

HAMPSHIRE COUNTY COUNCIL**Decision Report**

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Title:	Revenue Budget and Precept 2013/14
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Report From:	Director of Corporate Resources

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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 2013/14 and to highlight the key assumptions and forecast for 2014/15 now that provisional grant figures have been received for both years.
- 1.2. The overall economic climate has worsened since the first two years grant settlement of the current Comprehensive Spending Review was released in December 2010 and as a result of further reductions in public spending announced in the Autumn statement, the settlement for 2013/14 and 2014/15 has worsened the overall financial position. On top of this, the Government has given strong indications that the period of austerity for public sector spending will continue until at least the 2017/18 financial year.
- 1.3. The County Council had pre-empted these difficult times ahead 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 two years. Taking into account the predicted savings that are expected to be delivered it is anticipated that £97 million of the £100 million savings programme that was put in place will be successfully delivered.
- 1.4. Following the success of this savings programme, the County Council was able to return to a system of Annual Efficiency Targets (AETs) for Departments, which were

set at 2% per annum. Following the local government settlement for 2013/14 and 2014/15, assuming that Council Tax levels are in line with the overall Medium Term Financial Strategy, this means that no further savings will be necessary above the 2% AETs set for each Department in order to balance the budget for the next two years.

- 1.5. This is because the County Council has been preparing for the difficult times ahead by putting money aside to smooth the impact of grant reductions during this period and therefore funding is available from the Grant Equalisation Reserve to help balance the budget over the next two years. In addition, other reserves have been created in order to provide funding for new capital investment in future years and this report seeks to approve the use of up to £25.6 million of reserves for new initiatives.
- 1.6. The report also recommends the addition of £200,000 of resources to fund increased economic development activity and the creation of a rolling Members Environment Fund of £780,000 for high priority local environmental works across the County, which will be funded from the Corporate Policy Reserve. Of further significance is the transfer of public health responsibilities to the County Council, which has added £36.8 million to the budget, met from a ring fenced grant from the Government.
- 1.7. The combined impact of making savings in advance of need and providing reserves to help smooth out the impact of grant reductions leaves the County Council in a very strong financial position at a time when other local authorities are making significant cuts over the next two years before considering how to deal with further reductions from 2015/16 onwards. The County Council has bought itself sufficient time and capacity to plan for these more challenging times from 2015/16 onwards.
- 1.8. The Chief Executive has already reported to Cabinet plans for a new set of Corporate Efficiency Workstreams to start to address the financial challenges from 2015/16 onwards. This work will begin in earnest in this year with a view to identifying further efficiencies, cost reduction options and organisational responses that meet the forecast budget gap in 2015/16. The Council will also want to plan how to meet increases in demand, inflation and demographics that will ultimately translate into increased expenditure.
- 1.9. The report recommends a further freeze in the council tax level, meaning it will now have been at the same level for the fourth year running. Government grant equivalent to a 1% increase (£5.3M) will be paid to compensate for the lost income and is payable for both 2013/14 and 2014/15. This means that all current council tax freeze grants will have dropped out of the budget by 2015/16, amounting to £18.5 million, which would otherwise have been ongoing revenue funding had the County Council not foregone the council tax increase.
- 1.10. The report also recommends a revised approach to the creation of contingency amounts within the budget as part of the Medium Term Financial Strategy. In addition, the Leader, in considering the implications for the corporate strategy of service budget proposals has recognised the need for potential additional investment related to the County Council's key service and investment objectives and has indicated that the Corporate Policy Reserve together with other reserves highlighted in this report are available to fund new capital investment and any high priority initiatives that may require urgent support during the course of the year.

2. Background

- 2.1. The history behind the reductions in public expenditure is now well known and the County Council has been preparing for the anticipated reductions prior to the release of the Comprehensive Spending Review (CSR) in 2010. We have been awaiting the grant announcement for 2013/14 and 2014/15 for some considerable time and indications over the Summer of 2012 were that the settlement for the next two years would continue on a similar trajectory of grant reductions to those experienced for the first two years.
- 2.2. 2013/14 will see the introduction of significant changes in local government finance, the existing grant regime will be replaced by the new Business Rate Retention system and billing authorities are required to introduce local Council Tax Support Schemes that will replace Council Tax Benefit. The impact of these changes means that the overall budget setting process for 2013/14 is very complicated when trying to compare the position to 2012/13.
- 2.3. The final grant settlement for 2013/14 is not due out until after 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 in headline terms saw grant reductions of 8.7% and a derived figure of 9.6% in 2013/14 and 2014/15 respectively, however these headline figures only explain a small element of the changes that will impact on the bottom line of the budget.
- 2.4. The Chancellor announced last year that a further grant would be available in 2013/14 to those authorities that agreed to freeze the council tax for a further year, equivalent to the income from a 1% council tax increase, estimated at £5.3 million for the County Council. The additional grant for 2013/14 is payable for two years, which means that all remaining council tax freeze grants totalling £18.5 million will drop out of the budget by 2015/16, which would otherwise have been ongoing revenue funding had the County Council not foregone the council tax increase.
- 2.5. A key risk for the Council continues to be around adults and children's social care services and this is expected to continue into future years. The reports produced for the Executive Members of both Adults and Children's services highlighted a number of areas that will need to be addressed in setting the overall budget.
- 2.6. A key feature of previous budgets has been the establishment of contingency provisions using surplus money in the budget generated by the early achievement of savings. The further cuts in Government grants for next year means that these surplus funds are needed to balance the budget and therefore an alternative approach to providing appropriate contingencies to respond to existing cost pressures and other risk issues has been developed for the next two years.
- 2.7. The Council Tax Freeze Grant of £5.3 million, together with carried forward unspent contingencies from 2012/13 of £16 million has been used to fund specific items as set out in this report, with the balance of around £4.5 million each year being available as a general contingency to support the budget. Whilst this is significantly less than the contingencies required in the previous two years, it needs to be set against the context of a reduced level of savings being planned, albeit these savings are to be delivered from a significantly reduced base budget. The need for this

contingency approach is linked to allowing a small measure of flexibility in order to appropriately deal with any cash flow issues arising from budget savings proposals and/or issues related to the retention and development of 'sold services' income streams.

- 2.8. 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 2% efficiency savings. 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.

3. Revised Budget 2012/13

- 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 2012/13 together with adjustments that have been made during the year. The proposed Revised Budget for 2012/13 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 revenue spending on a temporary basis over the next two years. The paragraphs below explain the main adjustments that have been made to the budget during the year :
- 3.3. **Departmental Spending** – Departmental spending has increased by £13.7 million, the reasons for this are highlighted in the table below :

	£M
Reduction in schools budget due to Academy conversions	(22.1)
Increase in Pupil Premium funding	6.7
Tackling Troubled Families – new specific grant	1.6
Net increases in other specific grants	1.9
Waste Management – uplift for 12/13 volumes and inflation	2.6
Adults – transition costs of the Extra Care Programme	4.4
Adults – slippage and non achievable savings	7.6
Adults – additional costs of the dual carer contributions policy	1.0
One Off Addition to Members Devolved Grants	0.4
Calls on use of Cost of Change reserves	10.3
Other Net Changes	<u>(0.7)</u>
Total	<u>13.7</u>

- 3.4. **Capital Financing Costs** – the impact of IT Services becoming a cash limited service has resulted in some self-balancing changes in the presentation of the budget. The £2.5m increase in capital financing is entirely offset by a reduction in cash limit.
- 3.5. **Revenue Contributions to Capital Outlay (RCCO)** – The increase in RCCO reflects changes made to the capital programme, principally to reflect the additional capital bids approved by County Council in February 2012. There is no bottom line impact of these changes as they are entirely offset by earmarked reserves or other funding changes in budgets.
- 3.6. **Contingencies** – the reduction in contingencies is the result of transfers made to Departmental budgets during the year, mainly in support of Adult Social Care in respect of slipped and non-achievement of savings (£7.6 million) and one-off corporate support for transitional costs of the Extra Care Housing Programme (£4.4 million). In addition, £2.6 million has been allocated to the Environment cash limit to cover waste management volumes and inflation.
- 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 £10 million increase in specific grants is mainly due to the increase in the Per Pupil Premium grant of £6.7 million and funding towards the Tackling Troubled Families programme of £1.6 million. 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 no impact on the bottom line of the revenue account as they mainly represent transfers between different areas of the overall budget.

Revised budget 2012/13

- 3.9. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2012/13. 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 an under spend against cash limits by the end of the year, however in line with current policy these will 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 and the overriding policy of protecting capital at the expense of investment returns in a market that continues to be fragile. Cash balances have remained higher than anticipated 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 £3.050 million by the end of the year

- 3.11. **Capital Financing Costs** – The estimates for 2012/13 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. Current predictions are that 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 2012/13 have therefore been revised taking these factors into account and show a saving of £4.5m in the overall capital financing costs for the year.
- 3.12. **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 some other centrally held contingencies in respect of pay and price increases.
- 3.13. 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 :

	Adjusted Budget 2012/13 £'000	Expected Use in Year £'000	Available One Off Resources £'000
Waste Disposal – inflation and volume changes	3,633	1,800	1,833
Savings delivery risk contingency	15,000	7,593	7,407
Other Risk Contingencies	11,800	4,400	7,400
Total	30,433	13,793	16,640

- 3.14. The saving in waste disposal costs is mainly the result of increased income generated within the contract during the year and the continued lower levels of waste tonnage than originally forecast.
- 3.15. The savings risk contingency was created to offset potential slippage or non delivery of savings in the year and during 2012/13 some of this allocation has been drawn down against Adult Services savings that have been reported as part of the quarterly budget monitoring reports.

- 3.16. Other risk contingencies were set aside to reflect the significant changes in the overall budget, general risk issues and the reliance on increased income levels from selling services to schools and other bodies, which may not have necessarily been maintained throughout the year. The £4.4 million draw against this budget reflects additional funding given to Adult Services for the transition costs associated with the extra care programme which has had cost implications for care provision as homes are closed and beds are required to be held for transferring clients.
- 3.17. Following the review of contingencies, this means that there is £16.640 million that can be used on a one-off basis to support the Council's medium term financial strategy.
- 3.18. 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.
- 3.19. The contingency provisions that have been created for the past two years have been done on the back of the early achievement of savings that have generated spare resources within the revenue budget. With the further grant reductions in 2013/14 and other budget changes, there is no such funding available to create significant contingencies in the 2013/14 budget and therefore an alternative approach is required.
- 3.20. Based on the savings highlighted above, it is recommended that £16 million of this sum is carried forward within balances and used to support the creation of one off contingency amounts in the 2013/14 and 2014/15 budget of £8 million each year.
- 3.21. Should the remaining projected under spend (currently £8.2 million) in 2012/13 not be required over the remainder of the year to support potential budgeting issues, it is recommended that any under spend at the end of the year is transferred to the grant equalisation reserve as part of the year end process. This reflects the fact that the period of austerity in respect of public finances is due to continue until at least 2017/18.
- 3.22. It is also proposed that any under spends in Members devolved grant budgets and the 'Have your Say' community bidding budget is returned to the Corporate Policy Reserve as part of the end of year close down process.

4. Settlement

- 4.1. The final Local Government finance settlement for 2013/14 is still awaited at the time of the publication of this report. The provisional settlement released in December took into account of a number of significant changes in the local government finance system mainly in respect of the introduction of the Business Rate Retention (BRR) system and the introduction of local Council Tax Support Schemes (CTSS) to replace council tax benefit. The key features of the settlement for 2013/14 were :

- A reduction of 8.7% in formula grant
- A small increase in Learning Disability and Health Reform grant which will be passported to Adult Services
- A significant reduction in Early Intervention Grant (EIG), some of which is being transferred to Dedicated Schools Grant (DSG) – more information on the impact of this change is outlined below.
- The provision of a new grant to compensate for lost council tax income as a result of the CTSS regime equivalent to £43.4 million
- The rolling up of the original 2011/12 Council Tax Freeze Grant (CTFG) of £13.2 million into the new grant system.
- The replacement of all of the above funding streams within the new system, which total £263 million with new funding streams that consist of :-

	£M
Retained Business Rates	41.9
Business Rate Top up from Government	63.2
Revenue Support Grant	157.9
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	263.0
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- The replacement of Local Authority Central Services Expenditure Grant (LACSEG), which was formerly part of formula grant, with a new Education Services Grant (ESG) part of which must be paid to Academies based on pupil numbers.
- A new ring fenced Public Health grant, which has been notified to the County Council in January of £36.8 million in 2013/14 rising to £40.4 million in 2014/15.

- 4.2. The Chancellor had also announced that there was to be a third year of council tax freeze grant to be made available, however this was only at an equivalent level of 1% increase in council tax, which for the County Council equates to around £5.3 million. The figures in this report assume that the County Council will accept this grant, which is payable for two years. This would mean that all council tax freeze grants will drop out of the grant system by 2015/16 and could therefore increase the size of the funding gap in that year, if the Government does not replace these funds within the grant system.
- 4.3. It can be seen from the changes highlighted above that trying to track the changes in grant from the old system to the new system in 2013/14 is particularly difficult, not

least because the change in funding for the new CTSS cannot be directly compared to the equivalent loss of council income, which is explained in more detail in section 12. In preparing the budget for 2013/14 and forecasts for 2014/15, it is therefore only possible to provide a high level analysis of the net impact on the bottom line budget.

Early Intervention Grant

- 4.4. The 2012/13 budget included an EIG grant of £42 million. For 2013/14 this has been reduced by £10.9 million. £5.3 million of the reduction has been transferred to DSG in order to fund services to 2 year olds, an amount of £2.7 million has been top sliced as part of a national top slice of £150 million that will be targeted at adoption services and the balance of £2.9 million is a straight reduction in the level of the grant.
- 4.5. Funding changes at a national level rarely translate into accurate figures at a local level and for the County Council, current spending within the budget for two year olds is only £4.6 million and this therefore means that there is a further net loss to the Council of £0.7 million.
- 4.6. There have been no specific announcements on the national top slice of £150 million but it is thought that £50 million of this may be given directly to providing inter agency adoption support and may therefore not come through local authorities and the other £100 million will be an un-ring fenced grant distributed to local authorities although there may be some expectations around it's proposed use. Based on these assumptions, it is possible that up to £1.8 million could be received by Hampshire County Council, part of which could be used to mitigate the losses outlined above.
- 4.7. Current policy is to passport any changes in grants to Departments, however, given the late notification of these reductions and due to uncertainty around the top sliced funding, it is recommended that cash flow funding of up to £6.3 million be provided to Children's Services during 2013/14 in order to allow them sufficient time to appropriately identify options for how this reduction in funding can be mitigated and what the potential implications might be.

5. Service Cash Limits 2013/14

- 5.1. In December 2012 Cabinet considered a budget update report which set provisional cash limit guidelines for Departments for 2013/14, these cash limits included additional amounts for Adult social care pressures of £10 million and a further £1 million (on top of the budgeted growth) to deal with increasing numbers of children looked after. Appendix 2 sets out the cash limits that were approved and provides information on adjustments that have been made since this time, which are mainly the result of changes to grants within the local government finance regime.
- 5.2. Overall, cash limits have increased by £28.4 million compared to the figures approved in December, the main reasons for the increase are shown in the table below :

	£M
Changes to Schools Budgets following grant reductions	(7.2)
Reduction in Early Intervention Grant	(10.9)
EIG cash flow funding for Children's Services	6.3
Public Health – new specific grant to support the transfer of this service from Primary Care Trusts	36.8
Tackling Troubled Families – new specific grant	1.6
Additional Learning Disabilities funding passported to Adult Services through the Formula Grant	1.1
Other Net Changes	0.7
Total	28.4

5.3. In a similar way to the changes for 2012/13 very few of these amendments with the exception of the EIG changes have a bottom-line impact on the revenue budget as they represent changes in grant funding, in the use of contingencies, in earmarked reserves or RCCO.

5.4. All of the Departmental budgets which are set out in Appendix 4 and discussed in more detail in Section 8 are within the cash limits figures shown in Appendix 2 and take into account the 2% saving in Departmental spending in order to deliver the required on-going efficiency savings. The service budget figures in Appendix 4 have however been adjusted since they were approved by Executive Members to take account of the changes in cash limits outlined in Appendix 2.

6. Spending Pressures and Contingencies

6.1. There are a number of service pressures that have been identified as part of the development of individual Departmental budgets that will need to be taken into account in setting the overall 2013/14 budget.

6.2. The most certain of these is the costs of running the County Council elections in May 2013, for which no specific budget provision exists. In previous years, the County Council elections have coincided with other Parliamentary or European elections, which means the costs incurred by District Council's in running the elections have been shared.

6.3. For this year, there are no other elections taking place and therefore the full cost will fall on the County Council. District Council's have been asked to provide estimates of the likely costs of running the elections and at the present time this has been estimated to be around £1.5 million, although final costs will only be known once

District Councils have submitted claims for expenditure incurred. A provision equal to this sum has therefore been made in contingencies to meet this cost and will be drawn down in the year once final costs are known.

- 6.4. There is a pressure in Children's Services arising from the changes to EIG which will be dealt with through the allocation of cash flow funding in 2013/14 as outlined above, but other main areas of pressure relate to Adults and Children's social care costs, these are outlined in more detail in the following paragraphs :-

Children Services

- 6.5. The report to the Executive Member for Children's Services outlined the current pressures within the children's social care system, which give three key issues for the budget for 2013/14 and beyond :
- The increasing numbers and average cost of children looked after including those with severe disabilities
 - Capacity of front-line staff in child protection and children in need
 - Early intervention to deter additional pressures
- 6.6. Given the current levels of children looked after and the continuing increases both in terms of demographics and complexity of cases, the base budget was adjusted for 2013/14 and future years to reflect current activity levels and costs as part of the December Medium Term Financial Strategy update to Cabinet. This creates a more stable picture for the future.
- 6.7. Increasing capacity to reduce future risk:- the additional pressures that have to date been absorbed by existing services incrementally increase the risk of failure in the system and may impact on the current successful 'gate keeping' role which helps to keep children safely out of the system. Evidence shows that a single failure in this process can lead to significant extra children looked after costs in the future, caused by a reactive change in thresholds as has happened in a few high profile incidents in other authorities. Therefore, in order to robustly manage the existing and anticipated increases in activity it is considered that there is a case to increase the capacity of the service over the next few years by increasing the number of social work teams. Each team would consist of a team manager, assistant team manager plus associated support staff and would cost about £500,000 per annum.
- 6.8. Increasing preventative measures: – there is evidence that early intervention within the system is an effective way of keeping children out of care. At the present time the 'early help' service (costing £3 million per annum) contributes to this prevention work but it is 50% funded by schools, which leads to less targeted interventions in fulfilling the obligation to schools. It is, therefore, recommended that this service be reviewed during 2013/14 with a view to it being more directly targeted at social care early help.

Adult Services

Demand Pressures

- 6.9. The demand pressures on Adult Services has been tracked carefully over the last two years, which has shown a clear trend in the growth in the complexity of the care needs of all care groups. Additional resources were made available to meet those needs as part of the Medium Term Financial Strategy. In Learning Disabilities the growth in demand has been as budgeted for. However, in Older People & Physical Disability Services the demand has outstripped the forecasts, particularly in care at home and residential care.
- 6.10. The greatest area of unexpected pressure has arisen in care at home for older people, predominantly domiciliary care and direct payments which account for £4.1m of costs above budget in the current year alone. Whilst the cost per hour of care has been in line with plans, the amount of care required per person has grown significantly as a result of the increasing complexity of clients.
- 6.11. The growing complexity of care needs is also a major factor, with providers reporting that people are less well at the point of entry into their care. This is reflected in the average weekly cost of an Older Persons (OP) residential placement increasing in year. This is in addition to the 5% uplift that we granted for OP residential and nursing placements in 2012/13, which we provided for in budget setting. The cost of residential placements will continue to be an issue, particularly as a number of national providers have been identified as being at risk.
- 6.12. Current trends, based on existing cost profiles, are within the medium term forecasts that have been allowed for in the MTFs. However, if average costs continue to increase at the current rate or if the pressures from the changing health care landscape were to arise then this would lead to additional cost pressures in future years. Careful monitoring of these issues will continue in 2013/14.

Transformation

- 6.13. Project Extra-Care is gathering momentum, with much of the planning and preparatory work completed. The first project, Surrey Court, was approved by the Executive Member for Policy & Resources in October. Three HCC residential homes were closed in the year. The sites or their value will be recycled into the Extra-Care programme. Work is continuing to identify potential sites across the county and to support registered providers to submit funding applications to the Homes & Communities Agency.
- 6.14. However, one of the impacts that has surfaced this year is short term pressures arising from double running cost within in-house residential and nursing beds in homes that are being closed, beds held in other homes for relocation and beds closed due to safeguarding concerns. As the Extra Care Programme develops there may be similar one off transitional costs arising from double running costs as seen in the current year.

The changing healthcare landscape

- 6.15. The transition to the new health structures and the £20bn Quality, Innovation, Productivity and Prevention (QIPP) savings target have made an already challenging environment more difficult. The trend in earlier discharge from hospital continues to put more pressure on social care and community health services, as people are discharged with higher levels of dependency and complexity of care needs. The disinvestment in bed based health care has not been matched by a commensurate growth in investment in community health services, placing the system under considerable strain.
- 6.16. However, Adult Services has continued to build strong relationships with the emerging Clinical Commissioning Groups (CCGs) and is well placed to take forward partnership working with them once they assume their role. We continue to push the opportunities for mutual benefit from joint working across care and support services. We will continue to pursue systems reform with the CCG's through the Health & Wellbeing Board.
- 6.17. The pressures in health come at a time when demand pressures in social care are significant. Future budget planning has not included any costs that could arise from future challenges with Health. Early intervention, diversionary and re-ablement services are proving to be effective in managing the volume of service users, but inevitably this impacts most on those with lower levels of needs. The level of need, and consequently cost, of those cared for is increasingly significantly, with an increase in the average size of packages of care. This is particularly acute for those cared for at home. The demand for care continues to be monitored in detail by the Adult Services Department and Corporate Resources.

Impact on Forward Budget

- 6.18. Given the service pressures in both Adults and Children's social care costs, it is important that these are recognised in the budget going forward and the Leader in considering the budget and the contingency amounts that have been made available (as outlined in Section 3) is making recommendations to Cabinet and Council on these issues as set out in Section 11.

7. Savings Proposals

- 7.1. 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 is expected to eventually deliver £97 million of the total £100 million savings required over the first two years of the CSR period.
- 7.2. This has enabled the County Council to return to a system of Annual Efficiency Targets (AETs) for the last two years of the current Comprehensive Spending Review period, which have been set at 2% per annum. Each Department is required

to submit proposals to meet these 2% savings and Appendix 3 provides details of the individual savings proposals that are expected to be implemented during 2013/14 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 2014/15 onwards).

- 7.3. No proposals have been submitted for the Corporate Services Department as they were required to deliver an additional 4% savings in the current year. These savings are fully on track to be made and will be utilised as planned in 2012/13 and 2013/14 to support the development and investment for the Integrated Business Centre. The savings will then be available to support the revenue budget from 2014/15 onwards.
- 7.4. The detailed proposals contained in Appendix 3 have already been considered by Executive Members at their decision-making days during January and consultation on the proposals has been carried out with trade unions 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.
- 7.5. 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.
- 7.6. 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.
- 7.7. 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.

8. Service Budgets 2013/14

- 8.1. As explained in Section 5 Departments have been set cash limit guidelines for 2013/14 which include the 2% AETs discussed above.
- 8.2. Taking these factors into account and variations arising from other cash limit changes, Departments were required to set detailed budgets that were contained within the cash limits that were approved by Cabinet last December. In all cases, the budgets approved by the Executive Members during January meet this requirement, although for Policy and Resources, additional savings were put forward by the Leader of £200,000 taking estimated spend below the cash limit by this amount.
- 8.3. Since the cash limits were approved in December there have been some significant impacts on budgets as a result of the changes to the local government grant regime. Appendix 2 sets out the various increases, decreases and transfers that have been made to cash limits since Executive Members approved their budgets and these changes have also been reflected in the detailed service budgets contained in Appendix 4.

- 8.4. Appendix 4 provides a summary for each Department of the main services under their control and shows the original budget for 2012/13, the revised budget for 2012/13 and the proposed budget for 2013/14 as amended by the changes explained in paragraph 8.3. The overall net cash limited budgets for all Departments remain in line with the revised cash limits for 2013/14 detailed in Appendix 2.
- 8.5. 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).
- 8.6. Details of income reviews and charges were set out in the budget reports for Executive Members and are summarised below:

	Total 2012/13	Mandatory Charges 2013/14	Discretionary Charges 2013/14	Total 2013/14
	£M	£M	£M	£M
Adults	64.1	49.5	14.6	64.1
Children's	3.7	0.0	3.9	3.9
Environment and Transport	12.1	0.3	13.6	13.9
Policy and Resources	10.2	1.0	9.5	10.5
Total	90.1	50.8	41.6	92.4

9. Workforce Implications

- 9.1. The savings proposals contained in Appendix 4 assume an estimated 20.0 FTE reduction in the workforce for 2013/14, although the actual figures will be subject to the various restructuring and staff consultation processes which will be undertaken during the year.
- 9.2. Any staff reductions will continue to be 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.
- 9.3. Appendix 5 provides a summary of the workforce changes that are expected to happen in 2013/14 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 2012/13 budget. A high-level explanation of the main changes within the Departments is also provided within the Appendix.

- 9.4. As can be seen the projected workforce changes are significantly reduced from those experienced over the last two years which is very much in line with the strategy to deliver the savings in response to Government Grant reductions in the first two years. It is predicted that by 31st March 2013, workforce numbers will have reduced by around 1,800 over the last few years and therefore the slowdown in reductions in workforce numbers over the next year is appropriate in the context of the financial strategy

10. 2013/14 Overall Budget Proposals

- 10.1. 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.
- 10.2. Appendix 6 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 2012/13 budget.
- 10.3. **Interest on Balances and Capital Financing Costs** – Although significant savings are projected in both of these areas during 2012/13, we must take into account the fact that cash balances may reduce by the end of the year and there will be additional borrowing costs associated with the existing capital programme. At some point, the County Council must also begin to take up the planned prudential borrowing associated with financing the capital programme in previous years if it is to avoid placing itself in the position of having a large amount of borrowing to do in a rising interest rate environment.
- 10.4. The estimates reflect the latest forecasts for interest and loan repayments but continue to only assume a notional sum of £750,000 per annum for interest earned on cash balances, reflecting the need to protect capital at the expense of yield in what continues to be a volatile market.
- 10.5. The change in capital charges reflects the dropping out of the asset rental charges for the SAP financial system that was implemented 10 years ago but this is entirely offset by a reduction in cash limited expenditure within Policy and Resources.
- 10.6. **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 net 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, but it is not anticipated that any changes arising from this will come into affect until later years. The net movement of £952,000 is entirely due to technical accounting adjustments which balance out within the revenue account.
- 10.7. **Revenue Contributions to Capital Outlay (RCCO)** - Each year, revenue contributions are made to help fund the capital programme. There was a significant

increase in the contributions for 2012/13 mainly as a result of the use of one-off savings in the budget to help fund new capital investment priorities that were added to the capital programme last February. These amounts have now dropped out of the budget and account for the bulk of the reduction in this budget for 2013/14.

- 10.8. **Contingencies** - The budget for contingencies has decreased by around £16.9 million over the 2012/13 original budget. This is almost entirely due to £23 million of savings and other risk contingencies dropping out of the budget and being replaced by the £8 million risk contingency being carried forward from 2012/13 as explained in Section 3, which is being provided together with the Council Tax Freeze Grant of £5.3 million to cover potential cost pressures as set out in Section 6 and to allow for a budgeted general contingency of around £4.5 million in order to appropriately deal with any cash flow issues linked to budget savings proposals and/or issues related to the retention and development of 'sold services' income streams. A similar amount will also be available in 2014/15 but then it will be necessary to build in ongoing contingency provision from 2015/16 onwards which will have to be factored into the budget at that stage.
- 10.9. The specific provisions that have been made in respect of risk contingencies represent the recommendation by the Director of Corporate Resources of a prudent approach to budgeting given the potential pressures that the County Council faces. In addition to these contingencies, the County Council also has access to significant reserves as part of an ongoing strategy for the management of the County Council's financial resources over the medium term.
- 10.10. **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.
- 10.11. **Specific Grants** This income budget has decreased by nearly £19 million as a result of the changes in the Business Rate Retention system that are explained in Section 4, which have been partially offset by the introduction of the Public Health Grant. In simple terms, Learning Disability and Health Reform Grant and Early Intervention Grant have dropped out of specific grants and moved into the new grant system and Education Services Grant and Public Health Grant have both been added.
- 10.12. **Council Tax Freeze Grant** – The budget for 2012/13 represents the second year of council tax freeze grant which is shown as part of the main revenue account and was for one year only. This has been replaced in 2013/14 with the new Council Tax Freeze Grant, equivalent to a 1% increase in Council Tax, but which is payable in both 2013/14 and 2014/15.
- 10.13. **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. In 2012/13, the budget for the Coroners Service was increased to reflect previous levels of activity, although these can be very variable. During this year, the number of inquests has not been as great as previous years and the budget is therefore expected to slightly underspend. No increase in this budget is therefore planned for 2013/14 and the small decrease is entirely the result of cash limit transfers

- 10.14. **Business Units** – The main change in the net trading position of business units is the re-designation of IT Services as a cash limited service within the new Corporate Services Department. Whilst overall the estimate is a net trading deficit, this is usual at the beginning of the year whilst income sources remain uncertain. Any losses at the end of the year will be met from earmarked reserves that the trading units hold.
- 10.15. **Earmarked Reserves** - Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account, with the biggest change being the drop out of the RCCO from reserves for the purchase of the Vertex building as part of the Workstyles programme.
- 10.16. 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.
- 10.17. Appendix 7 summarises the level of earmarked reserves anticipated at the end of the 2013/14 financial year but does not take into account the potential use of the Corporate Policy Reserve as part of the budget setting process for 2013/14. The total value of reserves reflects the proposed use of reserves consistent with the MTFs. The general reserve after allowing for the carry forward of unspent contingencies that will be utilised in the budget in 2013/14 and 2014/15 will be around £20 million by the end of 2013/14 in line with the policy of providing for general reserves at 2.5% of the budget.
- 10.18. The £8 million adjustment to the use of general balances relates to the utilisation of unspent contingencies carried forward from 2012/13 through general balances as explained in section 3.

Overall Budget Position

- 10.19. Following the local government finance announcement in December last year, the net overall impact of the changes in grant and the budget were assessed and taking all of these factors into account it was estimated that there would be a £5.458 million gap in the budget in 2013/14, mostly as a result of the loss in EIG grant.
- 10.20. The revenue budget detailed in Appendix 6 shows a balanced position, which has been achieved through the use of recurring savings arising from no pay award in 2012/13 (£1.6 million) an additional collection fund surplus compared to estimates of £1.353 million with the balance of £2.505 million being met from a draw from the grant equalisation reserve.
- 10.21. The County Council has been very prudent in its approach to dealing with the known reductions in Government Grant and some time ago created the grant equalisation reserve to help smooth the impact of grant reductions over this difficult period. Last year an additional £18 million was added to the reserve and this report recommends that the year-end underspend, currently projected at £8.2 million be added in the

current year to deal with the later years of the current CSR period and into 2015/16 and 2016/17. This small draw to balance the budget in 2013/14 is entirely in line with the proposed use of the reserve.

- 10.22. Appendix 8 represents the Chief Financial Officer's 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.

11. Leader's Recommendations

- 11.1. Having considered the proposed budget and the pressures within Adults and Children's social care and after taking into account provisions already made for contingencies, inflation and demographic growth, the Leader is recommending that the following amounts be earmarked within contingencies over the next two financial years, to be met from the carry forward of unspent contingencies in 2012/13 :-

Revenue

	2013/14	2014/15
	£'000	£'000
The addition of 5 new social work teams at a cost of £500,000 per team (half year impact 2013/14)	1,250	2,500
Re-design of the early help service for more targeted interventions (half year impact 2013/14)	750	1,500
Provision of one off funding for the transitional costs of the extra care programme	4,000	4,000
Total	6,000	8,000

- 11.2. These will be met from a combination of the remaining Council Tax Freeze Grant for the two years, and the one-off contingency sum of £16 million. The remaining balance will provide a small budgeted contingency of around £4.5 million in each year (0.6% of net budget) in order to ensure there is flexibility to support any one-off cash flow issues regarding budgeted savings and/or loss of 'sold services' income. This is in line with the approach taken in previous years but at a significantly reduced level.
- 11.3. In addition, the Leader is keen to ensure that the County Council continues to be at the forefront of developing and improving the economy across Hampshire and to

grow businesses to the benefit of the local tax payers now that part of business rates are retained by local authorities.

- 11.4. It is therefore recommended that £200,000 of the retained business rates are used to support further economic development resources within the Economy, Transport and Environment Department from 2013/14 onwards on a recurring basis. Not only will this fit with the County Council's objectives of promoting and encouraging economic development but will also help to generate additional resources for the County Council in the future through the generation of additional business rate income.

Capital

- 11.5. In addition, the Leader is also recommending that new investment of up to £25.6 million funded from the capital payments reserve, the invest to save reserve and the 2013/14 New Homes Bonus is earmarked for the following key capital theme areas in 2013/14 and beyond :
- **Economic Development** – Continuing to progress the current programme of delivering broadband across the County and providing matched funding for infrastructure investment to unlock development sites where it is sensible to do so.
 - **Asset Management** – Providing funding to maintain and improve our countryside and heritage assets.
 - **Energy** – Continuing to progress plans for a District Heating scheme within Winchester
 - **Strategic Project Initiatives** – Providing funding to implement shared space villages and a separate fund to help maintain and improve community centres across the County.
- 11.6. The Leader has also previously announced his intention to create a Members Environment Fund to provide resources to carry out high priority environmental works across the County, which will be funded by the Corporate Policy Reserve.
- 11.7. In financial terms, the equivalent of £10,000 per Member (£780,000) will be made available each year to support a four year rolling programme. The first year (2013/14) will be used for planning purposes and then works will be carried out on a geographical basis over each of the next three years to ensure that works are planned, designed and delivered in the most efficient manner.
- 11.8. More details of the scheme process and how the works will be prioritised and delivered will be presented to a future decision meeting of the Executive Member for Policy and Resources
- 11.9. In addition to the revenue and capital items above, the Leader, in considering the implications for the corporate strategy of service budget proposals has recognised the need for potential additional investment related to the County Council's key service objectives and has indicated that the Corporate Policy Reserve is available to fund new high priority initiatives that may require urgent support during the course of the year.

12. Budget and Council Tax Requirement 2013/14

- 12.1. The significant changes to local government finance as a result of the introduction of the Business Rate Retention scheme and the Council Tax Support Schemes means that there are significant increases and decreases in both the budget requirement and the council tax requirement for 2013/14.
- 12.2. Appendix 9 sets out the calculation of the 2013/14 council tax and compares this to the 2012/13 budget. The main changes are outlined below, but given the complexity of the grant settlement in 2013/14, it is not possible to calculate the individual impact of the changes, they are merely reflected in the Budget Requirement figure that is derived from the grant and council tax base figures.
- 12.3. **Budget Requirement** – The increase of £44.5 million mainly reflects the transfer of specific grants out of the budget and into the Business Rate Retention system.
- 12.4. **Business Rates and Revenue Support Grant** – The increase of nearly £86 million reflects the transfer in of specific grants, together with the new grant of £43.4 million for Council Tax Support Schemes, which replaces lost council tax income. These increases are partially offset by the grant reductions imposed by the Government within the settlement.
- 12.5. The change to the Business Rate Retention system also means that District Councils are required to estimate the level of business rates they expect to collect next year, a proportion of which is then given to the County Council and is included within this figure. However, predicting levels of business rates is notoriously difficult in particular the impact of potential growth, failure of larger businesses and the ongoing impact of appeals (which can be backdated for many years) means that estimates for the first year of the new system are unlikely to be very accurate until more of an historic baseline can be established.
- 12.6. Final actual figures for the 2013/14 business rates income will not be known until well into the 2014/15 financial year and the impact of any gains or losses will be included in future budgets in the same way as the existing council tax collection fund operates. Any significant losses arising from business failures, appeals or inaccurate estimates could be covered from the reserve that was set up last year to deal with the transfer of business rate risk from central to local Government.
- 12.7. **Collection Fund Surplus** – The level of surplus varies from year to year and the surplus included for the 2012/13 budget was higher than previous years. For next year, Districts are only predicting net surpluses of £2.853 million, however this was above our planning assumption of £1.5 million and has therefore helped to close the budget gap in 2013/14.
- 12.8. **Council Tax Requirement** – Taking all of these factors into account means that there is £40m less council tax to be collected from tax payers across the County, however, when this is divided by the new tax base figures (explained below) this still brings the Council Tax level back in line with the 2012/13 figure.
- 12.9. **Tax Base** – The implementation of local Council Tax Support Schemes has the impact of reducing the council tax bases in billing authorities as the new schemes are

treated in the same way as other discounts and exemptions thereby effectively reducing the total number of band D equivalent households who have to pay the tax.

- 12.10. Local authorities are now required to report a formal council tax requirement as part of their budget setting process and the recommendations to Council later in this report show that the Council Tax Requirement for 2013/14 is £490,113,506.

13. Implications for 2014/15 Onwards

- 13.1. The Government has announced provisional grant figures for 2014/15 alongside the 2013/14 settlement and following the announcement of a further 2% reduction in control totals for Government spending in the Autumn Statement, the reductions for Hampshire are greater than previously predicted.
- 13.2. The Medium Term Financial Strategy approved last year predicted a net deficit of £9.358 million in the budget for 2014/15. Taking into account the extra loss of grant and the impact of a council tax freeze in 2013/14, and assuming no Council Tax increase or freeze grant for 2014/15, the net deficit would increase to £26.115 million. Clearly decisions regarding Council Tax levels and Freeze Grants would impact upon this position, as would further changes to Government Grant allocations and other variables.
- 13.3. Whilst this presents a high-end projected deficit, it is within the manageable resources of the current financial strategy and indeed resources available to cover the four year Comprehensive Spending Review period.
- 13.4. Elsewhere in the report the County Council's financial strategy for dealing with the grant reductions was explained and is reliant on money previously set aside in the Grant Equalisation Reserve to balance the budget in 2013/14 and 2014/15.
- 13.5. At this stage therefore, it is anticipated that this gap could be closed by drawing upon a number of funding sources including the following:- :-

	£'000
Recurring savings from 2012/13 pay inflation not required	1,600
Use of the New Homes Bonus from 2014/15 onwards to support revenue	4,800
Total	6,400

- 13.6. It is anticipated that the balance will be drawn from the Grant Equalisation Reserve, but the exact sum will be dependent upon decisions regarding Council Tax levels and the potential for the Government to offer further Council Tax Freeze Grants.
- 13.7. The forecasts for 2015/16 will obviously need to take into account the fact that £18.5 million of council tax freeze funding will drop out in that year, together with the impact of using any one off money to balance the budget in 2014/15. A Comprehensive

Spending Review is anticipated in the early part of this year that will deal with the 2015/16 settlement only and this will be reflected in an update of the Medium Term Financial Strategy in early Summer.

- 13.8. The Council has already embarked upon planning the next phase of transformation workstreams in preparation for 2015, as first reported to Cabinet in June 2012. The development of the workstream programme is progressing well, including identifying the appropriate resources to deliver the work packages in order to ensure that sufficient time and capacity are created to ensure an equally successful delivery of efficiency savings to meet the financial challenges ahead.

14. Treasury Management Strategy and Investment Strategy for 2013/14

- 14.1. The County Council is required to adopt a treasury management strategy and an annual investment strategy for 2013/14 and these are set out in Appendix 10 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.

15. Prudential Indicators

- 15.1. 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
- 15.2. Some of the 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.
- 15.3. Appendix 10 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 2013/14.

16. Recommendations

The following decisions are sought based upon the recommendations from the Leader and Cabinet to the County Council on the 2013/14 budget and council tax, that:

- 16.1. The revised budget for 2012/13 contained in Appendix 1 be approved,
- 16.2. The carry forward of £16 million of the unspent 2012/13 contingencies to provide one off contingency funding in 2013/14 and 2014/15 be approved.
- 16.3. The allocation of any further corporate under spend in 2012/13 to the grant equalisation reserve, as part of the year end process, currently predicted to be around £8.2 million be approved.
- 16.4. The transfer to the Corporate Policy Reserve of any under spend in Members Devolved Grant budgets and the Have your Say community bidding budget be approved
- 16.5. The updated cash limits for Departments for 2013/14 as set out in Appendix 2 are approved
- 16.6. The savings proposals for 2013/14 as set out in Appendix 3 are approved.
- 16.7. The proposed service budgets for 2013/14 as set out in Appendix 4 are approved.
- 16.8. The workforce implications of changes to the budget and the savings proposals as set out in Appendix 5 are approved
- 16.9. The annual review of charges for 2013/14 be approved (Section 8)
- 16.10. The items set out in paragraph 11.1, totalling £6 million in 2013/14 and £8 million in 2014/15 are earmarked within contingencies for those purposes
- 16.11. A proportion of retained business rates income be earmarked to provide additional economic development resources of £200,000 from 2013/14 onwards on a recurring basis
- 16.12. The overall budget for the County Council for 2013/14 as set out in Appendix 6 be approved.
- 16.13. The funding sources outlined in paragraph 11.5 and totalling £25.6 million are earmarked for new capital investment in future years
- 16.14. The capital investment priorities outlined in paragraph 11.5 are approved in principle for development later in the calendar year
- 16.15. The sum of £780,000 per annum be added to the Economy, Transport and Environment capital programme from 2013/14 to provide resources for a Members Environment Fund to be met from the Corporate Policy Reserve
- 16.16. Delegated authority be given to the Director of Corporate Resources, 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 tax base and business rate figures or in the final Local Government finance settlement which is not due out until after 8th February 2013.

16.17. **It be a recommendation to Council that**

- a) The Chief Financial Officer's report under Section 25 of the Local Government Act 2003 be taken into account when the Council determines the budget and precept for 2013/14 (Appendix 8)
- b) The Revised Budget for 2012/13 set out in Appendix 1 be approved.
- c) The Revenue Budget for 2013/14 (as set out in appendices 4 and 6) be approved.
- d) The total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2013, be £756,089,000.
- e) The **council tax requirement** for the County Council for the year beginning 1 April 2013, be £490,113,506
- f) The County Council's band D council tax for the year beginning 1 April 2013 be £1,037.88 as in the previous three years
- g) The County Council's council tax for the year beginning 1 April 2013 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 £490,113,506 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	60,252.70
East Hampshire	45,965.13
Eastleigh	41,575.62
Fareham	40,244.00
Gosport	24,532.40
Hart	37,212.78
Havant	37,204.14
New Forest	67,702.70
Rushmoor	28,799.18
Test Valley	43,344.00
Winchester	45,392.95

- i) The treasury management and annual investment strategies, prudential and financial health indicators for 2013/14 be approved, in accordance with the recommendations in Appendix 10.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

- a) The Chief Financial Officer's report under Section 25 of the Local Government Act 2003 and take this into account when determining the budget and precept for 2013/14 (Appendix 8)
- b) The Revised Budget for 2012/13 set out in Appendix 1.
- c) The Revenue Budget for 2013/14 (as set out in appendices 4 and 6)
- d) That the total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2013, be £756,089,000.
- e) The **council tax requirement** for the County Council for the year beginning 1 April 2013, be £490,113,506.
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Winchester	45,392.95

- i) The treasury management and annual investment strategies, prudential and financial health indicators for 2013/14 be approved, in accordance with the recommendations in Appendix 10.

GENERAL FUND REVENUE ACCOUNT - 2012/13 REVISED

	Adjusted Original Budget	Adjustment	Adjusted Budget	Revised Budget	Variance
	£'000	£'000	£'000	£'000	£'000
<u>Departmental Expenditure</u>					
Adults	302,466	19,793	322,259	322,259	0
Children's - Schools	713,499	(15,067)	698,432	698,432	0
Children's - Non schools	166,622	(3,544)	163,078	163,078	0
Environment and Transport	107,676	1,257	108,933	108,933	0
Policy and Resources	88,442	11,297	99,739	99,739	0
TOTAL	1,378,705	13,736	1,392,441	1,392,441	0
<u>Capital Financing Costs</u>					
Committee Capital Charges	108,357	2,456	110,813	110,813	0
Capital Charge Reversal	(111,412)	90	(111,322)	(111,322)	0
Interest on Balances	(750)	0	(750)	(3,800)	(3,050)
Capital Financing Costs	68,746	0	68,746	64,246	(4,500)
	64,941	2,546	67,487	59,937	(7,550)
<u>Pension and IAS 19 Costs</u>					
Interest and Return on Assets	18,150	0	18,150	18,150	0
Contribution from Pension Reserve	(26,479)	0	(26,479)	(26,479)	0
IAS 19 Departments	129	997	1,126	1,126	0
Non Distributed costs	20,590	(45)	20,545	20,545	0
Soft Loan	(10)	0	(10)	(10)	0
	12,380	952	13,332	13,332	0
<u>RCCO</u>					
Main Contribution	32,622	(300)	32,322	32,322	0
Funded by Dedicated Schools Grant	11,719	116	11,835	11,835	0
RCCO From Reserves	6,750	7,522	14,272	14,272	0
	51,091	7,338	58,429	58,429	0
<u>Other Revenue Costs</u>					
Contingency	46,506	(17,960)	28,546	11,906	(16,640)
Dedicated Schools Grant	(713,600)	22,097	(691,503)	(691,503)	0
Specific Grants	(110,949)	(10,207)	(121,156)	(121,156)	0
Council Tax Freeze Grant	(13,245)	0	(13,245)	(13,245)	0
Flood Protection Levy	557	(5)	552	552	0
Coroners Expenditure	1,331	(11)	1,320	1,320	0
Business Units (Net Trading Position)	2,118	(1,803)	315	315	0
	(787,282)	(7,889)	(795,171)	(811,811)	(16,640)
Net Revenue Budget	719,835	16,683	736,518	712,328	(24,190)

GENERAL FUND REVENUE ACCOUNT - 2012/13 REVISED

	Adjusted Original Budget	Adjustment	Adjusted Budget	Revised Budget	Variance
	£'000	£'000	£'000	£'000	£'000
Net Revenue Budget	719,835	16,683	736,518	712,328	(24,190)
<u>Contributions from Earmarked Reserves</u>					
Use of Earmarked Reserves	(453)	(10,724)	(11,177)	(2,987)	8,190
Trading Units Transfer to / (from) Reserves	(1,919)	1,713	(206)	(206)	0
RCCO From Reserves	(6,750)	(7,672)	(14,422)	(14,422)	0
	(9,122)	(16,683)	(25,805)	(17,615)	8,190
Contribution to Balances	900	0	900	16,900	16,000
BUDGET REQUIREMENT	711,613	0	711,613	711,613	0

Final 2013/14 Cash Limits

	Adults	Children's Schools	Non- Schools	ETE	P&R	Total
	£'000	£'000	£'000	£'000	£'000	£'000
December Cabinet Cash Limits	312,288	713,499	164,947	109,801	94,583	1,395,118
<u>Government Grant Changes</u>						
Milk grant falling out		(194)				(194)
Reduced Dedicated Schools Grant		(13,302)				(13,302)
Reduced Music Grant		(200)				(200)
Increase in Cycle Training grant				100		100
Additional Learning Disability funding	1,134					1,134
Local Reform and Community Voices	293				540	833
Additional Per Pupil Premium		6,535				6,535
Reduction in Early Intervention Grant			(10,908)			(10,908)
Cah flow funding for EIG reduction			6,308			6,308
Supporting Troubled Families Grant					1,599	1,599
Public Health Grant					36,753	36,753
	1,427	(7,161)	(4,600)	100	38,892	28,658
<u>Technical Adjustments</u>						
IT Centralisation adjustments	34		92		(115)	11
LGPS re CS ex business units			(261)			(261)
Number of school days			136			136
Savings in P&R other budgets					(200)	(200)
	34		(33)		(315)	(314)
<u>Transfers between Departments</u>						
Office Accom charges re EFS and EPS			115		(115)	0
Apprenticeship scheme (incl. care leavers)			800		(800)	0
Supporting Troubled Families			(300)		300	0
	0	0	615	0	(615)	0
<u>Other</u>						
Other Minor Adjustments	(17)	0	(13)	45	(4)	11
	(17)	0	(13)	45	(4)	11
New Total for 2013/14	313,732	706,338	160,916	109,946	132,541	1,423,473

Summary of Savings – 2013/14

Expenditure Reduction Options – New Savings Proposals to Meet 2% Target for 2013/14

	2013/14		Full Year	
	£'000	FTE	£'000	FTE
Service				
Adult Services	(4,868)	(3.0)	(5,723)	(3.0)
Children's Services	(2,349)	(3.0)	(3,480)	(3.0)
Economy, Transport and Environment	(1,411)	(0.0)	(1,411)	(0.0)
Policy and Resources	(998)	(14.0)	(998)	(14.0)
Total Savings Proposals	(9,626)	(20.0)	(11,612)	(20.0)

Adult Services

Expenditure Reduction Options – New Savings Proposals to Meet 2% Target for 2013/14

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full year	
						£'000	FTE	£'000	FTE
Adult Services									
AS 1	E	L	Transport provision for clients with Learning Disabilities, Physical Disabilities and Older People	Client transport – Review of transportation provision to provide more cost effective solutions.	These are efficiency savings and are not expected to impact on core service delivery to clients.	(500)		(500)	
AS 4	E	H	Services for Older People	Transformation of reablement – A review of the methods of delivering reablement including reviewing delivery of community response services and reablement beds and re-commissioning associated personal care services.		(1,000)		(1,000)	
AS 5	E	M	All client groups	Telecare – use of telecare equipment to promote independence and allow service users to stay in their homes for longer whilst providing cost effective care through reduced dependence on domiciliary care.		(315)		(1,170)	
AS 6	E	M	Various adult social care and support services	Workforce – Further review of HQ workforce.		(100)	(3.0)	(100)	(3.0)
AS 8	E	M	Services for Older People	Tender for Older Peoples Day Care – to ensure day opportunities for older people are fit for the future, cost effective and support Adult Services vision (as per Exec member report 29 June 2012)		(200)		(200)	

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full year		
						£'000	FTE	£'000	FTE	
				Housekeeping – across all non staff budgets:						
AS 9	E	M	All budget areas	- OPPD - £236,000 - LDMH - £151,000 - In-house - £2,000 Headquarters - £178,000			(567)		(567)	
AS 11			In-house LD	Full Year Effect of 2012/13 – Review of LD residential in house services			(286)		(286)	
				Total Savings			(2,968)	(3.0)	(3,823)	(3.0)
AS 10	I	M		Income – increase in Reablement Support			(1,900)		(1,900)	
				Net Total			(4,868)	(3.0)	(5,723)	(3.0)

Children's Services

Expenditure Reduction Options – New Savings Proposals to Meet 2% Target for 2013/14

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
CS 1	E	L	Home to School Transport	Review of discretionary entitlements – impact of policy change started in September 2012		(330)		(500)	
CS 2	E	L	Learning and Development	Contractual efficiencies - arrangements with external providers, partnership arrangements - course delivery	These are efficiency savings and are not expected to impact on core service delivery to clients.	(325)		(325)	
CS 3	E	L	Performance & Partnerships	Health & Safety – review of effective practices	The review will ensure that statutory requirements are not affected	(60)		(60)	
CS 4	E	L	Procurement	Grants to voluntary organisations – reduce budget	Current level of support will be retained	(100)		(100)	

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
CS 5	E	L	Access, Performance and Resources	Contingency reduction – removal of balance of community funding	No impact as agreements ended in March 2012	(400)		(400)	
CS 6	E	L	Education of Children at home	Elective Home Education – targeted delivery focussing on value added areas	Minimal impact. Statutory responsibilities will be fulfilled	(50)	(1.0)	(50)	(1.0)
CS 7	E	L	Music Service	Pupil support – increased efficiencies in service delivery	Minimal impact	(30)		(30)	
CS 8	E	L	HIAS	Review of HIAS communications – increasing use of web-based resource and other efficiencies	Minimal service impact	(90)		(90)	
CS 9	E	L	Rights, Respects, Responsibilities	Integration with EMTAS activities - Staff reduction with residual functions absorbed	Opportunity to develop some aspects as sold service	(25)		(25)	
CS 10	E	L	Services for Young Children – Early Years	Removal of CPD training budget	Minimal impact	(30)		(30)	

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
CS 11	E	M	Services for Young Children – Early Years	Early Years Foundation Stage training - targeted support to settings (based on Ofsted ratings) (total budget £290k)	Minimal impact	(105)		(210)	
CS 12	E	M	Services for Young Children – Early Years	SEN capacity building – targeted support	Part of current service review impact will be mitigated by redesign of services	(80)		(152)	
CS 13	R	M	Services for Young Children – Early Years	Training incentives - Reduction in support to settings (previously associated with graduate leader fund)	Minimal impact	(70)		(136)	
CS 14	E	L	Services for Young Children – Early Years	Childcare sustainability – reduce funding to deliver project to engage fathers in home learning	Minimal impact as service will be offered as a sold service in 2013/14	(28)		(46)	
CS 15	E	L	14 – 19 Service	Adult Learning - fundamental re-organisation of Adult Learning and 14-19 areas.		(30)		(180)	
CS 16	I	L	Standards and Improvements (see also CS 8)	Inspection and Advice - Income to replace core funding	Income reliant on development of additional sold service opportunities.	(130)		(130)	
CS 17	E	L	Standards and Improvements	Governor Services – re-basing of charges and services to schools in 2013/14.	Some risk that fewer Governing Bodies will buy into	(100)		(300)	

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
					the service				
CS 18	E	L	Special Educational Needs Service	Special Educational Needs service - continue to hold officer vacancies as at present and reduce 1fte Education Officer in line with two area structure	There will be additional workload pressures for staff remaining	(255)	(1.0)	(266)	(1.0)
CS 19	I	L	Educational Psychology	Sold services to schools – further development	Risk of income not being generated	(50)		(100)	
CS 20	E	L	Youth Justice	Hampshire Youth Offending Team (YOT) - reduced contribution	Consultation with partners required	(11)		(300)	
CS 21	E	L	Parenting	Family & Parenting Support - absorb co-ordinator post into troubled families team		(50)	(1.0)	(50)	(1.0)
Total Savings						(2,349)	(3.0)	(3,480)	(3.0)

Economy, Transport and Environment Department

Expenditure Reduction Options – New Savings Proposals to Meet 2% Target for 2013/14

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full year	
						£'000	FTE	£'000	FTE
<u>Economy, Transport and Environment</u>									
ETE 1	E	L	Highways	Safer Roads Partnership - activities of the partnership are now fully funded from income received by Hampshire Police Authority.	No impact on service delivery	(242)		(242)	
ETE 2	E	L	Highways	Re-procurement of the street lighting energy supply contract/more energy efficient operation.	No impact on service delivery	(300)		(300)	
ETE 3	E	L	Highways	Co-location of staff and rationalisation of smaller area offices.	Benefits anticipated from closer working between HCC staff and key partners	(100)		(100)	
ETE 4	E	L	Highways	Concessionary Fares Scheme administration efficiencies	No impact on service delivery	(300)		(300)	

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full year	
						£'000	FTE	£'000	FTE
ETE 5	I	L	Highways	Additional income both from successful bids for additional capital funding and more efficient delivery of schemes; can support greater staff costs releasing revenue salary funding.	No impact on service delivery	(200)		(200)	
ETE 6	E	L	All	Further housekeeping savings from ongoing programme of reviews	No impact on service delivery	(100)		(100)	
ETE 7	E	L	All	Further vacancy management	Minimal impact on service delivery assuming continued staff turnover at current rates	(169)		(169)	
Total Savings						(1,411)	0.00	(1,411)	0.00

Policy and Resources

Expenditure Reduction Options – New Savings Proposals to Meet 2% Target for 2013/14

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
<u>Culture Community and Business Services</u>									
CCBS1	E	Low	Business Services	Service efficiencies and consolidation	None	(16.1)		(16.1)	
CCBS2	I	Low	Business Services	Additional income from increased chargeable work	None	(11.8)		(11.8)	
CCBS3	E	Low	Business Support	Restructuring and rationalisation within support services – Equalities and Diversity	None	(58.2)	(1.0)	(58.2)	(1.0)
CCBS4	E	Low	Community - Libraries	Libraries – Staff reductions via vacancy management and introduction of self-service in more libraries.	None	(307.5)	(11.0)	(307.5)	(11.0)
CCBS5	E	Low	Community – Other	Service efficiencies and consolidation	None	(24.2)		(24.2)	

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
CCBS6	E	Low	Culture and Heritage	Countryside and Outdoors Centres service rationalisation Arts and Museums – savings delivered through a range of measures including phase 2 integration of Arts and Museums	None	(131.8)	(2.0)	(131.8)	(2.0)
CCBS7	I	Low	Culture and Heritage	Countryside, Outdoors Centres and Archives & Records – increased income	None	(60.3)		(60.3)	
CCBS8	E	Low	Property Services	Property Services – Reduced spend on building maintenance linked to increased capital investment	None	(114.1)		(114.1)	
CCBS Total Savings						(724.0)	(14.0)	(724.0)	(14.0)

Ref.	Savings Type	Risk To Delivery	Service Activity	Description	Impact / Issues	2013/14		Full Year	
						£'000	FTE	£'000	FTE
<u>Policy and Resources non-departmental budgets</u>									
PR1	E	Low	External audit fee	Reduced fee following a tender exercise by the Audit Commission to outsource the work of its in-house audit practice	None	(74.0)		(74.0)	
PR1	R	Low	Grants to voluntary organisations	Historic under spend due to the wider availability of grant funding due to the introduction of members devolved grants		(50.0)		(50.0)	
PR1	E	Low	Other	Various reductions across non-departmental budgets to reflect reducing expenditure in recent years – including reductions in member travel costs and subscriptions and contributions to other bodies.		(150.0)		(150.0)	
Policy and Resources Grand Total						(998.0)	(14.0)	(998.0)	(14.0)

**Adult Services
Budget Summary 2013/14**

Service Activity	Original Budget 2012/13 £'000	Revised Budget 2012/13 £'000	Proposed Budget 2013/14 £'000
Service Strategy and Regulation	597	514	508
Older People (aged 65 or over)	120,104	136,830	128,636
Adults under 65 years with Physical or Sensory Impairment	30,339	31,716	31,902
Adults under 65 years with Learning Disabilities	107,677	107,655	109,029
Adults under 65 years with Mental Health Needs	14,402	14,904	14,421
Supported Employment	638	459	455
Other Adult Services	1,393	2,432	1,697
Supporting People	25,630	26,387	24,834
Unallocated	1,347	1,027	1,915
Non-distributed costs	339	335	335
Net Cash Limited Expenditure	302,466	322,259	313,732

**Children's Services
Budget Summary 2013/14**

Service Activity	Original Budget 2012/13 £'000	Revised Budget 2012/13 £'000	Proposed Budget 2013/14 £'000
Schools Budget			
Individual Schools Budgets	609,457	583,406	
Central Provision	7,970	10,661	
Education Inclusion Service	10,793	10,900	
Special Educational Needs	24,377	24,794	
Early Years	44,664	45,438	
Other	4,814	4,744	
Other grants	11,424	18,490	
Individual Schools Budgets			537,082
De-delegated items			3,936
High needs Block			79,283
Early years block			58,342
Central Provision within Schools budget			9,936
Other grants			17,759
Total Schools Budget	713,499	698,432	706,338
Non-schools Budget			
Other Education & Community - Special Education	5,280	5,414	4,944
Other Education & Community - Learner Support	34,966	34,495	33,901
Other Education & Community - Access	1,130	1,108	1,125
Young People's Learning Development	1,288	2,080	2,065
Adult Learning and Community	1,345	1,225	1,192
Services for Young Children	23,947	23,144	18,211
Youth Support Services	7,216	6,883	6,916
Strategic Management	6,046	3,344	3,120
Assessment and Care Management	19,528	18,273	18,415
Children Looked After	40,160	40,873	44,431
Family Support Services	15,132	15,177	14,933
Youth Justice	1,732	2,028	2,037
Other Children and Families Services	7,744	7,818	7,247
Asylum Seekers	700	700	700
Unallocated Budget	408	516	670

Service Activity	Original Budget 2012/13 £'000	Revised Budget 2012/13 £'000	Proposed Budget 2013/14 £'000
Non-schools Budget continued...			
Budget waiting to be allocated	-	-	1,012
Total Non-schools Budget	166,622	163,078	160,916
Net Cash Limited Expenditure	880,121	861,509	867,254
Trading Account (Surplus) / Deficit :			
Children's Centres	-7	221	-7
Services to Schools	1,609	648	939

**Economy, Transport and Environment Department
Budget Summary 2013/14**

Service Activity	Original Budget 2012/13 £000	Revised Budget 2012/13 £000	Proposed Budget 2013/14 £000
Highways Maintenance	31,065	31,290	32,848
Road Safety	869	758	969
Safer Roads Partnership ⁽¹⁾	330	(60)	-
School Crossing Patrols	1,212	1,212	1,122
Traffic Surveys	256	256	87
Parking Services	(95)	(95)	(95)
Public Transport	18,492	17,928	18,265
Rural Bus Subsidy Grant	1,073	1,073	984
Staffing and Operational Support – Highways	16,263	15,216	14,390
Total Highways, Traffic and Transport	69,465	67,578	68,570
Planning and Development	2,832	3,109	2,488
Waste Management Contract	33,234	35,941	36,489
Waste Management Non-Contract	1,069	1,114	1,171
Chichester Harbour Conservancy	179	179	183
Total Waste, Planning and Environment	37,314	40,343	40,331
Economic Development	897	845	845
Rural Affairs	-	167	200
Net Cash Limited Expenditure	107,676	108,933	109,946

(1) Activities of the Safer Roads Partnership are now directly funded by income to the Police and Crime Commissioner. The revised 2012/13 budget includes an allowance for the return of unspent partnership balances.

**Policy and Resources
Budget Summary 2013/14**

Service Activity	Original Budget 2012/13 £000	Revised Budget 2012/13 £000	Proposed Budget 2013/14 £000
Culture, Communities and Business Services:			
Community:			
Library Service	13,420	13,608	12,923
Sport	363	323	210
Community	488	487	340
Trading Standards	2,717	2,556	2,608
Accredited Community Support Officers	1,486	1,484	1,484
Corporate Community Safety	59	99	57
Registration Service	(207)	(113)	(270)
Policy Fund	457	447	1,680
Culture & Heritage:			
Countryside	3,218	3,288	3,018
Rural Funding	200	-	-
Archives	961	1,003	944
Arts & Museums	3,121	3,453	2,437
Milestones	279	348	339
Outdoor Centres	655	560	401
Calshot Activities Centre	118	69	65
Property:			
Property Services	1,395	1,239	1,224
Repair and Maintenance	4,181	3,743	3,630
County Farms	(356)	(356)	(358)
Sites for Gypsies & Travellers	61	61	60
Development Account	(413)	(413)	(415)
Corporate Estate	(146)	(145)	(145)
Maintenance of Grounds - Chilcomb	16	-	-
Adult Education Properties	1	1	1
Business Support:			
Business Support	1,687	1,789	1,343
Risk, Health & Safety	207	207	207
Workstyle	5,019	6,997	6,803
Facilities Management	3,085	2,782	2,788

Service Activity	Original Budget 2012/13	Revised Budget 2012/13	Proposed Budget 2013/14
	£000	£000	£000
Business Support continued... :			
Great Hall	22	25	25
IT for CCBS	761	-	-
CCBS IT	1,663	38	38
Business Services:			
Scientific Services	10	7	4.0
Asbestos	(20)	(21)	(24)
Sir Harold Hillier Gardens	444	472	472
Print Sign Workshop	260	259	231
Rural Broadband	-	102	92
Other Direct Services:			
Public Health	-	-	36,753
Grants to Voluntary Organisations	332	1,031	312
Grants/contributions to Councils of Community Service and other bodies	1,087	1,071	1,014
Members Devolved Budgets	624	1,014	624
Supporting Troubled Families	-	1,889	1,899
Other Direct and Corporate Services	1,588	908	674
Corporate Services:			
County Treasurers Department	9,872	-	-
HR Department	4,270	-	-
Chief Executive's Department	9,513	-	-
IT	11,272	-	-
Other Direct and Corporate Services	935	-	-
Other Central Support Services	575	-	-
Policy and Governance	-	6,817	6,659
Strategic Business Development	-	528	597
Corporate Resources	-	37,485	36,336
Other Corporate Services	-	1,559	2,866
Members Support Costs	1,883	1,806	1,748
Other Central Support Services	1,279	1,232	847
Net Cash Limited Expenditure	88,442	99,739	132,541
Coroners	1,331	1,320	1,320

	Original Budget 2012/13	Revised Budget 2012/13	Proposed Budget 2013/14
Service Activity	£000	£000	£000
Trading Account (Surplus) / Deficit :			
School Library Service	-	(183)	(53)
Hampshire Wardrobe	(1)	-	-
River Hamble	(54)	(66)	(61)
Caretaking and Cleaning Support Service	(9)	(9.0)	(9)
Segensworth Unit Factories	(25)	(12)	(12)
Hampshire Printing Services	(47)	(51)	(61)
Corporate Procurement County Supplies	(29)	(89)	(31)
HC3S	(122)	(128)	(68)
Hampshire Transport Management (HTM)	(68)	(15)	(29)
Information Technology Services	793	-	-
Education Financial Services	79	-	-
Education Personnel Services	-	-	(55)

Summary of Workforce Changes

Department / Service	Estimated FTE's at 31/03/2013	Estimated FTE's at 31/03/2014	Net Variation
Adult Services	2,908	2,905	(3)
Children's Services - Non schools	2,558	2,384	(174)
Economy, Transport and Environment	739	739	0
Policy and Resources	3,659	3,684	25
Budgeted Net Change in Workforce	9,864	9,712	(152)

Staffing variations for 2013/14 are:	Transfers and other changes	Impact of new savings proposals	Total 2013/14 changes
Adult Services			
Further review of Management and Support staff		(3)	(3)
Children's Services - Non schools			
Vacancy management and staff turnover		(3)	(3)
Education Centres - transfer to schools status	(171)		(171)
Economy, Transport and Environment (ETE)			
Net increase supported by new external funding	9		9
Tightening of turnover savings	(5)		(5)
Transfers to other Departments within the Authority	(4)		(4)
Policy and Resources			
Net changes relating to the implementation of the Corporate Services Review	(37)		(37)
Transfer of Public Health function from the NHS	25		25
Net increase supported by new funding sources and the capital programme	66		66
Restructuring within CCBS	(8)	(14)	(22)
Additional staff to work on the Corporate Procurement Programme	2		2
Net reduction following review of staffing levels	(3)		(3)
Apprentices programme	4		4
Staff transferred to the PCC	(10)		(10)
Budgeted Net Change in Workforce	(132)	(20)	(152)

GENERAL FUND REVENUE ACCOUNT 2013/14

	Original Budget 2012/13 £'000	Adjustment £'000	Budget 2013/14 £'000
<u>Departmental Expenditure</u>			
Adults	302,466	11,266	313,732
Children's - Schools	713,499	(7,161)	706,338
Children's - Non schools	166,622	(5,706)	160,916
Environment and Transport	107,676	2,270	109,946
Policy and Resources	88,442	44,099	132,541
TOTAL	1,378,705	44,768	1,423,473
<u>Capital Financing Costs</u>			
Committee Capital Charges	108,357	248	108,605
Capital Charge Reversal	(111,412)	2,298	(109,114)
Interest on Balances	(750)	0	(750)
Capital Financing Costs	68,746	(351)	68,395
	64,941	2,195	67,136
<u>Pension and IAS 19 Costs</u>			
Interest and Expected Return on Assets	18,150	0	18,150
Contribution from Pension Reserve	(26,479)	0	(26,479)
IAS 19 Departments	129	997	1,126
Non Distributed costs	20,590	(45)	20,545
Soft Loan	(10)	0	(10)
	12,380	952	13,332
<u>RCCO</u>			
Main Contribution	32,622	(19,850)	12,772
Funded by Dedicated Schools Grant (DSG)	11,719	0	11,719
RCCO From Reserves	6,750	(2,863)	3,887
	51,091	(22,713)	28,378
<u>Other Revenue Costs</u>			
Contingency	46,506	(16,948)	29,558
Dedicated Schools Grant	(713,600)	13,302	(700,298)
Specific Grants	(110,949)	18,700	(92,249)
Council Tax Freeze Grant	(13,245)	7,945	(5,300)
Flood Protection Levy	557	15	572
Coroners Expenditure	1,331	(11)	1,320
Business Units (Net Trading Position)	2,118	(1,565)	553
	(787,282)	21,438	(765,844)
Net Revenue Budget	719,835	46,640	766,475

GENERAL FUND REVENUE ACCOUNT 2013/14

	Original Budget 2012/13 £'000	Adjustment £'000	Budget 2013/14 £'000
Net Revenue Budget	719,835	46,640	766,475
<u>Contributions from Earmarked Reserves</u>			
Use of Earmarked Reserves	(453)	1,648	1,195
Trading Units Transfer to / (from) Reserves	(1,919)	1,475	(444)
RCCO From Reserves	(6,750)	2,713	(4,037)
	(9,122)	5,836	(3,286)
Use of General Balances	900	(8,000)	(7,100)
BUDGET REQUIREMENT	711,613	44,476	756,089

Summary of Estimated Earmarked Reserves

	Estimated Balance at 31/03/14 £'000
Trading Unit Reserves :	
Policy and Resources - former DSOs	3,117
County Supplies	2,340
Hampshire Printing Services	671
Caretaking and Cleaning Support Service	355
Segensworth Unit	311
Hampshire Wardrobe	49
School Library Service	236
River Hamble	869
Education Financial Services	363
Education Personnel Services	351
Services to Schools	1,962
Children's Centres	1,305
	<hr/>
	11,929
 Designated Underspendings :	
Children's Services	4,786
Economy, Transport and Environment	1,299
Policy and Resources	4,090
Policy and Resources - IT	1,657
Commons Management	40
Rowner Regeneration	750
Sickness / Maternity Buy Back	793
Change for Children	301
School Catering Support	681
Hampshire NOW	179
	<hr/>
	14,576

	Estimated Balance at 31/03/14 £'000
Other Reserves :	
Schools	34,500
General Capital	56,400
Invest to Save	4,815
Insurance	17,539
Grant Equalisation	29,165
Corporate Policy	2,337
Corporate Efficiency	8,949
Organisational Change	6,101
Other Revenue Grants Unapplied	12,342
Capital Grants Unapplied	40,033
PSA Reward Grant	32
Street Lighting PFI scheme	6,597
Minerals and Waste Development	173
Community Transport Vehicles	1,058
Rating Appeal Risk	3,750
Council Tax Base Volatility Risk	2,400
Second Homes Income	85
	<hr/> 226,276
 Total Reserves	 <hr/> 252,781 <hr/>

Section 25 Report – Local Government Act 2003

Section 25 of the Act requires the Chief Financial Officer (the Director of Corporate Resources) 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 £20m forecast for the end of 2013/14. 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, taking into account the fact that the savings programme is significantly reduced compared to the previous two years.

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 10 of the revenue report, but in addition, Schools have one of the largest reserves at a projected £34.5m 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 smooth grant losses, which will start to be used to a greater extent in the later years of the current CSR period), 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 savings targets increases the risk of overspending, together with demand led spending pressures in social care during a recession and potentially periods of higher inflation. However, some of the specific issues around adults and children's social care pressures have been built into the forward budget and have therefore been addressed through that route.

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 around 2.5% of net expenditure after allowing for the proposed use of general reserves as set out in the budget report. 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 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 the last three years and the budget for 2013/14 allows for 1% pay inflation in line with the Chancellor's expectations for public sector pay announced last year.
 - price inflation has been set at 2.5%. Given the volatility of 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 continued nervousness within global financial markets and base rates are not expected to increase for some time. However, this does mean that any long term borrowing carried out in 2013/14 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.

- Employer contributions to the Hampshire Local Government Pension will remain at their current level for the three year period, 2011/12 to 2013/14 and the outcome of the 2013 valuation will inform the setting of employer rates for future years.
- Savings and redeployments built in to the budget
 - The savings required in 2013/14 are £9.4m following the return to annual efficiency targets as part of the budget. Of more significance is the level of savings that may be required in future years for which the County Council has already embarked on a new transformation programme.
- Income
 - there is an annual review to maximise and increase income at least in line with costs which is referred to in Section 8 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 £100m 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 2012/13 which is predicting spend within budget across all but one Department even though a further £45m has been removed in the year.
- Strength of financial information and reporting arrangements
 - Budget monitoring throughout the year is now based on 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.

- 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.
 - Despite reductions in capital receipts over the last few years, the capital programme has been supplemented by additional revenue contributions that have allowed high priority investment to proceed.
 - 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 around £17.5m.
- Annual Governance Statement
 - the Chief Financial Officer 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 2011/12 accounts, and an unqualified opinion on the County Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 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 2013/14 budget without assuming any offsetting savings will necessarily arise in the year.
 - though Government grants have been confirmed for 2013/14 and 2014/15, the County Council's formula grant calculated from the formula is still below the grant floor in 2014/15. The policy on the use of the grant equalisation reserve has provided mitigation against grant loss in previous years, but this is expected to increase for 2014/15 as savings are planned and implemented to close the recurring gap in the budget from 2015/16 onwards.

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

Director of Corporate Resources

24th January 2013

CALCULATION OF COUNCIL TAX

	2012/13 £M	2013/14 £M	Change £M	Change %
Budget Requirement	711,613	756,089	44,476	6.25%
Formula Grant	(177,253)	(263,122)	(85,869)	48.44%
Collection Fund Surplus	(4,190)	(2,853)	1,337	(31.90%)
Council Tax Requirement	530,170	490,114	(40,056)	(7.56%)
Tax base	510,820.00	472,225.60	(38,594.40)	(7.56%)
Band D Council Tax	1,037.88	1,037.88	0.00	0.00%