February	County Council	Agrees budget. Agrees council tax.
March	Topic Panel	Scrutiny of draft BVPP 2003/04.
April		BVPP summary for 2003/04 distributed.
20 May	County Council	Final BVPP approved.
June		BVPP published.