

**Hampshire**  
County Council

**Revenue Budget**  
**2006/07**

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## Revenue Budget 2006/07

### Background and Overview

#### **1. Spending Review 2004 and Indicative Budget Plans for 2006/07 and 2007/08**

- 1.1 Government announcements in July 2004 on public spending priorities for the period to 2007/08 and on school funding arrangements formed an important part of the background to the preparation of indicative budgets for 2006/07 and 2007/08, which were approved by the Cabinet in February 2005. Budget planning within the County Council is set within the context of the County Council's Financial Management Policy, which is included as Appendix 1 to this summary. The Financial Planning policies form the basis of the medium term financial planning strategy.
- 1.2 The indicative budget plans for 2006/07 and 2007/08 had been constructed on the basis that the County Council's Formula Spending Share (FSS), after adjusting for the transfer of schools funding to specific grant would increase in line with the control totals in the Government's Spending Review (SR2004). However the formula for distributing FSS was due to be reviewed in advance of the 2006/07 settlement. The Government, having consulted on the principle of introducing multi-year grant settlements, announced in July 2005 that the grant consultation announced in the autumn would cover two years, 2006/07 and 2007/08. Estimating the likely grant increase in 2006/07 was also complicated by the effect of additional non-recurring grant included within the 2005/06 settlement and uncertainty as to whether the effects of the schools funding transfer on residual formula grant would be confined to Education authorities or felt more widely by seeking to harmonise council tax gearing ratios.
- 1.3 Against this background, the Cabinet in July reviewed the indicative budgets for 2006/07 and 2007/08 and agreed a draft medium term financial strategy as the basis for public consultation. The strategy included options for spending and council tax levels in 2006/07, ranging from an increase of 4.7% in council tax to 8.5%.
- 1.4 The consultation took place during the autumn by means of a community workshop, stakeholder meetings, and use of the Council's web site to be followed by a Citizen's Panel questionnaire once the options were firmer after the grant settlement. The autumn consultation focussed on two options, one involving the maintenance of current spending levels in real terms together with an additional £3.4m for Social Care generating a council tax increase of 6.7%, after further use of the grant equalisation reserve, and the alternative option excluding the £3.4m increase in Social Care and requiring savings of 1% across all services to restrict the council tax increase to 4.7%. Though the views of stakeholders were not identical,

the general view was that cuts in services, particularly for the vulnerable should be avoided and that a council tax rise of up to 6.7% would be supported, but reluctantly.

1.5 The Revenue Support Grant (RSG) consultation proposals for 2006/07 and 2007/08 were announced in December 2005. The consultation plays a critical part in the County Council's budget process as it establishes the level of Government support available in the form of RSG and National Non-Domestic Rates (NNDR) – though the effect of removing the support for School budgets from general government support to specific grant was to reduce the proportion of the budget requirement financed by government support from over 60% to just over 20%. The Chancellor of Exchequer again increased the overall level of formula grant beyond the figures in SR2004, by £305m in 2006/07 and £508m in 2007/08, but this did not fully compensate for the deletion of the non-recurring Government funding in the 2005/06 grant settlement.

1.6 The presentation of the grant settlement was altered by the adoption of the four block system which contains no explicit assumptions about assumed local authority spending at national or local level, but instead contains relative need factors which can nonetheless be translated into an equivalent of the formula spending share. The Government also introduced some significant changes to the needs formula, which adversely affect the County Council in particular for adult social care, as well as applying a further resource equalisation uplift to spending need, which also has the affect of transferring Government grant away from Hampshire in the direction of higher need/lower resource authorities. However the Government chose to heavily damp the formula changes by setting a floor relatively close to the average increase in grant allowing Education/Social Services authorities a minimum grant increase of 2% in 2006/07 and 2.7% in 2007/08. However the 2% increase in 2006/07 ignored the affect of the discontinuation and reduction of two specific grants and effectively represented only a 0.2% increase in grant. Nonetheless the operation of the grant floor has provided temporary protection for the County Council from a substantial reduction in Government grant amounting to £37m in 2006/07 and £38m in 2007/08. The Government indicated that it expected to see average council tax increases of less than 5% in 2006/07 and 2007/08 and that it intended to use its capping power to prevent excessive increases in council tax.

## **2. 2006/07 and 2007/08 budget strategy**

2.1 The starting point in the budget process was to prepare a base budget for 2006/07 and 2007/08. Similar principles were adopted to those used in 2005/06. In costing existing County Council policies, services were required to:

- meet the cost of inflation in 2005/06 in excess of the 2.5% provision in the budget. This excess cost amounted to £0.5m
- exclude expenditure included in the 2005/06 budget financed from past

under spending or the use of reserves, totalling £0.6m

- absorb the cost of salary increments costing £2.0m.
- 2.2 A provision for future inflation and other contingencies was set allowing for pay increases of 2.95% (2.5% in 2007/08) and price increases of 2.5%. It provided for increased contributions to the local government pension scheme. It also included specific allowances for additional waste management contract costs, and for business rate increases. The overall contingency provision amounted to £17.8m for 2006/07 and £16.1m for 2007/08, net of schools specific grant.
- 2.3 In view of the further changes to the grant distribution formula resulting in potential grant loss of up to £38m in 2008/09 and beyond, the previous strategy for use of the grant equalisation reserve was revised in order to retain the reserve to assist in phasing in the loss of grant in 2008/09 and later years, rather than applying it in 2006/07 and 2007/08 when the rate of grant loss is not expected to be as severe.
- 2.4 The overall provisional base budget was estimated at £562.5m, an increase of £22.4m or 4.1% over the adjusted 2005/06 budget.
- 2.5 Building on the assumptions in the base budget a provisional budget strategy was agreed, based on the budget consultation carried out during the autumn:
- School budgets increased by the new dedicated schools grant, but with no additional top up funded by council tax payers - allowing for other changes in specific grants this allowed schools to increase their budgets by an average of 6.3% in 2006/07
  - An extra £3.4m for social care above base budget levels in 2006/07 and £3.9m in 2007/08 to recognise extra demographic and other pressures in line with the increase in national spending plans
  - Guidelines for other services were set at the base budget level
  - Executive Members were requested to identify annual efficiency improvements of at least 2.5% for the annual efficiency statement Savings in a cashable form would be required to meet any new pressures that could not be accommodated within the budget guidelines.
- 2.6 Provisional budget guidelines for 2006/07 totalling £565.9m were therefore set, representing an increase in spending of 4.8%. Spending at this level was estimated to result in a council tax increase of 4.7%. The equivalent guideline for 2007/08 was £587.9m an increase of 3.9%. Services were requested to prepare budget proposals within the guidelines set in consultation with Executive Member, for consideration by Policy Review Committees prior to their submission to the Cabinet for consideration in February.
- 2.7 Following consideration of the budget proposals by Policy Review Committees and Executive Members, the Cabinet reviewed the options

within the provisional budget strategy and approved some changes to the provisional budget.

- Additional resources for 2006/07 only were allocated on the following basis:

	£000
Deletion of shortfall in Adult Services savings proposals	2,700
Transitional support for libraries	220
Appointment of consultant to project manage a 'pathfinder' bid to the DFES for new home to school transport initiatives	60
Continuation of 'Futures group' work with schools	20
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	3000
Financed from additional collection fund surplus	-2,308
Contribution from balances	-692
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- Support for additional corporate priorities costing £690,000 was agreed:

	£000
Reinstatement of planned savings from review of democratic processes	100
Older Persons communication programme	50
Additional members expenses arising from boundary review	60
Support for equalities projects	20
Efficiency planning and internal audit	100
Repair and maintenance of non-school buildings – to compensate for excess inflation	120
Accredited community safety officers	100
- additional costs of existing team	
- financed from additional council tax income from reduced second home discounts	-100
- creation of new mobile team	300
Savings on audit fee and risk management contingency	-60
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	690
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- Changes mainly to capital financing budgets to finance new corporate priorities and to enable a contribution to be made to balances in view of

the risks associated with the adult social care budget proposals, as follows:

	£000
Interest on balances	-2,500
Interest on improved cash flow	-1,200
Unsupported borrowing costs	900
Flood Protection – saving due to merger of Southern Region Flood Defence Committees	-250
Savings required to finance reduced tax base, lower final grant settlement and changes to provisional base budget	512
Financing of corporate priorities	690
Contribution to balances	1,848
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- In addition it was proposed to devolve budgets to the new Hampshire Action Teams, equivalent to £10,000 per member (£780,000) for local road and footway improvements to be financed from the additional sum of £3.5m uplifted for inflation, first made available in the 2003/04 budget to tackle the maintenance of local roads and footways.

2.8 Some further changes to the budget were agreed at County Council mainly in response to the increased pressures on the adult social care budget in 2005/06 recently identified:

	£000
Day centre provision – to recognise respite needs of carers	500
Further addition to balances in view of increased projected adult social care overspending in 2005/06	500
Deferral of proposal to establish devolved budgets for Hampshire Action teams	-780
Members allowances – no uplift to basic or special responsibility allowances for inflation in 2006/07	-30
Other corporate savings	-190
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The changes made to the 2006/07 budget at February's Cabinet and County Council meetings resulted in a budget requirement of £568.4m for 2006/07, £2.5m higher than the provisional budget. This represented an increase of £28.3m (5.2%) on the adjusted budget for 2005/06. 2007/08's provisional budget requirement is £592.7m, an increase of £24.3m (4.3%) on 2006/07's budget. The increase in 2006/07's budget is summarised in the table below:

	£m	£m
<b>2005/06 budget</b>	1,107.9	
Function changes related to:		
Schools funding transfer, assimilation of specific grants into formula grant and grant loss from 2004/05 and 2005/06 amending reports	-567.8	
<b>2005/06 adjusted budget</b>	<hr/>	540.1
Full year effect of 2005/06 inflation		-1.2
<b>2005/06 budget at November 2005 prices</b>		<hr/> 538.9
 <b>Increased spending on services:</b>		
Service cash limited spending:		
Pupil numbers	-0.8	
Waste volumes and infrastructure	1.2	
Number of school days in 2006/07	-0.2	
Higher running costs arising from implementation of the capital programme and other base budget changes	0.3	
County Council elections	-0.5	
Costs absorbed or avoided as a result of improvements in efficiency	5.2	
Deletion of additional spending financed from underspendings in 2005/06's budget and other non-recurring spending	-1.0	
Excess inflation costs absorbed	-0.5	
Additional expenditure on Schools, for other services within budget guidelines or financed from efficiency improvements	26.9	
Additional spending financed from under spending carried forward from 2005/06	0.5	
Financed from Dedicated Schools grant	-16.4	
Other budgets:		
Capital financing charges	0.7	
Flood Protection levies	-0.4	
Revenue contributions to capital	0.3	15.3

<b>Efficiency improvements</b>		
Costs absorbed or avoided	-5.2	
Efficiency and other savings within service budgets	-5.1	
SAP benefit realisation	-0.3	-10.6
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<b>Contributions to reserves and balances:</b>		
Variation in use of balances (£0.4m) and earmarked reserves (£6.0m)		6.4
<b>2006/07 budget at November 2005 prices</b>		<hr/> 550.0
<b>Provision for future inflation:</b>		
Allocations made to services – pay 2.95%, non-pay 2.5%, increased pension contributions, social care and energy prices	36.2	
Financed from Dedicated Schools grant	-19.8	
Retained centrally:		
Inflation on waste management contract (including landfill tax)	1.6	
Business rates, and flood protection levies	0.4	
		<hr/> 18.4
<b>2006/07 Budget requirement</b>		<hr/> 568.4

2.9 The increase in the budget over the adjusted 2005/06 budget can be summarised as follows:

	£m	%
Cost increases due to inflation	17.2	3.2
Increased spending on services	15.3	2.8
Efficiency improvements	-10.6	-2.0
Variation in use of reserves and balances	6.4	1.2
	<hr/> 28.3	<hr/> 5.2

### 3. Council tax implications

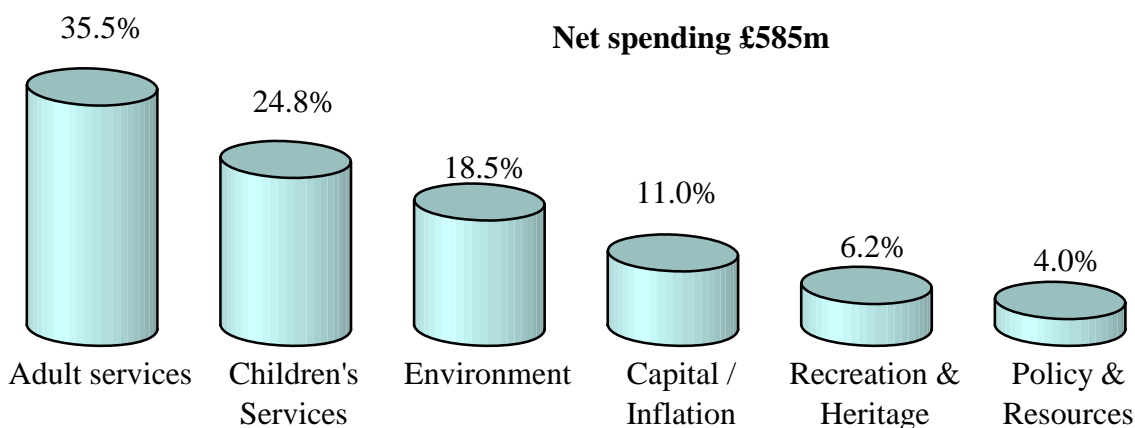
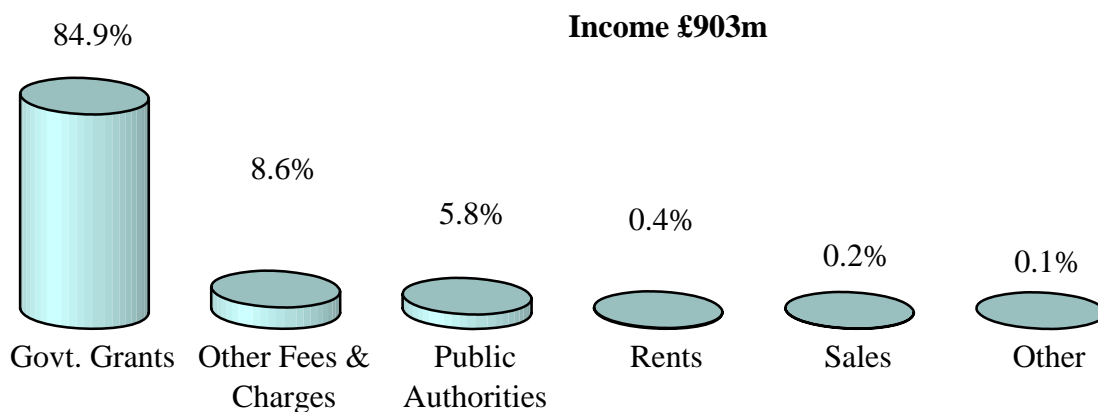
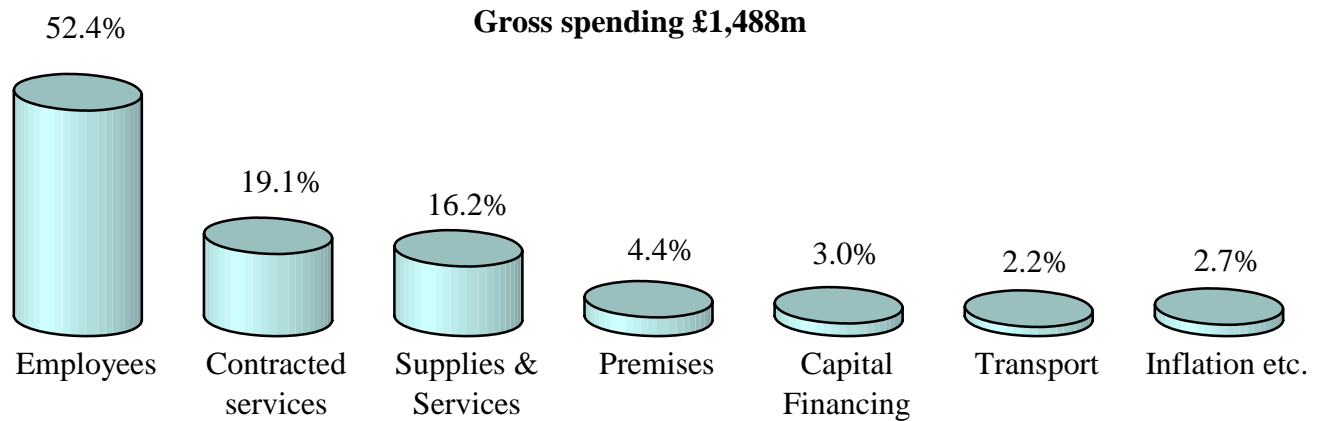
3.1 The County Council's council tax at Band D is £910.62, an increase of £41.22 or 4.7% on the 2005/06 tax.

3.2 Hampshire's tax is £44 below the average for county councils with combined fire authorities and is the 5<sup>th</sup> lowest out of the 20 relevant counties. After adding the Police Authority, Fire Authority, district council and average parish decisions on budgets, council taxes for Band D properties in Hampshire will be in the range of £1,191 to £1,279 with an average of £1,243. This is 4.5% above the 2005/06 average of £1,189.

The comparative figures are summarised in Appendix 2.

## Overview of the 2006/07 revenue budget

- This page provides an overview of the 2006/07 budget, which is set out in detail in sections A and B.
- The County Council is budgeting to spend £1,488m on services in 2006/06.
- Income of £903m towards this spending comes from several sources, including Government grants, fees and charges.
- After allowing for such income, the total net spending of the Council is £585m.
- In addition, a contribution of £17m from reserves produces a budget requirement of £568m.
- The split of net spending between services is shown below. Figures for each service exclude revenue contributions to capital; these are shown separately.



## Financial Management Policy

**Overall purpose :** seek to ensure a high standard in the management of public finances in the best interests of the people of Hampshire.

**Key policies designed to achieve this** are to maintain and seek continuous improvement in both Financial Planning and the provision of Financial Services. In doing so, the Council aims to consolidate its current score of three for the financial aspects of the Comprehensive Performance Assessment.

### A. Financial planning

#### Overall financial planning and budget strategy

- Budget strategy related to corporate priorities, as reflected in corporate strategy, local public service agreement, and local area agreement.
- Growth and saving plans to be submitted to the appropriate executive member or to Cabinet, identifying planned outcomes and performance improvements for budget growth and mechanisms for achieving any significant savings
- Ensure that the long-term level of revenue commitments does not exceed long-term funding likely to be available including reasonable expected levels of future grant settlement and council tax
- Ensure integration of medium term financial and service planning
- Maintain multi-year budget projections based on the Government's spending review cycle in order to set the likely context for making final resource allocation decisions on an annual basis
- Minimise levels of non-earmarked reserves, with a target not exceeding 2% of the budget requirement, subject to risk assessment, in order to maximise use of available funds on service provision
- Review the rationale and adequacy of earmarked reserves on at least an annual basis
- Build up an earmarked reserve in recognition of the transitional costs of implementing Pay and Benefits proposals
- Seek to minimise the degree of instability in the employers' contribution to the Hampshire Pension fund, subject to the objective of securing 100% funding in the long-term
- Continue policy of increasing budgets for Social Care in line with increases in the national spending plans – providing that to do so does not have an unacceptable impact on the quality of other services or the level of the council tax

- Set a Schools budget in consultation with the Schools Forum based on specific grants allocated by the Government
- In order to allow services to operate within firm cash limits, allocate provision for inflation to services at the start of the financial year and require excess inflation to be absorbed
- Manage the application of the grant equalisation reserve in order to protect services and limit the council tax impact of the loss of transitional Education funding and, the loss in 2006/07 of the additional Government Grant made available on a one-off basis in both 2004/05 and 2005/06, and future grant loss from the 2006/07 revised formula
- Services expected to contain spending within the approved cash limit, with no supplementary allocations being available other than in exceptional circumstances unless a specific contingency provision made within the budget
- Services expected to carry forward 100% of any overspending against the overall service cash limit, but are allowed to retain up to 100% of any planned underspendings identified prior to the approval of the following year's budget. 50% of any unplanned underspendings can automatically be carried forward

### **Value for money**

- Require the continuing absorption of cost increases by expecting services to absorb any net cost arising from the annual cost of salary increments
- Seek to deliver efficiency gains that exceed the targets set by the Gershon review
- Encourage service chief officers to submit applications for specific grants/partnership funding designed to maximise the resources available to the County Council, by allowing capital and revenue cash limits to be adjusted to reflect changes in grant levels
- Require services to review the level of fees and charges at least annually and set budget limits on the assumption that the level of charges will be increased in line with assumed inflation on gross expenditure
- Seek best value in spending, bearing in mind that considerations of quality, risk, sustainability, environmental impact, local economic development and equalities may all be relevant in addition to price
- Seek to retain relatively low council taxes in Hampshire, with the aim of setting a tax in the lowest quartile of County Council council taxes

### **Capital programming**

- Review capital strategy on an annual basis and prepare four year capital programme in accordance with the strategy
- Seek to maintain the level of the locally-resourced capital programme by continued recycling of surplus assets to generate capital receipts
- Allow services to retain at least 25% of the value of their capital receipts and where necessary to finance investment in replacement assets, up to 100%

- Adopt a Public Private Partnership (PPP) approach, including the use of the Private Finance Initiative (PFI), where this provides best value for the Council
- Make full use of Government supported borrowing, where this is financially advantageous
- Seek to maximise capital resources by developing capital schemes in conjunction with external partners where appropriate
- Approve the use of unsupported borrowing within the framework of the County Council's prudential code
  - business unit investment where the financing costs will be funded by charges made to customers
  - 'invest to save' projects generating savings which will enable the financing costs to be funded, capital receipts which will enable borrowing to be repaid, or alternative costs to be avoided

## **B. Provision of Financial Services**

### **Effective management of budgets**

- devolution of financial management to service departments combined with appropriate financial training, provision of appropriate systems to generate management information and a framework of sound internal controls including Financial Regulations and procedures
- rigorous annual budgeting and budget monitoring processes
- maintain integrated accounting and budgeting systems and set a consistent overall financial framework across the authority, including for schools

### **Ensuring good practice and probity**

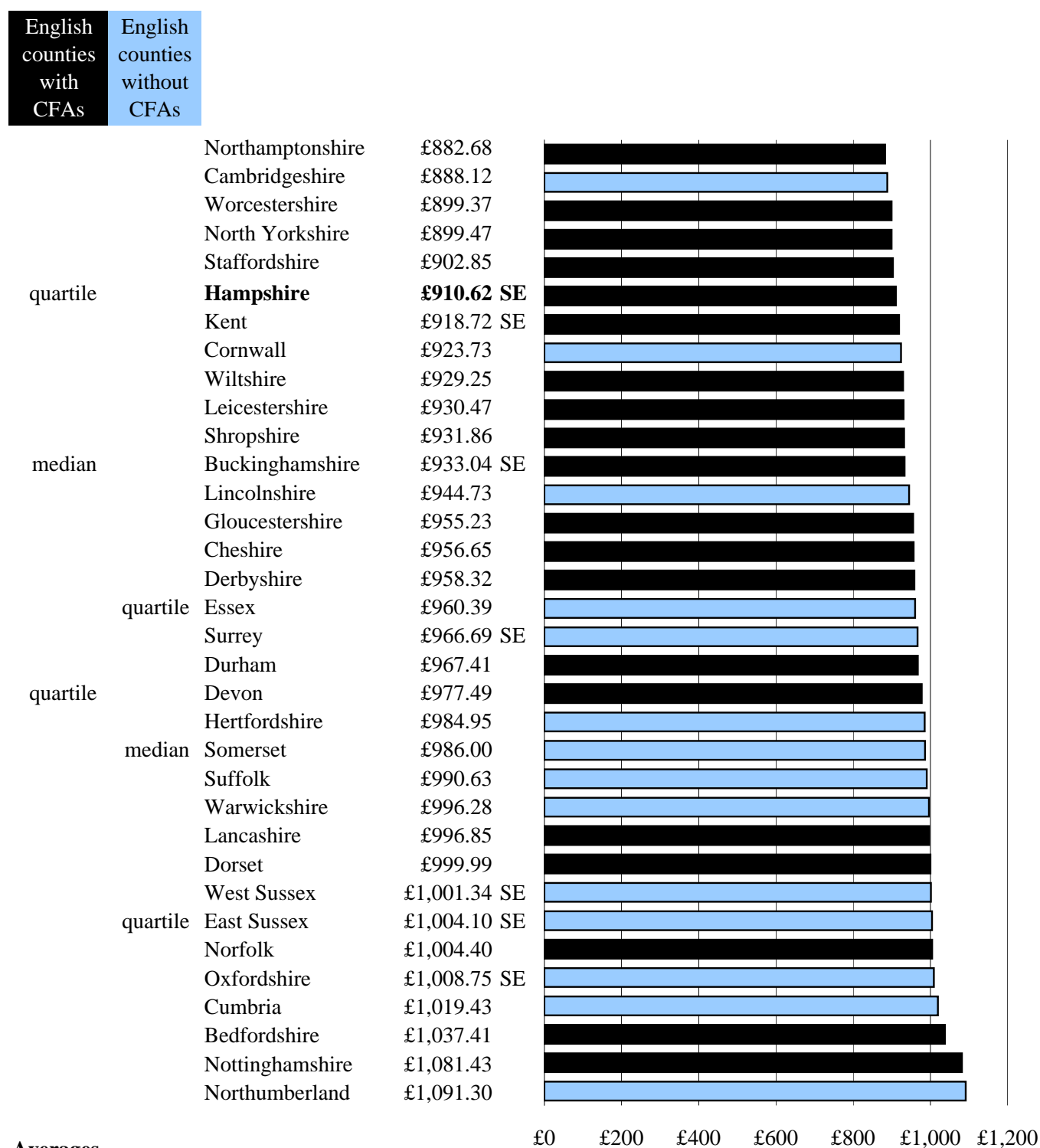
- assess the need for training in financial skills in line with the practices required by Investor in People status, and arrange delivery and evaluation of that training
- recognise the statutory and corporate finance roles of the County Treasurer in ensuring lawful and financially prudent decision-making through his membership of the Corporate Management Team
- report internal audit's strategy to the Governance Committee
- provide annual internal audit assessments for each department as part of the review of effectiveness of controls for the Statement of Internal Control
- develop IT systems designed to enhance the provision of financial management information to users
- maintain Head of Profession arrangements whereby the head of each devolved finance unit has defined responsibilities for ensuring that both corporate and departmental needs are met

- maintain and work with Chief Officers to apply Financial Regulations and associated financial procedures in support of good practice in financial administration and corporate governance
- maintain an effective and efficient internal audit function which works co-operatively with the Council's external auditor
- comply with the CIPFA Code of Practice for treasury management
- comply with accounting and audit standards contained in the relevant Codes of Practice and CIPFA guidance

### **Efficient and accessible processing of transactions**

- best practice in relationships with local contractors and suppliers, including payment of bills in line with government prompt payment targets
- an emphasis on continuous improvement driven by a customer focus as the best way to deliver good financial services
- all services to be available electronically and to move towards employee self service and web-enabled transactions
- obtain the Charter Mark for services dealing directly with the public, and seek to apply a similar approach to internal customers
- keep transaction costs within the lowest 25% of costs among county councils.

## County Councils' Council Taxes 2006/07



## Averages

English counties	£965.88
English counties with CFAs	£954.19
English counties without CFAs	£982.58

Since 2004/05 council taxpayers in Hampshire, and other English counties with Combined Fire Authorities (CFA), have been charged for fire services by the CFA. Therefore the council tax figures for counties with CFAs are not directly comparable to those without CFAs.

SE indicates counties in the South East