

HERTFORDSHIRE COUNTY COUNCIL

CABINET

MONDAY 9 FEBRUARY 2004 AT 2.00 P.M.

COUNTY COUNCIL

THURSDAY 12 FEBRUARY 2004 AT 10.30 A.M.

(please retain for County Council meeting)

Agenda item no.

Cabinet

2

County Council

9A

COUNTY COUNCIL PROPOSED RESOURCE BUDGET 2004/05 TO 2007/08

Report of the Finance Director

Author:- Chris Sweeney, Finance Director (01992 555304)

Executive Member:- David Beatty

1. Purpose of the report

To update Cabinet on new information and budget related issues which have arisen since the Cabinet met on 26 January 2004, including the final Local Government Finance Settlement and taxbase and collection fund surplus, to allow Cabinet to recommend a budget to County Council on 12 February.

This report needs to be considered in conjunction with the report on the Treasury Management Strategy and Implementation of the Prudential Code for Capital Finance at item 2B on the agenda.

Both this report and item 2B are also to be considered by the Council, as items 9A and 9B of that agenda. Members are accordingly asked to bring both reports to the Council meeting on 12 February.

2. Summary

At their meeting on 15 December the Cabinet made proposals for the revenue budget and capital programme for consideration by Scrutiny Committees in January 2004. These are set out in the minutes. The revenue budget proposed by December Cabinet would result in a council tax increase of 6.7%. The comments from each of the Scrutiny Committees are attached at Appendix 1.

The report to Cabinet on January 26 contained new information on capping, Fire Services Modernisation Grant Transitional Funding, the one-off grant for Waste Recycling and an update on the authority's externally funded capital programme.

Cabinet deferred further consideration of the budget until information on the remaining uncertainties was available.

Since the Cabinet meeting on 26 January the final finance settlement has been announced, the final collection fund surplus and tax base has been agreed with the District Councils and information has been received on a number of other issues. This is set out below.

The impact of these changes is to reduce the council tax increase to 6.2% with a revenue budget of £1019.901 million.

3. Conclusion

The Cabinet needs to consider and make recommendations to the Council on:

- a) the use of the £0.536 million transitional funding for the fire pay and modernisation deal and the one-off recycling grant of £0.186 million in 2004/05.
- b) the proposed revenue budget in light of the new information presented in the report to Cabinet on 26 January and in this report.
- c) the use of any reserves to support the budget.
- d) the capital programme in light of the additional resources announced for Education.
- e) the prudential code and treasury management indicators set out in the companion report.

4. Final Settlement

The final Formula Spending Share (FSS) has been set at £972.813 million, an increase of £0.356 million on the provisional settlement. This is mainly due to the correction of errors in the data used for calculating the Capital Financing sub-block. An analysis of the movement between the provisional and final settlement by FSS sub block is shown below:

	Provisional FSS 2004/05 £m	Final FSS 2004/05 £m	Change 2004/05 £m
Education	564.551	564.551	0.000
Personal Social Services	225.096	225.090	(0.006)
Fire	34.957	34.956	(0.001)
Highway Maintenance	43.605	43.583	(0.022)
All Other Services	76.074	76.158	0.084
Capital Financing	28.175	28.476	0.301
Total FSS	972.457	972.813	0.356

The final FSS represents an increase of £45.895 million (4.9%) on last year's FSS after taking account of the Government's adjustments for changes in function/funding.

The Education FSS is £564.551 million, which has not changed since the provisional settlement. However, the amount of uplift in the Education FSS arising from HCC's figure being below the floor increase has risen by £10,000 since the provisional settlement to £7.542 million.

The amount Hertfordshire will receive through Formula Grant (Revenue Support Grant and Redistributed Business Rates) has increased by £0.553 million from the provisional settlement. £0.356 million of this increase in grant relates to the increase in the FSS and £0.255 million results from a decrease in the amount expected to be raised through council tax income (mainly due to a reduction in our final taxbase figure), offset by an increase of £58,000 in Hertfordshire County Council's contribution to the floor through the scaling back of RSG.

5. Inflation

Following the change in the National Insurance thresholds announced in the Chancellors Pre Budget Statement the cost of Employer's National Insurance contributions in 2004/05 will be lower than anticipated. This amounts to a reduction of £118,000 on the non schools budget.

6. Magistrates Courts

Hertfordshire County Council's required contribution to the Magistrates Courts funding is £21,000 less than anticipated.

7. Flood Defence and Lee Valley Park Levies

We are still awaiting final notification of the amounts for the level of flood defence and Lee Valley Park levies for Hertfordshire County Council. However, an increase of 3% has been agreed for the Lee Valley Regional Park levy and we have been given indicative figures of £667,311 and £45,826 respectively from the Thames and Anglian Regions of the Environment Agency for the flood defence levies.

On the basis of this information we are now expecting the cost to the Council to be approximately £13,000 lower than anticipated. This change has been included in the figures presented in this report.

8. Members Allowances

Following the review by the independent panel, a report on members allowances is included as item 14 on the Council agenda. The figures presented in this report provide for an increase at the standard rate of inflation. Any increase above this level would impact on the budget requirement and council tax.

9. Other Pressures

On the basis of the latest information from G L Hearn the County Council's business rates costs are expected to be £293,000 lower than allowed for in the budget, of which £152,000 relates to the non schools budget. This mainly reflects the reductions following a number of successful appeals against assessments.

Negotiations between the County Council, the District Councils and the successful contractor have resulted in a reduction in the estimated costs of the County Council's contribution in respect of abandoned cars from £250,000 to £150,000 per year. Continued monitoring of the waste management budget has identified that the level of growth needed can be reduced by £300,000. Together this has resulted in the projected pressures for Environment in 2004/05 being £400,000 less than originally anticipated.

10. Recharges

An adjustment has been made to the recharges. £155,000 has been transferred from the Corporate Services budget to the Environment Budget to reflect the Corporate and Democratic Core element of the Economic and Community Development Unit transfer. This has no impact on the overall budget or council tax.

11. Crime Reduction Unit

Following the comments of Resources Scrutiny Committee on 22 January the budget for the Crime Reduction Unit has been separately identified and included within the Community Services portfolio.

12. Accounting for Retirement Benefits

To comply with new requirements of the Code of Practice on Local Authority Accounting service figures within the final 2004/05 budget need to be adjusted to reflect Financial Reporting Standard 17 (FRS 17) on Retirement Benefits. These changes are designed to reflect pension liabilities at service level, in the year which they are incurred. They do not affect the Council's overall bottom line budget or council tax increase. Also, the FRS 17 adjustment should not be included in the Schools budget figure used for calculating the passported budget.

Under the previous best value accounting arrangements the service budgets included an adjustment so that historic pension costs and the cost of early retirement were reflected centrally. Under the new Code of Practice these adjustments have been reversed.

13. Summary of changes

The impact of the changes set out in sections 5 to 12 on the 2004/05 revenue budget proposed by December Cabinet is set out in Appendix 2 and the changes have been included in the expenditure and council tax figures presented in this report.

14. Council Tax/Collection Fund

The District Councils have declared Collection Fund surpluses of £1.992 million, which is £0.229 million lower than we estimated in December and £0.449 million lower than last year. The final taxbase figures have also now been provided and include an additional 972 band D equivalent properties than the initial estimate.

On the basis of the December Cabinet proposals updated to reflect the latest information in sections 4 to 12 of this report and a budget of £1,019.901 million, the band D council tax would be £902.18. This represents an increase of £52.44 or 6.2% on last year.

Provisional council tax figures for bands A to H for an increase of this amount are shown in Appendix 3.

If the transitional funding for Fire Service modernisation and the one-off waste recycling grant are applied to existing pressures in part or in total they could further reduce council tax in 2004/05 by up to 0.2%.

15. Future Years

The estimated Formula Spending Share figures for future years are set out below:

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Estimated FSS	972.8	1,058.6	1,107.3	1,157.7

These future projections have been updated to take account of the final settlement as well as the following transfers of funding into FSS:

- (a) From 2005/06 onwards the Teacher Pay Reform grants are being transferred into the Education FSS.
- (b) From 2005/06 onwards the majority of the Preserved Rights grant is being transferred into the Personal Social Services FSS.

The projected levels of future expenditure resulting from the Cabinet's budget proposals, taking account of the estimated additional expenditure relating to the above transfers of funding, assuming the increase in the projected schools FSS is passported each year, extrapolating trends in future year pressures and taking account of the changes detailed in this report are:

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Estimated Expenditure	1,019.9	1,114.2	1,185.2	1,257.0

If there were no further changes to the expenditure and resource projections this would result in a council tax increase of 6.3% in 2005/06, 9.7% in 2006/07 and 8.7% in 2007/08.

16. Reserves

The Local Government Act 2003 places a new duty on the Finance Director to report to the Council at the time the budget is set on the robustness of the estimates included in the budget and the adequacy of reserves for which the budget provides. The Finance Director's advice on these matters is set out in Appendix 4.

The Finance Director considers that a level of general balances of £15 million would be adequate for the 2004/05 year. This could release up to £2.5 million to invest in priorities or limit the council tax increase, though, in either case supporting the 2004/05 budget by the use of reserves, unless directed to one-off expenditure, would have an impact on the council tax increase needed next year.

ADULT CARE AND HEALTH SCRUTINY COMMITTEE - 15 JANUARY 2004

Conclusions

- (a) The Committee was very appreciative of the input from the partner organisations and felt that their contributions had underlined the importance of regular feedback.
- (b) Having heard the presentations, the Committee agreed that the following positive aspects within the proposed budget had been highlighted:
- (i) it was a carefully planned budget;
 - (ii) there was a serious approach to prevention and recognition of developments of the services such as 24/7 care;
 - (iii) identified budget for the involvement of users and carers; and
 - (iv) a willingness to work in partnership to develop services and lobby for a better deal from the Government.
- (c) The Committee requested that the Director of Adult Care Services take into account the following five main issues when considering the detailed allocation of the budget:
- (i) **Equity of services across the County** - particularly social contact services for BEM and for some users with specific needs or who fell between services.
 - (ii) **Quality of care** - in own homes, particularly equipment, maintenance and the length of visits.
 - (iii) **Standards** - taking into account NSF and harmonising standards for residential care. Recognition that standards such as CRB checks cost money.
 - (iv) **Innovation** – new and better forms of care were not necessarily cheaper, e.g. 24/7 care and people with challenging behaviour in the community.
 - (v) **Staffing** – there were particular problems in rural areas of the County where home care staff needed cars and were not paid for travel time.
- (d) In addition, the Committee noted the following issues that had been raised:
- Each of the partner organisations mentioned problems with recruitment and retention, this was an issue that the budget alone could not solve;
 - the continual increase in demand was a long term and intractable problem;

- there were continuing difficulties with the CSC as a point of access for people with care needs;
 - in some instances, processes were getting in the way of service provision;
 - operational issues – the Council was always keen to hear about such issues and learn from experience; and
 - adoption of a proactive approach to the issue of fines for delayed discharges.
- (e) The Committee agreed to establish a short life topic group in order to consider the detailed allocation of the budget. The principles raised by the partner organisations would be taken forward and used a framework for analysis.

COMMUNITY SERVICES SCRUTINY COMMITTEE - 13 JANUARY 2004

Conclusions

The Committee:

1. Urged the speedy completion of the lease arrangements for the Gatehouse to improve the registrar service in St Albans.
2. Welcomed the inclusion in the proposals of a bid for capital funding for HALS' accommodation development.
3. Urged speed on the completion of the relocation of St Albans and Watford Fire Stations in order to avoid spiralling costs.
4. Supported the increase in the budget for Police Community Support Officers (PCSOs) and urged careful consideration of the most effective disposition of these around the county. The Committee wished to stress that PCSOs were not substitutes for Police Officers.
5. Welcomed the pilot of Sunday opening for libraries.
6. Expressed concern about the adequacy of transitional funding available for the reform and modernisation of the Fire and Rescue Service.

ENVIRONMENT SCRUTINY COMMITTEE - 20 JANUARY 2004

Conclusions

The Committee:

1. Noted the proposed resource budget and welcomed the efficiency savings that the department had made.
2. Noted in particular that on a like-for-like basis, there is a £2m reduction in the maintenance budget from 2003/04. It was further noted that this is partially offset by the department's non-contractual efficiency savings from the Integrated Works Programme, which mean that the same amount of work can be done for £1m less. The Committee requested a briefing note detailing the effect of this budget on road maintenance.
3. Expressed disappointment that the Local Transport Plan (LTP) allocation meant that HCC is unable to progress some much needed schemes. Arising from this issue, the Committee wished to note their frustration about the delays to schemes in North Herts caused by difficulties experienced with the rail authorities. It was recommended that the Executive Member write to the rail authorities and raise the issue through the LGA to seek to progress the schemes.
4. Commended the work of the Transport Panel in carefully evaluating all the relevant factors in order to ensure a rational and effective allocation of LTP funds.
5. Raised concern about the following future budget pressures:
 - (a) The continuing rise in waste volumes and the consequent demands on the budget, in particular the balance between investment and income. The Committee asked the Director of Environment to produce a briefing note explaining the technicalities of waste finances.
 - (b) The continuing demands of new legislation, which are not always funded by central government e.g. the Road and Streetworks Act.
 - (c) The commercial pressures on bus routes, which resulted in a continued need to support some services.
6. Noted the following suggestions from the Labour group, that:
 - (a) The assumed figures for the growth of domestic waste volumes could be revised downward.
 - (b) Aldenham County Park requires capital investment to reach its target of breaking even.
 - (c) There should be consideration of investment and initiatives to increase bus ridership.

CHILDREN SCHOOLS & FAMILIES SCRUTINY C'TTEE - 21 JANUARY 2004

The Committee:

1. Noted the Children, Schools and Families Proposed Resource Budget 2004/05 – 2007/08 and welcomed the efficiencies that had been achieved.
2. Expressed concern at the transitional funding arrangements for school budgets, the perverse incentives in the way it is distributed and the uncertainty about the future, and urged the Executive Member to lobby the Government on this issue.
3. Welcomed the proposals outlined by the Director to shift the focus of childcare work into support and preventative work wherever possible.

RESOURCES SCRUTINY COMMITTEE - 22 JANUARY 2004

**1 CORPORATE SERVICES AND INFORMATION TECHNOLOGY
PROPOSED RESOURCE BUDGET 2004 / 2005 – 2007 / 2008**

It was felt that budgetary provision for Police Community Support Officer Teams should be included within the Community Services Scrutiny Committee's Budget rather than the Corporate Services Budget.

Conclusions:

1. The Committee noted the report and;
2. requested that officers consider reporting the budgetary provision for Police Community Support Officers through the Community Services Scrutiny Committee.
3. noted that a significant portion of future savings will come through the SHARP project. There was concern that this aspect of the budget should be carefully monitored to ensure savings are realised.

**2 COUNTY COUNCIL PROPOSED RESOURCE BUDGET 2004 /
2005 – 2007 / 2008**

Conclusions:

That the Cabinet be advised that :

1. The Committee have explored the options and issues around the balance between borrowing and revenue for financing capital spending.
2. It was recognised that circumstances have changed and the Committee welcomed the Executive Members' intention to review the capital strategy. It was noted that this review should include consideration of revenue contribution to future capital needs.
3. A report on the draft capital strategy to the October 2004 meeting, or earlier meeting if this is possible, was requested.
4. The Committee welcomed the Executive Members' commitment to review the balance between revenue funding and borrowing in the short term.
5. The Committee welcomed the increase in Police Community Support Officers which links directly to the highest concerns raised in public consultation on the budget. They urged careful thought on the principles on which the distribution of officers in the county would be based.
6. The Committee again noted their concern about Children Schools & Families Department overspend.
7. The Committee supported the provision of a central contingency and recognise the distinction between this and reserves.

SUMMARY OF CHANGES TO 2004/05 REVENUE BUDGET

	Proposed Budget – December Cabinet	Employer's National Insurance	Flood Defence and Magistrates Courts	Transfers between services	Other Pressures	Additional Spending to maintain Passported budget	Accounting for Retirement Benefits	Proposed Budget after adjustments
	£m	£m	£m	£m	£m	£m	£m	£m
Adult Care Services	186.098	(0.031)		1.221	0.008		(1.613)	185.683
Children, Schools & Families	726.991	(0.043)		0.743	(0.211)	0.141	(3.992)	723.629
Community Services								
<i>Libraries, HALS, Arts and Trading Standards</i>	22.240	(0.009)		0.344	(0.176)		(0.357)	22.042
<i>Fire & Rescue</i>	35.485	(0.011)		0.073	0.020		(0.934)	34.633
<i>Coroners</i>	0.814	-		0.007			(0.008)	0.813
<i>Emergency Planning</i>	0.294	-		0.013			(0.011)	0.296
<i>Registration</i>	0.739	(0.001)		0.025			(0.029)	0.734
<i>Crime Reduction Unit</i>				2.359			(0.005)	2.354
Total Community Services	59.572	(0.021)		2.821	(0.156)		(1.344)	60.872
Corporate Services	13.189	(0.008)		(2.120)	0.066		(0.343)	10.784
Environment	101.056	(0.013)		0.653	(0.400)		(0.600)	100.696
Information Technology	0.414	(0.002)		0.009			(0.104)	0.317
Central Items								
<i>Magistrates Courts</i>	2.109		(0.021)					2.088
<i>Contingency</i>	3.191							3.191
<i>Special Provision</i>	5.300							5.300
<i>Precepts</i>	1.890		(0.013)					1.877
<i>Capital Financing and Interest on Balances</i>	19.436							19.436
<i>Other</i>	8.895			(3.327)			22.154	27.722
Total Central Items	40.821		(0.034)	(3.327)			22.154	59.614
Pension Reserve							(14.158)	(14.158)
AMRA	(107.536)							(107.536)
	1,020.605	(0.118)	(0.034)	0.000	(0.693)	0.141	0.000	1,019.901

2004/05 COUNCIL TAX FOR COUNTY SERVICES

Property Value		Council Tax Increase
		6.2%
A	£40,000 or less	£601.45
B	£40,001 - £52,000	£701.70
C	£52,001 - £68,000	£801.94
D	£68,001 - £88,000	£902.18
E	£88,001 - £120,000	£1,102.66
F	£120,000 - £160,000	£1,303.15
G	£160,000 - £320,000	£1,503.63
H	£320,001 or greater	£1,804.36

Statement of the Finance Director
Robustness of Estimates and Adequacy of Reserves

Robustness of estimates

The council's process for producing budget estimates involves senior managers and finance professionals in evaluating and costing all known changes, including pay and price levels, legislative changes, demands for services and policy developments. The process includes consideration of risks and uncertainties associated with projections of future pay, prices, interest rates and projected levels and timing of other potential liabilities. Based on a risk analysis of the potential for cost increases in these areas of risk/uncertainty the proposed budget continues to include a general contingency and special provision to provide for the possible ongoing impact of these items.

Allocation from the central contingencies require corporate approval, and the council's financial regulations require the Chief Officers to ensure that net expenditure does not exceed the total of their service's delegated i.e. budgets are cash limited. This system of controls has been in place for a number of years and Chief Officers have delivered actual outturns very close to budget in nearly all cases. 2002/03 and 2003/04, however, have seen some severe pressures in demand-led children's services budgets especially in the area of looked after children. The 2004/05 budget has been constructed to accommodate the impact of these pressures and action plans have been put in place to vigorously monitor and control this demand-led area of spend.

Adequacy of Reserves

In December 2003, it was reported to Cabinet that general reserves were estimated to be £17m by April 2004, provided that no further delays on the timing of some capital receipts. Having reviewed progress on the delivery of receipts, there is now a significant likelihood that some of the sales concerned will not be concluded until the new financial year, leading to a revised projection of year end general reserves of £12m. Latest budget monitoring information for 2003/04 suggests that the revenue budget outturn will add £0.5 million to this estimate.

By 31 March 2005, it is expected that general reserves will have risen to £17.5m, (or 3% of the non-school budget) as the capital receipts programme progresses.

In assessing the adequacy of the council's reserves, the outcome of the council's Key Risk Management process (presented to Cabinet in December 2003), the uncertainties discussed in the budget report, and the levels of the contingency and special provision have been considered.

In coming to a view on the adequacy of reserves risks in the area of litigation, business continuity, civil emergency, failure of information systems, budgetary control and interest rate calculations have been considered in terms of the possible maximum financial impact and their probability of occurrence, and on this basis, the Finance Director considers that a level of general balances of £15m would be adequate for the 2004/05 year. This could release £2.5m to invest in priorities or to limit the council tax increase for 2004/05, though, in either

case supporting the 2004/05 budget by the use of reserves, unless directed to one-off expenditure, will have an impact on the council tax increase needed for the following year.

Specific Reserves

As part of the budget preparation process, the Cabinet and Resources Scrutiny Committee have considered the current and projected levels of the council's specific reserves. Following this officer and member review of these reserves, the Finance Director confirms that these reserves as projected continue to be required and are adequate to cover the purposes specified.