

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
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Report From:	County Treasurer

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1. Executive Summary

- 1.1. This report proposes recommendations to the County Council on the setting of the 2011/12 budget and council tax. Budgets have been prepared in accordance with the strategy agreed by the Cabinet in July 2010 and confirmed in December 2010, following the 2011/12 grant settlement.
- 1.2. The County Council faces a £55m funding gap this year from Government funding reductions, the cost of new responsibilities and additional service demands.
- 1.3. The proposed budget requirement to be met by formula grant and council tax for 2011/12 is £715.6m, which is £26.3m (3.5%) below the adjusted 2010/11 budget. Though services have budgeted to achieve savings of 8%, this does not translate into an 8% reduction in the budget, mainly because of the allowances also included in the budget for inflation, social care demographic pressures and for contingencies. A budget at this level would enable the council tax to be frozen at its 2010/11 level, £1037.88 at Band D, enabling the County Council to claim a Government grant of £13.2m for freezing its council tax.
- 1.4. Most local authorities are likely to take up the council tax freeze grant offered by the Government, so that there will be little, if any, change to the pattern of council tax levels between authorities in 2011/12. This will result in the County Council's council tax remaining within the lower quartile of equivalent County Councils.
- 1.5. All services have prepared budgets within the cash limits set by the Cabinet. This requires services to:
 - make savings towards the Phase 1 efficiency target of £15m agreed by Cabinet in February 2010 in order to seek to protect services and to

reflect the expectation of a public sector pay freeze set out in the Coalition Government's Emergency budget.

- achieve savings of 8% on their previous provisional budgets for 2011/12, maximising the scope for savings from the various corporate efficiency workstreams agreed by the Cabinet.
 - for services supported by specific or area based grants in 2010/11, further reductions of £3.6m to reflect reductions in specific grant which exceed the value of savings in grant-related expenditure included in the relevant service's 8% budget reduction proposals.
- 1.6. Children's Services are expected to meet the target agreed by the Cabinet for dealing with the in-year funding shortfall in 2010/11 resulting from the grant cuts announced in June, by implementing in full their planned savings by 31 March 2011. However redundancy costs, estimated at £3.7m will be incurred in 2010/11 to enable savings of approximately £8m to be achieved prior to 2011/12. It is recommended that Children's Services cash limit be increased at the year end to underwrite any overspending resulting from the restructuring required to meet the in year grant cuts, as agreed in principle by Cabinet in July.
 - 1.7. Adult Services are now anticipating that management action will be effective in enabling demographic and other demand pressures, to be managed within the 2010/11 cash limit, assisted by additional Department of Health funding of £4.3m to support partnership working with the NHS to deal with winter pressures, to prevent unnecessary hospital admissions and speed up hospital discharge.
 - 1.8. Other services are planned to achieve underspendings in 2010/11. All Departmental underspends can be utilised in 2010/11 or carried forward to 2011/12 to meet non-recurring costs associated with the County Council's change programme
 - 1.9. One-off savings of £5.3m are anticipated in the current year from lower capital financing charges and interest on balances, as forecast in the previous monitoring report to the Cabinet in November. This is offset by the cost associated with Children's Services 2010/11 restructuring, estimated at £3.7m, to be financed corporately, and by the contingency of £2.2m proposed for higher winter maintenance spending. The resulting reduction in balances of £0.6m can be reinstated in 2011/12.
 - 1.10. There are significant risks associated with the 2011/12 budget. The risks relate to the scale of the savings being sought in the first year of the County Council's Efficiencies and Expenditure reduction programme. These are unprecedented in the recent experience of the County Council coupled with the potential increase in demand for services and the immediate withdrawal of Government grants to Children's Services. Allowance has been made in a central risk contingency for identifiable risks associated with specific savings proposals together with a general allowance for potential delays in the delivery of the overall level of planned savings. A central contingency has also been created to cover risks associated with the level of costs arising from demographic and complexity

of care needs factors relating to Adult Services.

- 1.11. The Leader in considering the implications for the corporate strategy of service budget proposals has proposed an addition of £0.6m to the Children's Services budget to recognise continuing budget pressures associated with the number of looked after children and social worker caseloads. The Leader has also proposed the use of £600,000 from the council tax Second Home Reserve to develop a scheme to support Care Leavers who are NEET (not in employment, education or training) into employment. Finally the Leader has made further proposals regarding the reduction in the cost of the Democratic structure of £456,000 bringing the total reduction to £1,156,000, equivalent to 24% of the current cost.
- 1.12. A paper regarding the Medium Term Financial Strategy covering 2012/13 and beyond will be considered in June/July which is in advance of the normal budget setting timescales due to the significant changes in the Government funding levels. The financial strategy will look to reduce expenditure over a two year period, recognising the difficulties of a four year strategy which is implied by the Coalition Government's recent Comprehensive Spending Review announcement. For planning purposes the Medium Term Strategy will be developed on the basis of a continuation of a reduction of 8% on Departmental Cash Limit budgets, excluding expenditure funded by non-formula grants.
- 1.13. Balances are estimated at £18.0m at 31 March 2012, based on the planned use of balances approved in February 2010 in support of the budget in 2011/12. Balances at this level are in line with the current risk assessment, having regard to the contingencies also held within the budget to recognize the risks associated with the delivery in full of the planned level of savings. The balances are 2.5% 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 recently commended by the Minister for Housing and Local Government.

2. Background

- 2.1. The summary in paragraph 1 sets out the main features of the budget. The rest of the report provides more analysis of the budget proposals, supported by the appendices, including the detail of service budgets in Appendix 2.
- 2.2. The County Council's budget strategy has evolved during the year as the scale of reductions in public expenditure and the timescale over which the Government is seeking to achieve them has gradually unfolded.
- 2.3. A provisional budget for 2011/12 and 2012/13 was approved by the Cabinet in February 2010. This included an additional £3.4m for demographic pressures affecting social care and assumed no growth or spending reductions for other services. A reduction in formula grant of 2% in 2011/12 was assumed. A balanced budget was achieved consistent with a council tax increase of 1.9% per annum, below the Government's inflation target, on the basis of a corporate programme of efficiency savings

targeted to generate savings of £15m per annum in 2011/12 and 2012/13. Efficiency savings in advance of 2011/12 of £8.6m were incorporated in the 2010/11 budget.

- 2.4. 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 for 2010/11 in early June and then presented an Emergency Budget at the end of June. This set the context for the Spending Review to be undertaken over the summer and for 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 period.
- 2.5. The Cabinet had reviewed the Medium Term Financial Strategy assumptions in May 2010 to take account of the previous Government's planned squeeze on public sector pay and the likelihood of grant reductions well above 2%. In July 2010, following the Coalition Government's Emergency Budget, the Cabinet agreed an Efficiencies and Expenditure Reduction Programme. The programme incorporated planned budget reductions of 8% for each service compared with the provisional budget for 2011/12 in anticipation that the County Council's Government grant might be reduced by more than 15% in 2011/12. The forecast loss of Government grant took account of two factors, that the County Council as a floor authority could expect a maximum reduction in Government grant and that any proposals to take account of levels of grant dependency in the allocation of grant would also result in bigger cuts in the County Council's grant.
- 2.6. The Cabinet agreed to establish a number of corporate efficiency workstreams with a view to achieving as large a proportion of the savings target from these workstreams as possible, targeting reductions in the running costs of the organisation, in order to minimise the impact on front line services and jobs.
- 2.7. The Spending Review announcement in October 2010 confirmed that Government grants to local authorities would be subject to above average reductions in order to protect priority services. A reduction of 28.8% in formula grant in real terms over the period 2011/12 to 2014/15 was announced, compared with an average reduction of 8.3% in departmental expenditure limits. The local government reductions were also 'front-loaded' with a reduction of 20% to take place in the first two years. The Government announced that it intended to give a grant equivalent to a 2.5% council tax increase in 2011/12 to all local authorities that agreed to freeze council tax at the 2010/11 level.
- 2.8. A two-year Revenue Support Grant consultation for 2011/12 and 2012/13 was announced on 13 December 2010 and a presentation was given to the December meeting of the Cabinet. Adjusted to take account of data corrections to the baseline transfer in the final settlement, the main features

of the grant consultation were as follows:

- no change to the broad principles of the four block model, but variable floors introduced for County Councils based on grant dependency. The County Council's grant reduction is the maximum 14.3% in 2011/12 (£30.9m), and 10.4% (£19.0m) in 2012/1
 - a baseline transfer of £3.3m in respect of central services relating to the transfer of schools to academy status and the transfer of planning functions to the South Downs National Park, neither of which will be matched by an equivalent reduction in spending need in 2011/12
 - a baseline transfer of funding for concessionary fares, which after allowing for a 14.3% reduction, provides funding of £1.2m less than the cost of the minimum scheme required to meet statutory requirements
 - a Government presentation of the grant settlement focussing on an assessment of the change in each local authority's overall spending power, rather than the loss of grant, indicating a reduction of 0.96% in the County Council's spending power in 2011/12. There is a question regarding the validity of the presentation, regarding the extent to which other resources are available to replace the loss of formula, area based and specific grants, relying heavily on the inclusion of funding of £12.7m included within the NHS budget for joint working between health and social care.
- 2.9. The County Council has made representations on each of these aspects of the settlement. It is unlikely that any fundamental changes to the grant allocation will result from the consultation, though some data corrections to the baseline transfer were announced on 31 January, mainly to increase the concessionary fares baseline transfer, which add £446,000 to the County Council's formula grant for 2011/12.
- 2.10. The grant settlement also included some significant changes affecting area based and specific grants, which have either been discontinued, merged or assimilated into formula grant – leaving four significant non-schools grants: an early intervention grant (£38.1m) including early years funding previously ring-fenced within the Schools Block; a Learning Disability and Health Reform grant (£41.9m), based on funding transferred from the NHS; a Private Finance Initiative (PFI) grant towards the Street Lighting PFI (£9.4m) and the council tax freeze grant (£13.2m).
- 2.11. After allowing for the effect of changes in functions and funding arrangements between 2010/11 and 2011/12, the overall loss of specific and area based grants in 2011/12 has been assessed at £11.3m (25.6%), made up as follows:

	£m
Discontinuation of Children's Services grants	-5.5
Reduction in Early Intervention grant	-3.5
Grants transferred into formula grant at below their 2010/11 level:	
- Adult Services	-1.9
- Transport	-1.2
Increase in Learning Disability and Health Reform grant	0.8
	-11.3

The specific grant reductions have therefore been mainly targeted at the non-schools Children's Services budget.

- 2.12. Services had been set 8% savings targets for 2011/12 to cover anticipated losses of both formula grant and specific/area based grants and in determining the extent to which specific/ area based grant reductions should be 'passported' to services in addition to the 8% savings target, account has been taken of the extent to which reductions in grant related expenditure were included in service budget savings proposals. £3.6m of the £11.3m reduction in grant has been 'passported' to Adult Services (£1.1m), Children's Services (£1.8m), and Environment (£0.7m).
- 2.13. The County Council's recent practice has been to have a three- year budget plan, in which the first year is a firm budget for the financial year just about to commence, but which also for planning purposes includes provisional budgets for the following two years. This year it is proposed to recommend a budget solely for 2011/12 at this meeting and to present a budget plan for a further three years in the Summer, to cover the remainder of the spending review period. This will provide the opportunity to consider more fully the savings options in future years and to refine the basis of forecasting for 2013/14 and 2014/15, the years beyond the current two- year grant settlement. Cabinet in December approved the development of this financial strategy for consideration in June/July that looks to reduce expenditure over a two- year period, recognising the difficulties of a four- year strategy which is implied by the Coalition Government's recent CSR announcement.
- 2.14. As the scale of the grant reductions faced by the County Council in 2011/12 are of a similar magnitude to those forecast in July 2010, the Cabinet in December confirmed that service budgets should be prepared on the basis of the 8% savings targets originally set for planning purposes in July, adjusted for the passporting of specific and area based grant

reductions on the basis set out in paragraph 2.12 above. The table below summarizes the savings targets and the resulting budget guidelines for 2011/12.

	8% budget reduction	Budget guideline
	£000	£000
Adult Services	-24,410	324,615
Children's Services (excluding Schools)	-13,564	172,928
Culture, Communities and Rural Affairs	-2,722	30,535
Environment	-5,309	111,056
Policy and Resources	-6,295	71,361
	<hr/> -52,300	<hr/> 710,495

2.15. The remainder of the report is structured as follows:

- revised budget for 2010/11 (paragraph 3)
- 2011/12 savings and redeployment proposals (paragraph 4)
- annual review of charges and the maximisation of income (paragraph 5)
- workforce implications (paragraph 6)
- further budget proposals (paragraph 7)
- performance and risk management (paragraph 8)
- earmarked reserves (paragraph 9)
- balances (paragraph 10)
- 2011/12 overall budget proposals (paragraph 11)
- implications for 2012/13 to 2014/15 (paragraph 12)
- treasury management strategy and annual investment strategy for 2011/12 (paragraph 13)
- prudential indicators (paragraph 14)
- consultation (paragraph 15)

3. Revised budget 2010/11

3.1. Budgets are monitored regularly by Executive members and Cabinet reviews high risk demand led budgets and associated activity levels,

together with employee budget and financial health indicators on a quarterly basis.

- 3.2. The Cabinet agreed a revised policy for the carry forward of underspendings in October 2010, allowing services to carry forward 100% of any underspendings against the cash limit providing they are used to support the change agenda, in consultation with the County Treasurer.
- 3.3. Culture, Communities and Rural Affairs, Environment and Policy and Resources have set out to achieve savings against their 2010/11 cash limits, in advance of the budget reductions required in 2011/12. These savings will be primarily used to fund all or part of the up front costs of restructuring, thus enabling a higher level of salary savings to be achieved in 2011/12.
- 3.4. Adult Services have taken management action to contain budget pressures during 2010/11 and anticipate that the outturn for 2010/11 will be contained at or within the cash limit. The position has been assisted by the decisions of the Secretary of State for Health to make additional funding of £4.3m available for social care spending that benefits health in 2010/11.
- 3.5. The Cabinet in June agreed that Children's Services cash limit for 2010/11 should be reduced by £4.9m to reflect the in-year reduction in the Children's Services element of area based grant. However in recognition of the timescale associated with implementation of the proposed reductions, it was agreed that providing the required savings were achieved on a continuing basis by 31 March 2011, that the cash flow pressure on the budget in 2010/11 would be met corporately. The latest forecast is that savings of approximately £8m on a continuing basis will have been achieved by the end of 2010/11 to cover the in year grant reduction and other unavoidable service pressures, but that restructuring costs, excluding the effect of the higher cost of the voluntary redundancy scheme, of approximately £3.7m will not be able to be absorbed within the cash limit. It is recommended that in accordance with the policy agreed in June, that the in year funding shortfall of £3.7m be met corporately.
- 3.6. The County Council budgets for highway winter maintenance on the basis of the average expenditure over the past four years adjusted for inflation. So that Environment can plan the highway maintenance programme without having to allow for the uncertainty about the cost of winter maintenance activity, any variation against the four year average accrues to or is met from the Council's balances. As a result of the heavy snow in December, expenditure is expected to exceed the 2010/11 budget by at least £2.2m and provision has been made in the contingency for additional spending at this level.
- 3.7. As indicated in the previous budget monitoring report to the Cabinet, lower capital financing costs will be incurred in 2010/11 than budgeted. A reduction of £5.3m is anticipated for three reasons; lower borrowing levels in 2009/10 than anticipated due to slippage in capital expenditure, short term interest rates remaining at their current low level for longer than assumed and additional balances on which interest is being earned both

reflecting underspendings in 2009/10 and further planned service underspendings in 2010/11.

- 3.8. The table below summarizes the net effect of those changes which will result in a call of £0.6m on the County Council's balances:

	£m
Children's Services restructuring costs arising from the in-year grant reductions	3.7
Winter maintenance activity	2.2
Lower capital financing costs	-5.3
Reduction in balances	<u>0.6</u>

Paragraph 7 of the report contains a proposal to reinstate balances by £0.7m in 2011/12 to the risk assessed level of £18m.

4. 2011/12 service budgets – savings and redeployment proposals

- 4.1. Executive members have presented budgets within the budget guidelines summarised in paragraph 2.14. The guidelines are based on the provisional budget guidelines for 2011/12 agreed by the Cabinet in February 2010, adjusted for the effect of the in-year grant reductions in 2010/11, the 8% reduction in service budgets proposed by the Cabinet in July 2010, the effect of reductions in 2011/12 Government grant, funding and function transfers and for minor variations in the 2011/12 base budget. The table below summarises the changes:

	£m
2011/12 Provisional Service budgets approved in February 2010	696.5
2010/11 in-year grant reductions	-6.2
8% budget reduction	-52.3
Passporting of 2011/12 Government grant changes	-3.6
Funding and function transfers – learning disability , concessionary fares and early years	73.9
Other base budget changes	<u>2.2</u>
2011/12 service budget guidelines	710.5

- 4.2. Appendix 1 contains the details of any redeployment proposals within the service budgets and each services proposals to achieve the 8% savings target. The Efficiency and Expenditure reduction programme approved by the Cabinet in July contained a number of corporate efficiency workstreams, designed to support services in meeting their budget reduction targets, while minimising the impact on front line services. £28.8m (54%) of the savings proposals are derived from the corporate efficiency workstreams, as summarized in the table below:

Corporate workstreams	£m
Senior management restructuring	7.9
Recruitment moratorium and support services restructuring	4.4
Communications	1.0
Democratic infrastructure	0.9
Grants	1.2
Inspection and regulation	0.2
Contract negotiations	9.7
Income and charging	0.6
Support and administration	1.0
Business/shared services	0.4
Learning, training and development	0.6
IT cost reduction	0.9
	28.8
Departmental savings	24.8
Total savings – including £1.3m procurement savings relating to Waste Management contract	53.6

- 4.3. The projected savings from the corporate workstreams are therefore expected to provide more than 50% of the overall savings, and are broadly in line with the corporate workstream saving forecast reported to the Cabinet in December. The following paragraphs highlight the main feature of each service' proposals.

Adult Services

- 4.4. In addition to identifying savings of £24.4m to meet the budget guideline, Adult Services continue to be affected by the impact of demographic pressures from an ageing population and from increased numbers of young people with disabilities living into adulthood. An increase of 776 care packages is forecast at an estimated increased cost of £13.8m, which together with other unavoidable pressures of £2.1m, adds £15.9m to budget pressures. These budget pressures can be largely funded in 2011/12 from the anticipated grant of £12.7m from the NHS Primary Care Trust for improved integrated working between health and social care and from former specific grants that have been recycled into formula grant but had been expected to discontinue. The position will be more difficult in 2012/13 as the NHS grant is reduced to £12.2m and therefore will not provide a means of funding further additional demographic and complexity pressures.
- 4.5. The £13.8m assessment of demographic and complexity pressures does not include all the possible impacts associated with demographic trends. Some of the impacts are more uncertain – the timing of increased demand, the extent of increased numbers of ordinary residence cases, increased learning disability needs and the level of winter pressures. It is therefore proposed to deal with these risks through the central contingency rather than allocating a cash limit to Adult Services at this stage. Adult Services will be able to drawdown on this contingency subject to providing evidence of increased demographic and complexity growth. A contingency of £13.8m has been assessed, which can be covered by a means of a transfer from Adult Services cash limit of £11.5m leaving a balance of £2.3m dependent on the implementation of the revised contribution policy currently the subject of a consultation.

Children's Services - Schools

- 4.6. The majority of separate specific grants in addition to the dedicated school grant (DSG) have been assimilated into DSG on a 'flat cash basis', based on maintaining in cash terms, 2010/11 funding per pupil. Additional to this is the Pupil Premium being introduced in 2011/12, payable to schools at a rate of £430 per pupil to cover all pupils eligible for free school meals and looked after children, together with a £200 premium for children from service families.
- 4.7. The total schools budget for 2011/12 is £812.6m, just marginally higher than the adjusted budget for 2010/11 of £810.0m, after allowing for the transfer of early years funding out of the schools block and the transfer of extended schools funding into the schools block. The budget proposals identify one-off headroom of £11.0m in 2011/12, and a further £1.2m on a continuing basis, much lower than in previous years.

Children's Services – Non-schools

- 4.8. Children's Services was the service most affected by the in-year grant reductions announced in June 2010, and the 2011/12 grant settlement has also been particularly challenging for Children's Services, for three main

reasons:

- Extended schools sustainability and subsidy grants – these grants were previously managed as part of the non-schools budget although mainly spent in schools in support of extended school activity. Children’s Services in developing their 8% savings plans had assumed that spending being supported by these grants would be reduced significantly in 2011/12. The Department for Education (DofE) however decided to transfer the funding into the schools budget, preventing savings being made in the non-schools budget in this area. Children’s Services were therefore required to identify additional savings of £8.7m to comply with their cash limit.
 - Reductions in other grants – the majority of the non-schools Children’s Services grants have either been discontinued in the 2011/12 grant settlement (£5.5m) or merged into the new Early Intervention Grant, including early years funding formerly within the schools block, which was then subject to a reduction of £3.5m on the baseline figure. Having regard to savings already proposed within the 8% savings proposals relating to grant-related expenditure, a further reduction of £1.8m has been ‘passported’ to the Children’s Services cash limit.
 - Academy top slice – the County Council’s formula grant has been top sliced by £3.2m in 2011/12 to reflect the anticipated funding transfer from the non-schools budget for central services when schools opt to become academies. A further top-slice of £2.5m is proposed in 2012/13. Adopting an approach to transferred funding that has no link to the number of schools actually transferring to academy status is unsatisfactory and the County Council has made representations on this point in its response to the grant settlement consultation. However on the assumption that the Government will not modify its approach, it is proposed that the impact of the grant reduction be absorbed corporately in the first instance, pending the actual transfer of schools to academy status, when a budget adjustment will be made. To the extent that Children’s Services and the central support services are successful in marketing the relevant services to academies, it will be possible to generate additional income to help to cover the loss of budget. It will also be necessary to provide corporate funding to cover the work required to be undertaken by the County Council in order to support the set up of Academies, which will be covered within the Corporate Risk Contingency.
- 4.9. Children’s Services have also been required to identify savings to offset unavoidable budget pressures relating to Children Looked After (£2.9m), Family Support Services (£0.2m) and Home to School Transport (£0.4m). The planned reduction in numbers of looked after children in 2010/11 to an average of 1,043 following a period of sustained growth in 2009/10, has not occurred, although the further growth in the first quarter of 2010/11 has been reversed. The 2011/12 budget allows for 1,100 looked after children broadly in line with activity levels in the current year.

- 4.10. In view of the scale of the additional savings of £8.7m that Children's Services were required to identify following the grant settlement in order to meet the cash limit, the Cabinet agreed in December that cash flow support would be required in 2011/12. This would both allow for the lead-in time required to implement change and the likely restructuring costs required up front. An approach is proposed similar to that adopted in relation to the in-year grant reductions in 2010/11, with a target for full implementation of planned savings in 2011/12 by 31 March 2012, so that the full value of the savings required can be achieved in 2012/13.

Culture, Communities and Rural Affairs (CCRA)

- 4.11. CCRA has a savings target of £2.7m in 2011/12, £1.5m of the proposed savings relate to the corporate workstreams and the remaining departmental savings mainly relate to the Libraries and Information Service, generated both from past restructurings, the planned further restructuring of the mobile library service and a planned reduction in spending on materials.

Environment

- 4.12. Environment have identified savings of £6.7m in 2011/12, £1.4m above their savings target, thus providing some one-off resources in 2011/12 to help meet the cost of the change agenda, including restructuring costs. In addition to the focus on the corporate workstreams, a county-wide review of subsidised bus services is planned, aimed at achieving savings of £1.2m during 2011/12 and a similar level of additional savings in 2012/13, from the full year effect of the review.

Policy and Resources (P&R)

- 4.13. As the corporate workstreams have been heavily focussed on back office and support services efficiency savings, the P&R budget proposals are mainly directed at the corporate workstreams. The overall level of savings provides a contingency of £0.5m in 2011/12 to help meet any unbudgeted costs of change. Included within the proposals are savings of £60,000 on members expenses and the discontinuation of the HATs community chest, saving £700,000.

5. Annual review of charges

- 5.1. 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 gross expenditure, before the allowance for efficiency savings relating to pay, averaging 2.3%.
- 5.2. Details of income reviews and charges were set out in the budget reports for Executive members and in the summary below:

Income from fees and charges

	Total 2010/11	Mandatory charges 2011/12	Discretionary charges 2011/12	Total 2011/12
	£m	£m	£m	£m
Adults	52.9	46.0	13.0	59.0
Children's	7.0	2.0	4.1	6.1
CCRA	7.3	-	7.1	7.1
Environment	12.5	0.2	12.3	12.5
P&R	14.9	1.1	16.9	18.0
Total – Fees and Charges	94.6	49.3	53.4	102.7

6. Workforce Implications

- 6.1. Appendix 3 summarises the changes in the overall workforce supported by the budget, total workforce costs and the average full time equivalent (FTE) staff actually in post. The overall reduction in staffing compared with the 2010/11 budget is 922 FTEs. Some of these changes occurred during 2010/11 or were allowed for in the base budget, totalling 279 FTEs. The overall reduction attributable to the savings proposals within the budget are therefore 643 FTEs. This is the staffing level consistent with the financial provision in the budget for pay costs but only reflects the part year effect of changes expected to take place during 2011/12. The full year reduction which amounts 1,107 FTEs provides a better measure of the impact of the budget on the future size of the workforce.
- 6.2. In addition there is a further reduction of 64 FTEs within business units or relating to staff working on capital projects increasing the overall full year reduction to 1,171 FTEs. The table below summarises the forecast reduction in the workforce.

	Full year staffing reduction (FTEs)
Adult Services	-376
Children's Services – Non-schools	-458

	Full year staffing reduction (FTEs)
CCRA	-37
Environment	
- Revenue budget	-100
- Capital Programme	-11
Policy and Resources	
- Revenue Budget	-136
- Business units	-53
	1,171

7. Further budget proposals

Collection Fund and taxbase

- 7.1. The District Councils as the billing authorities for the collection of council tax in Hampshire are not required to declare their collection fund surpluses or deficits and set the following year's net taxbase until January. Consequently budget planning is based on a forecast of the collection fund surplus and taxbase increase. For 2011/12, the forecast collection fund surplus was £1.5m, slightly lower than the £2.1m actually achieved in 2010/11. In the event the district councils have collectively declared a surplus of £3.5m, £2m more than forecast. This provides one-off additional resources in 2011/12.
- 7.2. The council taxbase for 2011/12 was forecast to increase by 0.25%, lower than the 0.7% increase in 2010/11, on the assumption that the lower level of house building since the downturn in the property market, might adversely affect the rate of increase in the taxbase. However the level of the net taxbase increase has only reduced to 0.6%, the effect of which is also to generate additional income on a continuing basis of £2m, at current council tax levels. The increase in formula grant in the final settlement provides an additional continuing sum of £0.4m.
- 7.3. The Cabinet agreed to earmark £10m in an Organisational Change Reserve by means of a transfer from the Corporate Policy and Invest to Save Reserves, in order to meet the known liability resulting from a decision to target staff reductions, not achieved through the recruitment moratorium, by way of voluntary measures. It can therefore be anticipated that this reserve will have a short-term life span in support of the change

programme over the next two financial years. £3.3m of the reserve is forecast to be used in 2010/11 and it is proposed that the additional continuing resources of £2.4m from the higher taxbase and formula grant be used to augment the reserve in 2011/12 and would then be available to help bridge the budget gap in 2012/13. In addition it is proposed that £0.9m of the additional proceeds of £2m from the higher collection fund surplus be utilised for the same purpose in 2011/12 to reinstate the reserve at £10m for 2011/12. £0.7m of the remaining sum could be used to restore the budgeted general balance to £18m at 31 March 2012, leaving the balance of £0.4m to be transferred to the Corporate Policy reserve.

- 7.4. This is consistent with the Cabinet decision on 22 December to extend the voluntary redundancy scheme to posts below Grade H and the decision to develop a financial strategy that looks to reduce expenditure over the two year period, recognising the difficulties of a four year strategy which is implied by the Coalition Government's recent Spending Review announcement.

Leader's recommendations

- 7.5. The Leader recommends having reviewed service, redeployment and savings proposals allocating £600,000 to Children's Services in 2011/12. In 2010/11 a contingency of £1m was included in the budget to recognise the uncertainty associated with forecasting the cost of providing care for looked after children. The 2011/12 budget guideline included an allowance of 1% (£750,000 for Children's Services) for social care demographic pressures, and it is proposed to allocate a further £250,000 to Children's Services. This is in recognition of the continuing budget pressures facing children's social care, as numbers of looked after children have not decreased in 2010/11. It also proposed to allocate a further £350,000 to employ additional Children's social workers in the interest of ensuring that all social workers have manageable case loads.
- 7.6. A further proposal is to make £600,000 available from the council tax second homes income reserve to develop a scheme to support Care Leavers who are NEET (not in employment Education or Training) into employment through an apprentice scheme which will be developed over the coming months. The Medium Term Financial Strategy will look to ensure a sustainable future for their scheme.
- 7.7. The Leader is also proposing further budget reductions regarding the cost of the Democratic Structure amounting to £456,000, bringing the total annual reduction in the Democratic Structure to £1.156m, equivalent to 24% of the current cost. The additional budget reduction relates to £156,000 resulting from a reduction in Members budgets of £2,000 per annum from £10,000 to £8,000 from 1 April 2011 and to a £300,000 staffing reduction which will be implemented following due process over the course of the coming financial year.
- 7.8. A further £2.556m has been added to the corporate policy reserve to support any further high priority initiatives that may require urgent support during the course of the year, to be supplemented by any 'in- year' savings

related to the implementation of the £300,000 staffing reduction.

Capital financing costs

- 7.9. The Government has changed the policy for support of local authority capital investment in 2011/12 so that all support is channelled through capital grants rather than by a combination of capital grants and borrowing allocations, the latter being reflected in formula grant. This is a policy change that is welcomed by the County Council as it deals with the problem of Government support for borrowing being ineffective because of floor damping.
- 7.10. Capital financing costs in respect of supported borrowing will therefore reduce over time as the County Council is required to make provision for repayment of loans linked to past capital investment, but will not be required to incur any new borrowing in respect of supported capital expenditure. The Cabinet in December agreed that officers should explore the options for developing a new capital strategy to reflect the changing context for local authority capital investment. The strategy will be developed during 2011 and it is proposed that in order to facilitate making use of some unsupported borrowing to underpin the strategy that capital financing costs are included in the 2011/12 budget at their planned level.

Risk contingency

- 7.11. A central contingency is included within the budget alongside the cash limited budgets for services, where additional or reduced spending is envisaged but where inclusion of the spending or saving within the cash limit is contingent upon the outcome of some future event. This approach has been adopted to cover some aspects of inflation, the waste management contract, allowance for interest rate changes and for any spending or savings plans which are subject to future member approval. As indicated in paragraph 4.5 it is proposed to include an Adult Services demography and complexity contingency within the 2011/12 budget and in addition a specific risk contingency associated with the 2011/12 savings programme.
- 7.12. The risk contingency will have two elements, it is partly designed to recognise the cash flow support that Children's Services will require in 2011/12 because of the lead-in time and restructuring costs associated with the additional savings of £8.7m required as a result of the changes in the grant settlement. If all the remaining savings within service budget proposals are achieved a sum of £8.6m is available as a general contingency either against delay in achieving budgeted savings or to cover higher than planned restructuring costs. This represents just under 20% of the related savings. Including a risk contingency on this basis also mitigates against the need to budget for a higher level of balances.

8. Performance and Risk management

- 8.1. The budget has been set in the context of the priorities of the corporate strategy and as indicated in paragraph 4.2, the corporate efficiency work

streams agreed by the Cabinet in July 2010 have played a central role in the formulation of the savings proposed in the budget.

- 8.2. Section 25 of the Local Government Act 2003 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
- 8.3. The County Council is required to have regard to this report in approving the budget and council tax. The draft report is included in this report, as set out in Appendix 6 and will then be made available to the County Council in making the final decisions on the budget:
- 8.4. The main areas of risk are:
 - Equal pay claims – an equal pay reserve has been established and capitalisation directions will be applied for to spread any higher costs over a number of years. The budget assumes that the current claims will be resolved during 2011/12.
 - Budgeted savings – service budgets contain savings of £52.3m in respect of the 8% savings target. This is a substantially more challenging level of savings in one year than in any recent period. The corporate risk contingency of £8.6m provides some mitigation against the risk of savings not being fully achievable in line with the budget assumptions.
 - Children's Services grants – late notification of substantial further reductions of £8.7m has resulted in the potential need for one year cash flow funding to recognize both the timescales required and the cost of change.
 - Inflation – service budgets assume non-pay inflation will average 2.5% in 2011/12. There is a risk of higher levels of general inflation with RPI and CPI currently increasing at year on year rates of 4.8% and 3.7% respectively.
 - Demand led budgets – though there is a risk of higher levels of demand for statutory services particularly affecting social care, the budget includes some mitigating measures to deal with those budget pressures.
- 8.5. The detailed risk assessment is set out in Appendix 6 and indicates a prudent level of underlying balances at around £18m, 2.5% of net expenditure, taking account of other measures within the budget. Balances at this level, as proposed, together with the earmarked reserves and contingencies within the budget, will be sufficiently robust for the County Treasurer's assurance required by the 2003 Act.

9. Earmarked Reserves

- 9.1. Earmarked reserves are budgeted to fall from £154.5m at 31 March 2010 to £86.8m at 31 March 2012. The major uncertainty concerns the largest reserve, the Equal Pay reserve, set aside to meet any successful equal pay claims arising from the County Council's implementation of the national single status agreement. It is anticipated that the Employment Tribunal will consider the current claims during 2011/12 and that as a result 2011/12 will be the critical year in determining the extent of the County Council's liability for equal pay claims. The 2011/12 budget has been drawn up on the basis that the reserve will be utilised in 2011/12.
- 9.2. Full details of each of the main reserves, showing budgeted movements from 31 March 2010 to 31 March 2012 are set out in Appendix 4.

10. Balances

- 10.1. Budgeted balances at 31 March 2011 are £21.1m, reducing to £17.3m at 31 March 2012 with the planned use of underspendings in 2008/09 and 2009/10 to support the council tax in 2011/12. The risk assessed level of general balances in 2011/12 is £18m, equivalent to 2.5% of the budget requirement and the proposal to utilise £0.7m of the higher collection fund surplus to add to the general balance results in estimated balances of £18m at 31 March 2012, in line with the risk assessment.

11. 2011/12 overall budget proposals

- 11.1. Taking into account the changes identified in the earlier sections of this report, the final budget proposals for 2011/12, compared with 2010/11 adjusted for funding and function changes in 2011/12, are:

Service cash limits 2011/12

	2010/11 Adjusted	2011/12
	£000	£000
Schools	809,974	812,635
Adult Services	349,386	313,122
Children's Services – non-schools	185,418	173,528
CCRA	33,037	30,535
Environment	116,999	111,056
P&R	81,049	71,805
	<hr/>	<hr/>
	1,575,863	1,512,681

Other budgets compared with 2010/11 can be summarised as follows:

Other budgets 2011/12

	2010/11	2011/12
	£000	£000
Revenue contributions to capital	29,018	23,663
Capital financing	52,796	60,769
Other budgets – flood protection, landfill allowances, coroners etc	1,484	1,662
Dedicated Schools grant	-720,378	-825,013
Specific and area based grants	-201,834	-105,656
Contingency		
Inflation, waste management contract and other general contingencies	14,854	12,446
Equal Pay	-	48,520
Phase 1 efficiency savings	- 1,660	-4,914
Adult Services demography and complexity -	-	13,793
Corporate Risk contingency	-	17,300
Contribution to /(from) earmarked reserves	126	-35,780
Contribution to/(from) balances	-8,346	-3,073
	<u>-833,940</u>	<u>-797,096</u>

- 11.2. Bringing all these budgets together results in an overall budget requirement of £715.6m, which is a 3.5% reduction on the 2010/11 adjusted budget of £741.9m.

2011/12 Budget requirement

	2010/11	2011/12
	£000	£000
Service budgets	1,575,863	1,512,681

Other budgets	-833,940	-797,096
Budget requirement	741,923	715,585

- 11.3. The budget requirement will be met, as shown in the next table, compared with 2010/11's adjusted budget, incorporating a freeze in council tax.

	2010/11 adjusted	2011/12
	£000	£000
Budget requirement	741,403	715,585
Formula grant	-216,109	-185,652
Net surpluses on collection funds	-2,062	-3,506
Precept	523,232	526,427
Taxbase Band D equivalent dwellings	504,135	507,214
Council (tax per Band D)	1,037.88	1,037.88
Increase over previous year	1.9%	-

- 11.4. It is anticipated that all of the local authorities in Hampshire covered by the council tax freeze grant will opt to freeze their council tax in 2011/12 at the 2010/11 level. Town and Parish Councils are not covered by the scheme and could increase their council taxes. The average Band D council tax in Hampshire is unlikely to change significantly from the average in 2010/11 of £1,425.

- 11.5. The trends in council tax compared with budgets and local and national grant variations in recent years are as follows:

% variations in council tax, grant and budgets

	Government National Grant	County Council		
		Grant	Budget	Council Tax
	%	%	%	%
2005/06	5.3	5.0	4.7	3.5
2006/07	3.8	2.0	5.2	4.7
2007/08	3.7	2.7	5.4	4.9

% variations in council tax, grant and budgets

	Government	County Council		
	National Grant	Grant	Budget	Council Tax
	%	%	%	%
2008/09	3.5	2.0	4.4	4.5
2009/10	2.8	1.75	2.3	1.9
2010/11	2.6	1.5	2.3	1.9
2011/12	-9.9	-14.3	-3.5	0.0

11.6. The County Council's financial profile remains very similar to that of last year

- its formula grant per head is second lowest of comparable County Councils
- its council tax is likely to remain in the lower quartile of County Councils, as all County Councils are likely to freeze their council tax in 2011/12.

12. Implications for 2012/13 to 2014/15

12.1. A further report will be brought to the Cabinet on the Medium Term Strategy for 2012/13 to 2014/15 in June/July. This will seek to implement the Cabinet's strategy of achieving the spending reductions required by the Government's Spending Review over two years by targeting a further 8% reduction in service spending in 2012/13, reflecting the Government's policy of front loading local government grant reductions. This will also recognize the difficulties of a four-year strategy, which is implied by the Coalition Government's Spending Review announcement. Monitoring the implementation of the planned 2011/12 savings will be a critical factor in assessing the implications of this strategy. Though the budget proposed at this meeting only covers 2011/12, it includes an assessment of the full-year effect of savings being implemented in 2011/12, identifying further savings in Appendix 1B of £24.6m from the full year effect of the measures.

13. Treasury management strategy and investment strategy for 2011/12

13.1. The County Council is required to adopt a treasury management strategy and an annual investment strategy for 2011/12 and these are set out in Appendix 6 for approval. The strategy has been reviewed in the light of the appointment of treasury management advisers. The revised borrowing strategy reflects the intention of taking a more active approach to managing the portfolio of existing borrowing.

14. Prudential indicators

14.1. The prudential code 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

Some of the upper limits have been raised to reflect the revised Treasury Management and Investment Strategy.

14.2. Appendix 6 also contains the prudential indicators required by the code for the County Council which will now be submitted for approval by the full Council in setting the budget.

15. Consultation

15.1. A variety of forums 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 7 to the report.

16. Appendices

16.1. Appendices to the report are:

1	Proposals for savings and redeployment	Yellow
2	Budget 2011/12 – detailed analysis, based on the budget guidelines confirmed by Cabinet in December 2010	Green
3	Workforce statement and summary of workforce budgets 2011/12	Pink
4	Reserves and balances 2010/11 to 2011/12	White
5	Treasury Management and Investment strategies and prudential indicators	Yellow
6	Section 25 report, Local Government Act 2003	Blue
7	Budget consultation summary	Salmon

17. Recommendations

17.1. The following decisions are sought based upon the recommendations from the Leader to Cabinet on the 2011/12 budget and council tax, that:

- a) The variations to the 2010/11 revised estimates (paragraph 3.8 and Appendix 2) be approved.

- b) That Children's Services projected in year funding short fall estimated at £3.7m be borne corporately rather than carried forward at the year end (paragraph 3.5).
- c) That the inclusion of a central contingency for Adult Services demography and complexity of £13.8m be agreed, to be released based on evidence of need.(paragraph 4.5).
- d) The savings and redeployment proposals set out in Appendix 1 be approved.
- e) the annual review of charges for 2011/12 be approved (paragraph 5)
- f) The workforce proposals for 2011/12 be agreed (paragraph 6.2 and Appendix 3)
- g) The use of additional one-off and continuing resource of £3.3m in 2011/12 to top up the organisational change reserve be approved (paragraph 7.3)
- h) The Leader's recommendations (paragraph 7.4 to paragraph 7.8) relating to additional Children's Services funding of £0.6m, an addition to the corporate policy reserve of £2.556m and the use of £600,000 from the council tax Second Homes income Reserve to support a care leaver's (NEETS) apprenticeship scheme be approved. The further democratic infrastructure reductions of £156,000 from 1 April 2011 and £300,000 over the course of the year also be approved.
- i) the inclusion of a corporate risk contingency of £8.7m in respect of Children's Services savings and of £8.6m in respect of other budgeted savings (paragraphs 7.11 and 7.12) be approved.
- j) The approach to budgeting for capital financing costs in 2011/12, as set out in paragraph 7.9 and 7.10, be approved.
- k) The summary of earmarked reserves be agreed (paragraph 9 and Appendix 4).
- l) Estimated balances of £18m at 31 March 2012, be approved (paragraph 10).
- m) The budget for 2011/12, as summarized in paragraphs 11.1 to 11.4 be approved.

17.2. The following decisions are recommendations 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 2011/12 (Appendix 6).
- b) the revenue budget for 2011/12 (as set out in the attached draft budget book presented to County Council) be approved.
- c) the **total budget requirement** for the general expenses of the County Council for the year beginning 1 April 2011, **be £715,585,000.**

- d) the **County Council's Band D council tax** for the year beginning 1 April 2011 be **£1,037.88**, as in 2010/11.
- e) the County Council's council tax for the year beginning 1 April 2011 for properties in each tax band be:

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

- f) precepts be issued totalling **£526,426,934.20** on the billing authorities in Hampshire, requiring the payment in such instalments and on such dates set by them previously notified to the County Council, in proportion to the taxbase of each billing authority's area as determined by them and as set out below:

Basingstoke & Deane	64,655.00
East Hampshire	48,332.33
Eastleigh	44,368.15
Fareham	42,796.00
Gosport	27,595.10
Hart	37,967.18
Havant	42,925.00
New Forest	73,047.60
Rushmoor	31,671.86

Test Valley	45,875.00
Winchester	47,980.46

- g) the treasury management and annual investment strategies, together with the prudential indicators for 2011/12 be approved and that the Monitoring Officer be authorised to make any changes to the terms of reference of the Audit Committee in the constitution in order to give effect to the new challenge and scrutiny role required as a result of the revised CIPFA requirements, all in accordance with the recommendations in Appendix 5.

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

Hampshire safer and more secure for all:	Yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	Yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	Yes
Corporate Improvement plan link number (if appropriate):	

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. A high level Equalities Impact Assessment has been undertaken as part of the development of the budget proposals in order to inform the recommendation. In approving individual budget proposals due process will be followed in developing implementation plans which will include a full Equalities Impact Assessment where appropriate.

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

These issues will be covered in implementation plans for the proposals in the budget, where appropriate.