

HAMPSHIRE COUNTY COUNCIL**Decision Report**

Decision Maker:	Cabinet
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Title:	Medium-term Financial Strategy Update
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1. Executive Summary

- 1.1. The medium-term financial and efficiency strategy was agreed by Cabinet in October 2009. It was noted that the Treasurer would continue to model the impact of different assumptions for 2011/12 which could be refined after the 2010/11 budget was set and the new Government's proposals for spending in 2011/12 became clearer. After the general election the new Government is now in place and may announce some immediate reductions in public spending in 2010/11. Future spending plans for local government from 2011/12 onwards may not be available until later in the year. It is likely that 2011/12 grant implications for the County Council will not be fully understood until the announcement of the detailed final grant figures in the settlement which could be delayed until January 2011. The medium-term financial strategy was updated and agreed by Cabinet and the County Council in February 2010 when the 2010/11 budget was set, and it is now appropriate to review the changes in assumptions that can be made at this stage in preparation for an ever bleaker outlook for public finances in 2011/12.
- 1.2. This report also deals with issues that have arisen since the budget was prepared in February, including the impact of the significant adverse weather upon the highways network, an update on the major risks identified when the budget was set and the proposed allocation of the Local Public Services Agreement (LPSA) reward grant.
- 1.3. The purpose of this report is therefore to update Cabinet on the emerging pressures and issues and agree the revisions required to the medium term financial strategy and specific recommendations to:

- establish an effective short-term maintenance strategy during 2010/11 to repair and fully restore pot hole damage to the highways network, by setting aside £12.5m of one-off funding
- create a longer-term strategy for capital repair of the highways network to build future resilience over a 7 year period from 2011/12, investing £100m for that period from existing resources and prudential borrowing, funded by improved procurement savings, rescheduling planned revenue contributions to capital and from sales of capital assets over the same seven year period
- provide for further reablement of up to £1.5m in advance of the possible introduction of free personal care at home in 2011/12
- set aside resources of £0.8m for remedial works to the Basingstoke Canal over a three year period from 2010/11
- approve use of £0.9m from the invest-to-save reserve to facilitate the remodelling of the library service, to be repaid over three years.
- allocate £3m from the centrally retained LPSA2 reward grant in addition to £3m already made available for services
- Allocate £1.45m from the Building Schools for the Future reserve towards the feasibility costs of phase 1.

2. Background

- 2.1. The landscape for local government finance in the next three years or so is changing rapidly and while it remains uncertain, there is general consent that any Government will be forced to cut public expenditure in most areas. If certain services are protected then inevitably this leads to greater pressure to cut others more deeply. It is not anticipated that after the election any Government would particularly protect County Council services other than the dedicated schools and sure start grants.
- 2.2. Potential reductions in local government expenditure could be as much as 7% per annum in real terms, or 5% in cash terms for at least three to four years and possibly for six to seven years. The County Council has for several years gone to exceptional lengths to develop its financial strategy to increase the likelihood and probability of low council tax and to develop a sustainable efficiency strategy to help support and meet emerging pressures. The Council's reserves have also been developed to take account of potential losses in grant support and to meet other potential long term liabilities. Anticipation of future events and early action will continue to promote financial stability and avoid indiscriminate cuts in services, especially those provided for the vulnerable where the demographic pressures are greatest.

3. Highway maintenance – restoration programme

- 3.1. Cabinet will be aware that "Operation Restore" has been set up in 2010/11 to provide for:

- a targeted restoration for the most seriously damaged roads based on need
 - an early and visible start in 2010 with the aim of completing the majority of works before the onset of winter
 - partnership working with contractors, using the term maintenance agreement and framework contracts, co-ordinated with the existing maintenance programme.
- 3.2. It is therefore planned to set aside £12.5m of one-off funding for additional phased maintenance work to bring the County's roads back to the condition they were in before the onset of the snow and freezing weather that caused the rapid formation of potholes and severe deterioration of the highways network that became fully apparent after the 2010/11 budget was set.
- 3.3. Cabinet in September 2009 approved the allocation of £2m from additional balances accruing from savings in 2008/09. This was committed to additional pot hole repairs which has now been largely spent. The balance of £10.5m will be allocated in 2010/11 as set out in Table 1:

Table 1: allocation of one-off funding for restoring highways in 2010/11

	£m
Resurfacing schemes	6.5
Machine patching	2.5
Heavy patching	<u>1.5</u>
To be spent in 2010/11	10.5
Additional pot hole repairs	<u>2.0</u>
Total restoration programme	<u>12.5</u>

- 3.4. As well as the £2m allocated in September 2009, £1m was made available in April 2009 from the corporate policy fund reserve for additional pot hole repairs in 2009/10 after the effects of the winter in 2008/09. The 2010/11 budget allocated £0.5m towards additional salt barns (with an additional £0.5m from highways maintenance resources) and £0.6m for 4,000 additional salt grit bins to provide improved winter maintenance resilience.
- 3.5. Central resources available for funding additional support in 2010/11 include:
- grant announced as part of the Chancellor's 2010 budget (£100m) "made available to local authorities to assist with extensive pot hole repairs following the severe winter weather". Hampshire's share is £2.4m, based on formula allocation relating to road length in each authority
 - local public service agreement (LPSA) reward grant. Cabinet agreed in March to return 50% of the reward grant to the areas earning the reward. Environment received £1.3m on this basis from

which £0.5m was set aside for the salt barns, (as above). Proposals for the allocation of the remaining 50% are set out in paragraph 8 of the report and it now is proposed to allocate a further £1.3m towards the restoration project

- resources have been set aside in the landfill allowances trading scheme (LATS) reserve. The protocol for the use of this reserve allows 60% to be spent in general aid of council tax (recognising previous council tax funding towards additional waste management contract costs) and 40% being retained for reinvestment into new infrastructure for waste as required. On that basis it is possible to allocate £2.4m, leaving £4.0m in the reserve solely for waste infrastructure investment.
- 3.6. Taken together these provide £6.1m of additional corporate support. A total contribution of £4.4m is therefore required from existing Environment capital programme resources. £2.5m has been identified by using the balance of the LPSA reward grant previously allocated (£0.8m), re-phasing the programme of bridge strengthening, deferring part of the A and B road review, and other changes within the existing programme. This leaves a balance of £1.9m still to be identified to be met by the re-prioritisation and deferment of routine highway maintenance and improvement programmes for 2010/11. In this context Cabinet will recall the allocation of £3m towards the repair of local roads and pavements in the 2003/04 budget, initially on a one-off basis. This was subsequently built into the annual base budget, from 2006/07 but then effectively reduced to £2m when the locally resourced capital programme was reduced by one-third in 2009/10. Most of the priority work should now have been completed releasing funds towards the restoration of pot holes on a one-off basis in 2010/11. In a broader context total revenue contributions to capital in support of highways maintenance are £5m each year, allowing priority choices to be made within the overall programme of works to help cover the balance required, and it is anticipated that slippage on the highway units capital programme in 2009/10 could also be utilised.
- 3.7. The proposed funding for the additional highways restoration work is therefore:

Table 2: proposed funding of additional highways restoration work in 2010/11

	£'000	£'000
Cabinet allocation from balances		2,000
Additional resources		
• Department for Transport grant	2,376	
• LPSA2 reward grant	1,339	
• LATS reserve	<u>2,400</u>	6,115
Environment re-prioritisation		

• identified	2,500	
• balance to be found	<u>1,885</u>	<u>4,385</u>
		<u>12,500</u>

4. Highway maintenance – improving the resilience of the network

- 4.1. With the completion of the restoration programme Cabinet wish to develop 'Operation Resilience' to invest further in structural maintenance specifically on roads and pavements over the first seven years of a 15 year strategy congruent with the local transport plan.
- 4.2. This significant increase in the planned structural maintenance programme would deal with the increasing vulnerability of the highways network to weather damage, by a mixture of re-surfacing, road reconstruction where necessary and drainage improvement. Over time this will reduce reactive maintenance activity as well as increasing the strength and resilience of the network, including the rural areas.
- 4.3. The annual highways maintenance budget (revenue and capital) is about £58m; and it is proposed to spend an extra £10m each year to put Operation Resilience into practice. Together with the existing £5m annual spend on locally resourced structural maintenance it represents an investment of more than £100m over the next seven years. Improvement of the satisfaction rating by Hampshire residents on the state of the roads and in improved highway condition are two of the big 'hard-to-move' targets in the corporate improvement plan.
- 4.4. Given the difficult outlook with public spending cuts it is assumed that investment of this scale will need to be self financing over the seven year period without additional cost on the council tax, or by increasing the pressure for even greater savings and cuts in other County Council services.
- 4.5. It is therefore proposed to increase prudential borrowing by £10m per year for the next seven years starting from 2011/12. The revenue cost will be in the principal and interest repayment of this debt, over the life of the improvement programme. This equates to about £1m each year from 2011/12 onwards, building up to £7m each year at the end of the seven year period, equivalent to an increase in council tax of about 1.3%.
- 4.6. It is proposed to finance this annual debt by a combination of measures:
- £2-3m from a value for money and efficiency contribution from improvements in the existing procurement arrangements for highways maintenance, contract re-negotiation and process re-engineering
 - £2-3m from reducing revenue contributions to capital in recognition of the considerable 'gearing up' of investment through the use of borrowing and consequent reduction in reactive work, as well as from efficiencies in routine maintenance and lower priority activity.

- the balance from capital receipts from asset sales, both from Environment and corporately (in this case the value of sales matching the value of the investment – perhaps £10-30m required to balance the other funding approaches). These sales will need to be over and above the planned sales currently deferred (for example the Merton Rise development in Popley) which are required to repay existing prudential borrowing. However it is anticipated that commercial property values and development will recover strongly over this seven year period.
- 4.7. The precise nature of the improvements and expected benefits and performance outcomes will need to be built into the 2011/12 budget. Successor budgets will need to review progress in the efficiency improvements, and reductions in revenue contributions and asset sales required to enable the prudential borrowing, subject of course to the Council's overall financial position and constraints when the implications of the public spending cuts are clearer.

5. Free personal care at home

- 5.1. The legislation remains in place to enact the proposal after the general election. The original proposal was for a start from October 2010 at an estimated cost of £4.5m to the County Council, net of the Government grant support towards costs. The impact bears disproportionately on Councils, such as Hampshire, with larger numbers of 'self-funders' who will become eligible for free personal care at home.
- 5.2. Despite successfully re-negotiating the proposed distribution formula to reflect this in part, the County Council will still bear a significant and rising cost burden over time from this proposal. Government expect efficiency savings, in particular from reducing the costs of residential care. This requires a proportional shift in funding from the high cost nursing and residential care provision into extra-care and free personal care at home. The introduction of the policy will therefore require the County Council to plan its efficiency and transformation improvements for Adult Services to sustain the shift in funding, especially given the spending cuts that will be required across all services over the next three to seven year funding periods. A target reduction of £5m is suggested for 2012/13, or about 4% of the current budget of £117.3m in residential and nursing care for older people.
- 5.3. Reablement is a key component in this approach; which in turn is one of the 'hard-to-move' targets in the corporate improvement plan and 'driving success' to provide greater choice in, and control over, adult social care and support. It is therefore proposed to allocate £750,000 from the LPSA2 reward grant retained centrally to build further reablement capacity in advance of the introduction of free personal care at home, the introduction of which is now expected to be deferred until the 2011/12 budget. This will be matched by an equivalent contribution of £750,000 from within Adult Services 2010/11 budget.

- 5.4. Whilst the National Health Service is 'protected' with no real term cuts in what has been announced so far for the future of public spending, it will feel like a substantial reduction given the growth made available over the last decade. This will be on top of the existing local difficulties in balancing the spending gaps within the NHS in Hampshire. The impacts of these will need to be assessed and mitigated in joint partnership arrangements to limit even greater pressure on the Adults' budget in 2011/12, for example from any further increase in the hospital discharge rate.
- 5.5. If the introduction of free personal home care is delayed until April 2011, the cost in 2011/12 might be in the order of £9m, rising eventually to around £20m per annum over the next two or three years from 2012/13 onwards. A contingency of £4.5m was set aside in the 2010/11 budget for the half year cost. It is essential that this contingency should now be carried forward to meet the anticipated cost in 2011/12. The balance of say £4.5m will need to be found – and set aside from the use of any one-off savings occurring in 2009/10, and this can be considered by Cabinet in June when figures will be clearer. However the long-term value for money and efficiency savings implicit with the introduction of free personal care at home will need to be determined for application from 2012/13 onwards.
- 5.6. There remains a possibility that the new Government may choose not to invoke the new legislation given other priorities and the potential scale of future spending reductions required.

6. Basingstoke Canal

- 6.1. The Basingstoke Canal was built in the 1700's and restored in the 1980's. It is owned by Hampshire and Surrey County Councils and managed on their behalf by the Joint Management Committee which includes the six district and borough councils along its 32 miles length. Much of the canal is designated as a site of special scientific interest and attracts an estimated one million visitors a year from boating, angling, walking etc. The natural ageing process and use means that the canal is in need of major repair.
- 6.2. The Executive Member, Policy and Resources on 14 April 2010 approved a plan costing £872,000 over three years to maintain and improve the condition of the Canal especially its banks as far as the Hampshire length is concerned. This recommendation was based upon condition surveys of the embankments by consultants commissioned by the County Council. Surrey County Council has also allocated £898,000 over three years based on appropriate survey work for their section of the Canal.
- 6.3. The capital programme for Culture, Communities and Rural Affairs has been adjusted to provide for £383,000 in 2010/11, £339,000 in 2011/12 and £150,000 in 2012/13. It is proposed to fund this work by making an equivalent reduction to the insurance reserve when Cabinet consider the final accounts in June. The insurance reserve is budgeted at £9.4m at 31 March 2010, and there is scope, based on current claims experience, to reduce the size of the reserve by £872,000 and with Cabinet's agreement allocate the resources released to the repair of the Canal.

- 6.4. Consideration is also being given on how best to organise this work, potentially as part of a wider procurement exercise with Surrey County Council.

7. Library Service

- 7.1. The vision and strategy for the Library and Information Services was approved by the Executive Member for Recreation, Heritage and Communities in April 2009. In January 2010 a further report was approved describing the outline proposal for future static library provision in Hampshire.
- 7.2. There will be costs associated with the implementation of the strategy, and this will be undertaken against the background of financial pressures on the service. These arise from factors such as continuing income loss (a national trend), replacement and improvement of IT infrastructure and systems, and commitments towards general efficiency. It is projected that these pressures will exceed £1m per annum for the foreseeable future.
- 7.3. The proposal from the Director is to continue to meet overall financial pressures in the same way as other departments, but one-off costs associated with the implementation of the vision and strategy need to be funded and it is proposed that this be met initially from the invest to save reserve to be repaid by the department.
- 7.4. At this stage it is proposed that some £900,000 be allocated to Culture, Communities and Rural Affairs (CCRA) to be paid back over a period of three years (at a rate of roughly £300,000 per annum); this could be reviewed in the third year in the context of the overall financial position of the service.
- 7.5. The Leader has suggested that the proposals for implementation are written up into a suitable business plan for approval by the Executive Member for Culture and Recreation and implemented in line with the revised medium term financial strategy. The Leader has also proposed that the Executive Member for Culture and Recreation and the Director of CCRA meet with the Leader, Chief Executive and County Treasurer on a bi-monthly basis during the implementation of the vision and strategy, in a similar way to the transformation programme that was successfully implemented in Adult Services.

8. Local Public Services Agreement (LPSA) 2 – reward grant

- 8.1. Cabinet in March 2010 agreed to return 50% of the LPSA2 reward grant to those service areas achieving the improved performance against the targets within the agreement:
- £11m was allocated to partners, including £6.7m to the district councils, £1m to fire, £0.9m to the ambulance service, £0.7m to the primary care trust and £0.7m to the safer roads partnership

- £5.9m was allocated to the County Council's services of which 50% was returned to services in March, including £1.3m to Environment, £1m to Children's Services and £0.5m to Adult Services.
- 8.2. Cabinet requested a report back on how service departments proposed to spend their share of the reward grant, and these are listed below
- Adults (£522,000) - £154,000 to match regional funding for a pilot scheme for telecare with learning disability clients and £368,000 earmarked for investment in extra care housing to supplement the funding already in place for the four projects currently being implemented to provide 240 places
 - Children's (£967,000) – a number of initiatives: to enhance social worker and Hantsdirect capacity to cope with the current increase in safeguarding activity (£447,000 and £200,000 respectively); for partnership development (£140,000); for safeguarding training (£60,000); and for other reviews and analysis (£110,000)
 - Culture, Communities and Rural Affairs (£77,000) – to pump prime and contribute towards the adult exercise target, including legacy events leading up to the 2012 Olympics
 - Environment (£1,339,000) - £500,000 for a salt barn and £839,000 towards the highway maintenance restoration programme
 - Property, Business and Regulatory Services (£71,000) – to extend a customer insight project to all district council areas with the aim of improving performance on the crime and disorder perception indicators.
- 8.3. About £3m of the County Council's corporate share was retained centrally, and Cabinet requested a further report to this meeting on proposed recommendations for its one-off use. The overall objective was to allocate resources to meet the 'hard-to-move' targets contained in the local area agreement and featured in the corporate improvement plan as below
- better opportunities for children and young people
 - improved educational attainment of children in care
 - reduced number of young people not in education, employment or training (NEET)
 - increased number of care leavers in education, employment or training
 - reduced number of teenage pregnancies
 - improved placement stability of children in care
 - maximising wellbeing
 - greater choice in and control over adult social care and support
 - enhancing our quality of place
 - improved satisfaction with roads

- improved highway condition.

- 8.4. This report has already recommended that £1.3m be allocated to Environment, for pot hole restoration and £750,000 to Adult Services to build capacity for reablement in advance of the introduction of free personal care at home. This leaves £883,000, which it is proposed should be allocated to Children’s Services to achieve improvements in the hard-to-move targets set out in paragraph 8.3. £698,000 will be allocated for the intensive support service to provide additional staff in 2010 and 2011 with the aim of reducing the overall numbers entering the care system. £150,000 will target recruitment of foster carers for teenagers. The balance of £35,000 will pump prime tracking systems for NEET and NEET care leavers.
- 8.5. The proposed allocation of the 50% of the LPSA2 reward grant retained centrally is therefore as set out in table 3.

Table 3 – proposed allocation of centrally retained LPSA 2 reward grant

	£'000
Environment	1,339
- restoring pot holes	
Adult Services	750
- improving reablement capacity	
Childrens Services	883
- for intensive support and foster care	
Allocation of LPSA grant	2,972

9. National spending plans

- 9.1. Until after the election there is something of a ‘phoney war’ about the scale and scope of anticipated spending cuts and their timing, related to the stimulus required to the economy to come out of recession. The Institute for Fiscal Studies (IFS) on 28 April 2010 claimed that the three main political parties have “failed to come clean” over the scale of tax rises, welfare cuts and spending retrenchment necessary after the election. Even so the IFS contend that the Conservatives proposals imply the “sharpest spending cuts since the second world war, whilst the Labour and Liberal Democrat spending slowdown amounted to the biggest retrenchment since the International Monetary Fund crisis in the 1970’s”.
- 9.2. The Institute also expressed scepticism about the prospects of any next government being able to deliver spending cuts on a scale not seen for at least 30 years through prolonged efficiency savings. This implies

government spending cuts which may be “over ambitious in the extent to which they expect spending on public services to take the strain” with more reliance on further tax increases and welfare cuts as well.

- 9.3. The Council’s financial stability, use of reserves and forward planning will help smooth the impact of the predicted spending cuts, and whilst the position is balanced for 2010/11 and reasonably secure for 2011/12, the impact will be felt from 2012/13 when decisions will be needed about relative priorities.
- 9.4. The current medium-term financial plan and budgets are based on possible grant reductions of 4% in real terms, resulting in a cash reduction of grant of 2%.
- 9.5. The Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives (CIPFA / SOLACE) in their March 2010 budget response explored both the scale of spending reductions required to rebalance the UK public finances and the strategies available to government and public service organisations to deal with them. In turn this work was heavily influenced by the Institute of Fiscal Studies analysis of the underlying deficit. It concluded that very significant cuts in public spending will need to be made following the general election and that public bodies can and should begin to put in place plans for managing the funding challenges that lie ahead. But much also depends on the publication of new medium term spending plans for all public services, which this Council can use to inform and update its current medium term financial strategy further, recognising the inbuilt financial stability taking the Council up to 2012/13.
- 9.6. CIPFA/SOLACE envisage headline funding reductions of between 7.5% and 15% over three years or up to 5% per annum in cash terms over that three year period. But much depends upon the Government’s assumptions about inflation, usually expressed as the gross domestic product (GDP) deflator. If the GDP deflator is 2% it suggests real term grant cuts of 7% per annum, but if the GDP deflator is 1%, real term cuts of 6% per annum. The IFS suggests 6.5% per annum in real terms, or 4.5% cash cuts each year. So both sets of forecasts are quite close.
- 9.7. Efficiency savings alone will not be the answer and even if further savings can be found, over and above local government’s past contributions, and the substantial contributions made by the County Council, then they will be needed to avoid cuts and council tax rises, rather than being used to meet new service pressures and the inexorable demographic pattern of an ageing population. Added to that improving public sector efficiency takes time, as summarised in a recent article in the Financial Times by Gerry Grimstone, an adviser to the Treasury during the prime minister regimes of both Margaret Thatcher and Gordon Brown.
- 9.8. The County Council’s current medium term financial plan assumes that budget gaps in 2011/12 and 2012/13 would be around £15m in each year and it was agreed to cover that with equivalent corporate efficiency targets, saving £30m on a recurring basis by 2012/13 over and above efficiency savings of around £15m to £20m each year, used to meet new pressures.

- 9.9. If in the light of these recent studies if it is assumed that formula grant reductions are up to 5% in cash terms, rather than 2% cash (7% in real terms each year) the further loss of formula grant would be up to £4.4m for the County Council. This is equivalent to about 0.8% on the council tax. As explained in the budget report this relatively low impact results because grant is currently only 22% of the net budget requirement.
- 9.10. Also of concern is the impact of spending cuts upon specific and area based grants. It is currently anticipated that dedicated schools grant will be protected in real terms, but again as with the NHS, that will “feel” like a reduction compared with the targeted growth to schools over the last decade.
- 9.11. Area based and specific grants support funding of about £99m for non-schools budgets in 2010/11. £10.4m has been assumed not to continue into 2011/12 and the Council’s budgets reflect that by matched spending reductions in these areas (mainly Adult Services). £72.9m supports specific programmes (mainly £30m for Supporting People and £9.5m for Connexions). It is assumed that spending on these services would need to be reduced in line with the specific reductions that occur in the area based and specific grants.
- 9.12. About £15.6m of area based grant is no longer ring fenced for specific spending programmes and reductions in grant will be added to the general pressures on the relevant services in line with spending related to this original specific grant stream.
- 9.13. If the worst case 7% real terms reductions apply to area based grant and specific grants that would be equivalent to about £5m in specific programmes and about £1m generally.
- 9.14. At this stage these should be considered the worst case scenarios, and contingency plans should be prepared for planning purposes only. The medium term financial plan can be revised again as and when national public spending plans are determined and actual formula grant, area based grant and specific grant allocations are notified to the County Council, possibly as late as January 2011 for the 2011/12 Budget.
- 9.15. In addition to contingency planning, there remain other financial plans which may help offset, or at least delay, some of the extreme impacts of the worst case scenarios.

10. Other budget risks and pressures

- 10.1. The major risks remain as identified in the 2010/11 budget report, but mostly impact from 2011/12, and were identified as
- the uncertainty around public spending cuts
 - possible higher inflation and interest rates
 - transfer of responsibility to the County Council from April 2011 for concessionary fares (from district councils) and for learning disabilities (from the NHS)

- free personal care at home, now likely to be deferred from October 2010 to April 2011
 - settlement of equal pay claims
 - achievement of corporate efficiency savings to balance the anticipated budget gap.
- 10.2. Paragraph 9 dealt with the uncertainty surrounding public spending cuts and issues arising from the introduction of free personal care at home were covered in paragraph 5.

Inflation and interest rates

- 10.3. The all items retail price inflation index (RPI) increase was 4.4% (March 2010) and the consumer prices index (CPI) rise was 3.4%. Base rates for interest rates remain at 0.5%. No change is suggested in assumptions about budgeted price inflation at 2.5% or in interest rates at this stage.

Corporate efficiency savings

- 10.4. As reported in the budget, £8.6m of savings are being earmarked and 'banked' in the corporate efficiency reserve during 2010/11.
- 10.5. These underwrite 57% of the target of £15m set to finance the budget gap in 2011/12. The next table shows the target savings in 2011/12, with the current recurring outlook against them.

Table 4: Corporate efficiency savings 2011/12

	Planned	Anticipated to date	
	£	£	
Pay and productivity	5.0		
- mileage rates		0.8	Achieved
- lower pay awards than budgeted		1.4	Achieved
- other savings to be identified		2.8	Possible?
		5.0	
Procurement	5.0	4.1	Planned
Income	2.5	1.5	Possible?
Other	2.5	-	Uncertain
	15.0	10.6	

Other corporate efficiencies

- waste contract	4.1	Achieved
- IT Services	1.1	Planned
- HPSN2 contract	1.1	Planned
Totals	15.0	16.9

- 10.6. This shows that there is some slippage and underachievement of £4.4m against the original planned strategy, but that additional corporate savings from the initiatives reported when the 2010/11 budget was prepared are £6.3m, producing a net anticipated surplus of £1.9m.
- 10.7. This will provide some certainty towards balancing the 2011/12 budget and meeting some of the additional £15m required in 2012/13. The 2010/11 saving of £8.6m also underpins the 2012/13 position on a one-off basis if the targeted £15m recurring savings are made in 2011/12.
- 10.8. Nevertheless the Efficiency Panel will need to redouble efforts to achieve these savings and move into phase 2 to cover the position for 2012/13. As set out earlier in this report the efficiency savings target for 2012/13 may need to be raised given the anticipated worsening of the budget gap by then, but a decision on that year's budget gap can be deferred until setting the 2011/12 budget.

11. Other trends

- 11.1. Apart from the corporate efficiency target, and any later phases of this efficiency review, there are a number of offsetting trends which improve the financial position, as well as financial strategies built into the budget over the medium-term financial plan, which will help to offset any worsening of the assumptions when revised public spending plans become available.
- 11.2. It is evident that public spending cuts will lead to caps on public sector pay rises, pay freezes or even possibly pay reductions. The current budget assumptions are a pay freeze for 2010/11 and 2% pay rises for 2011/12 and onwards. The Labour government was forecasting a limit of 1% on pay awards for 2011/12 onwards. All political parties backed caps on public sector pay in the next Parliament. However a recent survey by Income Data Services indicated that private sector pay was beginning to rise, with a quarter of settlements now involving a rise of 3% or more. As a result the research organisation has warned that Government will struggle to reduce the public sector deficit through curbing public sector salaries.
- 11.3. For 2010/11 a 1% central contingency was retained (£2.6m) but service cash limits assume a pay freeze. If no pay awards are made in 2010/11 this will release £2.6m on a continuing basis from 2010/11 onwards. If pay awards are 1% in 2011/12, another £2.6m will be released.

- 11.4. The grant equalisation reserve is supporting the current medium-term financial plan and council tax levels and will be wound down on the agreed profile. Similarly balances will reduce to the risk assessed level, with amounts being withdrawn to support the planned council tax rises. Other reserves can be reviewed with the 2011/12 budget but it is anticipated that the equal pay reserve will be used in full. Budgeted contributions to reserves are also available for future reallocation should that be necessary.

12. 2009/10 Outturn

- 12.1. It is a little early in the reporting cycle to be precise about the outturn for 2009/10. So the figures will change, but it is anticipated that all the planned savings included in the 2010/11 budget assumptions will be achieved. The Council's policy is to allow 100% of planned savings to be carried forward by the relevant service if identified when the budget is prepared in February. Any further underspendings against the cash limit when the accounts are closed are allocated 50% to return to the service and 50% for central determination of their use.

Adult Services

- 12.2. There is a small forecast underspending of around £200,000.

Children's Services

- 12.3. The final outturn will be about £0.5m above the cash limit. The revised budget however included the assumed contingency support of £1.25m given an anticipated overspend at that time of £2.5m. There has therefore been a substantial improvement with savings being achieved on the non-schools budgets, but the costs of children looked after are still in excess of the budget. This means that £750,000, of the budget set aside, can now be released for other purposes.

Culture, Communities and Rural Affairs, and Environment

- 12.4. These services are likely to be close to cash limits.

Policy and Resources

- 12.5. There is a likely forecast underspend of £0.5m across all services, including a saving of £130,000 on the cost of the 2009 County Council elections which was only determined since the revised budget was agreed.

Total underspending on service cash limits (£1.1m)

- 12.6. The total underspending available centrally is therefore £1.1m (£750,000 from the contingency and £350,000 from the 50% of the underspendings retained centrally).

Waste Management (£4m saving)

- 12.7. The continued favourable trend in a lower volume of waste disposals than budgeted results in a £1.1m underspend. In addition none of the budgeted contingency of £2.9m is required.

Winter maintenance (overspend of £2.9m)

12.8. The severe winter weather has resulted in a predicted overspend of £2.9m.

Capital financing costs and interest on balances (£3m)

12.9. It is likely that savings and additional income will be achieved mainly because of higher balances and better interest rates, albeit at low rates, than budgeted.

Insurance (saving £3.6m)

12.10. An overall saving of around £3.6m is predicted, the majority of which (£3.2m) is attributable to lower premium claims on schools which will need to be retained or returned for school use, including funding the costs of building schools for the future.

Overall picture

12.11. There is therefore up to £5.6m potentially available corporately for one off use as set out in the next table. It would be prudent not to commit the majority of this to additional investment until the position on free personal care at home and updated budget gaps in 2011/12 and particularly 2012/13, have been established.

Table 5: Potential outturn variations 2009/10

	£m	£m
Service cash limits		
- 50% share retained centrally	0.35	
- release of part of Children's Services contingency	0.75	
		1.1
Non cash limited budgets		
- waste management contingency	4.0	
- winter maintenance	-2.9	
- interest	3.0	
- insurance (non schools)	0.4	
		4.5
Total one-off saving available		5.6

13. 2010/11 update

Local authority business growth incentive (LABGI)

- 13.1. Since the budget was prepared the LABGI allocation for 2010/11 of £655,000 has been announced. This can be set aside for general or specific purposes.

Building Schools for the Future (BSF)

- 13.2. In April 2009 Cabinet approved the development of the County Council's first phase submission for Building Schools for the Future (BSF) in Havant and Horndean. In May 2009 the readiness to deliver statement was submitted to Partnership for Schools (PfS) and the County Council was accepted on to the BSF programme. This is the first of a potential ten phase programme to transform all secondary schools in Hampshire. The Strategy for Change was submitted for phase 1 in March 2010. The capital programme was agreed by the Executive Member for Children's Services in January.
- 13.3. Capital grant in the region of £80m is expected to be received through PsF for the first project phase of the Buildings Schools for the Future programme. The actual cost of delivering the programme is envisaged to be higher than this, with a potential funding shortfall of approximately £29m. The estimated funding gap for the ten phases of BSF varies, with the first phase being at the higher end of the range. This is largely because of the scale of construction work required at two schools in particular, and the number of schools of medium and relatively small size. The anticipated funding gap on the second phase is at the lower end of the range.
- 13.4. The funding gap will need to be met by the County Council and this requirement was reported to Cabinet on 29 April 2009, when the future arrangements for secondary school organisation in Havant and Horndean were approved. An outline strategy to bridge the gap was referred to in the report to Cabinet and has since been refined. The main components of the strategy are:
- an annual contribution of £2.5m through the Children's Services capital programme, beginning in 2010/11
 - an annual contribution of £1.5m through the Policy and Resources capital programme, beginning in 2010/11
 - use of capital receipts from planned land sales at Phase 1 schools
 - procurement savings
 - use of schools' devolved capital
 - savings achieved in relation to secondary schools retained within an earmarked reserve
 - unspent landlord repair and maintenance budget (funded by capital expenditure from revenue), during 2010/11 and 2011/12.
- 13.5. Further opportunities to bridge the gap are being pursued, including school contributions from balances.

- 13.6. Given the current public spending situation and the potential for changes following the general election it is not clear what may happen to this or future phases of BSF. Any potential future changes and the revenue and capital implications for further phases of BSF will be reported to Cabinet.
- 13.7. Work is also progressing in developing a Regional Educational Partnership, to provide the procurement framework contracts in partnership with other local authorities.
- 13.8. The County Council is due to submit an outline business case in July for the first phase of its Building Schools for the Future (BSF) project, covering secondary school provision in Havant and Horndean. Feasibility and other costs of progressing the project prior to the approval of the outline business case have to be funded from the revenue budget and the Cabinet in July 2009 agreed to create an earmarked reserve for the secondary school element of the saving on premises insurance in 2008/09, estimated at £1.45m, to cover future BSF feasibility costs. No contribution from the reserve was required in 2009/10 but the funding will be required in 2010/11 and the Cabinet is recommended to agree the allocation of £1.45m from the earmarked reserve.

14. Conclusions

- 14.1. The current medium term financial plan provides financial stability for 2010/11 and 2011/12. Revisions to the plan are required now to release resources towards restoring highways in 2010/11, to increase the capital programme to improve the resilience of the highways network, to prepare for the probable introduction of free personal care at home, to repair the Basingstoke Canal and implement the vision and strategy for the library and information services.
- 14.2. These allocations are made against the background of the deterioration in the national public finances and possible increased spending reductions for local government services. This report sets out the scale of possible contingency planning required to meet any bigger reductions in Government grant than currently assumed. The positive impact of public sector pay freezes and the potential use of reserves will all help to bridge any worsening in the assumptions on public spending for 2010/11 and 2011/12.
- 14.3. The revised medium term financial plan should therefore provide financial stability for 2010/11 and 2011/12. As a result there is a two year period to plan and cope with the likely increase in the budget gap by 2012/13, should public spending plans be towards the upper limits of recent forecasts in terms of the scale of reductions possibly required.
- 14.4. This gives the Council breathing space to review its priorities, plan further improvements in efficiency and transformation of services to cope with a possible spending plan outlook resulting in bigger reductions in grant support than currently assumed. The aim will be to protect services and reduce costs, overheads and staffing and management levels.

15. Recommendations

- 15.1. That £12.5m be allocated to the Environment 2010/11 revenue budget on a one-off basis to restore the highway network to its condition before the severe winter, met by use of government grant, LPSA reward grant, LATS reserve and re-phasing and reprioritisation of existing highways maintenance resources as set out in table 2 (paragraph 3.7).
- 15.2. That £70m be added to the Environment capital programme for structural maintenance and restructuring of the highway network over the seven year period from 2011/12, at £10m per annum, subject to annual budget review of improved outcomes and funding available to sustain the programme.
- 15.3. That prudential borrowing of £10m per annum be authorised to finance the £70m capital investment, with the capital financing costs of £1m per annum (rising to £7m per annum) being met from savings in procurement costs, revenue contributions to capital and from capital receipts as set out in paragraph 4.6.
- 15.4. That £750,000 be allocated from the LPSA2 reward grant to improve reablement capacity in advance of the anticipated introduction of free personal care at home from April 2011, that match funding of £750,000 be met from the Adult Services 2010/11 budget, that the £4.5m contingency be carried forward from the 2010/11 to the 2011/12 Budget to meet 50% of the estimated costs in that year, and that Adult Services report back with the 2011/12 budget on cost reductions of £5m from residential and nursing care for 2012/13.
- 15.5. That £872,000 be removed from the insurance reserve given fewer claims in 2009/10 and be added to finance the necessary repairs to the Basingstoke Canal in the Culture, Communities and Rural Affairs capital programme over a three year period from 2010/11.
- 15.6. That subject to a suitable business plan, £900,000 be allocated from the invest to save reserve to the Culture, Communities and Rural Affairs budget in 2010/11 to meet the costs of remodelling the library service, to be repaid over a three year period from 2010/11, as net savings are realised, in order to provide an improved and sustainable service for the future, subject to bi-monthly update of results.
- 15.7. That the service proposals, as set out in paragraph 8.2, for spending this 50% share of the LPSA2 reward grant be agreed.
- 15.8. That the following allocations of the LPSA 2 reward grant be made to meet the 'hard-to-move' targets in the corporate improvement plan
 - £1.3m to Environment
 - £750,000 to Adult Services
 - £883,000 to Children's Services.
- 15.9. That the increased risks of worsening national spending plans and its impact upon the Council's grant on non-schools services be noted.

- 15.10. That contingency plans for reductions in ring fenced services funded by specific grants and area based grant budgets, be prepared for the 2011/12 budget.
- 15.11. To assume a pay freeze in 2010/11 and no more than 1% pay awards in 2011/12 and 2012/13, adding the resources released of £5.2m on a recurring basis to reserves pending the determination of the 2011/12 budget.
- 15.12. To note a potential saving of up to £5.6m in the 2009/10 outturn and again to add this to reserves to cover the worst case scenarios for 2011/12.
- 15.13. To agree the allocation of £1.45m from the Building Schools for the Future reserve in 2010/11 towards the feasibility study costs incurred on the first phase of the project.

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

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

Section 100 D - Local Government Act 1972 - background documents

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

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposal in this report.

2. Impact on Crime and Disorder:

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

3. Climate Change:

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

No specific proposal.

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

No specific proposal.