

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	3 February 2012
<b>Decision Maker:</b>	Council
<b>Date :</b>	23 February 2012
<b>Title:</b>	Revenue Budget and Precept 2012/13
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<b>Report From:</b>	County Treasurer

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## **1. Executive Summary**

- 1.1. The purpose of this report is to set out the County Council's proposals for the revenue budget and precept for 2012/13 and to highlight the key assumptions contained within the budget both for this year and looking ahead for a further three years as we head into the next Comprehensive Spending Review.
- 1.2. The significant reductions to Local Government funding are well known and the Local Government finance settlement for 2012/13 confirmed that the County Council would receive a further reduction in formula grant of £19 million. In addition, proposals were also announced for a further year of council tax freeze grant, which the County Council is intending to accept and provides one-off funding of £13.2 million next year. Council tax will therefore be frozen in 2012/13 and this means that the County Council's element of the council tax will have remained the same for three financial years at a time when household budgets are under severe pressure.
- 1.3. The County Council had pre-empted the difficult times ahead for the public sector and it had already started to implement a Corporate Efficiency Savings programme as part of the 2010/11 budget prior to the Comprehensive Spending Review (CSR) announcement in 2010. Following the announcement, the County Council put in place an ambitious programme of cost reduction and efficiency measures that has regularly been reported to Cabinet over the last year. For 2012/13 the Corporate Efficiency Workstream programme continues to deliver a large proportion of the savings required to meet the second year of 8% savings in Departmental budgets equivalent to £45 million on top of the £55 million saved in the current year.

- 1.4. The Medium-Term Financial Strategy (MTFS) approved in 2010 which was further updated in July last year confirmed that the Council's ambition was to aim to achieve the necessary cost reductions arising from four years worth of grant cuts in only two years, together with a return to an annual efficiency target of 2% from 2013/14 onwards. In broad terms it is estimated that by 2014/15 this target will have been achieved, although the one-off nature of the council tax freeze grant in 2012/13 means that recurring council tax income of around £11 million has been foregone and does impact on the future forecasts.
- 1.5. Since the MTFS was approved there have been strong indications from Government that the next Comprehensive Spending Review period from 2015/16 onwards could be just as tough as the last and this report therefore considers the Council's future financial strategy from 2013/14 to 2015/16.
- 1.6. The County Council has in previous years looked at the short, medium and long-term risks to its financial stability. The medium to long-term risks of the current economic situation continuing and the uncertainty of a new grant formula suggest strongly that the Council should continue with its policy of managing particular risks by providing contingencies or funding streams that minimise the risk to frontline services. Should demand increase or the medium-term forecast worsen this has the benefit of creating stability and also allowing resources to be released as part of the budget review and medium-term financial strategy when such risks have been removed or been dealt with. The budget for 2012/13 adopts a similar strategy.
- 1.7. The Council has continued to demonstrate strong financial stewardship over this extremely challenging period, where unprecedented reductions have been made over a short time period, in Government funding levels. The Council has delivered £49.8 million of the planned £52.3 million Corporate Efficiency Workstream and Departmental savings over the year, with a further full year impact of £23.3 million whilst continuing an ongoing focus upon controlling expenditure within the overall gross budget of £1.9 billion.
- 1.8. The transformation programme designed to deliver the expenditure reductions was supported by the introduction of a new policy which enabled Departments to utilise and carry forward revenue underspends to support costs of change. This policy has operated very successfully alongside the Organisational Development Reserve ensuring that the appropriate funding is in place to deliver the efficiency programme. The continuation of this policy alongside the Organisational Development Reserve will be necessary over the medium term in order to support the remaining change programme and the anticipated further Government funding reductions resulting from CSR 2014.
- 1.9. The Council is currently projecting a current year underspend of £5.7 million (0.80%), which is not related to Portfolio activity. As this underspend is related to treasury management and due to the current volatility of the financial markets, it is a sum available for one-off use and cannot be used in a recurring manner.
- 1.10. The 2011/12 budget required the introduction of a number of risk contingencies as a recognition of the size and scale of the transformation programme and the need to provide contingencies to support any cashflow or other shortfall issues

which occurred. The change programme has been immensely successful and therefore those contingencies can now be released, following a full review, for one-off purposes. This highlights, that one of the consequences of achieving the goal of four years cost reduction over two years, if successful, would be the early capture of efficiencies which would be available for one off investment purposes. It is only now that we are significantly through the first year that these resources can be deployed with greater certainty for one off purposes.

- 1.11. Despite this favourable position for 2011/12, it must be recognised that repeating this success in 2012/13 will be far more challenging since we start from a base position that is already £55 million lower than before. The scale of the 2012/13 transformation programme should also not be underestimated and we must therefore retain the same levels of prudence and caution. Significant risks still remain against a backdrop of continuing budget pressures and these must be reflected in the budget for next year.
- 1.12. In line with the December 2011/12 Efficiency Report to Cabinet, a further full review has been undertaken regarding the risk contingencies. It is only possible to do so now with certainty as we near the end of the first year of implementation. A general risk contingency of £8.6 million (20%) was created based upon an 80% delivery of 2011/12 savings being a successful outcome. An in year achievement of 95.2% can be recorded with £2.5 million cash flow funding already approved at December Cabinet, this is an exceptionally high achievement bearing in mind the unprecedented challenge faced.
- 1.13. A contingency of £8.7 million was specifically created related to late grant changes by Government in December 2011 at which point it was considered that alternative proposals would be delivered over the course of the year not all at the start of the year, following due processes and the potential additional costs of change that would both require additional support. This has been carefully monitored and reported throughout the year, alongside the overall budget monitoring for Children's Services and it can now be confirmed, as we near year end, that no call on this is required due to the achievement of advanced savings in other areas. Again an exceptionally high achievement considering the timescales involved to deliver alternative proposals.
- 1.14. A sum of £12.8 million was also included within contingencies for 2011/12 to reflect the continuing pressure arising from complexity and demography changes within Adult Services. For the current year, following detailed forecasting work that was undertaken and based on experience of actual costs compared to the forecasts it has been estimated that £7 million of the available funding is required, which leaves a saving of £5.8 million on this contingency item which is available for one-off use. However the balance of this funding is required on a recurring basis in order to meet the pressures that have been predicted over the next three years.
- 1.15. In line with the continuation of the strategy to deliver 4 years of savings in 2 years, there will again be one-off resources in 2012/13. Current success cannot breed complacency and, therefore appropriate contingencies have again been put in place to support the transformation programme and protect the financial stability of the County Council. These contingencies relate to:-

- A specific contingency for Adult Services (£10 million) as they still have a significant programme of change to deliver coupled with the full year impact and delays in the 2011/12 programme which required cash flow support from contingency in the year.
- A general risk contingency of £5 million (10%) of the remaining transformation programme.
- An income risk contingency of £6 million (around 5% of the total £120 million external income and contributions currently generated, which is targeted to grow further as part of the transformation programme).
- A risk contingency of £5.8 million for service pressures that have been identified as potential issues as part of this budget process and may therefore arise in the year.

- 1.16. Taking these factors into account means that there is a further £8.4 million of one-off funding in 2012/13 which can be utilised to support capital investment priorities. Other factors which provide investment opportunity have also been identified, including additional recurring savings of £2 million related to 'housekeeping', the one-off council tax grant of £13.2 million and the use of reserves as one-off funding equating to £5.3 million
- 1.17. This report sets out proposals for use of this low risk funding for high priority capital investment of £65.2 million (net) which would not otherwise be able to proceed given the restrictions on capital funding that have been in place for the last few years. The additional revenue savings, of just over £2 million, from 'housekeeping' will support the £1.5 million prudential borrowing costs in order to supplement the one-off funds.
- 1.18. The Leader, in considering the implications for the corporate strategy of service budget proposals, has also proposed the addition of £100,000 to the Children's Services budget to recognise the need for additional investment related to Child Protection to be met from the Corporate Policy Reserve. The Corporate Policy Reserve is also available to support any further high priority initiatives that may require urgent support during the course of the year. These reserves can also be used to mitigate the impact of grant reductions.
- 1.19. General balances are estimated at £19.0m at 31 March 2013, based on the planned use of balances in support of the budget in 2011/12 and the budgeted contribution during 2012/13. Balances at this level are in line with the current risk assessment, having regard to the contingencies also held within the budget to recognise the risks associated with the delivery in full of the planned level of savings. The balances are 2.6% of the overall budget which is at the lower end of the good practice guide of between 2.5 – 5%. The County Council's approach to the use of reserves was previously commended by the Minister for Housing and Local Government.
- 1.20. During January individual Executive Members have been recommending their revenue budget proposals to the Leader and Cabinet and this report consolidates these proposals together with other items that make up the total revenue budget for the County Council in order to recommend a budget, precept and council tax to full County Council on 23 February 2012.

## **2. Background**

- 2.1. In considering the budget for 2012/13 it is important to remind Members of the economic situation that existed around the time that the last Comprehensive Spending Review (CSR) was undertaken. In considering the budget for 2010/11 the County Council had already assumed that irrespective of who formed the next Government there would be a significant squeeze on public sector expenditure. As part of the 2010/11 budget a programme of Corporate Efficiency Savings was put in place that were forecast to generate over £30 million on a recurring basis over the next three years.
- 2.2. The previous Government's budget in March 2010 indicated that larger reductions in Government grant were likely to be required to eliminate the structural deficit within the public finances over the period of the next two Parliaments. Immediately following the elections, the coalition Government announced some in year local authority grant reductions in early June and then presented an emergency budget later in the month. This set the context for the spending review to be undertaken over the Summer and the decisions on the allocation of resources between spending Departments to be announced in October. A more ambitious timescale was set for eliminating the structural deficit over the period ending in 2014/15, the final year of the spending review.
- 2.3. This prompted the planned budget reductions of 8% for each service in each of the next two years and these assumptions were built-in to the financial strategy approved as part of the budget for 2011/12. As part of the Local Government finance settlement for 2011/12, grant reduction figures for the first two years of the CSR were notified to the County Council and highlighted a formula grant reduction of nearly 25%.
- 2.4. The final grant settlement for 2012/13 is not due out until this report has been dispatched, however it is not anticipated that there will be any major changes to the figures that were released in December last year, which confirmed that the County Council will have a further reduction in grant of 10.4% equivalent to just over £19 million. Other previous changes that had been notified in specific grants were also confirmed and had already been built into the detailed financial forecasts for next financial year.
- 2.5. The Chancellor announced in October that a further grant would be available in 2012/13 to those authorities that agreed to freeze the council tax for a further year, equivalent to the income from a 2.5% council tax increase, estimated at £13.2m for the County Council. Unlike the grant payable to finance a council tax freeze in 2011/12, which is payable for four years, the additional grant in 2012/13 is payable for only one year and will therefore make the continuation of a zero or low council tax increase in 2013/14 and beyond more difficult to achieve.
- 2.6. In December last year Cabinet received a budget update report that set provisional cash limit guidelines for Departments, taking into account inflation, base changes for items such as demographic pressures and the impact of the second 8% of savings which has reduced Departmental guidelines by £45 million. This report confirms the cash limits that will be applied to Departments next year and the individual reports approved by Executive Members during

January all show that the proposed budgets are within the cash limit guidelines that have been set.

- 2.7. The Council should on the one hand be reassured that delivery of the savings during the year can be achieved given the success on delivering the first £55 million worth of savings during the current financial year, which have been reported to Cabinet on a regular basis, but on the other hand it is important to retain prudence and caution in considering the significant risks that still remain going forward against a backdrop of continuing budget pressures and a combined total ongoing savings in excess of £130m that will need to be delivered by the end of 2012/13.

### 3. Revised Budget 2011/12

- 3.1. During the current financial year there have been a number of changes to the original budget that need to be taken into account, some of which have been reported to Cabinet through the quarterly budget monitoring reports. In addition, it is also timely to review some of the high-level numbers contained within the revenue budget in order to assess the likely impact on the outturn position for the end of this year.
- 3.2. Appendix 1 provides a summary of the original budget that was set for 2011/12 together with adjustments that have been made during the year. The proposed Revised Budget for 2011/12 is then set out for information. The variance between the adjusted and revised budget gives an indication of any one off resources that may be available at the end of the year that could be used to support capital investment in the future.
- 3.3. The paragraphs below explain the main adjustments that have been made to the budget during the year :
- 3.4. **Departmental Spending** – Departmental spending has reduced by £46.2 million, the reasons for this are highlighted in the table below :

	<b>£M</b>
Reduction in schools budget due to Academy conversions	(65.0)
Standards Fund Carry Forward from 2010/11	6.7
Allocation of Pupil Premium funding	9.0
Removal of pay inflation and premia payment savings	(3.2)
Adult Services – Complexity and demography pressure from contingencies	7.0
Other Net Changes	(0.7)
Total	<u>46.2</u>

- 3.5. **Revenue Contributions to Capital Outlay (RCCO)** – The increase in RCCO reflects changes made to the capital programme and financing made during the year but this is entirely offset by other funding changes in budgets or to earmarked reserves so that there is no bottom line impact in 2011/12.
- 3.6. **Contingencies** – the reduction in contingencies is the result of transfers made to Departmental budgets during the year. By far the biggest of these is the £7 million increase to Adult Services budget which was approved last year by Cabinet in order to fund complexity and demography pressures across the service.
- 3.7. **DSG and Specific Grants** – The reduction in DSG is due to the transfer of funding as a result of Academy conversions during the year, this is offset by a reduction in the schools budget shown above. The increase in specific grants is mainly due to the introduction of the pupil premium grant (£9 million) which had previously been held back pending decisions on its use by the schools forum, together with £6.7 million of Standards Fund grant carried forward from 2010/11. The increase also reflects a number of small changes on other grants which were notified after the budget had been set.
- 3.8. All of these changes have had a minimal impact on the bottom line of the revenue account as they mainly represent transfers between different areas of the budget. The overall net position requires a small additional draw from balances of £39,000 as a result of the carry forward of some rural grants funding from 2010/11.

#### **Revised budget 2011/12**

- 3.9. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2011/12. At this stage the revised budget for Departments matches the adjusted cash limits that they have been given for the year and therefore no variances are shown for the end of the year. As part of the quarterly monitoring reports presented to Cabinet it is anticipated that there will be under spends in Departmental budgets by the end of the year, however in line with current policy all of these underspends can be transferred to Departmental earmarked reserves to be used to fund the cost of change in future years and therefore would still have no impact on the bottom-line position of the revenue account
- 3.10. **Interest on Balances** - The County Council adopts a prudent approach to estimating for interest on balances given the number of different variables involved. Cash balances have continued to remain high and the Council's strategy of a rolling programme of longer term investments are yielding better overall rates than estimated as reported in the quarterly monitoring reports. It is anticipated that this may yield an additional £2.3m by the end of the year
- 3.11. **Capital Financing Costs** – The estimates for 2011/12 were prepared on the basis that the base rate would begin to rise during this financial year and that the County Council would take out long term borrowing to fund the approved capital programme. Following the turmoil in the world economy over the Summer, it seems unlikely that any rate rises will happen for some time. In addition, since the County Council has significant cash reserves there is no

need to take out long term borrowing at this stage particularly since this would attract a high ‘cost of carry’ when comparing short term to longer term interest rate levels. The estimates for 2011/12 have therefore been revised taking these factors into account and show a saving of £3.4m in the overall capital financing costs for the year.

- 3.12. **RCCO** – The additional one off revenue contribution to capital for 2011/12 relates to the use of spare resources that are anticipated will be available by the end of the financial year, the sources of which are explained later in this section.
- 3.13. **Contingencies** – The key items within this budget relate to risk contingencies set aside to reflect the major change and savings programmes that were being embarked on during the year, allowance for waste disposal inflation and disposal costs, together with nearly £13m set aside to provide for potential complexity and demography pressures in Adult Services
- 3.14. At this stage of the year it is timely to review these contingencies in light of the current financial position highlighted in monitoring reports. The table below outlines the key contingency items and the revised position that is now anticipated at the end of the year :

	<b>Adjusted Budget 2011/12 £'000</b>	<b>Expected Use in Year £'000</b>	<b>Available One Off Resources £'000</b>
Planned delays in premia payments and contribution policy introduction	2,700	2,700	0
Children’s Services saving contingency (relating to late changes in grant position)	8,700	0	8,700
Other Savings Contingency	8,600	2,500	6,100
Adults Complexity and Demography	12,793	7,000	5,793
<b>Total</b>	<b>32,793</b>	<b>12,200</b>	<b>20,593</b>

- 3.15. The allowance for the planned delays in the introduction of the premia payments saving and new Adult Services income contribution policy were known and anticipated at the time the budget was set and therefore contingency provision was provided at this time to allow for the part year reduction in the saving.
- 3.16. Children’s Services had been planning their savings for 2011/12 on the basis that they would be able to make savings in certain areas of expenditure during the year. However, due to a late change in the Local Government funding settlement these items were then directly supported by increases in specific

grants, which meant that it was no longer possible to implement the proposed savings measures.

- 3.17. Children's Services were therefore required to produce alternative proposals, which it was recognised may not be implementable until much later in the year and therefore contingency provision was set aside to allow for that eventuality. During the year, whilst there have been some delays to the introduction of some of the savings these have been offset by the quicker introduction of savings in other areas and therefore it is not anticipated that any of this contingency will be required.
- 3.18. The total sum of £8.6 million was also set aside as a contingency against the totality of all the other savings to allow for delays in implementation and the possible non-delivery of the full value of the savings that had been assumed. In December, the Chief Executive updated Cabinet on the progress of the Corporate Efficiency Workstreams and Departmental savings and it was reported that £2.5 million of this contingency would be required to meet slippage in the delivery of savings in the electronic domiciliary care management system, delays in the transfer of clients from the PCT and slippage on the achievement of waste contract savings which are the subject of positive ongoing negotiations with Veolia, but are not expected to yield anything for the current year.
- 3.19. The provision for Adult Services complexity and demography pressures was based on some initial work that had been completed as part of the budget process. During the year significantly more work has been done to look at detailed client information, and future demographic forecasts, which has helped to inform estimated future costs for this area. For the current year based on experience of actual costs compared to the forecasts it has been estimated that £7 million of the available funding is required to help balance the budget and this has been allocated to Adult Services Department during the year
- 3.20. This leaves a saving of £5.8 million on this contingency item which is available for one-off use. However the balance of this funding is required on a recurring basis in order to meet the pressures that have been predicted over the next three years.
- 3.21. Taking all of these items together plus the £5.7 million available from capital financing and interest on balances gives a grand total of £26.3 million that can be used on a one-off basis to support future investment, which is discussed in later sections of this report.
- 3.22. It is important to note that whilst these do represent significant available resources, they must be set in the context of the size and complexity of the efficiency and change programme upon which the County Council was embarking, on a scale that had never previously been experienced and it was therefore entirely prudent and right to allow for these contingency amounts within the budget. It is only now at this late stage in the year that these resources can be deployed with greater certainty. Similarly, the 2012/13 budget will contain new risks together with the ongoing impact of changes in 2011/12 which still need to be taken into account.

### **Department of Health Funding**

- 3.23. On 3 January 2012, the Health Secretary, Andrew Lansley announced that the Department of Health is making an extra £150 million available this year to local authorities to help people leave hospital more quickly and receive care at home. The County Council's share of this (which will come via the PCT) is around £2.9 million and Adult Services are liaising with PCT and Health colleagues on how this money can be best put to use.
- 3.24. It is possible however that not all of the funding can be fully utilised during the current financial year and therefore approval is requested to carry forward any unspent grant for targeted re-ablement in 2012/13.

### **4. Settlement**

- 4.1. The final Local Government finance settlement for 2012/13 is still awaited at the time of the publication of this report. The provisional settlement released in December confirmed the following position for the County Council :
- An adjusted base position taking into account changes due to the conversion of some schools to Academy status which has reduced funding by £2.5 million before any other changes are made.
  - A 10.4% reduction in formula grant equating to just over £19 million, which means that formula grant for the year will be just over £164 million.
  - An increase in the Early Intervention Grant for Children's Services of £3.7 million
  - An increase in the Learning Disability Grant for Adult Services of just over £1 million
  - An increase in the pupil premium grant of just under £1 million (increased from £488 per pupil to £600)
  - No increase in the per pupil funding amount for schools and the Minimum Funding Guarantee remains at -1.5%
- 4.2. The 2011/12 budget contained £1.035 million of community safety grant and previous indications were that this would be transferred to the new Police and Crime Commissioners from 2012/13 onwards. Following the delay to the election of Police and Crime Commissioners (PCCs) until November of this year, we have been notified that community safety grant funding will remain with local authorities for 2012/13. However, given the uncertainty surrounding this grant funding and potential changes on its use once the PCC has been elected, both the assumed grant and associated expenditure has been taken out of the County Council's budget for 2012/13. The grant will however still be ring fenced for community safety uses during the year pending decisions on how it will be allocated.
- 4.3. None of these changes has had a significant impact on the forecasts that the County Council had already prepared for 2012/13, since any changes in the

grants relating to schools will be balanced by changes to the schools budgets which were set out in the report to the Executive Member for Children's Services on 17 January.

- 4.4. The Chancellor had also announced in October of last year that there was to be a second year of council tax freeze grant to be made available, however this was only for one year, whereas the first grant issued in 2011/12 was to be in place for all four years of the current CSR period. The grant of 2011/12 was just under £13.2 million and the extra grant in 2012/13, which the County Council is intending to accept is just over £13.2 million.
- 4.5. The additional freeze grant for 2012/13 is obviously consistent with the Council's strategy of setting council tax at zero or low over the MTFs period. In budget terms for 2012/13 the additional grant represents a one-off cash injection that can be used to fund other initiatives.
- 4.6. However, since the grant is only payable for one year it does mean that the base amount of council tax income will be lower than anticipated and this does have an impact on future forecasts of the budget gap compared to the MTFs that was presented to Council in July 2011.
- 4.7. The impact of this and expectations of grant reductions from 2013/14 onwards are discussed in more detail in Section 12 of this report and also considers what the grant position might be in 2015/16 given that the first council tax freeze grant will drop out in that year and we will also be in the third year of the changes to the distribution of business rates as a result of the Local Government Resource Review.
- 4.8. The Government published its response to the consultation for the Local Government Resource Review earlier this year, disappointingly for the County Council the proposals put forward in that response mean that 80% of business rates collected in Hampshire will be retained by District Councils (subject to the 'tariff' mechanism) and only 20% will be passed to Hampshire County Council.
- 4.9. This means that Hampshire in line with all other County Councils will become a 'top up' authority and therefore a proportion of its funding will be provided by the central national pool which will be increased by RPI each year. The ability to benefit from any economic growth within Hampshire is therefore severely limited compared to what was originally proposed in the consultation document.
- 4.10. The Government's proposals were unexpected as no such option was provided in the consultation document and worryingly continues a trend of the diversion of resources to District Councils which was first seen by the allocation of the New Homes Bonus money which has also been split on the basis of 80% / 20% in favour of District Councils. The County Treasurer has submitted a consultation response in respect of the provisional finance settlement for 2012/13 and within this has expressed our disappointment and concern regarding the allocation of the new homes bonus funding and the latest proposals on business rate retention.
- 4.11. It is difficult at this stage to model what the impact of the new business rate distribution methodology will have on the County Council's finances, given that over the next few years the Government is intending to continue to reduce grant in line with the assumptions in the current CSR. The MTFs assumed grant

reductions of 9% and 8% respectively in 2013/14 and 2014/15 and Section 12 of this report also explains that for 2015/16 we are expecting a further loss of grant of £13.2 million representing the loss of the first council tax freeze grant which was only promised for the period of the current CSR.

- 4.12. Section 9 of this report details the key risk contingencies that it is recommended should be made as part of the 2012/13 budget in order to maintain a prudent approach to budget setting during what is a very volatile time for the public sector. However, given the position outlined above about the potential impact of the Local Government Resource Review and the next CSR on our grant levels it is also recommended as part of the forward financial strategy that an appropriate amount of any spare resources arising in the budget during 2012/13 as a result of contingencies not being required should be put into a further grant equalisation reserve to help dampen the impact of grant changes on future budgets. This has already proved to be a successful strategy in recent years following the creation of the first equalisation reserve in 2003/04.

## 5. Service Cash Limits 2012/13

- 5.1. In December 2011 Cabinet considered a budget update report which set provisional cash limit guidelines for Departments for 2012/13. Appendix 2 sets out those cash limits and provides information on adjustments that have been made since this time.
- 5.2. Overall, cash limits have decreased by £3 million, the reasons for which have been outlined in the individual budget reports to Executive Members in January. The main reasons for the decrease are shown in the table below :

	<b>£M</b>
Changes to Schools Budgets following grant reductions	(5.1)
Increased cash limit for Children Services met by grant (mainly Early Intervention Grant)	1.1
Additional spending met from Minerals and Waste Reserve	0.3
Re-phasing of one off Internship Plus funding	0.5
Other Net Changes	0.2
<b>Total</b>	<b>(3.0)</b>

- 5.3. In a similar way to the changes for 2011/12 very few of these amendments have a bottom-line impact on the revenue budget as they represent transfers between Departments or as a result of changes in contingencies, in earmarked reserves or RCCO.
- 5.4. There have been some adjustments to the inflation allocations that were made in the December report as a result of more detailed information being available

during the estimates process. In overall terms these represent a very small change in the context of total cash limit spending of nearly £1.4 billion.

- 5.5. All of the Departmental budgets which are set out in Appendix 6 and discussed in more detail in Section 7 are within the cash limits figures shown in Appendix 2 and take into account the second 8% saving in Departmental spending in order to deliver £45 million worth of savings next year.

## **6. Savings Proposals**

- 6.1. The cash limit process that has been applied to Departmental budgets within the County Council for many years has been a very successful way of managing within available resources during times of relative financial stability. In the past therefore budget reports to Cabinet have concentrated to a large degree on central funding issues, the overall budget and grant and council tax levels.
- 6.2. The significant reductions in Local Government funding have meant that for 2011/12 and 2012/13 the Cabinet is required to consider specific options for reducing expenditure in order to achieve its ambition of broadly achieving four years worth of savings over two financial years.
- 6.3. The 2011/12 savings proposals that were reported to Cabinet this time last year also have a significant full-year impact in 2012/13 and have contributed just over half of the £45 million required for that year. The impact of this is that new savings proposals totalling £21.7 million are required to deliver the balance of the £45 million as shown in Appendix 3.
- 6.4. In response to the reductions in Government funding the County Council put in place a program of developing Corporate Efficiency Workstreams which have been used as a means of reducing costs whilst minimising the impact on front-line services and service users. Regular updates on the Corporate Efficiency Workstream programme have been provided to Cabinet over the last two years and this program has been very successful in delivering a large proportion of the total £100 million savings required over the first two years of the CSR period.
- 6.5. For 2011/12, total savings proposals of £52.3 million were agreed by the County Council in February 2011. During the year regular updates on the achievement of the savings have been reported to Cabinet and in December 2011 it was reported that the Council was on target to achieve £49.8 million of the savings. The balance of £2.5 million was met from the risk contingencies that had been set aside as explained in Section 3 of this report.
- 6.6. Appendix 4 sets out a summary, by Department and Corporate Efficiency Workstream, of the savings for 2012/13, together with the total of Departmental savings that make up the new proposals for next year's budget.
- 6.7. Appendix 5 provides details of the individual savings proposals that are expected to be implemented during 2012/13 for each Department. The Appendix provides information on the service area, the nature and impact of the savings proposal, together with the cash value and workforce implications

should the saving be approved as part of the budget. Information is also provided on the full year impact of the saving (from 2013/14 onwards).

- 6.8. Given the strategic importance of ensuring that these savings are achieved, the Chief Executive intends to continue the detailed monitoring of performance against the savings targets throughout 2012/13 and will update Cabinet in a similar way to last year.
- 6.9. The detailed proposals contained in Appendix 5 have already been considered by Executive Members at their decision-making days during January and consultation on the proposals has been carried out with stakeholders and interested parties and each of the Council's Select Committees have had the opportunity to review and comment on the proposals which would have been taken into account in the decision making meeting of the relevant Executive Member.
- 6.10. Departments have carried out a screening for equality impact on all budget decisions. This work was supported by trained equalities leads and service managers and was approved by Departmental management teams.
- 6.11. This identified that there will be an impact on staff and services as a result of some of the budget proposals. Where potential negative or adverse impact has been identified, we have put in place proportionate and relevant responses to mitigate this.
- 6.12. On the whole however, the proposals contained in this paper lend themselves to improved, modernised or transformed services, or to different models of delivery and where possible, provide greater choice for, and greater involvement of, service users.

## **7. Service Budgets 2012/13**

- 7.1. As explained in Section 5 Departments have been set cash limit guidelines for 2012/13 which include the second 8% of Departmental savings discussed above.
- 7.2. Taking these factors into account and variations arising from other cash limit changes, Departments were required to set detailed budgets that are contained within the cash limits that have been set. In all cases, the budgets approved by the Executive Members during January meet this requirement.
- 7.3. Appendix 6 provides a summary for each Department of the main services under their control and shows the original budget for 2011/12, the revised budget for 2011/12 and the proposed budget for 2012/13. The overall net cash limited budgets for all Departments remain in line with the positions reported to Executive Members at their Decision Day meetings, however there have been some reclassifications of budgets leading to some changes to the presentation of figures following refinement of some of the detailed estimates.
- 7.4. As part of the drive for greater efficiency, the previous practice of automatically providing full draft budget books as part of the budget setting papers and then sending to Councillors full final budget books after budget setting will no longer happen automatically. It was not clear that this practice clearly identified the

changes being proposed across budgets, nor was it clear that Councillors found the presentation nor format helpful.

- 7.5. As part of the budget setting for 2012/13 it was felt important that Councillors were made aware, in a clear presentational format, of the key changes in the budget to ease understanding and support robust decision making. The information contained in Appendices 4 and 5 aims to achieve this in a clear and consistent manner.
- 7.6. Clearly some Councillors may find the previous practice of having a draft and then a final budget book helpful and therefore for completeness, the County Treasurer will make available an electronic copy of the draft budget book in time for the full Council meeting on 23 February, and hard copies will be provided on request. The budget book will be updated and finalised once the final budget and capital programme have been set, in order that any potential changes made at Council can be incorporated into the final version. The final budget book will be made available electronically and on paper on request.
- 7.7. Fees and charges have been raised where there is scope to do so in policy and economic terms, and the inflation allocation has been calculated on the basis that charges are increased in line with the allowance for inflation on expenditure, taking into account areas where it is not necessarily possible to increase charges due to the nature of the arrangements with the client's that we do business with (for example where a fixed income contribution has been agreed in the past).
- 7.8. Details of income reviews and charges were set out in the budget reports for Executive Members and are summarised below:

	<b>Total 2011/12</b>	<b>Mandatory Charges 2012/13</b>	<b>Discretionary Charges 2012/13</b>	<b>Total 2012/13</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>	<b>£M</b>
Adults	59.0	46.4	17.7	64.1
Children's	5.9	2.3	3.8	6.1
Environment and Transport	12.5	0.3	11.8	12.1
Policy and Resources	23.9	1.0	24.1	25.1
<b>Total</b>	<b>101.3</b>	<b>50.0</b>	<b>57.4</b>	<b>107.4</b>

## **8. Workforce Implications**

- 8.1. The savings proposals contained in Appendix 5 assume an estimated 228 FTE reduction in the workforce for 2012/13, although the actual figures will be subject to the various restructuring and staff consultation processes which will be undertaken during the year. In overall terms, this means that approximately 1,400 staff will have left the Council as a result of the implementation of savings.

- 8.2. This has been done in a planned and controlled way by the use of a recruitment freeze, redeployment of staff where possible and a successful voluntary redundancy scheme, which has been used to effectively and sensitively manage staff reductions at what is a very difficult time.
- 8.3. Appendix 7 provides a summary of the workforce changes that are expected to happen in 2012/13 and take account not only of the anticipated reduction in posts as a result of the savings proposals but also other changes and transfers that will impact on Departments during the year, this includes changes arising from the full year impact of the 2011/12 budget which have been kept separate from the impact of the 2012/13 savings for clarity. A high-level explanation of the main changes within the Departments is also provided within the Appendix.

## **9. 2012/13 Overall Budget Proposals**

- 9.1. Whilst service budgets make up the vast majority of the overall budget there are several other items that need to be taken into account before the overall budget and council tax can be set for the year.
- 9.2. Appendix 8 sets out a summary of the overall revenue account starting with the cash limited expenditure for Departments that have been discussed above. The following paragraphs outline the other items that make up the overall revenue account and provides explanations for any significant variances compared to the 2011/12 budget.
- 9.3. **Interest on Balances and Capital Financing Costs** – Although significant savings have been made in both of these areas during 2011/12, we must take into account the fact that cash balances are likely to reduce by the end of the year and there will be additional borrowing costs associated with the existing capital programme.
- 9.4. In addition, Section 11 of this report details proposals for new capital investment over the next 2 to 4 years. The majority of the funding for this is through additional revenue contributions to capital explained elsewhere in this report, the balance of funding of £12 million will be met from prudential borrowing and it is proposed that the financing costs totalling £1.5 million in 2012/13 and in future years is met from the £2 million housekeeping savings that have been generated in 2012/13, which are over and above the £45 million target that had been set for the year. Taking both of these factors into account and changes to the capital asset charges to Departments, leads to an increase of just under £4.4 million in this area over the 2011/12 position. The revenue saving from housekeeping is currently contained within contingencies as a central saving since this was not allocated out directly to Departments but represented a saving on inflation costs that had previously been built into the budget forecast.
- 9.5. **Pension Costs** - Under previous accounting rules, technical adjustments in respect of IAS 19 were made within the budget for the treatment of pension costs, however, these did not have an impact on the bottom line of the revenue account. Following a change in the way that past pension contributions are treated, over £12 million of pension costs have been moved out of Departments and are included in the central revenue account. This cash amount will be reviewed at the next triennial valuation due in 2013.

- 9.6. **Revenue Contributions to Capital Outlay (RCCO)** - Each year, revenue contributions are made to help fund the capital programme. There is a significant increase in the contributions planned for 2012/13 mainly as a result of the use of one-off savings in the budget to help fund new capital investment priorities for the future, which are discussed in Section 11 of this report. There is also a significant increase in RCCO met from reserves which reflects the decision to purchase a hub building as part of the wider Workstyle programme which will be funded from the Corporate Efficiency Reserve.
- 9.7. **Contingencies** - The budget for contingencies has increased by around £3.8 million over the 2011/12 adjusted original budget. The key reasons for this are shown in the table below:

	<b>£M</b>
Allowance for Waste and Other Centrally Held Inflation items	8.4
Items Transferred to Cash Limits	(6.1)
Reduced contingencies offset by changes to draws from earmarked reserves	(6.4)
Fall out of specific contingency items set aside in the 2011/12 budget	(20.0)
Contingency for Adult Services Savings 2012/13	10.0
Allowance for all other savings 2012/13	5.0
Income Risk 2012/13	6.0
Potential Service Pressures 2012/13	5.8
Other Net Changes	1.1
Total	3.8

- 9.8. The contingency items contained within the 2011/12 budget are set out in the table in paragraph 3.14, These items were specific to the 2011/12 budget and therefore dropout in 2012/13. However a new assessment has been made of the other items that are required for the budget next year which are shown in the table above and are described in more detail below.
- 9.9. Appendix 3 highlights that the bulk of the savings that are still required to be made in 2012/13 are within adults services. The total savings over the two years that need to be delivered within Adult Services is £45 million and given the extent of savings still to be delivered in 2012/13 together with some of the delays in implementation that have been experienced this year suggest that a contingency of £10 million would be prudent for the year.

- 9.10. The total of all other savings across the two years for the other Departments is £55 million and whilst new proposals for 2012/13 only account for around £4 million of this, there is still a significant full-year impact that needs to be achieved and therefore a contingency amount of £5 million or just under 10% of the total savings is recommended.
- 9.11. The County Council has had a successful strategy in recent years of limiting the impact of grant reductions on services by attracting greater levels of income by the selling of services to other organisations and receiving contributions in support of recurring expenditure. Whilst this has helped to maintain stability within Departments over the years, this does expose the County Council to a degree of risk going forward, in particular in relation to the conversion of some schools to academy status where the buying back of services is not guaranteed. Total external income is in the region of £120 million and some of the new savings proposals for 2012/13 relate to income generation. Therefore a contingency of £6 million (5%) is recommended for next year.
- 9.12. The proposed budget for 2012/13 already takes account of a number of key inflationary and demographic pressures particularly in the area of adult social care. However, as part of preparing the budget over the Summer, Departments have raised a number of concerns about potential future service pressures for which no separate budget provision exists. The main items are listed below and an overall contingency level equating to £5.8 million is set aside for these items and will provide one off funding in the year, should any of these additional costs arise, this will provide time to deal with the recurring impact of the pressure in future years :
- Concessionary travel – fare increases and number of journeys
  - Subsidise bus contracts – Commercial de-registrations and re-tendering
  - Youth justice – new Government policy for secure / custodial remands
  - Increase growth on special guardianship orders
  - Disaggregation of youth offending team partnership budget
  - Academies – changes to LACSEG top slice methodology
  - Adults/children’s social care – contingency for 1% additional growth above forecasts
- 9.13. The specific provisions that have been made in respect of risk contingencies represent the recommendation by the County Treasurer of a prudent approach to budgeting during a time of major change within the Council and as explained in Section 4, should the Council be fortunate and not need these contingencies during the year it is recommended that an appropriate amount be set aside as a further grant equalisation reserve to dampen the impact of grant reductions over the period 2014/15 and beyond.
- 9.14. **Dedicated Schools Grant** - The significant reduction in this budget reflects the conversion of a number of schools to academies, the grant for which now goes

directly to those organisations. There has also been an adjustment which mirrors the change in RCCO funded by DSG shown in the revenue account.

- 9.15. **Specific Grants** - This budget has increased by £2.3 million as a result of increases in the Early Intervention Grant, the Learning Disability Grant and the Pupil Premium, which have been partially offset by the change to the community safety grant as set out in Section 4 of this report. In line with the County Council's current policy increases or decreases in grant are matched by increases or decreases in the relevant Departmental budgets.
- 9.16. **council tax Freeze Grant** – This represents the second year of council tax freeze grant which is shown as part of the main revenue account and is for one year only. The grant payable for 2011/12, which is guaranteed until 2014/15 has been consolidated into formula grant and will therefore form part of the council tax calculation rather than the main revenue account.
- 9.17. **Coroners Service** – Although the Coroners Service is reported as part of the Policy and Resources budget, it does not form part of the cash limit, as the County Council has no control over the level of spending within this service. It is therefore shown as part of the overall revenue account and it is anticipated that there will be an overspend on this budget of £210,000 in 2011/12 due to two major inquiries and therefore the forward budget has also been increased to just over £1.3 million to reflect the trend of increased costs of the service over the last few years, which is a change from the figures reported to the Executive Member at his Decision Day. The Leader has written to the Secretary of State for Communities and Local Government urging him to review the funding arrangements for the Coroners Service which are putting a strain on the County Council's budget at a time of significant grant reductions.
- 9.18. **Earmarked Reserves** -- Changes to earmarked reserves mainly reflect the fall out of other budgets elsewhere in the revenue account. The additional draw from reserves for RCCO relates to the planned purchase of a hub building as part of the Workstyle Programme as outlined in paragraph 9.6 above.
- 9.19. The County Council holds reserves for many different reasons, but not all of these are available for general usage, schools balances are for schools exclusive use and other reserves such as the insurance reserve are set aside as part of the Council's overall risk management strategy or are already planned to be used as is the case with the grant equalisation reserve which is utilised over a number of years in order to dampen the impact of grant reductions.
- 9.20. Appendix 9 summarises the level of earmarked reserves anticipated at the end of the 2012/13 financial year but does not take into account the potential use of the Corporate Policy Reserve as part of the budget setting for 2012/13 or the impact of the use of some reserves to fund capital investment as set out in Section 11. The total value of reserves is estimated at £133.9 million and reflects the proposed use of reserves consistent with the MTFS.
- 9.21. The 'overdrawn' position shown for IT Services business unit, reflects anticipated trading losses in the current and next financial year as a result of the delayed implementation of HPSN2. The business unit is being allowed to carry forward this deficit on a cash flow basis on the understanding that it will be

repaid in future years as savings are generated. In the meantime, the business unit will also be expected to limit the extent of the deficit through careful financial management throughout the period.

- 9.22. **Contribution to General Balances** – The 2011/12 budget assumed a draw from general balances of over £3 million to support spending in the year. The contribution to general balances shown in the revenue account will be used to build the balance back up to former levels. The contribution in 2012/13 would increase general balances to just under £19 million which is considered prudent in the overall context of the County Council's budget.
- 9.23. Appendix 10 represents the County Treasurers view of the overall budget and the adequacy of reserves which must be reported on as part of the main budget proposals in accordance with Section 25 of the Local Government Act 2003. In particular, it considers risks within the budget and in the MTFs going forward and sets this in the context of the recommended contingencies and balances set out in this report.

#### **Leader's Recommendations**

- 9.24. Having considered the proposed budget and after taking into account provisions already made for inflation and demographic growth, the Leader is recommending that an additional £100,000 per annum be made available to Children's Services to fund 2 new independent reviewing officers, which will increase the capacity for child protection planning within the Council and responds to comments made as part of the last Ofsted inspection.
- 9.25. In addition, he is also recommending that £10.2 million of the council tax freeze grant due in 2012/13 is applied to the Extra Care Housing capital scheme which was approved by Cabinet last year. This adds to the £3 million already approved for the phase 1 consolidation of this scheme and therefore brings the total amount up to £13.2 million which is the equivalent of the full council tax freeze grant due in 2012/13. This has the effect of reducing the annual borrowing costs by £800,000 compared to those presented in the business case reported to Cabinet.
- 9.26. The proposed budget assumes that £100,000 of the Corporate Policy Reserve will be used on an annual basis to fund the Independent Reviewing Officers in Children's Services, with the balance of funding of £6.076 million being available to support further high priority initiatives that may require urgent support during the course of the year.

#### **10. Budget and Council Tax Requirement 2012/13**

- 10.1. Although there is a council tax freeze for 2012/13, there are still changes within the council tax calculation that can have an impact on the budget. The County Council is notified by Hampshire Districts, of the estimated level of collection fund surplus or deficits that needs to be taken into account in setting the council tax for 2012/13. In addition, changes in the council tax base across the County can also impact on the budget for the year.

- 10.2. For 2012/13 a net collection fund surplus of just under £4.2 million is anticipated which is £2.7 million above the level assumed in the original forecast for the year.
- 10.3. For the council tax base, we had originally assumed a 0.25% increase per annum in the MTFS and it is anticipated that this will increase to 0.7% for 2012/13 which means that a higher budget can be set for the year without increasing the council tax amount.
- 10.4. These two changes mean that an additional £4.4 million is available to support the revenue expenditure of the County Council despite the fact that there is no increase in the council tax level for 2012/13.
- 10.5. In previous years, the Council has been required by law to set a Budget Requirement figure which is shown as the final figure for the County Council's budget in Appendix 8. As a result of changes set out in the Localism Bill, the County Council is now statutorily required to set a Council Tax Requirement as part of its budget setting process, this represents the net amount of expenditure that is met from council tax income after taking into account formula grant and the collection fund surplus. The recommendations to Council later in this report reflect these changes in line with the new requirements and show that the council tax Requirement (which must be shown to the penny) for the year is £530,169,467.21.

## **11. Impact of the Financial Strategy**

- 11.1. The County Council has always stated its intention to try to deliver four years worth of savings in two years in order to try to provide stability in service provision by reducing the length of time over which changes and restructures take place.
- 11.2. One of the consequences of achieving the goal of four years cost reduction over two years, if successful, would be the early capture of efficiencies which would be available for one off investment purposes. As part of the budget setting process, some of these early efficiencies have been properly utilised to provide contingencies within the budget to reflect the significant risks associated with this strategy. It is only now that we are significantly through the first year that these resources can be deployed with greater certainty for one off purposes.
- 11.3. Section 3 outlines the one off resources that are available as a result of having greater certainty around the 2011/12 budget, which means that £26.3 million is available as a revenue contribution to capital in that year.
- 11.4. For 2012/13, the additional grant from the Government effectively represents a one off £13.2 million cash surplus for the year. A total of £3 million direct funding has already been approved for the Extra Care Housing capital scheme last year and the Leader is recommending to Cabinet and Council that a further £10.2 million of the council tax freeze grant is added to this amount to bring the total up to £13.2 million, equivalent to the full value of the council tax freeze grant in 2012/13. This will be achieved by increasing revenue

contributions to capital. The remaining £3 million will also be added to the RCCO budget to provide funding for other capital investment.

- 11.5. Furthermore, after taking into account appropriate risk contingencies for 2012/13 explained in Section 9, there remains a total of £8.439 million which it is recommended is also added as a one off revenue contribution to capital in the year. These two amounts together with other minor adjustments to RCCO, account for the £21.6 million increase in the main revenue contribution to capital shown in Appendix 8.
- 11.6. This will provide a total one off revenue contribution to capital over the two years of £47.9 million. The capital investment requirements of the County Council are however vast and Appendix 11 sets out the key investment priorities for the County Council over the next two years (with the exception of school places planning which must be considered over 4 years), together with a narrative explaining the basis behind the proposed spending.
- 11.7. The Appendix is set out within the capital themes that were introduced as part of the MTFs approved last July and reflect the priority schemes that have been developed as part of that programme. Of key importance is the maximum envelope of funding provided for School Places Planning of £27.9 million which represents gap funding in order to complete all of the works anticipated over the next 4 years, which also take into account assumed developers contributions in the order of £120 million. Given the size of the programme and the risks associated with the assumptions on developers contributions, funding will be released on a business case by business case basis and only after confirmation of the other funding sources to meet the proposed scheme costs has been received.
- 11.8. The total funding gap after taking account of prudential borrowing that is funded by separate revenue streams or revenue savings is £65.2 million. It is proposed that this is funded in the following way:

	£M
Revenue Contributions to Capital 2011/12 and 2012/13 (para 11.6)	47.9
Use of New Homes Bonus in 2011/12 and 2012/13	3.4
Balance of Invest to Save Reserve (end of 2011/12)	1.9
Prudential Borrowing	12.0
	<hr/>
	65.2
	<hr/>

- 11.9. The capital financing costs arising from prudential borrowing shown in the above table are around £1.5 million per annum (assuming a 10 year loan period in line with current policy for funding invest to save type schemes) and can be met from the housekeeping saving of £2 million included as part of the savings proposals which are in excess of the £45 million target that has been set for the year.

## **12. Implications for 2013/14 Onwards**

- 12.1. Section 11 outlines the impact of the Council's strategy to achieve four years worth of savings in two years. This puts the Council on a very firm financial footing to deal with further grant reductions that are expected as part of the last two years of the CSR.
- 12.2. The MTFS assumed further grant reductions of 9% and 8% respectively in 2013/14 and 2014/15 which equates to a further loss of grant of around £26.7 million. More recently, there have been announcements around further pay restraint in these years for which additional reductions in Local Government funding are predicted, together with changes in the way in which funding will be allocated under the Government's Resource Review.
- 12.3. Despite these changes, it is not felt necessary to revise these high level assumptions at this stage. There are however two other factors which will have an impact on the County Council's budget position in future years. Firstly, the council tax freeze in 2012/13 means that there is no increase to the council tax income base for the year, which impacts on future years by around £11.4 million.
- 12.4. Secondly, we must now start to look at forecasts beyond 2014/15 as the Government is already indicating that the next CSR will be as tough as the last, at least for the first two years. We are therefore predicting that the first council tax freeze grant of just under £13.2m will drop out in that year and that we will not benefit anything extra at this stage from the changes in the distribution of non domestic rates growth. This represents a further equivalent grant reduction of 9.5% for that year.
- 12.5. Taking into account these changes, a 1.9% a year council tax increase, plus assumptions around inflation, further pressures in social care and maintaining the annual efficiency target of 2% gives a cumulative budget gap by 2015/16 of over £31 million as shown in the following table :-

	<b>£M</b>
<b>Estimated Surplus in Annual Budget Position at end of 2014/15 based on MTFs assumptions</b>	<b>2.4</b>
Loss of council tax income from base as a result of 2012/13 council tax freeze	(11.4)
	<hr/>
<b>Revised Deficit Position at the end of 2014/15</b>	<b>(9.0)</b>
Social Care Demographic Pressures	(11.0)
Service Inflation	(16.6)
Assumed Loss of Formula Grant	(13.2)
Drop out of draw from grant equalisation reserve	(1.7)
Additional council tax Income (1.9%)	10.5
2% Annual Efficiency Savings Target	9.8
	<hr/>
<b>Cumulative Budget Deficit at end of 2015/16</b>	<b>(31.2)</b>

12.6. Whilst this table paints a negative picture about the outlook from 2015/16 onwards it must be set in the context of some very high-level assumptions from 2013/14 onwards which have a major impact on the bottom line. By adjusting some of the sensitivities in the model a very different cumulative budget position is reached:

- If we assume that our 2014/15 base formula grant position is correct, and that a proportion of this will be increased in line with inflation as part of the 'top up' business rate methodology, with no drop out of the first council tax freeze grant, this would improve the position shown above by around £15 million.
- A council tax increase of 2.5% per annum from 2013/14 onwards would produce a cumulative benefit by 2015/16 of £10 million.
- An annual efficiency target of 2.5% per annum from 2013/14 would produce a cumulative benefit of over £7 million by 2015/16.

12.7. These three changes alone would close the budget gap shown in the above table before taking into account further potential savings arising from current projects such as the Corporate Services Review, joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service and other joint working arrangements.

12.8. However, given the uncertainties over grant levels in 2013/14 and 2014/15 and the potential impact of the next CSR and the changes to the distribution of business rates it is sensible at this time to simply note these forecasts positions. In reality the time to begin to address the gap that appears in 2014/15 onwards will be after we have received details of our grant reductions for 2013/14 and 2014/15, which it is hoped will be announced in November of this year. This will provide a much firmer basis upon which to produce a

revised MTFs for the period and begin to develop a strategy for balancing the budget in the longer term. It is clear however that the decisive action taken by the County Council during the first two years of the current CSR period has put the Council on a very solid financial footing from which to face any future financial challenges that may arise.

### **13. Treasury Management Strategy and Investment Strategy for 2012/13**

- 13.1. The County Council is required to adopt a treasury management strategy and an annual investment strategy for 2012/13 and these are set out in Appendix 12 for approval. The strategy has been reviewed in light of the continuing turmoil in the world economy and the revised borrowing strategy reflects the intention of taking a more active approach to managing the portfolio of existing borrowing and investments.
- 13.2. Appendix 13 sets out a revised Treasury Management Policy Statement, which is only being submitted to Cabinet and Council on this occasion due to recent changes in the Treasury Management Code of Practice issued by CIPFA which require a slight change to our Policy Statement.

### **14. Prudential Indicators**

- 14.1. The prudential code that applies to local authorities ensures that:
  - Capital programmes are affordable in revenue terms
  - External borrowing and other long-term liabilities are within prudent and sustainable levels
  - Treasury management decisions are taken in line with professional good practice
- 14.2. Some of the upper limits have been altered to reflect the revised treasury management and investment strategy although this does not expose the County Council to any greater levels of risk.
- 14.3. Appendix 12 also contains the prudential indicators required by the code for the County Council which will now be submitted for approval by the full County Council in setting the budget for 2012/13.

### **15. Consultation**

- 15.1. A variety of forms and methods have been utilised to hear the views of the public, the employees and the unions on the efficiency programme and cost reduction proposals, a summary of the strategy and key messages can be found at Appendix 14 to the report.

**16. Recommendations**

The following decisions are sought based upon the recommendations from the Leader and Cabinet to the County Council on the 2012/13 budget and council tax, that:

- 16.1. The revised budget for 2011/12 contained in Appendix 1 be approved, which includes a one-off revenue contribution to capital of £26.293 million.
- 16.2. Any unspent grant from the Department of Health announced in January of this year can be carried forward for targeted re-ablement during 2012/13.
- 16.3. The updated cash limits for Departments for 2012/13 as set out in Appendix 2 are approved
- 16.4. The savings proposals for 2012/13 as set out in Appendix 4 and Appendix 5 are approved.
- 16.5. The proposed service budgets for 2012/13 as set out in Appendix 6 are approved.
- 16.6. The workforce implications of changes to the budget and the savings proposals are set out in Appendix 7 are approved
- 16.7. The annual review of charges for 2012/13 be approved (Section 7)
- 16.8. The inclusion of a total corporate risk contingency of £26.8 million for 2012/13 be approved.
- 16.9. A further one off revenue contribution to capital of £21.639 million is made in 2012/13 as set out in Section 11.
- 16.10. An additional £100,000 per annum from 2012/13 onwards be approved for Children's Services for 2 additional independent reviewing officers, to be funded from the Corporate Policy Reserve.
- 16.11. The overall budget for the County Council for 2012/13 as set out in Appendix 8 be approved.
- 16.12. The capital investment priorities are set out in Appendix 11 are approved including a further direct contribution of £10.2 million to the Extra Care Housing Scheme.
- 16.13. The prudential borrowing required to support the self funding schemes is approved subject to a satisfactory business case being presented to Cabinet in due course.
- 16.14. Estimated general balances of just under £19 million at 31 March 2013, be approved (paragraph 9.22).
- 16.15. Delegated authority be given to the County Treasurer, following consultation with the Leader and the Chief Executive to make changes to the budget following Cabinet to take account of new issues or any late changes in the final Local Government finance settlement which is not due out until 8<sup>th</sup> February.

## 16.16. It be a recommendation to Council 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 2012/13 (Appendix 10)
- b) The Revised Budget set out in Appendix 1 be approved.
- c) The Revenue Budget for 2012/13 (as set out in appendices 6 and 8) be approved.
- d) The total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2012, be £711,613,000.
- e) The **council tax requirement** for the County Council for the year beginning 1 April 2012, be £530,169,467.21
- f) The County Council's band D council tax for the year beginning 1 April 2012 be £1,037.88 as in 2011/12
- g) The County Council's council tax for the year beginning 1 April 2012 for properties in each tax band be :

	£
Band A	691.92
Band B	807.24
Band C	922.56
Band D	1,037.88
Band E	1,268.52
Band F	1,499.16
Band G	1,729.80
Band H	2075.76

- h) Precepts be issued totalling £530,169,467.21 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	65,071.00
East Hampshire	48,600.68
Eastleigh	44,823.67
Fareham	43,465.00
Gosport	27,731.00
Hart	38,262.16
Havant	43,126.00
New Forest	73,274.30
Rushmoor	31,838.98
Test Valley	46,303.00
Winchester	48,323.83

- i) The treasury management policy statement and the treasury management and annual investment strategies, prudential and financial health indicators for 2012/13 be approved, in accordance with the recommendations in Appendices 12 and 13.

**RECOMMENDATIONS TO COUNCIL****Council is recommended to approve:**

- a) The Treasurer's report under Section 25 of the Local Government Act 2003 and take this into account when determining the budget and precept for 2012/13 (Appendix 10)
- b) The Revised Budget set out in Appendix 1.
- c) The Revenue Budget for 2012/13 (as set out in appendices 6 and 8)
- d) That the total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2012, be £711,613,000.
- e) That the **council tax requirement** for the County Council for the year beginning 1 April 2012, be £530,169,467.21
- f) That the County Council's band D council tax for the year beginning 1 April 2012 be £1,037.88 as in 2011/12
- g) The County Council's council tax for the year beginning 1 April 2012 for properties in each tax band be :

	£
Band A	691.92
Band B	807.24
Band C	922.56
Band D	1,037.88
Band E	1,268.52
Band F	1,499.16
Band G	1,729.80
Band H	2075.76

- h) Precepts be issued totalling £530,169,467.21 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	65,071.00
East Hampshire	48,600.68
Eastleigh	44,823.67
Fareham	43,465.00
Gosport	27,731.00
Hart	38,262.16
Havant	43,126.00
New Forest	73,274.30
Rushmoor	31,838.98
Test Valley	46,303.00
Winchester	48,323.83

- i) The treasury management policy statement and the treasury management and annual investment strategies, prudential and financial health indicators for 2012/13, in accordance with the recommendations in Appendices 12 and 13.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	yes
<b>Maximising well-being:</b>	yes
<b>Enhancing our quality of place:</b>	yes

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. Departments have carried out a screening for equality impact on all budget decisions. This work was supported by trained equalities leads and service managers and was approved by Departmental management teams.
- 1.2. This identified that there will be an impact on staff and services as a result of some of the budget proposals. Where potential negative or adverse impact has been identified, we have put in place proportionate and relevant responses to mitigate this.
- 1.3. On the whole however, the proposals contained in this paper then themselves to improved, modernised or transformed services, or to different models of delivery and where possible, provide greater choice for, and greater involvement of, service users.

### **2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific proposals affecting adaptation to climate change

## **REVENUE BUDGET – LIST OF APPENDICES**

1. Revised Budget 2011/12 (*page 34*)
2. Final Cash Limit Calculation 2012/13 (*page 36*)
3. Savings Targets 2012/13 (*page 37 – landscape*)
4. Summary of Savings by Corporate Workstream and Department (*page 38 – landscape*)
5. Detailed Savings Proposals 2012/13 (*page 39 – landscape*)
6. Proposed Departmental Service Budgets (*page 58*)
7. Workforce Changes 2012/13 (*page 64*)
8. Proposed Budget 2012/13 (*page 66*)
9. Summary of Earmarked Reserves (*page 68*)
10. CFO's Section 25 Report (*page 69*)
11. Summary of Capital Investment Priorities (*page 74 - landscape*)
12. Treasury Management Strategy (*page 82*)
13. Treasury Management Policy Statement (*page 107*)
14. Summary of Budget Consultation (*page 109*)
15. Analysis of Revised Service Estimates 2011/12 (*page 111*)
16. Analysis of Service Estimates 2012/13 (*page 112*)
17. Service Summary of Budget Requirement 2012/13 (*page 113*)

*Page numbers for the Appendices are provided above, however, due to the requirement to show some of these in 'landscape' for formatting purposes (also highlighted above), please note that the page number appears on the right hand side, half way up the page for these Appendices rather than at the bottom.*

## Revised Budget 2011/12

	Adjusted Original Budget 2011/12	Adjustment	Working Budget 2011/12	Revised Budget 2011/12	Variance
	£'000	£'000	£'000	£'000	£'000
<b><u>Departmental Expenditure</u></b>					
Adults	309,901	5,904	315,805	315,805	
Children's - Schools	812,635	(54,067)	758,568	758,568	
Children's - Non schools	171,438	496	171,934	171,934	
Environment and Transport	111,498	2,520	114,018	114,018	
P&R	97,800	(1,016)	96,784	96,784	
<b>TOTAL</b>	<b>1,503,272</b>	<b>(46,163)</b>	<b>1,457,109</b>	<b>1,457,109</b>	<b>0</b>
<b><u>Capital Asset and Financing Costs</u></b>					
Committee Capital Charges	101,913	6,444	108,357	108,357	
Capital Charge Reversal	(104,581)	(6,831)	(111,412)	(111,412)	
Interest on Balances	(750)		(750)	(3,050)	(2,300)
Capital Financing Costs	63,978		63,978	60,578	(3,400)
	<b>60,560</b>	<b>(387)</b>	<b>60,173</b>	<b>54,473</b>	<b>(5,700)</b>
<b><u>Pension and IAS 19 Costs</u></b>					
Pensions - Interest and Expected Return on Assets	40,960	(21,150)	19,810	19,810	
Income from Pension Reserve	(51,373)	23,484	(27,889)	(27,889)	
IAS 19 Departments	2,213	(2,334)	(121)	(121)	
Non Distributed costs	20,590		20,590	20,590	
Soft Loan	(10)		(10)	(10)	
	<b>12,380</b>	<b>0</b>	<b>12,380</b>	<b>12,380</b>	<b>0</b>
<b><u>RCCO</u></b>					
Main Contribution	11,070	2,642	13,712	13,712	
One Off Contribution 2011/12				26,293	26,293
Funded by DSG	14,212	5,108	19,320	19,320	
RCCO From Reserves	25	3,840	3,865	3,865	
	<b>25,307</b>	<b>11,590</b>	<b>36,897</b>	<b>63,190</b>	<b>26,293</b>
<b><u>Other Revenue Costs</u></b>					
Contingency	40,734	(11,247)	29,487	8,894	(20,593)
Dedicated Schools Grant	(825,013)	64,985	(760,028)	(760,028)	
Specific Grants	(108,633)	(16,974)	(125,607)	(125,607)	
Flood Protection Levy	557		557	557	
Coroners Expenditure	1,242	210	1,452	1,452	
Business Units (Net Trading)	1,723	(980)	743	743	
LATS	(148)	148	0	0	
	<b>(889,538)</b>	<b>36,142</b>	<b>(853,396)</b>	<b>(873,989)</b>	<b>(20,593)</b>
<b>Net Revenue Budget</b>	<b>711,981</b>	<b>1,182</b>	<b>713,163</b>	<b>713,163</b>	<b>0</b>

	<b>Adjusted Original Budget 2011/12 £'000</b>	<b>Adjustment £'000</b>	<b>Working Budget 2011/12 £'000</b>	<b>Revised Budget 2011/12 £'000</b>	<b>Variance £'000</b>
<b>Net Revenue Budget</b>	<b>711,981</b>	<b>1,182</b>	<b>713,163</b>	<b>713,163</b>	<b>0</b>
<b><u>Contributions from Earmarked Reserves</u></b>					
Use of Earmarked Reserves	8,216	1,725	9,941	9,941	0
Trading Units Transfer to / (from) Reserves	(1,514)	972	(542)	(542)	0
RCCO From Reserves	(25)	(3,840)	(3,865)	(3,865)	0
	<b>6,677</b>	<b>(1,143)</b>	<b>5,534</b>	<b>5,534</b>	<b>0</b>
Contribution (from) / to General Balances	(3,073)	(39)	(3,112)	(3,112)	0
<b>BUDGET REQUIREMENT</b>	<b>715,585</b>	<b>0</b>	<b>715,585</b>	<b>715,585</b>	<b>0</b>

**Cash Limit Calculation 2012/13**

	<b>December Cash Limit Guideline £'000</b>	<b>Changes £'000</b>	<b>Final Cash Limit 2012/13 £'000</b>
Adult Services	302,429	37	302,466
Children's - Schools	718,608	(5,109)	713,499
Children's - Non Schools	164,345	877	165,222
Environment and Transport	107,308	368	107,676
CCBS	56,688	47	56,735
Treasurers	10,054	4	10,058
CX	15,139	194	15,333
P&R Other	4,914	547	5,461
	<b>1,379,485</b>	<b>(3,035)</b>	<b>1,376,450</b>

**Notes :**

The reduction to the Schools budget reflects the reduction of the cash limit following grant reductions due to Academy conversions.

The increase in the Non-Schools budget for Children's Services is mainly the result of additional expenditure as a result of additional Government grant (mainly Early Intervention Grant).

The increase in Environment and Transport reflects additional spending on the Minerals and Waste Plan which will be funded from the reserve set aside for this purpose.

The increase in the Chief Executive's cash limit reflects inflationary and other adjustments made following further refinement of the inflationary and savings allocations for the year.

The increase in P&R Other reflects the re-phasing of the majority of the one off Internship Plus funding from 2011/12 to 2012/13.

**Savings Target 2012/13**

	<b>Adult Services</b>	<b>Children's Services</b>	<b>ETE</b>	<b>CCBS</b>	<b>Chief Executive</b>	<b>Treasurers</b>	<b>P&amp;R Other</b>	<b>TOTAL</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Value of Second 8% Savings Target	(21,214)	(10,365)	(6,104)	(4,724)	(1,211)	(878)	(486)	(44,982)
Full year effect of 2011/12 planned savings	(4,877)	(10,215)	(4,971)	(2,167)	(67)	(837)	(178)	(23,313)
<b>Value of New Savings Proposals Required</b>	<b>(16,337)</b>	<b>(150)</b>	<b>(1,133)</b>	<b>(2,557)</b>	<b>(1,144)</b>	<b>(41)</b>	<b>(308)</b>	<b>(21,670)</b>

## Summary of Savings by Corporate Workstream and Department

Corp. W'stream Ref.	Description	Adult Services	Children's Services	ETE	CCBS	Chief Executive	Treasurers	P&R Other	TOTAL
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
C2.2	Further Reviews of Workforce levels	(3,130)	(110)		(860)	(674)			(4,774)
C3	Communications – next Phase				(18)	(253)			(271)
C4	Democratic Infrastructure					(200)		(70)	(270)
C9	Contract Negotiations – next Phase	(4,492)		(833)					(5,325)
C11	Customer Charging		(40)		(110)		(2)		(152)
C13	Support and Admin – next Phase				(20)	(175)	(31)		(226)
C15	Shared Services			(300)					(300)
C19	PBRISIT/CCRA Merger				(462)				(462)
C22	Learning and Development – next Phase	(202)							(202)
C23	IT Cost Reduction – next Phase				(757)		(12)		(769)
C29	House keeping	(200)					(1)	(2,004)	(2,205)
	<b>Sub-Total Corporate Workstreams</b>	<b>(8,024)</b>	<b>(150)</b>	<b>(1,133)</b>	<b>(2,227)</b>	<b>(1,302)</b>	<b>(46)</b>	<b>(2,074)</b>	<b>(14,956)</b>
D	Departmental Savings	(8,313)			(330)			(170)	(8,813)
	<b>Total Savings</b>	<b>(16,337)</b>	<b>(150)</b>	<b>(1,133)</b>	<b>(2,557)</b>	<b>(1,302)</b>	<b>(46)</b>	<b>(2,244)</b>	<b>(23,769)</b>

## Summary of Savings – 2012/13

### Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Department / Committee	2012/13		Full Year	
	£000	FTE	£000	FTE
Adult Services	(16,337)	(165.0)	(16,337)	(165.0)
Children's Services	(150)	(2.0)	(150)	(2.0)
Environment	(1,133)		(1,133)	
Policy and Resources	(6,149)	(60.76)	(6,151)	(60.76)
<b>Total Savings Proposals</b>	<b>(23,769)</b>	<b>(227.76)</b>	<b>(23,771)</b>	<b>(227.76)</b>

## Adult Services

## Expenditure Reduction Options – New Savings Proposals to Meet 8 % Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
AS 1	E	C2.2	Various adult social care and support services	Further reduction in workforce including senior management reductions and those at grade G and below. Includes continuation of recruitment moratoria with decisions around timing of recruitment to vacancies to be based on service need and safeguarding requirements	Efficiency savings - proposed structures are currently being consulted on.	(3,130)	(112.0)	(3,130)	(112.0)
<b>Further Review of Workforce Levels</b>						<b>(3,130)</b>	<b>(112.0)</b>	<b>(3,130)</b>	<b>(112.0)</b>
AS 2	E	C9	Residential, nursing care, domiciliary care, day care and supporting people services across all adult social care client groups	A range of efficiency proposals including contract negotiations with service providers for residential and nursing care, and further savings for domiciliary care following implementation of the Electronic Domiciliary care monitoring project in 2011/12. In addition, review of commissioning of Day Care for Older People based on anticipated future demand/needs. Renegotiation/re-tender of supported housing services and housing support services.	These are efficiency savings and are not expected to impact on core service delivery.	(4,492)		(4,492)	
<b>Contract Negotiations</b>						<b>(4,492)</b>		<b>(4,492)</b>	

## Expenditure Reduction Options – New Savings Proposals to Meet 8 % Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
AS 3	E	C22	Various adult social care support services	Identification of efficiency savings on non-staff related expenditure (e.g. conference expenditure, training venues etc).	These are efficiency savings and are not expected to impact on service delivery to clients	(202)		(202)	
				<b>Learning and Development</b>		<b>(202)</b>		<b>(202)</b>	
AS 4	E	C29	Various adult social care support services	Review of areas of expenditure where further potential efficiency savings are expected to be achievable (e.g. staff travel)	These are efficiency savings and are not expected to impact on service delivery to clients	(200)		(200)	
				<b>Housekeeping</b>		<b>(200)</b>		<b>(200)</b>	
<b>Total of Phase Four Workstreams</b>						<b>(8,024)</b>	<b>(112.0)</b>	<b>(8,024)</b>	<b>(112.0)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8 % Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
AS 5	E	D	Services for older people	<b>Reduction in use of Purchased Residential Care</b> - development of Extra Care schemes are expected to reduce use of purchased residential care, using domiciliary care instead. Reduce long-term admissions to residential care and maximise use of in-house residential provision where appropriate.	Risk relates to our ability to reduce admissions to long term care, and the timing of the development of Extra Care schemes.	(1,895)		(1,895)	
AS 6	E	D	Services for clients with Learning Disabilities	<b>LD supported living model</b> - review of LD clients in residential care to consider whether the 'supported living' model of care provision would be more appropriate to meet their needs.	Increased client independence and improved outcomes for clients.	(215)		(215)	
AS 7	E	D	Transport provision for clients with Learning Disabilities, older people and those with physical disabilities	<b>Client Transport Efficiencies</b> - a review of all current transport arrangements for clients attending college or other day activities.	These are efficiency savings and are not expected to impact on core service delivery to clients	(400)		(400)	

## Expenditure Reduction Options – New Savings Proposals to Meet 8 % Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
AS 8	E	D	Community development support across all areas of Adult Services	<b>Early Intervention and Prevention</b> - review of community development support currently provided to identify efficiencies in service delivery.	These are efficiency savings and are not expected to impact on service delivery to clients	(200)		(200)	
AS 9	E	D	In-house services for clients with Learning Disabilities	<b>LD In-house Services</b> - efficiencies expected to be achieved as a result of LD transformation programme.	These are efficiency savings and are not expected to impact on service delivery to clients	(497)	(53.0)	(497)	(53.0)
AS 10	E	D	Support to adult social care services	<b>Other Department Efficiencies</b> - reduction in non-operational budgets required for 2012/13.	These are efficiency savings and are not expected to impact on service delivery to clients	(140)		(140)	
AS 11	E	D	In-house services provided to Older People and clients with Learning Disabilities and Physical Disabilities	<b>In-house service efficiencies</b> - achieved following a review of current expenditure and bed usage. Also placing early on-set dementia clients in in-house residential older person homes rather than using purchased residential care where appropriate by maximising occupancy.	These are efficiency savings. Risk relates to ability to deliver further efficiencies without impacting on safety and standards of service.	(1,179)		(1,179)	

## Expenditure Reduction Options – New Savings Proposals to Meet 8 % Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
AS 13	E	D	Services for Older People	<b>Crisis Model</b> - providing reablement services to older people in crisis to maximise the clients independence and minimise ongoing care costs. Maximise use of available reablement beds and welcome home contracts following hospital discharge, also reducing delayed discharge fines.	Improved outcomes for clients/ increased efficiency	(788)		(788)	
AS 14	R	D	Supporting People services for all adult social care client groups	<b>Supporting People</b> - strategic review of supported housing services and housing support services.	These are efficiency savings and are not expected to impact on service delivery to clients	(724)		(724)	
AS 15	I	D	Income generation in respect of Adult Social Care Services	<b>Income and Contributions</b> - maximising opportunities to generate additional income from external organisations and contributions from clients in respect of chargeable services.	Efficiency saving through maximisation of income generation.	(1,018)		(1,018)	
<b>Departmental Savings</b>						<b>(8,313)</b>	<b>(53.0)</b>	<b>(8,313)</b>	<b>(53.0)</b>
<b>Grand Total</b>						<b>(16,337)</b>	<b>(165.0)</b>	<b>(16,337)</b>	<b>(165.0)</b>

## Children's Services

## Expenditure Reduction Options – New Savings Proposals to Meet 8 % Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
CS1	E	C2.2	Outdoor Education	Restructure of team	Increased efficiencies	(110)	(2.0)	(110)	(2.0)
				<b>Further Review of Workforce Levels</b>		<b>(110)</b>	<b>(2.0)</b>	<b>(110)</b>	<b>(2.0)</b>
CS2	I	C11	Outdoor Education	Review of charging policy	Increased earnings	(40)		(40)	
				<b>Customer Charging</b>		<b>(40)</b>		<b>(40)</b>	
<b>Total Phase 4 Work streams</b>						<b>(150)</b>	<b>(2.0)</b>	<b>(150)</b>	<b>(2.0)</b>

## Environment

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£000	FTE	£000	FTE
ETE1	E	C9	Street Lighting	PFI operational efficiencies	No impact on service users	(400)		(400)	
ETE2	E	C9	Waste Disposal	HWRC review/contract renegotiation	No impact on service users	(433)		(433)	
<b>Contract Negotiations</b>						<b>(833)</b>	<b>0.0</b>	<b>(833)</b>	<b>0.0</b>
ETE3	E	C15	Safer Roads Partnership	Reduced contribution following change in funding mechanism	Partnership work will continue under new funding arrangements - no adverse impact on service delivery.	(300)		(300)	
<b>Shared Services</b>						<b>(300)</b>	<b>0.0</b>	<b>(300)</b>	<b>0.0</b>
<b>Total of Phase 4 Workstreams</b>						<b>(1,133)</b>	<b>0.0</b>	<b>(1,133)</b>	<b>0.0</b>

## Policy and Resources

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
<b>CCBS</b>									
CCBS 1	E	C2	Community and Culture & Heritage	Staff reductions, restructuring Museums, Arts and Libraries	Subject to development of a sustainable community role there will be limited impact on core service delivery.	(860)	(25.00)	(860)	(25.00)
				<b>Further Review of Workforce Levels</b>		<b>(860)</b>	<b>(25.00)</b>	<b>(860)</b>	<b>(25.00)</b>
CCBS 2	E	C3	Culture & Heritage, Business Support, Community	Reduced non-staffing spend on marketing and communications (web based publicity and reduction in published materials)	These are efficiency savings and are not expected to impact on core service delivery.	(18)		(18)	
				<b>Corporate Communications</b>		<b>(18)</b>		<b>(18)</b>	
CCBS 2	I	C11	Culture & Heritage	Registration Service's new express retrieval of records service and site specific income increases within the Countryside Service	These will deliver increased income and are not expected to impact on core service delivery.	(110)	(1.00)	(110)	(1.00)
				<b>Customer Charging</b>		<b>(110)</b>	<b>(1.00)</b>	<b>(110)</b>	<b>(1.00)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
CCBS 4	E	C13	Business Support	Business Support Administration Savings	These are efficiency savings and are not expected to impact on core service delivery.	(20)	(1.00)	(20)	(1.00)
				<b>Support and Administration</b>		<b>(20)</b>	<b>(1.00)</b>	<b>(20)</b>	<b>(1.00)</b>
CCBS 5	E	C19	Culture & Heritage, Business Support, Community	Following the merger there will be a revised structure in place for Museums and a review of Marketing and the capital projects team leading to reduced spend.	These are efficiency savings and are not expected to impact on core service delivery.	(462)	(5.00)	(462)	(5.00)
				<b>PBRSIT/CCRA Merger</b>		<b>(462)</b>	<b>(5.00)</b>	<b>(462)</b>	<b>(5.00)</b>
CCBS 6	E	C23	IT	IT Cost Reduction Phase 4. Reduction of IT contract costs, reduced spend and consolidation of IT projects.	These are efficiency savings and are not expected to impact on core service delivery.	(757)	(3.00)	(757)	(3.00)
				<b>IT Cost Reduction</b>		<b>(757)</b>	<b>(3.00)</b>	<b>(757)</b>	<b>(3.00)</b>
<b>CCBS total of Phase 4 Workstreams</b>						<b>(2,227)</b>	<b>(35.00)</b>	<b>(2,227)</b>	<b>(35.00)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
	I	D	Property	Combination of increased external fee income, revised risk based approach to R&M (non-schools) budget and increasing income/reducing costs across other budgets.		(330)		(330)	
<b>Departmental Savings</b>						<b>(330)</b>		<b>(330)</b>	
<b>CCBS Grand total</b>						<b>(2,557)</b>	<b>(35.00)</b>	<b>(2,557)</b>	<b>(35.00)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
<b>County Treasurer</b>									
CT5	I	C11	Payroll	Increased income from supplying payroll services to other local authorities	No impact on service	(2)		(2)	
				<b>Customer Charging</b>		<b>(2)</b>		<b>(2)</b>	
CT2	E	C13	Hampshire Systems Training Team	Support and Administration - Efficiencies in Hampshire Systems Training Team admin support	No impact on service	(13)	(0.60)	(13)	(0.60)
CT3	E	C13	Income and banking	Increased use of direct debits	No impact on service	(10)	(0.50)	(10)	(0.50)
CT4	E	C13	Travel claims	increased use of on-line travel claims instead of paper forms	No impact on service	(8)	(0.40)	(10)	(0.40)
				<b>Support and Administration</b>		<b>(31)</b>	<b>(1.50)</b>	<b>(33)</b>	<b>(1.50)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
CT6	E	C23	Whole department	Following a reduction in staff, there will be a reduction in the cost of desk top software and IT access. Greater use of Word templates will reduce the need for pre-printed specialised stationery with a consequent saving in storage costs.	These are efficiency savings and will not have an impact on service provision.	(12)		(12)	
				<b>IT Cost Reduction</b>		<b>(12)</b>		<b>(12)</b>	
CT1	E	C29	Whole department	Housekeeping - various departmental efficiencies	No impact on service	(1)		(1)	
				<b>Housekeeping</b>		<b>(1)</b>		<b>(1)</b>	
<b>County Treasurer's total of Phase 4 Workstreams</b>						<b>(46)</b>	<b>(1.50)</b>	<b>(48)</b>	<b>(1.50)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
<b><u>Chief Executive</u></b>									
CE 1	E	C2.2	Chief Exec.	Senior management	Reduction in capacity at senior management level	(374)	(5.40)	(374)	(5.40)
				<b>Further review of workforce levels</b>		<b>(374)</b>	<b>(5.40)</b>	<b>(374)</b>	<b>(5.40)</b>
CE 2	E	C3	Chief Exec.	Reductions in posts arising from centralisation and rationalisation of the communications function	The centralisation of the communications function will increase efficiency and is not expected to have a direct impact on service delivery	(165)	(4.60)	(165)	(4.60)
CE 4	I	C3	Chief Exec.	External income generated from advertising on Hantsweb	No anticipated impact	(10)		(10)	
CE 5	E	C3	Chief Exec.	Savings in printing costs following the production of an on-line Hog magazine and reduction in number of issues of Hampshire Now.	No anticipated impact	(78)		(78)	
				<b>Corporate communications</b>		<b>(253)</b>	<b>(4.60)</b>	<b>(253)</b>	<b>(4.60)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
CE 6	E	C4	Chief Exec.	Reduction in posts and expenditure following the decision to stop Hampshire Action Teams	Although the specific HAT initiative has stopped, the County Council continues to be actively involved in all areas of community engagement and is reviewing these arrangements to ensure they are fit for purpose in the future.	(200)	(3.60)	(200)	(3.60)
				<b>Democratic infrastructure</b>		<b>(200)</b>	<b>(3.60)</b>	<b>(200)</b>	<b>(3.60)</b>
CE 7	E	C13	Chief Exec.	Reduction in support and administration staff and the deletion of an internal librarian post	May have some impact on the administrative operations of the Department while new ways of working are adopted.	(100)	(4.00)	(100)	(4.00)
				<b>Support and administration</b>		<b>(100)</b>	<b>(4.00)</b>	<b>(100)</b>	<b>(4.00)</b>
<b>Chief Executive's total of Phase 4 Workstreams</b>						<b>(927)</b>	<b>(17.60)</b>	<b>(927)</b>	<b>(17.60)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
<b><u>Human Resources</u></b>									
HR 1	E	C2.2	Senior management	Corporate Senior Management Reduction Programme.	Business Partners will now be shared across several departments	(247)	(3.86)	(247)	(3.86)
HR 2	E	C2.2	Hampshire Learning Centre	Restructuring of CCBS enabled a change in service delivery model for HLC.	Change in service delivery model enabled the reduction of one OD Consultant post and greater consistency and flexibility in L&D provision to the CCBS department.	(53)	(1.00)	(53)	(1.00)
<b>Further review of workforce levels</b>						<b>(300)</b>	<b>(4.86)</b>	<b>(300)</b>	<b>(4.86)</b>
HR 3	E	C13	Resourcing Centre & Pay and Contract Support Services	Increased automation of recruitment and payroll process within PCSS and Resourcing Centre.	Increased use of technology to automate tasks currently delivered manually results in an increased self service model for managers, with tasks completed in the business rather than centrally in HR.	(17)	(0.80)	(17)	(0.80)
HR 4	E	C13	Occupational Health Unit and Employee Support Line	Change in service delivery model as a result of providing the service via an outsourced provider.	Anticipated that an improved service will be provided at a reduced cost	(25)		(25)	

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
HR 5	E	C13	Employment Practice Centre	Reduction in Senior HR Advisor resource in the EPC.	May have some impact on delivery times in the short term whilst new ways of working are developed	(33)	(1.00)	(33)	(1.00)
				<b>Support and administration</b>		<b>(75)</b>	<b>(1.80)</b>	<b>(75)</b>	<b>(1.80)</b>
<b>HR total of Phase 4 Workstreams</b>						<b>(375)</b>	<b>(6.66)</b>	<b>(375)</b>	<b>(6.66)</b>

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
<b><u>P&amp;R Other</u></b>									
PR3	E	C29	Housekeeping workstream	Savings arising from not allocating inflation to general budgets for employees, transport and supplies and services	These are general budgets supporting services across the Council and not allocating inflation will not directly impact on service delivery	(2,004)		(2,004)	
				<b>Housekeeping</b>		<b>(2,004)</b>		<b>(2,004)</b>	
PR4	E	C4	Democratic Infrastructure	Saving related to one less Cabinet Member, with the associated saving in special responsibility allowances	No direct impact	(18)		(18)	
PR5	E	C4	Democratic Infrastructure	Saving relating to internal service efficiencies	No direct impact	(22)		(22)	
PR6	E	C4	Democratic Infrastructure	Efficiency savings gained from the continued reduction in the cost of Members Expenses	Primarily these savings come from the Member's IT and training budgets that are historically underspent, therefore these efficiencies will not impact on service delivery	(30)		(30)	
				<b>Democratic infrastructure</b>		<b>(70)</b>		<b>(70)</b>	
<b>P&amp;R Other total of Phase 4 Workstreams</b>						<b>(2,074)</b>		<b>(2,074)</b>	

## Expenditure Reduction Options – New Savings Proposals to Meet 8% Target

Ref.	Savings Type	Corp. Prog. Ref	Service Activity	Description	Impact / Issues	2012/13		Full Year	
						£'000	FTE	£'000	FTE
PR1	E	D	Grants to Councils of community service	A proposed 8% reduction in core grant for 2011/12 and 2012/13 was announced on 9th March 2011 in line with the County Council's savings targets	The organisations affected are being encouraged to develop their own efficiency programmes to reduce the impact on the organisations they support. However a full impact assessment will need to be carried out for this proposal before any final decisions are made	(70)		(70)	
PR2	R	D	Grants to Voluntary Organisation (Leader's Budget)	A 25% reduction of the grant budget is proposed for 2012/13	This grant budget is allocated on an application basis throughout the year and therefore the reduction should not have a direct impact other than to limit the number of grants that can be approved compared to other years	(100)		(100)	
<b>Departmental savings</b>						<b>(170)</b>		<b>(170)</b>	
<b>P&amp;R Other Grand total</b>						<b>(2,244)</b>		<b>(2,244)</b>	
<b>Grand total of Savings Proposals</b>						<b>(6,149)</b>	<b>(60.76)</b>	<b>(6,151)</b>	<b>(60.76)</b>

**Adult Services****Budget summary 2012/13**

<b>Service Activity</b>	<b>Original Budget 2011/12 £000</b>	<b>Revised Budget 2011/12 £000</b>	<b>Proposed Budget 2012/13 £000</b>
Service Strategy and Regulation	520	636	597
Older People (aged 65 or over)	129,255	130,671	120,104
Adults under 65 years with Physical or Sensory Impairment	28,549	29,536	30,339
Adults under 65 years with Learning Disabilities	106,956	109,223	107,677
Adults under 65 years with Mental Health Needs	12,306	14,165	14,402
Supported Employment	655	642	638
Other Adult Services	1,875	2,125	1,393
Supporting People	27,814	27,814	25,630
Unallocated budget	1,616	638	1,347
Non-distributed costs	355	355	339
<b>Net cash limited expenditure</b>	<b>309,901</b>	<b>315,805</b>	<b>302,466</b>

## Children's Services

### Budget summary 2012/13

<b>Service Activity</b>	<b>Original Budget 2011/12 £000</b>	<b>Revised Budget 2011/12 £000</b>	<b>Proposed Budget 2012/13 £000</b>
<b>Schools budget :</b>			
Nursery Schools	1,723	1,068	1,796
Primary Schools	353,459	351,085	357,564
Secondary Schools	315,668	244,483	215,749
Special Schools	36,257	34,893	34,349
Central Provision	20,472	41,921	19,393
Education Inclusion Service	9,792	9,812	10,793
Special Educational Needs	24,196	24,275	24,701
Early Years	43,118	44,709	44,664
Other	4,050	6,233	4,490
Unallocated	3,900	89	0
<b>Total Schools Budget</b>	<b>812,635</b>	<b>758,568</b>	<b>713,499</b>
<b>Non-schools budget :</b>			
Other Education & Community – Special Education	5,543	5,571	5,280
Other Education & Community – Learner Support	34,923	34,692	34,966
Other Education & Community – Access	1,101	1,184	1,130
Young People's Learning Development	1,290	1,298	1,288
Adult Learning and Community	1,673	2,312	1,345
Services for Young Children	25,310	25,188	23,447
Youth Support Services	11,310	10,933	7,115
Strategic Management	6,215	6,496	6,048
Assessment and Care Management	19,774	20,063	19,363
Children Looked After	39,397	39,125	40,030
Family Support Services	12,984	12,695	14,387
Youth Justice	1,789	1,866	1,727
Other Children's and Families Services	8,207	8,160	7,988
Asylum Seekers	911	700	700
Unallocated Budget	1,011	1,651	408
<b>Total Non-schools budget</b>	<b>171,438</b>	<b>171,934</b>	<b>165,222</b>
<b>Net cash limited expenditure</b>	<b>984,073</b>	<b>930,502</b>	<b>878,721</b>

<b>Service Activity</b>	<b>Original Budget 2011/12 £000</b>	<b>Revised Budget 2011/12 £000</b>	<b>Proposed Budget 2012/13 £000</b>
<b>Trading account (surplus) / deficit:</b>			
Services to Schools Business Units	1,044	838	1,687
Children's Centres Business Units	819	(10)	(7)

## Environment and Transport

### Budget summary 2012/13

<b>Service Activity</b>	<b>Original Budget 2011/12 £'000</b>	<b>Revised Budget 2011/12 £'000</b>	<b>Proposed Budget 2012/13 £'000</b>
Highways Maintenance	31,220	32,026	31,065
Road Safety	939	965	869
Safer Roads Partnership	630	-268	330
School Crossing Patrols	1,234	1,253	1,212
Traffic Surveys	256	256	256
Parking Services	-95	-95	-95
Public Transport	19,007	18,801	18,492
Rural Bus Subsidy Grant	1,073	1,368	1,073
Staffing & Operational Support	18,334	18,487	16,263
<b>Highways Roads &amp; Transport Total</b>	<b>72,598</b>	<b>72,793</b>	<b>69,465</b>
Planning & Development	3,387	3,676	2,832
<b>Planning and Development Total</b>	<b>3,387</b>	<b>3,676</b>	<b>2,832</b>
Waste Management Contract Related Services	33,726	34,682	33,234
Waste Management Directly Related Services	1,525	1,398	1,069
<b>Total Waste Management</b>	<b>35,251</b>	<b>36,080</b>	<b>34,303</b>
Economic Development	0	1,099	697
Tourism	0	200	200
<b>Total Economic Development</b>	<b>0</b>	<b>1,299</b>	<b>897</b>
Chichester Harbour Conservancy	170	170	179
<b>Net cash limited expenditure</b>	<b>111,406</b>	<b>114,018</b>	<b>107,676</b>

## Policy and Resources

## Budget summary 2012/13

<b>Service Activity</b>	<b>Original Budget 2011/12 £000</b>	<b>Revised Budget 2011/12 £000</b>	<b>Proposed Budget 2012/13 £000</b>
<b>Direct Services:</b>			
Scientific Services	15	10	10
Asbestos	(11)	(18)	(20)
Print Sign Workshop	282	240	260
Sir Harold Hillier Gardens	488	485	444
Great Hall	24	24	22
Trading Standards	3,013	2,954	2,717
Accredited Community Support Officers	1,573	1,511	1,486
Corporate Community Safety	59	77	59
Registration Service	(89)	(150)	(207)
Sport & Community	967	937	851
Library Service	14,868	14,381	13,275
Countryside	3,649	3,592	3,218
Outdoor Centres	733	720	655
Arts	1,841	1,817	1,667
Museums	1,742	1,160	1,454
Calshot Activities Centre	165	139	118
Archive	1,063	1,022	961
Milestones	308	305	279
County Farms	(356)	(356)	(356)
Maintenance of Grounds - Chilcomb	17	17	16
Sites for Gypsies & Travellers	67	67	61
Development Account	(413)	(413)	(413)
Adult Education Properties	1	1	1
Corporate Estate	(146)	(146)	(146)
<b>Other Direct and Corporate Services:</b>			
Grants to Voluntary Organisations	397	581	315
Grants to Councils of Community Service	877	877	824
Members' Devolved Budgets	624	624	624
Emergency Planning & Oil Pollution	380	380	346
Other Direct and Corporate Services	3,338	2,511	2,020
<b>Centrally Managed Support Services:</b>			
County Treasurer's Department	10,895	10,561	9,872
Chief Executive's Department	15,184	15,000	13,783

<b>Service Activity</b>	<b>Original Budget 2011/12 £000</b>	<b>Revised Budget 2011/12 £000</b>	<b>Proposed Budget 2012/13 £000</b>
<b>Centrally Managed Support Services:</b>			
Members Support Costs	1,946	1,942	1,883
CCBS Department	32,196	33,604	29,653
Other Central Support Services	2,103	2,328	1,855
<b>Net cash limited expenditure</b>	<b>97,800</b>	<b>96,784</b>	<b>87,587</b>
Coroners	1,242	1,452	1,331
<b>Trading account (surplus) / deficit:</b>			
Hampshire Printing Services	40	50	(47)
County Supplies	(20)	(99)	(29)
Segensworth Unit Factories	(25)	(25)	(25)
Caretaking and Cleaning Support Service	(52)	(9)	(9)
HC3S	25	(121)	(122)
Hampshire Transport Management (HTM)	(53)	(85)	(68)
Information Technology Services	0	263	793
Hampshire Wardrobe	(1)	(1)	(1)
River Hamble	(54)	(58)	(54)

**Workforce Statement (Full Time Equivalent)**

<b>Department / Service</b>	<b>Estimated FTE's at 31/03/2012</b>	<b>Estimated FTE's at 31/03/2013</b>	<b>Net Variation</b>
Adult Services	3,170	3,005	(165)
Children's Services - Non schools	2,741	2,568	(173)
Economy, Transport and Environment	769	739	(30)
Policy and Resources	3,690	3,597	(93)
	<b>10,370</b>	<b>9,909</b>	<b>(461)</b>

<b>Staffing variations for 2012/13 are:</b>	<b>Transfers and other changes*</b>	<b>Impact of new savings proposals</b>	<b>Total 2012/13 changes</b>
<b>Adult Services</b>			
Vacancy management and staff turnover		(82)	(82)
Planned transformation of Learning Disability services		(53)	(53)
Restructure of non front line support functions		(30)	(30)
<b>Children's Services - Non schools</b>			
Children's Centres Business Units	(173)		(173)
Independent Reviewing Service (Recommended)	2		2
Restructuring of Outdoor Education		(2)	(2)
<b>Economy, Transport and Environment</b>			
Reshaping and restructuring of operational support within the ETE department	(23)		(23)
Support and administration	(3)		(3)
Reduction in senior management posts	(3)		(3)
Democratic Infrastructure	(1)		(1)

\* Includes the full year impact of savings in 2011/12

	<b>Transfers and other changes*</b>	<b>Impact of new savings proposals</b>	<b>Total 2012/13 changes</b>
<b>Policy and Resources #</b>			
Restructuring of Museums, Arts, Library and Countryside services	(2)	(25)	(27)
Reduction in senior management posts	(10)	(9)	(19)
Further review of workforce levels and vacancy management	(20)	(1)	(21)
IT cost reduction programme		(3)	(3)
Support and administration review		(9)	(9)
Merger of Property Business and Regulatory Services IT and Culture, Community and Rural Affairs departments		(5)	(5)
Centralisation and rationalisation of Communications functions		(5)	(5)
Democratic infrastructure review		(4)	(4)
	<hr/>	<hr/>	<hr/>
	(233)	(228)	(461)

\* Includes the full year impact of savings in 2011/12

# The reductions for Policy and Resources do not take any account of potential staffing reductions as a result of the Corporate Services Review, proposals for which will be consulted on over the Spring and Summer in order to achieve the stretch target of a further 4% savings in Corporate Services during the 2012/13 financial year.

## Revenue Budget 2012/13

	Original Budget 2011/12 £'000	Adjustment £'000	Proposed Budget 2012/13 £'000
<b><u>Departmental Expenditure</u></b>			
Adults	309,901	(7,435)	302,466
Children's - Schools	812,635	(99,136)	713,499
Children's - Non schools	171,438	(6,216)	165,222
Environment and Transport	111,498	(3,822)	107,676
P&R	97,800	(10,213)	87,587
<b>TOTAL</b>	<b>1,503,272</b>	<b>(126,822)</b>	<b>1,376,450</b>
<b><u>Capital Asset and Financing Costs</u></b>			
Committee Capital Charges	101,913	6,444	108,357
Capital Charge Reversal	(104,581)	(6,831)	(111,412)
Interest on Balances	(750)		(750)
Capital Financing Costs	63,978	4,768	68,746
	<b>60,560</b>	<b>4,381</b>	<b>64,941</b>
<b><u>Pension and IAS 19 Costs</u></b>			
Pensions - Interest and Expected Return on Assets	40,960	(22,810)	18,150
Income from Pension Reserve	(51,373)	24,894	(26,479)
IAS 19 Departments	2,213	(2,084)	129
Non Distributed costs	20,590		20,590
Soft Loan	(10)		(10)
	<b>12,380</b>	<b>0</b>	<b>12,380</b>
<b><u>RCCO</u></b>			
Main Contribution	11,070	21,552	32,622
Funded by (DSG)	14,212	(2,493)	11,719
RCCO From Reserves	25	6,725	6,750
	<b>25,307</b>	<b>25,784</b>	<b>51,091</b>
<b><u>Other Revenue Costs</u></b>			
Contingency	40,734	3,782	44,516
Dedicated Schools Grant	(825,013)	111,413	(713,600)
Specific Grants	(108,633)	(2,316)	(110,949)
Council Tax Freeze Grant (2012/13)	0	(13,245)	(13,245)
Flood Protection Levy	557		557
Coroners Expenditure	1,242	89	1,331
Business Units (Net Trading)	1,723	395	2,118
LATS	(148)	148	0
	<b>(889,538)</b>	<b>100,266</b>	<b>(789,272)</b>
<b>Net Revenue Budget</b>	<b>711,981</b>	<b>3,609</b>	<b>715,590</b>

	<b>Original Budget 2011/12 £'000</b>	<b>Adjustment £'000</b>	<b>Proposed Budget 2012/13 £'000</b>
<b>Net Revenue Budget (Repeated)</b>	<b>711,981</b>	<b>3,609</b>	<b>715,590</b>
<b><u>Contributions from Earmarked Reserves</u></b>			
Use of Earmarked Reserves	8,216	(4,424)	3,792
Trading Units Transfer to / (from) Reserves	(1,514)	(405)	(1,919)
RCCO From Reserves	(25)	(6,725)	(6,750)
	<b>6,677</b>	<b>(11,554)</b>	<b>(4,877)</b>
Contribution (from) / to General Balances	(3,073)	3,973	900
<b>BUDGET REQUIREMENT</b>	<b>715,585</b>	<b>(3,972)</b>	<b>711,613</b>

## Summary of Earmarked Reserves

	<b>Estimated Balance at 31/3/13 £'000</b>
<b>Trading Unit Reserves :</b>	
Policy and Resources - former DSOs	3,201
County Supplies	2,229
Hampshire Printing Service	778
IT Services	(1,009)
Caretaking/ Cleaning	325
Segensworth Units	325
Hampshire Wardrobe	37
River Hamble	806
Services To Schools	2,166
Children's Centres	1,408
	<hr/> <b>10,266</b>
<b>Designated Underspendings :</b>	
Policy and Resources	2,500
Commons management	40
Rowner regeneration	750
Sickness / Maternity Buy Back	1,147
Children's - Change for Children	301
School Catering Support	199
Olympics management	50
	<hr/> <b>4,987</b>
<b>Other Reserves :</b>	
Capital Grants Unapplied	10,052
Community Transport Vehicles	867
Corporate Efficiency	9,156
Corporate Policy	6,076
Grant Equalisation Reserve	9,680
Insurance	16,236
Invest To Save / VFM	3,691
LATS	3,885
Minerals And Waste Development	3
New Homes Infrastructure	3,401
Organisational Change	5,377
Other Revenue Grants Unapplied	879
Part time pensions	51
PSA Reward Grant	32
Schools	32,576
Second Homes Income	125
Street Light PFI (grant and scheme)	14,646
Waste Contract	1,925
	<hr/> <b>118,658</b>
<b>Total Reserves</b>	<hr/> <b>133,911</b> <hr/>

### **Section 25 report, Local Government Act 2003**

Section 25 of the 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
- 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. It is appropriate for this report to go first to Cabinet and then made available to the County Council in making its final decision.

The CIPFA guidance on reserves and balances provides the general framework for considering the adequacy of reserves. A risk assessment has been made of the cost and demand pressures on budgets, insurance liabilities, achievement of budget savings and adverse winter conditions which support the proposed level of balances of approximately £19m forecast for the end of 2012/13. This assessment has not changed significantly from last year and must also be set in the context of new contingency amounts proposed in the budget that mitigate the key risks that have been identified.

Similarly the level of reserves is scrutinised each year and the protocol on the purpose, use, control and review of each reserve has previously been agreed and remains in place. Details of the key earmarked reserves is contained in Section 9 of the revenue report, but in addition, Schools have one of the largest reserves at a projected £37.0m supporting their delegated budgets funded by ring-fenced specific grant. The most important reserves for other services in terms of the medium term view are the grant equalisation reserve (used to help match grant loss), corporate efficiency reserve and the insurance reserve.

Section 25 concentrates primarily on the uncertainty within the budget year rather than the greater uncertainties in future years. However future uncertainties, particularly for the County Council in respect of the impact of the last two years of the Comprehensive Spending Review and the Local Government Resource Review also inform the need for reserves and balances in the medium term. The current financial position involving significant savings targets increases the risk of overspending, together with demand led spending pressures during a recession and potentially periods of higher inflation.

The budget report is the conclusion of a detailed process of prior consultation and consideration throughout the current year by Cabinet.

The County Council's policy on balances is to hold a minimum prudent level which on the basis of the risk assessment is 2.6% of net expenditure. This is a level which is comparable with the last three years, and remains relatively low compared with other equivalent local authorities. The risks associated with being a floor authority and thus receiving the biggest reduction in government grant and of needing to achieve significant savings in service expenditure to balance the budget continue to justify this level of reserves. The risks associated with the

achievement of budgeted savings have increased significantly during 2011/12 and into 2012/13 but these are covered by specific contingencies in the revenue budget for next year as set out in Section 9 of the report.

The level of uncertainty for the budget year is also narrowed down as the budget strategy is developed during the year and defined in the performance and risk management and earmarked reserves paragraphs in the budget report.

In setting the budget the County Council should have regard to the strategic, operational and financial risks facing the County Council. The County Council has an overall risk management framework which covers these issues. The forward budget plan and reserves take into account the main risks and uncertainties, including:

- Inflation
  - a pay freeze has operated in 2010/11 and 2011/12 and the budget assumes a continuing pay freeze in 2012/13 on the basis set out by the Chancellor of the Exchequer in the Emergency Budget in June 2010.
  - price inflation has been set at 2.5%. Given the sharp increase in both the retail and consumer price indices during the last year, containing price increases at an average 2.5% may prove challenging, depending upon market factors.
  - short-term interest rates remain low following the crisis in the Eurozone in Autumn last year and base rates are not expected to increase for some time. However, this does mean that any long term borrowing carried out in 2012/13 attracts a high 'cost of carry' since longer term rates are influenced by gilt prices and not the current base rate. Decisions on when long term borrowing is undertaken will therefore have an impact on the revenue account next year.
- Pay drift
  - increments are not budgeted for and services will need to secure efficiency savings to offset these. Past trends suggest that this can be managed.
  - there is a substantial potential liability from equal pay claims arising from the pay and benefits review. None of the claims has yet been considered by the employment tribunal and the County Council has taken the appropriate steps and measures in preparing to deal with this matter.
- Employer contributions to the Hampshire Local Government Pension will remain at their current level for the three year period,

2011/12 to 2013/14, equivalent to 19.1% of pensionable pay, following the actuarial review at 31 March 2010.

- Savings and redeployments built in to the budget
  - The savings required in 2012/13 are £45m on top of the £55m required for 2011/12. Whilst performance in meeting the first year savings has been strong during 2011/12 the impact of further savings will need to be subject to rigorous review by Executive Members and by the Cabinet, and savings plans will need to be approved and monitored during the course of the year.
- Income
  - there is an annual review to maximise and increase income at least in line with costs which is referred to in Section 7 of the report and reported in greater detail to Executive Members. The increased reliance on the generation of income as a means of closing the budget gap exposes the County Council to greater levels of risk compared to reducing budgets outright. The total level of 'sold services' and other income contributions across the County Council is now in the region of £120m and a specific risk contingency has therefore been included to mitigate this risk in the revenue budget.
- Achievement of budget plan
  - There is a well established and sound history of very close achievement of outturn to budgets, which is further supported by performance during 2011/12 which is predicting spend within budget across all Departments even though £55m has been removed in the year (after allowing for the slippage of £2.5m of savings delivery covered by central contingencies)
- Strength of financial information and reporting arrangements
  - Budget monitoring throughout the year was altered to move to a much greater risk based approach across the Departments in the County Council.
  - Furthermore, this detailed monitoring of spend against budget (on a bottom up basis) was supplemented by top down performance monitoring of achievement of savings throughout the year, which has regularly been reported to Cabinet by the Chief Executive. This will continue for 2012/13 in order to ensure delivery of the second year of 8% savings.

- Capital programme
  - capital strategy, asset management plans and the local transport plan have all previously been accredited with the highest scores in the former comprehensive performance assessment.
  - the slow down of the property market produced a temporary shortfall of capital financing resources in 2008/09 and 2009/10. Additional revenue contributions to capital were made in both in 2008/09 and 2009/10 and allowance has been made in the budget for additional temporary unsupported borrowing to cover the delay in achieving planned disposals.
  - the Government's decision to provide support for capital schemes from 2011/12 onwards solely by means of capital grant removes the problem of support through the formula grant system for borrowing allocations being ineffective, because of the damping of formula grant.
- Level of borrowing and outstanding debt
  - the issues are fully covered in the treasury management strategy and prudential indicators appendix to the budget report.
  - the current policy on temporary unsupported borrowing for specific projects results in the financing costs being contained within the forward budget plan cash limits without an additional impact on the council tax payer.
  - despite much lower capital receipts than originally planned since 2008/09, it has been possible to avoid the need for temporary unsupported borrowing to cover a general shortfall in capital financing resources.
- Contingent Liabilities
  - the County Council self-insures, so it finances all its own liability claims. The liabilities are uncertain but to cover these a provision is maintained for known liability claims and a reserve is maintained to deal with fluctuations in liabilities and in the level of fire damage reinstatement, which now stands at £16.7m.
- Annual Governance Statement
  - the Treasurer has the responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
  - the review of the effectiveness of the system of internal financial control is informed by the work of the managers within the

County Council, by internal audit and the Audit Commission in its annual governance report and other reports.

- the Audit Committee receives and reviews the annual governance statement and the external audit governance report.
- Audit Commission
  - gave an unqualified opinion on the 2010/11 accounts, and an unqualified opinion on the County Council's arrangements to secure economy, efficiency and effectiveness in its use of resources in 2010/11.
- Other risks
  - there are potential legal claims outstanding and other possible risks which past trends suggest can be met from balances if required. There is no known significant risk or liability which requires a provision, contingency or reserve not already allowed for in the budget report.
  - changes in function and funding arrangements. The main risk relates to the arrangements for transferring funding from the County Council in respect of central services to schools, as schools opt for Academy status. The loss has been allowed for in the 2012/13 budget without assuming any offsetting savings will necessarily arise in the year.
  - though government grants have been confirmed for 2011/12 and 2012/13, the County Council's formula grant calculated from the formula is still £19.3m (10.4%) below the grant floor in 2011/12. The policy on the use of the grant equalisation reserve has provided mitigation against grant loss in previous years, but the contribution reaches its peak in 2011/12 and 2012/13.

Provided that the County Council considers the above factors 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.

Carolyn Williamson

County Treasurer

24th January 2012

## **Capital Investment Priorities – Explanatory Narrative**

### **Asset Management**

**Non – Schools Estate Planned Repairs and Maintenance** – Like many other local authorities, the County Council has liabilities in respect of its assets and infrastructure, although past investment and sensible management of our assets has meant that the level of back log maintenance is still within manageable boundaries compared to most other authorities. This additional funding will help to increase the balance between planned and reactive maintenance across the non-schools estate, thereby reducing potential reactive maintenance in the future.

**Coastal Sites Programme and Flood Defence** – The County Council has significant responsibilities both in respect of coastal sites and flood defence. This additional funding will be used to identify priority areas within the County that require immediate works and will also be used to attract matched funding and other contributions from the environment agency and other organisations.

### **Children’s Services**

**Children’s Services School Places Planning** – School places planning is notoriously difficult to get right given the number of variables involved and the fact that there is a mixture of some surplus places and particular hotspots throughout the County. A significant amount of work has been undertaken to assess needs over the next four years and beyond and translate this into a requirement for new primary and secondary school places Taking into account the need for permanent build versus temporary solutions, which obviously has a significant impact on the overall cost. Possible funding sources in the form of government grant and in particular developers contributions have also been assessed based on the indicative programme, and the £27.9 million is the amount required to meet the commitments that have been identified over the next four years.

It is therefore proposed to allocate funding to meet this shortfall over the life of the program, but it should be noted that there are significant risks around the assumptions made for developers contributions and costs which will obviously become clearer as the program progresses and as individual schemes are developed, costed and funded. The £27.9 million is a maximum envelope and the release of funding is subject to the Executive Member approval regarding individual schemes.

**Provision for Asset Repair, Upgrade and Replacement** – Additional funding has been provided to increase planned repairs and maintenance on the non-schools estate. Similarly, there are many pressures within the schools estate in respect of buildings and equipment. A total of £4 million per annum for the next two years is therefore proposed to address priority spending in areas such as:

- Replacement of poor condition temporary classrooms
- Budgets for integrated community equipment
- Safety improvements in toilets, changing rooms and school kitchens
- Upgrading and repair of early years facilities
- Essential repairs and refurbishment of children's homes and study centres

**Special Educational Needs** – This sum represents initial feasibility funding to look at the options for provision of SEN for pupils with Autistic Spectrum Disorder (ASD) and girls with Behavioural, Emotional and Social Difficulties (BESD). Specific provision could generate savings through the reduction of out of County placements, but further work is required to assess the value of these against the potential capital investment costs.

### **Economic Development**

**Starter Units / Workshops** – This funding represents initial feasibility money to develop this programme to facilitate micro business start ups and to fill gaps in the commercial property market. Any future funding would be subject to a full business case and risk analysis given the relatively high failure rate in start up businesses.

### **Energy**

**Energy Strategy Feasibility Funding** – There are many options and technologies currently on the market that can be used either to reduce the reliance on energy or to generate your own energy in a sustainable way. The Cabinet had previously decided to pursue a program of solar photovoltaic cell installations but with the changes to the feed in tariffs announced last year this program has been put on hold as the financial business case no longer stacks up. The £250,000 of funding will therefore be used to look at other options for energy schemes such as energy performance contracting and district heating and to develop individual business cases prior to the production of an energy strategy for the Council.

### **Information Technology**

**Children's Services Social Care System** – The amount asked for at this stage is feasibility funding to look at the options for replacement of the system. The current case management system is not fit for purpose, and in such a sensitive area this potentially exposes the County Council to risks that are not acceptable. Total costs could be in the region of £2.5m but this is a high level estimate at this stage until further detailed work can be carried out to provide a more accurate assessment.

**IT Modernisation / Efficiency** – The County Council already has a heavy reliance on information technology as part of its back-office functions and in delivering specific services on the ground. This funding will be used in a variety of

ways, firstly, to help replace key assets which are reaching the end of their useful life, to provide invest to save funding for service modernisation and to support changes that are anticipated as part of the Corporate Services Review and the potential joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service should a positive business case be approved in due course.

**Rural Broadband** - Funding for rural broadband has been announced for all of Hampshire based on a 90% coverage model and a more detailed business case is being developed to progress this and to secure the available funding from BDUK. The net position shown in the table assumes that of the £20 million total estimated cost, £5 million will come from the BDUK funding, £3.7 million from the County Council and £1.3 million from District Council contributions. The figures in the revenue and capital reports assume that the balance of £10 million will be funded from prudential borrowing the costs of which will be recovered by some form of commercial income stream.

However, if the broadband bid is approved by BDUK, the County Council will then undertake a procurement process that will ask potential providers to put forward options for the overall delivery and funding of broadband across the County. This could mean that the County Council's only liability towards the scheme is the £3.7 million match funding highlighted above, but this is entirely dependent on the bids received and commercial model adopted going forward.

**Schools Managed Service** – Successful pilot schemes have already been implemented whereby the County Council purchases hardware and software on behalf of schools and they then pay an annual revenue charge for the equipment and a full range of technical support provided by the IT Department. There are already 104 Schools that have expressed an interest in this service, but significant initial funding is required to meet the costs of equipment and to provide the technical support service.

The funding for 2012/13 is based on fairly firm indications from schools that they wish to take up the service in that year, the larger provision in 2013/14 is based on a wider rollout but will be dependent on the number of schools wishing to take up the service, the extent to which the service is actively marketed and whether or not the County Council wish to consider extending the services to schools outside of Hampshire. A more detailed business case and rollout plan will be produced for consideration in due course.

**HPSN Growth** – This funding represents feasibility funding to develop a full business case for HPSN growth in the future. This would fit within the timescales for joint working with Hampshire Constabulary and Hampshire Fire and Rescue Service and could be developed with them assuming joint working arrangements with them are approved later this year. Total costs could be up to £5m.

### **Strategic Land Development**

**Strategic Land Promotion, Development and Disposal** – Recent economic conditions have had an impact on the general programme of asset sales and the ability of the Council to maintain its past level of capital receipts. In addition to this general programme the council also has strategic landholdings across the County which could be suitable as major development sites in the future. The costs

associated with developing these major sites can be significant and will vary depending on the complexity of the site and the level of influence the council wishes to retain over the type of development to be pursued.

The additional funding shown in the table will be used to progress the sites, however the exact phasing and final costs are dependent on a significant number of complex interrelated variables and any decisions on the sites would be subject to County Council approval in the future in any event.

**Policy and Resources Capital Programme Feasibility Budget** – Although this budget specifically refers to Policy and Resources capital programme it actually represents the reinstatement of a feasibility budget mainly in respect of property services involvement in feasibility work for other major schemes across the council. This includes transformation programme within Adult Services, assisting with school places planning, exploring opportunities for development and asset sharing with other districts and public bodies and acting as the lead authority on a national basis for the Capital Asset Pathfinder initiative.

### **Strategic Project Investment**

**Extra Care Housing** – Extra care housing was approved by Cabinet, working to a maximum limit of £45m of capital investment which will be released as detailed business cases come forward. The original model assumed that all of the costs would be met by the sale of existing assets and prudential borrowing, The costs of which would be met through revenue savings in the future cost of care.

As part of the approval, £3 million of direct funding from the invest to save reserve was granted to the project for the phase 1 consolidation element of the overall scheme. The table in this appendix assumes that a further cash flow contribution to the scheme of £10.2 million will be made as recommended by the Leader of the Council. This brings the total direct contribution to the Extra Care Housing scheme to £13.2 million which is equivalent to the council tax freeze grant for 2012/13 which is being paid on a one-off basis and represents additional cash funding during the year which can be used to support this programme.

**Queen's Diamond Jubilee** – Initial funding for progressing the Jubilee Country Park was included within the report to Executive Member for P&R decision day on 27<sup>th</sup> October. It is almost certain however that the County Council will wish to progress other initiatives to commemorate this momentous occasion and it is therefore recommended that additional funding is set aside for this purpose.

### **Strategic Transport Infrastructure**

**Bus Rapid Transit Phases 1(b) and 3** – This funding represents feasibility funding to explore options for realising this project which extends the existing scheme (1a) to Gosport town centre, bus station and ferry terminal and provide a link to the proposed waterfront development. Total scheme cost are estimated in excess of £13m and this initial funding would be used to look at options for bidding to Central Government on a matched funding basis and/or finding partner contributions to assist with the overall funding of the scheme.

**Transport Major Project Design and Bidding** – Over the last few years general capital allocations and specific funding for major transport projects have been severely restricted by the Government. However there have been recent signs that new funding may start to become available, For example, the additional £500 million that was announced last year for infrastructure projects. The County Council wants to place itself in a very strong position to be able to respond to potential opportunities for bidding for funding and to have funds available to produce well designed, high quality projects as part of that process. This funding will therefore provide the capacity to undertake this work and provide resources for matched funding where it is sensible to do so.

**Additional Capital Proposals - Summary**

<b>Dept</b>	<b>Capital Theme / Project Description</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>Later</b>	<b>Total</b>	<b>Potential Funding</b>	<b>Net</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Asset Management</b>								
CCBS	Non-schools estate planned repairs and maintenance	2,500	2,500	-	-	5,000	-	5,000
ETE	Coastal sites programme and capital match funding for EA grant-in-aid schemes and minor flood defence works	1,000	500	-	-	1,500	-	1,500
		<b>3,500</b>	<b>3,000</b>	<b>0</b>	<b>0</b>	<b>6,500</b>	<b>0</b>	<b>6,500</b>
<b>Children's Services</b>								
CS	School places planning (net shortfall of resources)	-7,258	16,314	7,807	11,085	27,948	-	27,948
CS	Provision for asset repair, upgrade and replacement	4,000	4,000	-	-	8,000	-	8,000
CS	Special educational needs	100	-	-	-	100	-	100
		<b>-3,158</b>	<b>20,314</b>	<b>7,807</b>	<b>11,085</b>	<b>36,048</b>	<b>0</b>	<b>36,048</b>
<b>Economic Development</b>								
ETE	Strategic sites and premises – starter units / workshops	100	-	-	-	100	-	100
		<b>100</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>0</b>	<b>100</b>

Dept	Capital Theme / Project Description	2012/13	2013/14	2014/15	Later	Total	Potential Funding	Net
		£000	£000	£000	£000	£000	£000	£000
<b>Energy</b>								
ETE	Energy strategy – feasibility funding	125	125	-	-	250	-	250
		<b>125</b>	<b>125</b>	<b>0</b>	<b>0</b>	<b>250</b>	<b>0</b>	<b>250</b>
<b>Information Technology</b>								
CCBS	Children's Services social care system – feasibility	100	-	-	-	100	-	100
CCBS	IT modernisation / efficiency	1,000	1,000	-	-	2,000	-	2,000
CCBS	Rural broadband	1,500	9,250	9,250	-	20,000	(16,270)	3,730
CCBS	Schools managed IT service	2,000	6,000	-	-	8,000	(8,000)	0
CCBS	HPSN growth	50	50	-	-	100	-	100
		<b>4,650</b>	<b>16,300</b>	<b>9,250</b>	<b>0</b>	<b>30,200</b>	<b>(24,270)</b>	<b>5,930</b>
<b>Strategic land development</b>								
CCBS	Strategic land response / promotion, development and disposal	1,000	2,000	-	-	3,000	-	3,000
CCBS	Reinstatement of Policy & Resources Feasibility capital programme budget	430	430	-	-	860	-	860
		<b>1,430</b>	<b>2,430</b>	<b>0</b>	<b>0</b>	<b>3,860</b>	<b>0</b>	<b>3,860</b>
<b>Strategic project investment</b>								
AS	Extra care housing (assumes contribution from revenue)	14,200	11,200	5,600	14,000	45,000	(34,800)	10,200
CCBS	Queen's Diamond Jubilee	250	-	-	-	250	-	250
		<b>14,450</b>	<b>11,200</b>	<b>5,600</b>	<b>14,000</b>	<b>45,250</b>	<b>(34,800)</b>	<b>10,450</b>

Dept	Capital Theme / Project Description	2012/13	2013/14	2014/15	Later	Total	Potential Funding	Net
		£000	£000	£000	£000	£000	£000	£000
<b>Strategic transport infrastructure</b>								
ETE	Bus Rapid Transit (BRT) Phases 1B and 3 - Feasibility	100	-	-	-	100	-	100
ETE	Transport Major Project Design and Bidding Funding	1,000	1,000	-	-	2,000	-	2,000
		<b>1,100</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>2,100</b>	<b>0</b>	<b>2,100</b>
<b>Total</b>		<b>22,197</b>	<b>54,369</b>	<b>22,657</b>	<b>25,085</b>	<b>124,308</b>	<b>(59,070)</b>	<b>65,238</b>

## Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15

### 1. Summary

- 1.1 The Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Treasury Management Code) and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Department for Communities and Local Government's Investment Guidance.
- 1.2 Treasury Management is about the management of risk. The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk.
- 1.3 As per the requirements of the Prudential Code, the Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18 February 2010.
- 1.4 All treasury activity will comply with relevant statute, guidance and accounting standards.
- 1.5 The prudential indicators which are all covered in Annex B are:
  - **net borrowing and the Capital Financing Requirement**
  - **estimates of capital expenditure and capital financing**
  - **ratio of financing costs to net revenue stream**
  - **Capital Financing Requirement**
  - **actual external debt**
  - **incremental impact of capital investment decisions**
  - **authorised limit and operational boundary for external debt**
  - **adoption of the CIPFA Treasury Management Code**
  - **gross and net debt**
  
  - **upper limits for fixed interest rate exposure and variable interest rate exposure**

- **maturity structure of fixed rate borrowing**
- **credit risk**
- **upper limit for total principal sums invested over 364 days.**

1.6 A glossary of terms is provided in Annex E.

**1.7 This Appendix recommends to the County Council that:**

- **The Treasury Management Strategy Statement and Investment Strategy for 2012/13, although this would also be adopted for the rest of 2011/12, be approved.**
- **The Prudential Indicators for 2012/13, 2013/14 and 2014/15 be approved – Annex B.**
- **The Minimum Revenue Provision (MRP) Statement be approved – Section 10.**

## 2. Capital Financing Requirement

- 2.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The CFR, together with Usable Reserves, are the core drivers of the Council's Treasury Management activities.
- 2.2 The Council's current level of debt and investments is set out at Annex A.
- 2.3 The Council is able to borrow funds in excess of the current level of its CFR up to the projected level in 2014/15. The Council is likely to only borrow in advance of need if it considers that the benefits of borrowing at interest rates now compared to where they are expected to be in the future, outweighs the current cost and risks associated with investing the proceeds until the borrowing is actually required.
- 2.4 The forecasted movement in the CFR in coming years is one of the Prudential Indicators (PIs). The movement in actual external debt and usable reserves combine to identify the Council's borrowing requirement and potential investment strategy in the current and future years.

**Table 1: Balance Sheet Summary Analysis**

	31/03/2012 Estimate £m	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
<b>Total Capital Financing Requirement</b>	715.9	735.2	786.4	804.1
<b>Less:</b>				
Existing Profile of Borrowing	-387.7	-379.1	-368.6	-354.1
Other Long Term Liabilities	-114.7	-138.7	-163.5	-183.3
<b>Cumulative Maximum External Borrowing Requirement</b>	<b>213.5</b>	<b>217.4</b>	<b>254.3</b>	<b>266.7</b>

- 2.5 Table 1 shows that the capital expenditure plans of the Council are currently not being wholly funded from external borrowing sources, as the Council's internal balances and reserves are being used to avoid the need for further external borrowing.

### **3. Interest Rate Forecast**

- 3.1 The economic and interest rate forecast provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex C. The Council will reappraise its strategies from time to time in response to evolving economic, political and financial events.

### **4. Borrowing Strategy**

- 4.1 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Annex C indicates that an acute difference between short and longer term interest rates is expected to continue. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment. Whilst the cost of carry can be assumed to be a reasonably short-term issue since borrowing is often for longer dated periods (anything up to 50 years) it cannot be ignored against a backdrop of uncertainty and affordability constraints in the Council's wider financial position.
- 4.2 As indicated in Table 1, the Council has a gross borrowing requirement of £217.4m in 2012/13 but has sufficient balances and reserves to avoid the need for significant external borrowing. By essentially lending its own surplus funds to itself, the Council is able to minimise borrowing costs and reduce overall treasury risk by reducing the level of its external investment balances.

### **5. Sources of Borrowing and Portfolio Implications**

- 5.1 In conjunction with advice from its treasury advisor, the Council will keep under review the following borrowing sources:
- Public Works Loan Board (PWLB)
  - local authorities
  - commercial banks
  - European Investment Bank
  - money markets
  - capital markets (stock issues, commercial paper and bills)
  - structured finance
  - leasing.

- 5.2 The cost of carry has resulted in an increased reliance upon shorter dated and variable rate borrowing. This type of borrowing injects volatility into the debt portfolio in terms of interest rate risk but is counterbalanced by its affordability and alignment of borrowing costs with investment returns. The Council's exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference or spread between variable rate and longer term borrowing costs. A narrowing in the spread by 0.5% will result in an immediate and formal review of the borrowing strategy to determine whether a degree of exposure to shorter dated and variable rates is maintained or altered.
- 5.3 The Council has £73.0m exposure to LOBO loans (Lender's Option Borrower's Option) of which all of these can be "called" within 2012/13. A LOBO is called when the lender exercises its right to amend the interest rate on the loan at which point the borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender's discretion, although the likelihood of a lender exercising their right to increase the interest rate on a LOBO loan in the current low interest rate environment is negligible.
- 5.4 Any LOBOs called will be discussed with the treasury advisers prior to acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty, i.e., the revised terms will not be accepted.

## **6. Debt Rescheduling**

- 6.1 The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs.
- 6.2 The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:
- savings in risk adjusted interest costs
  - rebalancing the interest rate structure of the debt portfolio
  - changing the maturity profile of the debt portfolio.
- 6.3 Borrowing and rescheduling activity will be reported to the Council in the Annual Treasury Management Report and the regular treasury management reports presented to the Council.

## 7. Annual Investment Strategy

- 7.1 In accordance with Investment Guidance issued by the Department for Communities and Local Government (DCLG) and best practice, the Council's primary objective in relation to the investment of public funds remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yields earned on investments are important but secondary considerations.
- 7.2 Credit markets remain in a state of distress as a result of the excessive and poor performing debt within the financial markets. In some instances, Greece and Italy being the most notable examples, the extent and implications of the debt it has built up have led to a sovereign debt crisis and a banking crisis with the outcome still largely unknown. It is against this backdrop of uncertainty that the Council's investment strategy is framed.
- 7.3 Investments are categorised as "Specified" or "Non-Specified" within the investment guidance issued by the DCLG. Specified investments are sterling denominated investments with a maximum maturity of one year. They also meet the "high credit quality" as determined by the Council and are not deemed capital expenditure investments under Statute. Non-specified investments are, effectively, everything else.
- 7.4 The types of investments that will be used by the Council and whether they are specified or non-specified are as follows:

**Table 2: Specified and Non-Specified Investments**

Investment	Specified	Non-Specified
Term deposits with banks and building societies	✓	✓
Term deposits with other UK local authorities	✓	✓
Certificates of deposit with banks and building societies	✓	✓
Gilts	✓	✓
Treasury Bills (T-Bills)	✓	x
Bonds issued by Multilateral Development Banks	✓	✓
Local Authority Bills	✓	x
Commercial Paper	✓	x
Corporate Bonds	✓	✓
AAA rated Money Market Funds	✓	x
Other Money Market and Collective Investment Schemes	✓	✓
Debt Management Account Deposit Facility	✓	x

- 7.5 A number of changes have been implemented to the investment strategy for 2012/13 in response to changes in the DCLG Guidance and evolving conditions in financial markets. This results in the inclusion of corporate bonds which the DCLG have indicated will become an eligible non-capital investment from 1 April 2012. However, the principal amendments are in relation to the individual institutions with which the Council is prepared to lend its funds.
- 7.6 The Council and its advisors, Arlingclose Ltd, select countries and financial institutions after analysis and ongoing monitoring of:
- published credit ratings for financial institutions (minimum long term rating of A- or equivalent for UK counterparties; AA+ or equivalent for non-UK sovereigns) – this is lower than the A+ minimum adopted in 2011/12 and is in response to downgrades in credit ratings below A+ of many institutions considered to be systemically important to the UK financial system
  - sovereign support mechanisms
  - credit default swaps (where quoted)
  - share prices (where available)
  - economic fundamentals, such as a country's net debt as a percentage of its GDP
  - corporate developments, news, articles, market sentiment and momentum
  - subjective overlay – or, put more simply, common sense.

Any institution can be suspended or removed should any of the factors identified above give rise to concern.

The countries and institutions that meet the criteria for term deposits, Certificates of Deposit (CDs) and call accounts are included in Annex D. It should be noted that given increasing stress in financial markets and expansion of risks presented by the crisis in the Eurozone, the Council currently restricts its cash investments to UK banks, building societies, and other UK local authorities, and that Annex D sets out a wider list which would be appropriate if conditions were to change over the course of 2012/13 and investment counterparty risks were to reduce significantly.

It remains the Council's policy to make exceptions to counterparty policy established around credit ratings, but this is conditional and directional. What this means is that an institution that meets certain criteria may nonetheless still be suspended, but institutions not meeting the criteria will not be added.

- 7.7 **Council's Banker** – The Council banks with NatWest. At the current time, it meets the minimum credit criteria of A- (or equivalent) long term. Even if the credit rating falls below the Council's minimum

criteria, NatWest will continue to be used for short term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

## **8. Investment Strategy**

- 8.1 With short term interest rates low for even longer, an investment strategy will typically result in a lengthening of investment periods, where cash flow permits, in order to lock in higher rates of acceptable risk adjusted returns. The problem in the current environment is finding an investment counterparty providing acceptable levels of counterparty risk.
- 8.2 In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved investment counterparties in order to achieve a diversified portfolio of prudent counterparties, investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved.
- 8.3 The Investment Strategy will provide flexibility to invest cash for periods of up to 364 days in order to access higher investment returns in the current low interest rate environment, although lending to UK local authorities can be for up to two years. Given that the existing confidence in the banking sector is at a low ebb and to increase levels of capital security, the Council intends to make greater use of lending to other local authorities which are commonly interested in borrowing for periods of up to two years. To facilitate this, the upper limit for lending beyond 364 days has been increased to £120m. In the case of deposits placed with UK local authorities, agreeing to re-lend these monies up to six months ahead of existing maturity dates for up to a further two years from such maturity dates will also be considered permissible. This will be shortened in respect of those institutions with a higher perceived credit risk, based on the creditworthiness criteria outlined in paragraph 7.6. For example, new investment deposits with banks and building societies are restricted to periods of up to 3 months at the present time.
- 8.4 An exception to this would be lending of up to a further £15m to UK local authorities or other similarly highly credit rated counterparties for up to 25 years specifically in relation to forecasted cash flow surpluses on the Council's 25-year Street Lighting PFI project. The objective would be to secure an investment income stream for the project based on a targeted interest rate of 4.0%.
- 8.5 Cash investments with longer than 364 days to maturity will be restricted to a maximum of £120m, with a maximum investment being placed with one institution of £20m.

**9. The Use of Financial Instruments for the Management of Risks**

- 9.1 Currently, local authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives.

- 9.2 Should this position change, the Council may seek to develop a detailed and robust risk management framework governing the use of derivatives, but this change in strategy will require the Council's approval.

## **10. 2012/13 Minimum Revenue Provision Statement**

- 10.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under Section 21(1A) of the Local Government Act 2003.

- 10.2 The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

*NB This does not preclude other prudent methods.*

- 10.3 The MRP in 2012/13: Options 1 and 2 may be used only for supported expenditure which is where the borrowing costs are supported by extra revenue grant from the Government. Methods of making prudent provision for self financed expenditure include Options 3 and 4 (which may also be used for supported expenditure if the Council chooses).
- 10.4 The MRP Statement will be submitted to the Council before the start of the 2012/13 financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement should be put to the Council at that time.
- 10.5 The Council will apply Option 1/Option 2 in respect of supported capital expenditure and Option 3/Option 4 in respect of unsupported capital expenditure.

And

MRP in respect of leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

## **11. Monitoring and Reporting on the Treasury Outturn and Prudential Indicators**

- 11.1 Treasury activity is monitored quarterly and reported internally to the County Treasurer. The Prudential Indicators will be monitored through

the year by the County Treasurer and reported as set out below:

The County Treasurer will report to the Council on treasury management activity / performance and Prudential Indicators as follows:

- (a) a mid-year and year end review of treasury activity against the strategy approved for the year.
- (b) The Council will produce an outturn report on its treasury activity no later than 30 September after the financial year end.
- (c) The Audit Committee will be responsible for the scrutiny of treasury management activity and practices.

## **12. Other Items**

### 12.1 Training

CIPFA's Code of Practice requires the *responsible officer*, which is the County Treasurer, to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

A treasury management workshop jointly presented by the County Treasurer and Arlingclose on 31 January 2012 provided members with an update in treasury matters.

The training needs of the Council's treasury management staff are subject to regular review.

### 12.2 Investment consultants

The County Treasurer uses Arlingclose Ltd as external treasury advisers for information, advice and assistance relating to borrowing and investment.

## Existing Debt and Investment Portfolio Position

	31 December 2011 Actual Portfolio £m
<b>External Borrowing:</b>	
Fixed Rate – PWLB	-316.9
Fixed Rate – Market	0
Variable Rate – PWLB	0
Variable Rate – Market	-73.0
Total External Borrowing	-389.9
<b>Other Long Term Liabilities:</b>	
- Finance Lease (Waste Contract)	-82.1
- Street Lighting PFI	-12.4
<b>Total Gross External Debt</b>	<b>-484.4</b>
<b>Investments:</b>	
<i>Managed in-house</i>	
- Short-term monies (Deposits / monies on call / MMFs)	257.9
- Long-term investments (maturities over 12 months)	60.0
<b>Total Investments</b>	<b>317.9</b>

## Prudential Indicators 2012/13 – 2014/15

### Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

### Net Borrowing and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council should ensure that the net external borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional increases to the CFR for the current and next two financial years.

The County Treasurer reports that the Council had no difficulty meeting this requirement in 2011/12, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

### Estimates of Capital Expenditure and Capital Financing

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

<b>Capital Expenditure</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
<b>Total</b>	<b>188.4</b>	<b>201.6</b>	<b>159.8</b>

Capital expenditure will be financed as follows:

<b>Capital Financing</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
Capital receipts	25.5	14.7	5.7
Government grants and other income	99.9	75.4	97.1
Revenue contributions	30.1	57.5	32.2
Contributions from reserves	12.0	0.0	0.0
<b>Sub-total</b>	<b>167.5</b>	<b>147.6</b>	<b>135.0</b>
Borrowing (including internal)	20.9	54.0	24.8
<b>Total Financing</b>	<b>188.4</b>	<b>201.6</b>	<b>159.8</b>

### Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2012/13 Estimate %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>
<b>Total</b>	<b>9.56</b>	<b>9.66</b>	<b>9.92</b>

## Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	31/03/2013 Estimate £m	31/03/2014 Estimate £m	31/03/2015 Estimate £m
<b>Total</b>	<b>735.2</b>	<b>786.4</b>	<b>804.1</b>

## Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2011	£m
Borrowing	402.2
Other Long Term Liabilities	
- Finance Lease (Waste Contract)	82.1
- Street Lighting PFI	12.4
<b>Total</b>	<b>496.7</b>

## Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on council tax. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2012/13 Estimate £	2013/14 Estimate £	2014/15 Estimate £
Borrowing costs	0.57	3.16	4.74
Running expenses and revenue contributions to capital	0.36	0.38	0.34
<b>Increase in Band D council tax</b>	<b>0.93</b>	<b>3.54</b>	<b>5.08</b>

The increase in borrowing costs in 2013/14 and 2014/15 reflects the proposed use of prudential borrowing to finance proposals for additions to the capital programme of schemes for Extra Care housing, rural broadband and the schools managed IT service.

### Authorised Limit and Operational Boundary for External Debt

The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured against all external borrowing items on the Balance Sheet, i.e., long and short term borrowing, overdrawn bank balances and long term liabilities. This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

<b>Authorised Limit for External Debt</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
Borrowing	680	700	700
Other Long Term Liabilities	140	170	190
<b>Total</b>	<b>820</b>	<b>870</b>	<b>890</b>

The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

The County Treasurer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council.

<b>Operational Boundary for External Debt</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
Borrowing	600	620	620
Other Long Term Liabilities	140	170	190
<b>Total</b>	<b>740</b>	<b>790</b>	<b>810</b>

### **Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the Council has adopted the principles of best practice.

<b>Adoption of the CIPFA Code of Practice in Treasury Management</b>
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting on 18 February 2010.

The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

### **Gross and Net Debt**

The purpose of this treasury indicator is to highlight a situation where the Council is planning to borrow in advance of need.

<b>Gross and Net Debt</b>	<b>31/03/2013 Authorised £m</b>	<b>31/03/2014 Authorised £m</b>	<b>31/03/2015 Authorised £m</b>
Outstanding Borrowing (at nominal value)	379.1	368.6	354.1
Other Long-term Liabilities (at nominal value)	138.7	163.5	183.3
<b>Gross Debt</b>	<b>517.8</b>	<b>532.1</b>	<b>537.4</b>
<b>Less: Investments</b>	<b>160.0</b>	<b>150.0</b>	<b>140.0</b>
<b>Net Debt</b>	<b>357.8</b>	<b>382.1</b>	<b>397.4</b>

*N.B. CIPFA has acknowledged that this indicator does not work as was intended and is working on a revised one. This indicator will be amended once revised guidance has been received from CIPFA.*

## Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limits for both fixed and variable rate exposure are based on the Operational Boundary and have been set to give the Council maximum policy flexibility.

	2012/13 Estimate £m	2013/14 Estimate £m	2014/15 Estimate £m
<b>Upper Limit for Fixed Interest Rate Exposure</b>	740	790	810
<b>Upper Limit for Variable Interest Rate Exposure</b>	740	790	810

## Maturity Structure of Fixed Rate Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period and, in particular, during the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	Existing level (or benchmark level)		
	Lower Limit at 31/03/11 %	Upper Limit for 2012/13 %	Upper Limit for 2012/13 %
under 12 months	2	0	50
12 months and within 24 months	2	0	50
24 months and within 5 years	10	0	50
5 years and within 10 years	15	0	75
10 years and within 20 years	28	0	75
20 years and within 30 years	39	0	75
30 years and within 40 years	4	0	100
40 years and within 50 years	0	0	100
50 years and above	0	0	100

## Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings for financial institutions (minimum long term rating of A- or equivalent for UK counterparties; AA+ or equivalent for non-UK sovereigns)
- sovereign support mechanisms
- credit default swaps (where quoted)
- share prices (where available)
- economic fundamentals, such as a country's net debt as a percentage of its GDP
- corporate developments, news, articles, market sentiment and momentum
- subjective overlay – or, put more simply, common sense.

Credit ratings continue to be the only indicator with prescriptive values. Other indicators of creditworthiness are considered in relative rather than absolute terms.

## Upper Limit for Total Principal Sums Invested over 364 Days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

<b>Upper Limit for total principal sums invested over 364 days</b>	<b>2011/12 Approved £m</b>	<b>2011/12 Revised £m</b>	<b>2012/13 Estimate £m</b>	<b>2013/14 Estimate £m</b>	<b>2014/15 Estimate £m</b>
	<b>60.0</b>	<b>120.0</b>	<b>120.0</b>	<b>100.0</b>	<b>80.0</b>

## Arlingclose's Economic &amp; Interest Rate Forecast – December 2011

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
<b>Official Bank Rate</b>													
Upside risk					0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk													
<b>1-yr LIBID</b>													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.75	1.75	1.75	1.75	1.80	1.85	1.95	2.00	2.10	2.20	2.30	2.40	2.40
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>5-yr gilt</b>													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	1.30	1.35	1.40	1.50	1.60	1.70	1.80	2.00	2.10	2.30	2.40	2.50	2.50
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>10-yr gilt</b>													
Upside risk	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	2.30	2.40	2.45	2.50	2.55	2.60	2.70	2.75	2.80	2.85	2.90	3.00	3.00
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>20-yr gilt</b>													
Upside risk	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.05	3.05	3.10	3.20	3.25	3.30	3.35	3.40	3.45	3.50	3.60	3.75	3.75
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25
<b>50-yr gilt</b>													
Upside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Central case	3.40	3.50	3.60	3.70	3.80	3.90	4.00	4.00	4.00	4.10	4.20	4.25	4.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

- Conventional monetary policy has become largely redundant; the Bank of England and the US Federal Reserve have signalled their respective official interest rates will be on hold through to the end of 2012. It could be 2016 before official UK interest rates rise.
- The UK's safe haven status, the direct effect of QE and minimal prospect of an increase in policy rates are expected to keep gilt yields at their lows in the near term.
- A disorderly outcome to the Eurozone sovereign crisis remains a key economic, credit and political risk.

**Underlying Assumptions:**

- Financial market stress is expected to remain a feature of 2012. Rates within Interbank markets (where banks fund the majority of their day-to-day operations) have continued to climb. This dynamic was a characteristic of the 2008 banking crisis and whilst the authorities have flooded the markets with liquidity, it is still a strong indicator of market risk.
- Inflation has moderated back to 4.2% in December 2011 from what was considered to be its peak of 5.2% reached in September 2011. CPI is expected to drop gradually back towards the Bank of England's 2% target as the January 2011 VAT increase,

the surge in oil prices and the large energy price hikes fall out of the twelve month comparison.

- Recent data and surveys suggest that since the Summer the UK economy has lost the admittedly fragile momentum. Business and consumer surveys point to continued weakness in coming months. Public spending cuts, austerity measures, credit constraints, low business and consumer confidence could result in the economy stalling (Q3 excepted, when the 2012 Olympics will provide a temporary boost) and most likely pressure the Bank of England to provide further QE.
- Faltering global growth will not be helped by the considerable uncertainty and expansion of risks presented by the crisis in the Eurozone and gridlock in the US going into an election year. The knock-on effects could in turn weigh on growth in China and emerging market countries.
- Gilt supply is expected to be higher in 2012-13 than previously forecast by the Treasury. However, over the short-term, gilts will retain their safe-haven status as euro area contagion risks grow.
- Sizeable European bond redemptions and refinancing (Italy in particular) in the first half of 2012 remain significant challenges. Headwinds to fiscal convergence and treaty changes could intensify downgrade pressures on the AAA core nations as well as peripheral countries. The effectiveness of the European Financial Stability Fund (EFSF) may prove limited, increasing the possibility of a sovereign failure or the break-up of the euro area.

## Recommended Sovereign and Counterparty List

<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limit £m</b>
UK	NatWest	60
UK	Lloyds TSB	60
UK	Barclays	60
UK	HSBC	60
UK	Nationwide Building Society	60
UK	Santander UK	60
UK	Standard Chartered	60
Australia	Australia and NZ Banking Group	10
Australia	Commonwealth Bank of Australia	10
Australia	National Australia Bank	10
Australia	Westpac Banking Corp	10
Canada	Bank of Montreal	10
Canada	Bank of Nova Scotia	10
Canada	Canadian Imperial Bank of Commerce	10
Canada	Royal Bank of Canada	10
Canada	Toronto-Dominion Bank	10
Finland	Nordea Bank Finland	10
France	BNP Paribas	10
France	Credit Agricole	10
France	Société Générale	10

<b>Country/ Domicile</b>	<b>Counterparty</b>	<b>Maximum Counterparty Limit £m</b>
Germany	Deutsche Bank AG	10
Netherlands	ING Bank NV	10
Netherlands	Rabobank	10
Sweden	Svenska Handelsbanken	10
Switzerland	Credit Suisse	10
US	JP Morgan	10

*Please note this list could change if, for example, a counterparty/country is upgraded, and meets our other creditworthiness tools. Alternatively, if a counterparty is downgraded, this list may be shortened.*

## Glossary of Treasury Terms

Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital receipts	Money obtained on the sale of a capital asset.
Cost of carry	The cost of "carrying" or holding a position. For example, if one takes out borrowing at 4% and invests the money at 1%, there is a cost of carry of 3%.
CPI	Consumer Price Index – the UK's main measure of inflation. Pensions are uprated using the CPI index.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
ECB	European Central Bank.
Federal Reserve	The US central bank. (Often referred to as "the Fed").
General Fund	This includes most of the day-to-day spending and income.
Government Gilts	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK Government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
IFRS	International Financial Reporting Standards.
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.

Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Minimum Revenue Provision	An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.
Non-Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. It includes any investment for periods greater than one year or those with bodies that do not have a high credit rating, use of which must be justified.
Premiums and Discounts	<p>In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest.</p> <p>PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.</p> <p>*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.</p>
Prudential Code	Developed by CIPFA and introduced on 1 April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing	In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It “does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”. Source: Bank of England.
Revenue expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Index-linked gilts are uprated using the RPI index.
Specified Investments	Term used in the Communities and Local Government Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK Government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the Government or third party.
Supranational Bonds	Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry a AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.
Treasury Management Code	CIPFA’s Code of Practice for Treasury Management in the Public Services.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest).
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Yield	The measure of the return on an investment instrument.

## Treasury Management Policy Statement

### 1. Summary

- 1.1 The Council's treasury management activities adhere to the principles of best practice, which include the adoption of the Treasury Management in the Public Services: Code of Practice (the Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). This Code was recently updated in November 2011, with a greater focus on risk management and significance of capital security as the Council's primary objective in relation to investments.
- 1.2 Whilst the Treasury Management Policy Statement does not normally go to Members as it tends not to change from one year to the next, the recent revisions to the Code mean that it should be presented to Members this year. In particular, the Treasury Management Policy Statement is required to make reference to the Council's high level approach to borrowing and investment.
- 1.3 The Council's updated Treasury Management Policy Statement is presented in Sections 2 and 3 of this Appendix for approval by Members.
- 1.4 **This Appendix recommends to the County Council that:**
- **This revised Treasury Management Policy Statement be adopted with immediate effect.**

### 2. Background

- 2.1 The Council adopts the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code), as described in Section 5 of the Code.
- 2.2 Accordingly, the Council will create and maintain, as the cornerstones for effective treasury management:-
- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
  - Suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
- 2.3 The Council will receive reports on its treasury management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

- 2.4 Whilst the Council assumes full responsibility for the implementation and monitoring of its treasury management policies and practices, it delegates the execution and administration of treasury management decisions to the County Treasurer who will act in accordance with the organisation's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.
- 2.5 The Council nominates its Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **3. Policies and Objectives of Treasury Management Activities**

- 3.1 The Council defines its treasury management activities as:
- “The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 3.2 This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 3.3 This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.
- 3.4 The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.
- 3.5 The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

## **Summary of consultation with communities on County Council savings and the Budget 2012/13**

### **Strategy for consultation**

A variety of forums and methods have been utilised to seek the public's views on the County Council's efficiency programme and cost reduction proposals.

The methods used were as follows:

- Ipsos-Mori were commissioned to recruit participants and run a formal, representative and moderated workshop with Hampshire residents inviting opinions and attitudes to saving proposals, including how services may be run in the future
- Inviting online comments, via Hantsweb, as an open opportunity for members of the public and employees to submit comments. The online consultation ran from 30 November to 19 December 2011. 'Hampshire Now', the County Council's residents' magazine also included a feature on the budget - signposting people to respond through the relevant Hantsweb pages. Two comments were received electronically
- Dialogue with the voluntary and community sector
- Dialogue with Trade Union representatives
- Dialogue with senior managers and staff.

### **Summary of findings from the Residents' workshop**

- Living in Hampshire: when asked about living in Hampshire, the participants spontaneously mentioned that they liked the access to the countryside and the outdoor life that Hampshire offered. Moving around the county was thought to be easy, enabling residents to reach places of choice.
- Resources: participants spoke about their wish for greater resources for litter, roads, activities for teenagers, childcare, Police and housing. Concern was also shared about some areas becoming over-developed, which led to discussions about whether local infrastructure would be able to cope with a growing population.
- Reorganisation of services: residents recognised that some services would need to be reorganised in order to make savings, including sharing services with other public sector organisations. However, the group viewed the Hampshire County Council brand as being very important and if alternative providers were to be involved in the delivery of services, that the County Council should retain strategic oversight. Views on out-sourcing services to private contractors were generally negative, based on the group's known experience. Again, the importance of the County Council retaining strategic oversight, was stressed.

- Online services: participants welcomed more online services being developed, but stressed the importance of alternative support being made available, to ensure full accessibility for all residents.
- Sharing services: the prospect of sharing services was viewed as sensible (as highlighted above), as long as the quality of the service provided by frontline staff was not adversely impacted.

#### **Online comments via Hantsweb:**

- Two comments were received, one related to level of pay and the other provided positive feedback about the overall work of the County Council.

#### **Engagement with the voluntary and community sector:**

- The County Council has regular dialogue with the voluntary and community sector (VCS) through the Hampshire Voluntary Sector Consortium. A presentation on the budget proposals was made to the consortium in December, facilitating discussion and exploration of related funding issues.
- The County Council is developing 'engagement schedules' which will provide a vehicle for early engagement of the VCS in the design and development of County Council services, including the early notification of potential commissioning opportunities.

#### **Trade Unions:**

- There has been a regular and ongoing programme of discussions and updates with Trade Unions.

#### **Hampshire County Council employees**

- A communications plan for staff has been operating alongside the public and community consultation on the implication of budget reductions. Staff have received regular communications from the Chief Executive through weekly bulletins, as well as specific staff briefings. Additional communications have been undertaken within each of the departments, via departmental newsletters from Directors, outlining the proposals and implications for each department. Staff were given the opportunity to feedback through e-mail and/or in person, through established mechanisms. Dedicated intranet pages have also provided information to staff on key developments, which are regularly updated as the organisation moves through various stages of transformation.

## Analysis of Revised Service Estimates 2011/12

<b>Service</b>	<b>Cash Limited Expenditure</b>	<b>Support Services and Repair and Maintenance of Buildings</b>	<b>Capital Charges</b>	<b>Other - Including IAS19 and Soft Loan</b>	<b>Total 2011/12 Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Adult Services</b>	315,805	16,484	3,274	2,007	<b>337,570</b>
<b>Children's Services</b> <i>- Business Units</i>	930,502	15,529	68,326	2,854 828	<b>1,018,039</b>
<b>Environment</b> <i>- Flood Protection</i>	114,018	5,438	31,674	595 557	<b>152,282</b>
<b>Policy and Resources</b> <i>- Business Units</i> <i>- Coroners</i>	96,784	-37,451	5,083	1,633 -85 1,452	<b>67,416</b>
<b>Non-distributed Costs</b>				13,380	<b>13,380</b>
<b>Pensions Interest and Return on Assets</b>				19,810	<b>19,810</b>
<b>Soft loan</b>				-10	<b>-10</b>
<b>Capital Financing Accounts</b>			-48,184		<b>-48,184</b>
<b>Net Expenditure of Services</b>	<b>1,457,109</b>	<b>-</b>	<b>60,173</b>	<b>43,021</b>	<b>1,560,303</b>

## Analysis of Service Estimates 2012/13

<b>Service</b>	<b>Cash Limited Expenditure</b>	<b>Support Services and Repair and Maintenance of Buildings</b>	<b>Capital Charges</b>	<b>Other - Including IAS19 and Soft Loan</b>	<b>Total 2012/13 Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Adult Services</b>	302,466	15,024	3,274	2,007	<b>322,771</b>
<b>Children's Services</b> <i>- Business Units</i>	878,721	13,865	68,326	2,854 1,680	<b>965,446</b>
<b>Environment</b> <i>- Flood Protection</i>	107,676	4,918	31,674	595 557	<b>145,420</b>
<b>Policy and Resources</b> <i>- Business Units - Coroners</i>	87,587	-33,807	5,083	1,883 438 1,331	<b>62,515</b>
<b>Non-distributed Costs</b>				13,380	<b>13,380</b>
<b>Pensions Interest and Return on Assets</b>				18,150	<b>18,150</b>
<b>Soft loan</b>				-10	<b>-10</b>
<b>Capital Financing Accounts</b>			- 43,416		<b>-43,416</b>
<b>Net Expenditure of Services</b>	<b>1,376,450</b>	<b>-</b>	<b>64,941</b>	<b>42,865</b>	<b>1,484,256</b>

## Service Summary of Budget Requirement 2012/13

	<b>Net Expenditure</b>	<b>Capital Charges</b>	<b>Specific Grants</b>	<b>Net Expenditure Per Budget Leaflet</b>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Adult Services</b>	322,771	-3,274	-42,878	<b>276,619</b>
<b>Children's Services</b>	965,446	-68,326	-757,195	<b>139,925</b>
<b>Other Services</b>				
Economy, Transport and Environment	1,771	-	-	<b>1,771</b>
Policy and Resources	62,515	-5,083	-204	<b>57,228</b>
	64,286	-5,083	-204	<b>58,999</b>
<b>Highways, Transport and Planning</b>	102,907	-25,954	-803	<b>76,150</b>
<b>Waste Management</b>	40,742	-5,720	-	<b>35,022</b>
<b>Capital Financing</b>	-43,426	108,357	-9,373	<b>55,558</b>
<b>Capital Costs Paid for from Revenue</b>	51,091	-	-11,719	<b>39,372</b>
<b>Future Inflation, Contingencies and Reserves</b>				
Contingency	44,516	-	-	<b>44,516</b>
Contribution to Earmarked Reserves	-4,877	-	-2,377	<b>-7,254</b>
Contribution to General Fund Balance	900	-	-	<b>900</b>
Non-distributed Costs	13,380	-	-	<b>13,380</b>
Council Tax Freeze Grant	-	-	-13,245	<b>-13,245</b>
Contribution from Pension Reserve net of Interest and Return on Assets	-8,329	-	-	<b>-8,329</b>
	45,590	-	-15,622	<b>29,968</b>
<b>Specific Grants</b>	-837,794	-	837,794	<b>-</b>
<b>Budget Requirement</b>	<b>711,613</b>	<b>-</b>	<b>-</b>	<b>711,613</b>