

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	County Council
Date of Decision:	18 February 2010
Decision Title:	Revenue Budget and Precept 2010/11 and Capital Programme 2010/11 – 2012/13
Reference No:	1346
Report From:	The Cabinet

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A. Revenue Budget and Precept 2010/11**1. Executive Summary**

- 1.1 The Cabinet recommends a council tax increase of 1.9%, which equates to £20 (or approximately £0.38 a week) on a band D property and a proposed budget requirement for 2010/11 for the general expenses of the County Council of £672.1m. The recommended precept, to be met by council tax payers, is £523.2m which results in a band D council tax of £1,037.88.
- 1.2 The report takes account of the consideration of the guidelines by the relevant Executive members and the scrutiny arrangements through the Select Committees. The budget strategy remains to provide lower quartile council tax amongst county councils, with the best possible services and current budget strategy which will result in council tax rises of 1.9% for the four year period from 2009/10 to 2012/13.
- 1.3 There are no real term reductions in spending on services for the four year period of 1.9% council tax rises. Demographic pressures on Adult Services and Children's Services are offset by service growth and efficiency savings. All services have prepared budgets within the cash limits set in the budget guidelines which gave priority to the demographic pressures mentioned above.

2. Main features of the budget

- 2.1 A band D council tax of £1,037.88, just 1.9% higher than 2009/10 with similar, projected council tax increases of 1.9% up to 2012/13.

- 2.2 Proposed service carry forwards of £4,590,000 offset by an anticipated planned overspend of £2,499,000 on Children’s Services, subject to the proposed 50% write-off in the budget and consideration of any remaining balance when the outturn is known.
- 2.3 Total efficiency improvements on services in 2010/11 of £23.6m, 3.3% of the budget, excluding corporate efficiency improvements.
- 2.4 Total redeployments and savings of £24.4m which includes cashable budget savings of £19.5m (2.9%) The overall savings are close to the target of 4% for 2010/11, and the cumulative total to 2010/11 from 2008/09 should exceed the Government’s assumptions because higher percentage savings were achieved in earlier years.
- 2.5 Use of available one-off resources in 2010/11 of £7.4m as follows:-

	£m
Contingencies for	
• children looked after	1.0
• free personal care at home	4.5
• salt bins	0.6
• write-off of Children’s	1.3
2009/10 overspend	
Increased contingency	7.4

- 2.6 Reduced provision for the 2010/11 pay award and the waste contract contingency that had provisionally been set aside which, net of other additional costs will allow approximately £4m to be released from contingency as a contribution towards future corporate efficiency savings. This is necessary to achieve a council tax increase limited to 1.9% in 2011/12 and 2012/13.
- 2.7 Additional priority spending (primarily funded from the corporate policy fund reserve) in respect of Improving the educational outcomes for children in care (£250,000), Rural Strategy (£200,000), Mary Rose Trust (£200,000), Hampshire Action Teams (HAT) – Community Chest (£700,000), HAT’s staffing support (£300,000), Human Resources (£225,000), Salt barns (£500,000) and Economic Development (£500,000).

3. Contextual information

- 3.1 The summary in paragraph 1 sets out the main features of this budget. Despite current and ongoing budget pressures it is significant to note that the Audit Commission has assessed the Council as “performing well in managing and using its resources to deliver value for money.” The County Council has also been praised for “excellent financial management that has enabled the County Council to keep the council tax low and making savings which can be reinvested in improved services.”
- 3.2 The Cabinet agreed a three year budget plan for 2009/10 to 2011/12 in February 2009. The key features of the plan are as follows:

- it makes allowance for increased demand for social care services and for projected higher costs of the waste management contract, but otherwise contains no provision for growth in service budgets
 - all service budgets are uplifted for inflation based on the assumption that increases in pay and prices would be contained within an average increase of 1.5% and 2.25% respectively per annum
 - income is to be maximised by reviewing charges in line with the average inflation on the related gross expenditure
 - it assumes that efficiency savings will be achieved to finance any proposed service developments, unfunded demand pressures or to cover excess inflation within the context of the Government's target for local government of annual efficiency savings of 4% per annum for 2010/11.
- 3.3 In order to maintain a three year financial plan, Cabinet agreed an updated medium term financial strategy in October 2009 to include 2012/13, based on similar assumptions.
- 3.4 The rest of the report provides more analysis of the budget proposals and the changes since the guidelines were set. The proposed budget is set out in detail in the attached draft budget book.
4. **2010/11 local government settlement**
- 4.1 There have been no changes to the provisional settlement and formula grant for 2010/11 remains as fixed for the final year of the three year grant settlement for the period from 2008/09 to 2010/11. The formula grant for 2010/11 is £146.8m, a 1.5% floor grant increase in cash terms over 2009/10.
- 4.2 There are no grant figures for 2011/12, or later years, so the certainty and predictability of future grant settlements has been lost for the Council in setting its provisional forward budgets for 2011/12 and 2012/13 which are based on projected grant cash reductions of 2% in each year (4% in "real terms").
- 4.3 In responding to the provisional settlement, the County Treasurer has pointed out that the County Council's planning for future council tax amounts had been severely undermined by the proposals in the Government's consultation paper on "Personal Care at Home". This was likely to cause difficulties for councils with social care responsibilities in meeting the Government's expectations about council tax increases in 2010/11.
- 4.4 There has been no response from the Government in respect of the County Treasurer's representations but it is hoped that the Council's formal response to the personal care consultation, together with those of other similar authorities will have some impact in reducing the extra cost burden that will otherwise arise, or possibly to delay its implementation into 2011/12.

- 4.5 The usual comments have been made by Government ministers about the potential use of their capping powers for 2010/11 but with a proposed increase of just 1.9% the County Council should be well within any capping limit.

5. **Service budgets**

- 5.1 Executive members have presented budgets within the cash limits agreed by Cabinet in approving the Medium Term financial strategy last October and subsequently confirmed by the Cabinet in December.

6. **Efficiency savings**

- 6.1 The Government's assumption for 2010/11 is now 4% per annum in cashable terms. This is assumed in the grant settlement and no further reductions are required on the budget. Service budget proposals include cashable budget savings of £19.5m, with an additional £4.1m of cashable improvements that do not produce a budget saving also identified.

7. **Annual review of fees and charges and maximisation of income**

- 7.1 Fees and charges have been raised where there is scope to do so in policy and financial terms, with the allowance for inflation assuming that fees and charges will be raised by an average of 2.1%.

8. **Workforce Plan**

- 8.1 The Cabinet report on the budget identified 299 additional FTEs and at the same time provided additional resources for Hampshire Action Teams (HATs) (6) and HR (4) making a total, should the Council approve the budget, of 309.

The final total will be identified when the posts have been graded and recruited within the approved budget provision.

9. **Additional resources and budget proposals 2010/11**

- 9.1 There are few changes from the provisional budget for 2010/11. This part of the report identifies the changes and proposes new additions to spending, met from anticipated additional one-off resources in 2010/11 and the use of other savings and earmarked reserves.

One off changes and other savings in 2010/11

9.2 Collection fund (£0.5m)

The collection fund surplus notified by district councils in January 2010 is £0.5m more than budgeted. However this still results in a total surplus which is about 20% lower than the equivalent surplus in January 2009.

9.3 Taxbase (£1.6m)

The estimated increase in the taxbase notified in January 2010 for 2010/11 is 0.3% higher than the estimated 0.4% increase included in the provisional budget. The overall taxbase rise is therefore 0.7% for 2010/11 compared with 0.6% in 2009/10. It would be risky to assume that the taxbase will continue to grow into 2011/12 at such a rate so the extra increase in 2010/11 of £1.5m is being treated as a one-off increase.

9.4 Capital financing charges (£0.9m)

The lower pooled interest rate is forecast to produce an additional £0.9m saving on a one-off basis in 2010/11, but interest rates are anticipated to rise again in 2011/12.

9.5 Available one-off savings (£7.4m)

The available one-off savings in 2010/11 can be summarised as follows, together with £4.4m added from the one-off savings in 2009/10.

Available one-off savings

	£m	£m
From 2009/10		4.4
From 2010/11		
• collection fund	0.5	
• higher tax base	1.6	
• capital financing	0.9	3.0
Total available		<u>7.4</u>

Use of available one-off savings

9.6 Children looked after (£1m)

The Children's Services budget provides £1m growth to meet the additional costs from more children looked after. The plan is to manage down that number from the current 1,094. It is proposed to set aside a central contingency to underwrite the possibility of it taking longer to achieve a reduction in the numbers following the peak increase after the Baby Peter inquiry and reflecting the impact of the recession on the numbers of older children coming into care.

9.7 Free personal care at home (£4.5m)

There is a strong possibility that legislation will be enacted to implement the Government's proposals to implement free personal care at home from October 2010. There is not enough certainty on costs or timing to budget for the cost at this relatively late stage in budget preparation.

Government will provide an area based grant towards the costs of implementation but expects the County Council to find over 33% of the costs from additional efficiency savings in the cost of residential care.

The eventual full year cost could be around £20m, or over 3.5% extra on the council tax. The provisional budgets for 2011/12 onwards do not yet include any provision towards these costs.

A central contingency of £4.5m is proposed however for 2010/11 which is at the mid-point of the estimated cost range of between £2m and £7m in 2010/11.

9.8 Salt bins (£0.6m)

The Cabinet considered the provision of up to 4,000 additional grit bins to support local communities in adverse weather conditions on 25 January 2010. A review of the arrangements to reinforce the use of the bins by the public and a suitable management regime was recommended. £0.6m will provide the funding for the initial procurement of most of these bins, subject to that review and the adoption of appropriate measures to support local community resilience.

9.9 Children's services – overspend in 2009/10 (£1,250,000)

It is proposed to set aside a contingency equivalent to 50% of the projected overspend of £2.5m. The actual amount will depend upon the outturn reported to Cabinet in June 2010.

It is therefore proposed to use all the additional one-off resources for central contingencies towards the risks and proposals identified in the previous paragraphs, as summarised in the next table:

9.10 Use of additional one-off resources in 2010/11

	£m
Contingencies for	
• children looked after	1.0
• free personal care at home	4.5
• salt bins	0.6
• write-off of Children's 2009/10 overspend	1.3
Increased contingency	7.4

Other proposed changes in assumptions

9.11 Pay awards (£1.8m)

The local government employers on 20 January 2010 announced a pay freeze for 2010/11 in response to a union request for a 2.5% pay award. It remains to be seen if this decision will hold, or some increase might still be paid.

The Government has announced its intention to set a ceiling on public service pay awards of 1% in 2011/12 and 2012/13, but has not made clear its position for 2010/11 (a number of three year pay settlements, for example on policing and teachers, continue into 2010/11 at above 2%).

The budget was prepared using a 1.5% pay assumption. There will be no saving on pay awards funded by specific grant, particularly within schools, as far as council tax is concerned. However given the employers' announcement it would now be appropriate to reduce cash limits for pay increases to zero. In doing so it would be prudent to retain a contingency provision of 1%.

The local government pay award for 2009 was agreed at 1%, which was 0.2% below the allowance made in service cash limits for 2009/10. If cash limits are adjusted based on an assumed pay freeze in 2010 it would be possible to reduce cash limits by an amount equivalent to 1.7% of the pay bill. That would result in a reduction of about £4.4m. Making contingency provision for a possible 1% cost eventually in 2010/11 would require £2.6m, leaving £1.8m to be transferred as a contribution to reserve towards the pay and productivity target within the overall corporate efficiency target of £15m for 2011/12.

9.12 Waste and other contingency items (£4m)

The anticipated call on the waste contract contingency set aside for 2010/11 in the provisional budget is reduced. This releases efficiency savings as the result of the original contract arrangements and the negotiated changes made early in 2009. The main contributions are:

- a reduction in the retail price index at the date set for uplift in 2010/11 – so that no inflation increase is now required
- a reduction in the volumes of household waste in 2009/10
- the renegotiated terms of the contract have set an agreed proportion of income from commercial waste streams which is now available to the Council, reducing further the contingency required for increased waste costs during 2010/11.

Net of other additional costs, principally for estimated extra Coroner's costs, about £4m can be released from the contingency as a contribution towards future corporate efficiency savings.

9.13 Leader's proposals

The Leader has considered a number of issues arising from his meetings with Executive members during the Autumn budget round, and other issues within Policy and Resources. These additional priorities are set out in the following paragraphs, and will be met from the corporate policy fund reserve, unless indicated otherwise.

9.14 Improving the educational outcomes for children in care (£250,000)

A number of projects are proposed to improve the education outcomes for children in care and it is proposed to allocate £250,000:

- to improve reading and numeracy skills
- for peer mentoring
- to improve the transition of children in care from primary to secondary education
- to train designated teachers
- and to extend the rights, respect and responsibilities work into the lives of children in care.

9.15 Rural strategy (£200,000)

After the success of the pump priming resources in 2009/10, it is proposed to set aside another £200,000 for 2010/11 only to continue new initiatives, subject to external match funding being attracted.

9.16 Mary Rose Trust (£200,000)

It is proposed to make a final contribution of £200,000 (£1m in total) to the Mary Rose Trust, subject to this being matched by new external funding over and above that already pledged with the initial County Council support.

9.17 Hampshire Action Teams – community chest (£700,000)

It is proposed to set aside £0.7m to enable grants to be made by the seven new Hampshire Action Teams (HATs). The use and success of this initiative will be reviewed before continuing funding is confirmed in 2011/12.

The basis of allocation between the HATs has been modelled largely on the basis of a 40% weighting for population and 60% for deprivation with the following recommended outcome:

Allocation of community chest between HATs:

HAT	£'000
Basingstoke	70
Fareham and Eastleigh	110
Hart and Rushmoor	95
East Hampshire, Havant and Winchester	200
New Forest	70
Test Valley	55
Gosport	100
Total community chest	<u>700</u>

Funding of community chest:

	£'000
Policy and Resources grants (carry forward from 2009/10)	120
Local strategic partnership fund (£10,000 per district)	110
Forecast underspend on members' expenses in 2009/10	90
Corporate policy fund reserve	380
Funds applied to community chest	<u>700</u>

HATs – staffing support (£300,000)

It is proposed to set aside £300,000 in the Chief Executive's department to support the HATs arrangements, for the period from 2010/11 to 2012/13. This will be met in 2010/11 by the carry forward of vacancy savings of £150,000 from 2009/10 and by the use of the corporate policy fund (£150,000 in 2010/11, £300,000 in 2011/12).

9.18 Human Resources (£225,000)

The Leader proposes to set aside £75,000 towards management and leadership development, with Human Resources asked to match fund that by use of its carry forward savings or from additional income to provide an annual programme of up to £150,000.

A further £150,000 is proposed to provide support to improve performance and develop the workforce efficiency programme, with business cases to be approved to demonstrate additional savings possible from the investment.

9.19 Salt barns (£500,000)

Cabinet also decided at its meeting on 25 January 2010 to increase the capacity of its salt stocks to improve winter resilience. Two new salt barns are proposed to be sited strategically within the County. The estimated cost is £1m and it is proposed to set aside £500,000 in a central contingency pending the development of the business case and firmer costings. A further £500,000 will be found from existing

highways maintenance resources, as supplemented by any future share of the local public services agreement reward grant to be considered at the Cabinet meeting on 22 February 2010.

9.20 Economic development (£500,000)

It is also proposed to set aside £500,000 for three years for additional staffing and to build capacity for economic development including skills, apprenticeships, the economic assessment duty, new economic partnerships and priorities.

The cost of £1.5m over three years will be met by the use of the balance on the local authority business growth incentives (LABGI) reserve.

9.21 Summary of additional spending proposals

The changes set out in paragraphs 9.11 to 9.20 are summarised in the next table:

Planned use of contingencies and reserves in 2010/11

	Use of corporate policy fund £'000	Other funding/ changes £'000
Reduced pay award		-1,823
Reduced waste contingency		-4,051
Earmarked towards corporate efficiencies		5,874
		-
Improving educational outcomes of children in care	250	
Rural strategy	200	
Mary Rose Trust	200	
HATs community chest	380	320
HATs staffing	150	150
Met by other P&R savings		-470
		-
Management and leadership development	75	
Performance and efficiency improvement	150	
Salt barns	500	
Economic development		500
Use of LABGI reserve		-500
	1,905	
Met by corporate policy fund reserve	-1,905	
Net cost	-	

10. **Integrated planning, performance and risk management**

10.1 The budget recognises the priorities set in the corporate improvement plan and reflects the overall corporate strategy, particularly ensuring value for money, improving capacity and that resources follow priorities. The performance management framework provides for the overall integration of services, work force and financial planning.

10.2 The main areas of risk are:

- equal pay claims – this is dealt with by the equal pay reserve and no further provision is proposed this year. Capitalisation directives will also be applied for, to spread the cost over a number of years, by enabling part of the cost to be financed by borrowing. No provision for additional borrowing costs has been included in the 2011/12 provisional budget.
- grant loss – there is certainty for 2010/11, but great uncertainty across specific grant, area based grant, and formula grant for 2011/12, pending decisions on public spending cuts after the election.
- there is a greater risk of price inflation and rising interest rates emerging from 2011/12 onwards.
- other impacts of the recession – reduced land values and lack of selling opportunities
- free personal care at home – a risk for 2010/11 if implemented, but covered by contingency as set out in the report, but a greater unbudgeted risk in 2011/12, and perhaps up to £20m in a full year
- the uncertainty in 2011/12 will be compounded by two transfers into the County Council for concessionary fares (from district councils) and for learning disabilities (from the National Health Service)
- the budgets for 2011/12 and 2012/13 are based on achieving additional £15m of corporate efficiency savings in each year

11. **Earmarked reserves –budgeted at 31 March 2011**

11.1 Earmarked reserves total £109.2m, plus £37.3m for schools. Of this sum the main elements are for Equal Pay (£41.6m) and grant equalisation (£18.7m).

11.2 The schools reserve is only available to each relevant school and the budget assumes that schools spending matches their delegated budgets in 2009/10 and 2010/11. No claims have arisen in 2009/10 against the Equal Pay reserve, which is earmarked for potential settlement of outstanding claims through the employment appeals process.

11.3 The County Council will have remaining damping grant of £21m at 31 March 2010. It is anticipated that the remainder of the grant damping will be lost with the planned spending cuts from 2011. It is planned to use £3.7m in 2010/11 and £4.5m in 2011/12 from the grant

equalisation reserve to help cover the anticipated grant loss. The balance on this reserve will be £14.7m at 31 March 2012 and £9.7m by 31 March 2013 as it continues to be wound down on the agreed profile.

- 11.4 The Insurance reserve stands at £9.4m and no major claims have occurred in the past 12 months. The Landfill Allowance reserve currently stands at £6.4m and is available to offset future council tax rises, bearing in mind past investment in waste infrastructure, and to finance future waste infrastructure costs. There was no use of the reserve in 2009/10 and none is currently planned in 2010/11.
- 11.5 The Corporate Efficiencies Reserve (£8.6m) is a new reserve created in this budget to capture efficiencies achieved during 2010/11 so that these can be “banked” and used to minimise the risk of underachieving the planned targets of an extra £15m set for 2011/12 and again in 2012/13 (£30m in total) to underwrite the current budget strategy.

12. **Balances**

- 12.1 Budgeted balances at 31 March 2010 are £29.8m. Balances were increased by previous years underspends in support of council tax in 2010/11 and 2011/12. The estimated balance will, however, reduce to £21.5m by 31 March 2011 with the use of the 2007/08 and 2008/09 underspend to support council tax in 2010/11.
- 12.2 The underlying level of balances, adjusted for other changes between years, is £16.9m or 2.3% of net expenditure, which remains the prudent level of balances given the risks and uncertainties until the scale of public spending cuts from 2011/12 is apparent. There is a budgeted contribution of £854,000 to balances in 2011/12 and 2012/13 towards the higher risks in these years.

13. **Section 25 report, Local Government Act 2003**

- 13.1 Section 25 of the Local Government Act requires the Chief Financial Officer (the County Treasurer) to report to the County Council when setting its council tax on the robustness of the estimates included in the budget and the adequacy of the financial reserves in the budget. The County Council is required to have regard to this report in approving the budget and council tax. A detailed summary of the County Treasurer’s opinion is outlined in Appendix 2 of this report.
- 13.2 Section 25 concentrates on the uncertainty within the budget year rather than the greater uncertainties in future years. However the greater uncertainties extending beyond 2010/11, particularly for the County Council as a ‘floor’ authority also informs the need for reserves and balances beyond the period of the current three year grant settlement. The impact of equal pay claims, greater risks of overspend from tight savings targets and demand led spending pressures during a recession, potential higher inflation and slippage in the achievement of capital receipts also need to be borne in mind.

- 13.3 The main new risk for which contingency provision has been made arises from the possible introduction of a duty to provide free personal home care, irrespective of means, to people meeting the care assessment criteria from 1 October 2010. In respect of other known significant risks or liabilities in 2010/11, allowance has been made within the budget in the form of either a provision, contingency or reserve. Accordingly, provided that the County Council considers the factors contained in the County Treasurer's assessment and accepts the budget recommendations, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves.
14. **Treasury Management and Annual Investment Strategies, Prudential and Financial Health Indicators**
- 14.1 The County Council is required to adopt a treasury management strategy and an annual investment strategy for 2010/11 which covers management of the long-term debt portfolio relative to forecast trends in long and short term interest rates, the arrangements for the investment of surplus cash funds during the year which conforms with the prudential code for financial management.
- 14.2 A guideline annual target of up to £17m for 2010/11 to 2012/13 is recommended for new long-term fixed-rate borrowing, which can be exceeded if circumstances are appropriate. LOBO (Lender's Option/Borrower's Option) loans can generate short-term savings in borrowing costs over the initial primary periods. However, such loans will track any upward movement in long-term interest rates and may therefore equate to higher future long-term borrowing costs.
- 14.3 LOBO loan rates have risen relative to PWLB (Public Works Loan Board) rates and currently do not offer any competitive advantage due to the lack of availability of credit within the banking system. As a result, no new LOBO loan finance has been taken out during 2009/10. Whilst LOBO finance will be kept under review, all new external borrowing for 2010/11 is expected to be obtained from the PWLB.
- 14.4 The Base Rate has remained unchanged at 0.5% since it was last reduced in March 2009, its lowest level since the Bank of England was formed in 1694. Based on 25-year term fixed-rate maturity PWLB loans, long-term borrowing rates have fluctuated considerably over the past year although they have averaged around 4.5%. It is envisaged that longer-term interest rates will remain on a stable path over the next year at around 4.5%, although recent concern over the UK Government's indebtedness threatening its AAA sovereign rating status may lead to an increase in such long-term borrowing costs over time. The strategy will be to take out long-term fixed-rate borrowing from the PWLB of up to £17m in the period to March 2011 at a target rate of 4.5% or less, or prevailing rates if this target rate were to prove unattainable.
- 14.5 From a short-term economic perspective, a weak economic recovery limits the scope for the Base Rate to increase from its current level of

0.5%. Nonetheless, market forecasts suggest that Base Rate is likely to increase over the next three years and the budget assumes average base rate levels of 1.0%, 2.0% and 3.0% in 2010/11, 2011/12 and 2012/13 respectively.

14.6 Whilst inflation as measured by the Consumer Price Index (CPI) for December 2009 rose sharply to 2.9% from its November 2009 figure of 1.9%, a number of market forecasters (not least the Bank of England itself) expect this surge in inflation to be temporary and slow in coming months as inevitable fiscal tightening acts as a dampener on prices.

14.7 The County Council is required to approve the Treasury Management strategy, the Annual Investment Strategy, the policy for making revenue provision for the repayment of debt and the Prudential Indicators set out in Appendix 1.

RECOMMENDATIONS:

That:

- a) the Treasurer's report under Section 25 of the Local Government Act 2003 be taken into account when the Council determines the budget and precept for 2010/11 (Appendix 2)
- b) the revenue budget for 2010/11 (as set out in the attached draft budget book) and the provisional budgets for 2011/12 and 2012/13 be approved
- c) the **total budget requirement** for the general expenses of the County Council for the year beginning 1 April 2010 **be £672,129,000**
- d) the **County Council's Band D council tax** for the year beginning 1 April 2010 be increased by **1.9%** to be **£1,037.88**
- e) the County Council's council tax for the year beginning 1 April 2010 for properties in each tax band be:

	£
Band A	691.92
Band B	807.24
Band C	922.56
Band D	1037.88
Band E	1268.52
Band F	1499.16
Band G	1729.80
Band H	2075.76

- f) **precepts** be issued totalling **£523,232,038.57** on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them and previously notified to the County Council, in proportion to the taxbase of each billing authority's area as determined by them and as set out below:

Basingstoke & Deane Borough Council	63,578.00
East Hampshire	48,057.30
Eastleigh	44,087.61
Fareham	42,650.00
Gosport	27,599.90
Hart	37,915.60
Havant	42,823.00
New Forest	72,826.00
Rushmoor	31,409.87
Test Valley	45,496.00
Winchester City Council	47,692.11

- g) the treasury management and annual investment strategies, prudential and financial health indicators for 2010/11 be approved, in accordance with the recommendations in Appendix 1.

B. Capital Programme

1. Executive Summary

1.1 At its meeting on 21 December 2009, Cabinet confirmed the provisional guidelines for the new capital programme previously agreed in the Medium Term Financial Strategy in October 2009. These guidelines for the locally resourced capital programme for 2010/11 to 2012/13 were set at the same reduced level as the current capital programme for 2009/10 to 2011/12. This reflected the continued uncertainty about the level of capital receipts likely to be available to finance the locally resourced capital programme.

1.2 The Cabinet has now considered proposals put forward by Executive Members for the three years 2010/11 to 2012/13. The resultant draft capital programme is attached as a separate document. In drawing up their preferred programmes, Executive Members were requested to prepare proposals for:

- a locally resourced capital programme for the three-year period from 2010/11 to 2012/13 within the approved guidelines.
- a programme of schemes in 2010/11 supported by Government grants or supported borrowing allocations already announced by the Government and those expected to be supported in 2011/12 and 2012/13, subject to limits restricting the take-up of Government supported borrowing allocations.

1.3 The total value of the three-year programme submitted by Executive members is £310m. It includes £237m of schemes supported by Government allocations.

2. Contextual Information

2.1 The proposals take account of the County Council's capital strategy and the Prudential Code for Capital Finance in Local Authorities including the capital financing position, the level of debt outstanding

and the consequences for the revenue budget and council tax. The prudential indicators are included in Appendix 1 of this report.

2.2 The other main points of the report are:

- the proposed capital programmes are in line with the guidelines set by Cabinet for the locally resourced programme, together with schemes supported by Government grant and borrowing allocations;
- the level of capital receipts is not forecast to recover until towards the end of the period of this capital programme with only a limited number of disposals expected in 2010/11 and 2011/12 from sites that are particularly attractive to developers in the current financial climate;
- the Executive Lead Member for Children's Services has proposed using additional prudential borrowing totalling £5.6m between 2010/11 and 2014/15 to finance new primary schools in development areas in Andover, Waterlooville and Aldershot in advance of contributions from developers. This borrowing is expected to be repaid by 2015/16 but could be more than £5.6m and outstanding for longer if the developer contributions are delayed;
- the Executive Lead Member for Children's Services has also proposed using additional prudential borrowing of £1.3m to finance part of the cost of amalgamating infant and junior schools in Yateley, to be repaid from the Schools budget;
- the Executive Member for Policy and Resources has proposed using prudential borrowing of £2.5m for the Havant Public Service Village scheme (cost £13.1m) in advance of office disposals elsewhere in Havant;
- for the County Council in total, loans outstanding for prudential borrowing will peak at £107m in 2009/10. The repayment of the bridging loans included in this total will depend on the recovery of the property market. The current assumptions are that they will be fully repaid by 2015/16.

3. **Prudential Borrowing**

3.1 In November 2003 (subsequently updated in February 2006), Cabinet agreed a framework for the use of prudential borrowing under the Prudential Code for Capital Finance introduced by the Local Government Act 2003. 'Prudential borrowing' does not attract Government revenue grants towards the loan charges. Instead, the loan repayments and interest charges have to be financed by the County Council from its own resources. Because of the potential impact on the County Council's overall financial position, it is important that the use of prudential borrowing is very closely controlled and monitored.

3.2 Most of the prudential borrowing within the proposed capital programme is 'bridging loans' in advance of capital receipts or

developers' contributions. All these bridging loans are expected to be fully repaid by 2015/16. In addition to these lump sum repayments, £59m of the prudential borrowing will be repaid from savings in the revenue budget.

4. Guideline cash limits for the capital programme

- 4.1 The guidelines for the locally resourced programme were confirmed by Cabinet in December 2009 at the levels set out in the Medium Term Financial Strategy agreed in October 2009. 'Locally resourced' schemes are those financed from the County Council's own resources such as capital receipts, contributions from the revenue budget, reserves and other funds. They do not include schemes supported by capital grant or borrowing allocations from the Government. The guidelines for the current locally resourced programme were reduced by one-third in February 2009 in response to the lower forecasts of capital receipts likely to be available to support the capital programme. This followed the sharp decline in the demand for development land as a result of the financial crisis in 2008.

5. Summary of capital programmes submitted

The total starts value of the three-year programme submitted by Executive members is £310m, (£147,716m in 2010/11, £91.497m in 2011/12 and £70,572 in 2012/13).

5.1 Adult Services

- 5.1.1 The proposed programme for Adult Services is in line with the guidelines for the locally resourced programme. The proposed programme also includes schemes to use a number of capital grants from the Government in respect of Mental Health, Social Care Infrastructure and Common Assessment Framework.
- 5.1.2 Following a review of the capital programme for 2009/10, the Executive Member has identified £0.54m of uncommitted resources, which it is proposed, should be carried forward to 2010/11. These resources are for Extra-Care housing (£0.180m) and Residential care homes (£0.360m).

5.2 Children's Services

- 5.2.1 The proposed programme for Children's Services of £150m over the next three years is supported primarily by Government capital grant and borrowing allocations including schools' devolved capital (£42.097m), the primary capital programme (£17.825m), new pupil places (£12.463m) and Modernisation (£10.072m) which was formerly known as the New Deal for Schools.
- 5.2.2 The proposed (and in respect of 2011/12 and 2012/13 assumed) amounts available for Modernisation funding for schools for both

modernisation and condition works are £5.759m (2010/11), £6.044m (2011/12) and £6.044m (2012/13).

- 5.2.3 The Executive Member for Children’s Services has also recommended carrying forward capital resources of £8.1m from the 2009/10 programme to 2010/11 as shown below.

Children’s Services schemes to be deferred from 2009/10 to 2010/11

	Project cost £000	Resources to be carried forward £000
Bransgore Primary	30	30
Stanmore Primary School, Winchester	690	640
Robert Mays Secondary School, Odiham	553	170
Basingstoke School Plus	2,500	2,500
South East Assessment Unit	500	500
Education and Inclusion Service General	392	392
Specialist Facilities Improvements	300	300
Park Community – Co-location	925	685
Dove House, Basingstoke	725	75
Specialist Schools (Burgate School)	100	100
Stepping Stones, Fordingbridge	230	60
Food Technology – Purbrook Park	300	300
Locks Heath Infant and Junior	161	161
Management of Falling Rolls	165	165
Staff Workforce Projects	158	158
Schools Access Initiative	158	158
Health and Safety Swimming Pools	463	463
Developers’ contributions	616	616
Asset Management Plan data provision	200	200
14-19 projects	437	437

Total project cost	9,603	

Total resources carried forward		8,110

Modernisation Funding

- 5.2.4 As in previous years, the Government’s Modernisation funding (formerly known as New Deal for Schools or NDS) has been divided between the Children’s Services capital programme and condition works included in the Policy and Resources capital programme using the 46% : 54% split agreed by the Executive in July 2003.

- 5.2.5 In 2007/08, the Government made available an advance of grant funding of £11.8m for the Modernisation programme, to be recovered by equal deductions from the allocations for the three years from

2008/09 to 2010/11. This advance and the recoupmets have also been divided between Children's Services and Policy and Resources using the 46% : 54% ratio.

- 5.2.6 The Government also agreed to advance £6.3m of grant from 2010/11 to 2009/10 to help alleviate some of the impact of the financial crisis on the economy. This has been divided between Children's Services and Policy and Resources according to the nature of work supported by the advance.

Prudential borrowing for the Children's Services capital programme

- 5.2.7 Five new primary schools in development areas have been included in the capital programme for 2010/11 to 2012/13. These schemes will be partly funded from developers' contributions. They include two primary schools at East Anton in Andover and one each at Picket Twenty in Andover, the West of Waterlooville and Aldershot Urban Extension. Developers are expected to provide £28.7m towards the £40.5m cost of the new schools, with the balance to be met from resources from the Government. In addition, subsequent extensions will be required at two of the new schools starting in 2012/13 at cost of £2.7m, to be funded from Government support for Children's Services.
- 5.2.8 These schemes will be partly funded from developers' contributions. Developers are expected to provide £28.7m towards the £40.5m cost of the new schools, with the balance to be met from resources from the Government.
- 5.2.9 The new schools are required to meet the growth in pupil numbers arising from localised development pressures. On the basis of current forecasts of capital payment flows, it is likely that some prudential borrowing will be required to bridge the timing gap before some of the developers' contributions are received. It is currently expected that £5.6m will need to be borrowed. Most of the borrowing will not be required until 2013/14 and 2014/15, with it all being fully repaid by 2015/16. The position will need to be kept under review, including the availability and timing of both developers' contributions and Government support, when the capital programme is considered again next year.

Building Schools for the Future

- 5.2.10 The County Council's entry to the national Building Schools for the Future (BSF) programme for secondary schools was announced in July 2009, for its first priority project in Havant and Horndean. The entry of the remaining nine area projects in Hampshire is dependent on the availability of funding nationally and progress in bringing these further phases to a state of readiness to enter the programme.
- 5.2.11 A 'Strategy for Change' (SfC) for the first priority project is currently subject to consultation and will be submitted for approval by Executive Members in March 2010, prior to submission to Partnerships for Schools (PfS). Approval of the SfC by PfS is the next key stage in the

process of securing funding for the first phase of BSF investment and will be followed by an Outline Business Case, to be sent to PfS in July 2010. The best current estimate for the start of construction work is early 2012, with the likelihood that PfS will approve an earlier start for the academy (formerly Staunton Community Sports College) in autumn 2011. Provision has not been made in the capital programme for BSF schemes at this stage pending the approval of the Outline Business Case.

- 5.2.12 Capital grant in the region of £80m is expected to be received through PfS for the first project phase of the BSF programme. The actual cost of delivering the programme is envisaged to be higher than this, with a potential funding shortfall of approximately £29m. An outline strategy to bridge the gap was referred to in the report to Cabinet on 29 April 2009. Other opportunities to bridge the gap are being pursued, including through school contributions from balances. Further updates will be included in future capital programme reports to Executive Members and Cabinet as appropriate.

5.3 Culture, Communities and Rural Affairs

- 5.3.1 The proposed capital programme for Culture, Communities and Rural Affairs is in line with the guidelines set by Cabinet.
- 5.3.2 Provision of £0.422m has been included in the programme for 2010/11 for the final year of the Government-funded Playbuilder programme to develop 20 to 25 play areas over three years which started in 2008/09. A further Government grant in 2010/11 of £0.3m for Aiming High will support a related programme for facilities for children with disabilities.
- 5.3.3 The replacement of two patrol boats for the River Hamble has been included in the programme for 2010/11, with the cost to be met from the River Hamble's reserves.

5.4 Environment

- 5.4.1 As the Government has not yet announced its spending plans beyond 2010/11, the Executive Member for Environment has assumed that Government support will be reduced by 15% in 2011/12. No Government supported schemes have been included in the programme for 2012/13 pending the outcome of the Local Transport Plan settlement due later in 2010, when it is expected that more information will be available to determine the way forward.
- 5.4.2 The proposed three year Environment programme, which includes government support (for 2010/11 and 2011/12), locally funded resources or schemes wholly or partly funded by developers' or other contributions, totals £75.518m. Schemes dependent on outside contributions have only been included where there is reasonable confidence in the security of funding and programme dates.

Major transport schemes

- 5.4.3 There are no new major transport schemes proposed in the 2010/11 to 2012/13 programme.

Additional funding for structural maintenance of highways

- 5.4.4 Cabinet has previously agreed to add a total of £3.6m to the Environment capital programme for 2009/10 for repairs to potholes (£1.0m), structural maintenance of U and C class roads (£2m), drainage improvements (£0.3m) and to implement the Village 30 speed limits (£0.3m).

Household waste recycling centres

- 5.4.5 There are no new local resources for waste management during the period 2010/11 to 2012/13. However, waste infrastructure grant from the Government of £4.86m is still available from the 2009/10 capital programme and a further £0.84m has been included in the proposed 2010/11 programme. The Executive Member for Environment will report on the use of the resources later in the year.

5.5 Policy & Resources

- 5.5.1 The allocation of the proposed Policy and Resources capital programme between schemes is largely based on the priorities in the existing programme. The main corporate priority continues to be the maintenance of the core buildings in the County Council's built estate.
- 5.5.2 The proposed capital programme includes an annual provision for coastal conservation to fund schemes that will inform and deliver innovative solutions to the challenges facing the County Council's coastal landholdings. Priority will be given to the development of strategies related to the outcomes of the County Council's Climate Change Commission of Inquiry and, in particular, adapting the County Council's coastal sites to future rises in sea level.

Havant Public Service Village

- 5.5.3 The proposed programme for 2010/11 includes the Havant Public Sector Village project costing £13.1m which Cabinet agreed to add to the capital programme at its meeting on 21 December 2009. This project, managed jointly with Havant Borough Council, is considered to be a priority for investment because it has the potential to deliver the following objectives:
- reducing inequalities and improving the outcomes for key groups in the community by improving access to services
 - better use of resources through the introduction of flexible working and the consideration of improved Facilities Management.
 - efficiency gains made through the release of capital and revenue from the disposal of unsuitable buildings.

- 5.5.4 The Government's co-location fund, sponsored by the Department for Children, Schools and Families, has allocated a grant of £5.1m towards the project following a successful bid made jointly by the County Council and Havant Borough Council. The sources of funding for this project are summarised in the following table.

Havant Public Service Village	
	£000
Co-location grant	5,100
Havant Borough Council contribution	5,457
Capital receipts and other savings from the disposal of offices in Havant	2,500

Total	13,057

It will be necessary to use prudential borrowing of up to £2.5m to bridge the timing gap before the disposal of the County Council's office properties in Havant.

Advance and advantageous land

- 5.5.6 The proposed provision for advance and advantageous purchases of land is £0.65m in each year from 2010/11 to 2012/13.

6. Conclusions

- 6.1 Regular reports will be made on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2010/11, including the progress on obtaining the capital receipts necessary to finance the capital programme.
- 6.2 In recent years, the capital programme has been the subject of a mid-year review, sometimes in conjunction with the annual review of the County Council's overall capital strategy in July or when feasibility work on significant major projects has reached completion. This will be necessary again this year after the General Election, when the Government announces its future spending plans.

RECOMMENDATIONS:

That:

- a) the capital programme for 2010/11 and the provisional programmes for 2011/12 and 2012/13 be approved as set out in the attached capital programme document and subject to the conditions set out in section B.3 of the County Council's Financial Procedures on the responsibilities for managing the capital programme and, where appropriate, to the approval of the Executive Member for Policy and Resources to proposals by Executive members to retain more than a 25% share of capital receipts

- b) expenditure on preliminary design and planning work for major transport schemes be permitted when they have achieved a place in the County Council's Local Transport Plan, subject to the cost being met within existing Government allocations
- c) authority be given to incur expenditure on land purchases as follows:
 - (i) up to the sum specified in respect of sites still required for the schemes included in the capital programme for the period 2010/11 to 2012/13 provided that the relevant scheme has been the subject of a feasibility or design project appraisal approved by the relevant Executive member
 - (ii) up to the amount included in the programmes for 2010/11 to 2012/13 in respect of advance and advantageous land purchases.

T. K. THORNER, C.B.E.,
Leader.