**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

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| **Decision Maker:** | Cabinet |
| **Date of Decision:** | 25 July 2011 |
| **Decision Maker:** | County Council |
| **Date of Decision:** | 15 September 2011 |
| **Decision Title:** | Medium Term Financial and Efficiency Strategy 2012/13 to 2014/15 |
| **Decision Reference:** | 3069 |
| **Report From:** | County Treasurer |

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## 1. Executive Summary

1.1. In view of the tight timescale for formulating the budget for 2011/12 following a relatively late grant consultation in mid-December 2010, Cabinet agreed to set a one year budget for 2011/12 on the basis that a medium term financial plan covering the period 2012/13 to 2014/15 would be submitted to Cabinet later in the year.

1.2. The purpose of this report therefore is to consolidate the work that has been undertaken to date to achieve savings in 2011/12 and 2012/13 and to consider the forecast funding position for the remainder of the Comprehensive Spending Review (CSR) period to 2014/15.

1.3. The key underlying assumptions of the revenue strategy are :

- Assumptions about changes to Council Tax levels will be zero or low
- Reductions in formula grant of 9% in 2013/14 and 8% in 2014/15
- A pay freeze in 2012/13 followed by increases of 1% and 1.5% in 2013/14 and 2014/15 respectively
- General inflationary increases of 2.5% per annum
- Savings of 8% in 2012/13 and a 2% Annual Efficiency Target from 2013/14 onwards.
- ‘Passporting’ of any further losses of specific grant to the relevant services

1.4. Taking these factors into account and the estimated savings achieved from the Corporate Efficiency Savings and the 8% per annum reduction in service budgets, the Council will have achieved it's ambition to broadly meet the four year grant reductions over two years. From 2013/14 onwards therefore the County Council can return to an Annual Efficiency Target (AET) approach. It is recommended that the AET be set at 2% per annum from 2013/14 in order to provide sufficient flexibility and resilience in the budget going forward and as part of the drive for continuous improvement and value for money in the delivery of County Council services.

1.5. The most significant risks to achieving financial stability are the level of Government grant beyond 2012/13 and the vulnerability of Health Funding provided by Government. Whilst a prudent assessment has been made regarding the two aspects of Government funding, there is a significant degree of uncertainty regarding the outcome of the Local Government Resource Review and the Health review and any significant changes arising from these will require the assumptions in the Medium Term Financial Strategy to be reviewed.

## 2. Policy Context

2.1. Previous Medium Term Financial Strategies have been set in the broader context of the Corporate Strategy and aligned to specific issues contained in the Local Area Agreement which obviously no longer exists. The Corporate Strategy remains as the key overarching policy document but over the last year, the County Council has been developing its Open for Business programme which seeks to ensure that the County Council remains focused on specific issues and outcomes during the current financial turbulence and to align policy with resources to achieve those outcomes.

2.2. Information on the Open for Business programme and refreshed performance management framework is set out in a separate report on this agenda and forms the basis for a medium term plan for the County Council. This financial strategy has been aligned to key elements of the Open for Business programme in particular the cost reduction and efficiency strategy and the priority themes for capital investment.

## 3. Contextual information

3.1. Attached as Appendix 1 to this report is a medium-term financial strategy for approval by the Cabinet and Council. Key elements of the strategy were approved by the Cabinet in October 2009 and were further informed by decisions taken in February 2011 as part of the setting of the 2011/12 budget. This includes the fact that many of the decisions taken will have a full year impact in 2012/13 and have a positive financial impact as the cost of change unwinds and payback periods come to fruition.

3.2. The Comprehensive Spending Review released in October last year and the detailed Local Government Finance Settlement confirmed the unprecedented reductions in Local Government Funding over the next four years, which were front loaded but still in line with County Council forecasts. Detailed settlement figures were provided for 2011/12 and 2012/13 but the final two years would be subject to a Local Government Resource Review, the first stage of which is due to finish this month. The first stage of the review deals with options for providing greater financial autonomy to Local Authorities through the return of Business Rate income to a local level, but with protection for low yield authorities through a 'tariff' and 'top-up' equalisation model.

3.3. Hampshire is currently a significant net contributor to the national business rate pool (it pays in more than it receives) due to a combination of a relatively buoyant economy in the South but a low per head distribution of grant under the funding formula. This means that under the proposed new model, Hampshire would be required to pay a 'tariff' from the beginning of the scheme which would rise with inflation in future years. To benefit from the scheme therefore, business rate growth across the County would need to exceed inflation on an annual basis.

3.4. In late June, Nick Clegg announced that the Government will introduce a Local Government Finance Bill following a consultation on the Resource Review over the Summer. The Bill will provide the statutory basis for the business rate change and will be introduced in the current session of Parliament, with the changes taking effect in the next three years.

3.5. In more general terms, the main impact upon the County Council's medium term financial planning relates to the level of Government grant, grant support in respect of capital investment and government policy relating to the exercise of council tax capping powers. In particular, the outcome of the Resource Review currently underway, alongside the Government's funding on Health regarding it's impact upon Adult Services funding are likely to have a significant impact. The effect on local taxpayers is also a critical element in making decisions on council tax levels, irrespective of the guidance on council tax capping, particularly given the proposals for Council Tax referendum contained in the Localism Bill.

## 4. Government grant

4.1. A two-year Revenue Support Grant Settlement for 2011/12 and 2012/13 was confirmed by DCLG in January 2011. The main features of the grant settlement were as follows:

- no change to the broad principles of the four block model, but variable floors introduced for County Councils based on grant dependency. The County Council's grant reduction is the maximum 14.3% in 2011/12 (£30.9m), and 10.4% (£19.0m) in 2012/13
- a baseline transfer of £3.3m in respect of central services relating to the transfer of schools to academy status and the transfer of planning functions to the South Downs National Park, neither of which will be matched by an equivalent reduction in spending need in 2011/12
- a baseline transfer of funding for concessionary fares, which after allowing for a 14.3% reduction, provides funding of £0.8m less than the cost of the minimum scheme required to meet statutory requirements

- additional health funding of £12.7m in 2011/12, falling by £0.5m to £12.2m in 2012/13 which was allocated to Hampshire PCT to pay to the County Council for Adult Services

4.2. The grant settlement also included some significant changes affecting area based and specific grants, which have either been discontinued, merged or assimilated into formula grant and in the majority of cases, Departments have been expected to reduce direct spending in line with any grant reductions.

4.3. No detailed figures have been released for 2013/14 and 2014/15, but it has been assumed in the MTFS that further reductions in formula grant of 9% (£14.8m) and 8% (£11.9m) will be made in these respective years. This allows for an element of top slicing in the national grant allocations for purposes which are unlikely to benefit the County Council. Further reductions in specific grants have also been assumed of 6% (£5.2m) and 5% (£4.3m) but it is recommended that these are passported to the services affected in line with the existing policy. It is difficult to predict the future £12.2m Health funding beyond 2012/13.

## 5. Forward Planning Assumptions

5.1. The proposals for setting revised budget guidelines within the MTFS are based on the assumption that the County Council would want, in the current economic climate, a zero or low change to the Council tax level throughout the MTFS period.

5.2. Inflation at the end of June was 4.2% as measured by the Consumer Prices Index but this is higher than underlying inflation as it includes the VAT rise in January 2011 which will drop out of the annual figures the same time next year. The Government has a stated policy of controlling inflation within a 1% to 3% range over the medium term, although this may well be compromised by recent announcements regarding significant increases in energy prices in particular.

5.3. In addition to the Band D council tax set by the County Council, the other factors which determine the level of council tax income generated are the surplus/deficit on the collection fund and the annual change in the council tax taxbase. For the remainder of the MTFS period it has been assumed that the taxbase will continue to grow at 0.25% per annum and that there will be an annual collection fund surplus of £1.5m. The collection fund surplus is in effect a one-off figure but historically this level of surplus has been achieved every year due to higher than forecast taxbase growth, changes in exemptions and discounts and higher overall collection rates for council tax income.

5.4. Key inflation based assumptions for the next three years are outlined in the following table :

**Table 1 : Key inflation assumptions**

| | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| Pay | 0% | 1% | 1.5% |

| | | | |
|---|---|---|---|
| General Prices | 2.5% | 2.5% | 2.5% |
| UK Base Rate (average) | 1.5% | 2.5% | 3.0% |

5.5. The Bank of England base rate is expected to rise steadily during this MTFS period and whilst the County Council has limited exposure to interest rate increases, this will increase the cost of short term borrowing and may increase average rates for new and maturing borrowing in the medium term.

## 6. Departmental Cash Limits

6.1. Departmental cash limits have been set for 2012/13 reflecting the two 8% reductions already built in to the financial forecasts as well as the impact of Corporate Efficiency Savings that are due to be delivered in this financial year.

6.2. Allowances for inflation are currently being held centrally within contingencies and it is proposed to alter the way in which inflation is dealt with in the budget forecast from 2012/13 onwards. The proposed approach is to :-

- Not allocate all inflationary allowances to departmental cash limits at the beginning of the year but to manage these on a risk basis and hold central contingencies for volatile areas or areas that are subject to negotiation (for example energy costs and social care demographic changes or adult social care contracts)
- Allocate pay inflation at the point an award has been agreed, the assumption for 2012/13 is a pay freeze.
- Not allocate an inflation allowance to general budget headings (for example travel costs, stationery, training budgets, furniture and equipment budgets etc.) It is anticipated that this will save in the order of £2m inflation a year, on top of the drive to substantially reduce costs in these areas as part of the current Housekeeping review being led by the County Treasurer.

## 7. Support for capital investment

7.1. The County Council's capital programme is made up of a programme of schemes which are determined principally by Government approvals. In the past these have been in the form of capital grants and supported borrowing, although in 2011/12 all supported borrowing was withdrawn and allocations are now only received as capital grants.

7.2. The County Council is also able to supplement this spending through a locally resourced programme supported by revenue contributions to capital and from service capital receipts. Guideline cash limits are set for each Department for their locally resourced capital programmes and following the much lower levels of anticipated capital receipts in recent years the locally resourced element of the programme was reduced and this is already reflected in the current programme that was approved by County Council in February 2011.

7.3. Requirements for future capital investment are vast, not only in respect of the maintenance of existing infrastructure across the County but also in relation to new investment in emerging key areas that will bring future benefits and sustainability to the Council. This consideration of capital projects will also include those whose investment results in reduced costs in future. Schemes will include the continuation of 'Operation Resilience' for the highway network, transformation of social care provision and developing key initiatives around Photo Voltaic cells and rural broadband.

7.4. It is however, imperative that the prioritisation of scarce capital resources is consistent with the need to balance the maintenance of existing assets and progress emerging key strategic projects across the Council which are in line with the Council's Open for Business priorities and the emerging Asset Management Plan.

7.5. The attached summary at Annex 7 shows the key theme areas for capital investment over the medium to long term planning horizon. Consideration of major capital investment decisions will take place in February in the context of available capital resources and individual business cases once the County Council has decided on it's broader policy direction for key investment areas.

## 8. Efficiency Strategy

8.1. The County Council has already had significant success with its Efficiency Strategy which has evolved from being a means of identifying resources for redeployment to delivering budget savings. The Corporate Efficiency Savings Strategy established in the previous MTFS is planned to deliver recurring savings totalling £38.4m by 2013/14 . In addition, the Corporate Workstreams introduced as part of the 2011/12 budget process will deliver £29m of the £55m savings in 2011/12 and are expected to contribute a significant proportion of the 2012/13 savings.

8.2. During 2011 three further workstreams have been put in place that will continue to deliver efficiency savings that will put the County Council's finances on a solid footing for many years to come :-

- **Corporate Services Review** – examining alternative options for the delivery of corporate services, including integration, alternative business models and joint working
- **Shared Services** – Exploring options for income generation or efficiencies through working with other organisations
- **Alternative Governance and Delivery Models (re-named as Modernisation and reconfiguration of Adult Social Care Provision)** – Concentrating on delivery models for adult social care services that will ensure they remain fit for purpose and deliver savings in the longer term

8.3. This programme of Efficiencies has been supported by a flexible approach for funding invest to save costs and in particular by a voluntary redundancy scheme that has sought to reduce staff numbers in the organisation in a planned and sensitive way. Regular reporting to Cabinet on the Efficiency

Programme has been in place for some time and will continue during these later stages of the programme.

8.4. From 2013/14 onwards it is anticipated that the County Council will return to a ‘steady state’ position of needing to achieve around 2% annual efficiencies that will build on the work that has already been undertaken to date and continue to exploit the County Council’s strong position in respect of income generation and joint working with other organisations.

## 9. Conclusion

9.1. The actions taken to date in response to the significant grant reductions announced as part of the Comprehensive Spending Review, means that the County Council is well placed to meet its commitment to try to deliver four years worth of savings over a two year period.

9.2. The Medium Term Financial and Efficiency Strategy therefore builds on the work already in place for 2011/12 and 2012/13 and considers a return to a more normal position for the remainder of the CSR period, although it should be recognised that there are still significant challenges ahead for the public sector not least the potential impact of the Local Government Resource Review and the County Council therefore needs to see through the target for recurring revenue savings throughout the medium term period.

## 10. Recommendations

**Cabinet recommends that the County Council :-**

10.1. Notes the key assumptions that underpin the financial forecasts for the next three years and the risks attaching to such.

10.2. Approves the medium term financial and efficiency strategy for 2012/13 to 2014/15, as set out in Appendix 1.

10.3. Notes the emerging key theme areas for capital investment in Annex 7

**County Council is recommended to :-**

10.4. Note the key assumptions that underpin the financial forecasts for the next three years and the risks attaching to such.

10.5. Approve the medium term financial and efficiency strategy for 2012/13 to 2014/15, as set out in Appendix 1.

10.6. Note the emerging key theme areas for capital investment in Annex 7

## CORPORATE OR LEGAL INFORMATION:

**Links to the Corporate Strategy**

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|---|---|
| **Hampshire safer and more secure for all:** | Yes |
| Corporate Business plan link number (if appropriate): | |
| **Maximising well-being:** | Yes |
| Corporate Business plan link number (if appropriate): | |
| **Enhancing our quality of place:** | Yes |
| Corporate Business plan link number (if appropriate): | |
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**Section 100 D - Local Government Act 1972 - background documents**

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

| Document | Location |
|---|---|
| None | |

# IMPACT ASSESSMENTS:

## 1. Equalities Impact Assessment:

1.1. Equality objectives are not considered to be adversely affected by the proposals in this report but specific issues arising from any detailed budget proposals will have full EIA's carried out where appropriate.

## 2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime but will be taken into account when the detailed budget proposals are developed for 2012/13 and beyond.

## 3. Climate Change:

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

   Annex 7 includes potential capital investment that will have a significant impact on the Council's carbon footprint. Individual business cases will be brought forward for these as appropriate and will have a full impact assessment in respect of energy consumption and reducing the Council's carbon footprint.

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

   Capital investment proposals will consider climate change as a key issue, in particular flood defence and coastal erosion which will be addressed as part of the individual business cases for investment.

**Appendix 1**

## Medium Term Financial and Efficiency Strategy 2012/13 to 2014/15

### 1. Introduction

1.1 The County Council's medium term financial strategy brings together in a single document all the elements of the County Council's financial strategy for the next three years, including an update on the continuing efficiency strategy .

1.2 The strategy incorporates

- the three year budget plan, comprising the 2012/13 budget and the provisional budget for 2013/14 and 2014/15
- the capital programme for 2012/13 to 2014/15 and key themes for capital investment
- a number of underpinning policy statements and strategies
    - Corporate Strategy and Open for Business Plan
    - financial management policies
    - treasury management and investment strategies, prudential indicators

### 2. Links to corporate priorities and strategies

2.1 The central purpose of the County Council's medium term financial strategy is to promote the achievement of corporate objectives within the context of the County Council's financial management policies. The Corporate Strategy was formally approved in 2007 and set the broad strategic direction and priorities for the County Council.

2.2 During 2011 Cabinet has also received a number of reports outlining the approach in respect of the 'Open for Business' programme which has been developed to ensure that the County Council remains focused on specific issues and outcomes during the current financial turbulence and to align policy with resources to achieve those outcomes. Open for Business seeks to identify specific key policies that should be reviewed together with strategic opportunities for the organisation and its staff, and how best to recreate the networks and outcomes that are the foundations of the County Council's public services.

2.3 The LAA which has for the last three years at least, been a framework for issues such as health, the economy and public services no longer exists. It will be important that the County Council looks at how it absorbs its new public health duties. The County Council as one of the largest units of local government will become one of the largest public health providers in England. Future relationships with GP's, the possible decline in the influence of the PCT, the role of hospital trusts and other providers will provide real opportunities for a different blend of public sector outcomes, possibly tied in with the County Council's developing ambitions for creating trading opportunities in these areas.

2.4 The Medium Term Financial and Efficiency Strategy has been aligned to reflect the priorities emerging out of the Open for Business programme and in particular, the current Corporate Efficiency Workstreams and the themes for capital investment included in Annex 7 illustrate the focussed approach across all of the County Council's functions.

**Financial context**

2.5 The key elements to the financial context as they effect the period 2012/13 to 2014/15 are:

- the County Council's reduction in formula grant which has been notified for 2011/12 and 2012/13 and the anticipated decreases for 2013/14 and 2014/15 in line with the forecasts set out in the Comprehensive Spending Review (CSR) 2010.
- budget pressures which are caused by significant demographic, economic and legislative issues
  - an aging population and an increasing number of young people with complex disabilities living into adulthood and adding progressively to the demand for care
  - energy costs which continue to rise well above current rates of inflation
  - increased numbers of vulnerable children required to be looked after by the County Council, despite a declining child population
  - a position of high inflation even though growth in the economy remains weak, which also continues to suppress interest rates
- the impact of major change programmes underway in the County Council
  - Review of Corporate Services which will have a significant impact on the way in which central support services are structured and delivered
  - Opportunities for shared services with other organisations that will help to strengthen the County Council's service delivery position in the future but also exposes it to additional financial risks
  - Exploration of alternative governance and delivery models for adult social care services to ensure they remain fit for purpose and contribute to the corporate savings exercises
- A challenging efficiency and savings programme which seeks to remove a further 8% of Departmental spending in 2012/13 and sets a 2% Annual Efficiency Target thereafter.

**Financial management policies**

2.6 Resource allocation decisions in the budget are also influenced by the financial management policies, which define the framework for setting the base budget, the starting point from which budget decisions are made. They are summarised in Annex

5. The core policies are designed to encourage services to maximise their sources of income and to contain cost increases. Key policies in this respect relate to :

- Services expected to contain spending within the approved cash limit with no supplementary allocations being available other than in exceptional circumstances unless a specific contingency provision is made within the budget
- Services expected to carry forward 100% of any overspending against the overall service cash limit, but are allowed to retain 100% of any underspending provided that it is used to meet the costs of change associated with the efficiency and savings programme
- Encourage chief officers to submit applications for specific grant / partnership funding designed to maximise the resources available to the County Council, by allowing capital and revenue cash limits to be adjusted to reflect changes in grant levels. This may include reducing service levels where Government grant support is no longer provided.
- Require Services to review the level of fees and charges at least annually and set budget limits on the assumption that the level of charges will be increased in line with assumed inflation on gross expenditure.

2.7 The policies are subject to review in each budget cycle, and have been updated to take account of policy changes since they were last reported and the changes highlighted in this report.

## 3. The National Context

3.1 The County Council's medium term financial strategy is set within the context of national economic and public expenditure plans, national priorities influencing the distribution of Government grant between local authorities and national legislation defining the scope for the County Council to raise income from council tax and to borrow.

### National economic and public expenditure plans

3.2 The previous Government's budget in March 2010 indicated that large reductions in Government grant were likely to be required to eliminate the structural deficit within the public finances over the period of the next two Parliaments. Immediately following the elections, the Coalition Government announced some in-year local authority grant reductions for 2010/11 in early June and then presented an Emergency Budget at the end of June. This set the context for the Spending Review to be undertaken over the summer and for decisions on the allocation of resources between spending departments to be announced in October. A more ambitious timescale was set for eliminating the structural deficit over the period ending in 2014/15, the final year of the Spending Review period.

3.3 The Comprehensive Spending Review (CSR 2010) confirmed the significant reduction in spending across the entire public sector. The size and phasing of reductions was different across Government Departments with Local Government in particular taking a large overall share which was unexpectedly heavily front loaded. In the past, the County Council has also had particular interest in the way in which grant floors and ceilings have been applied on a national basis and whilst these continued to have an impact (resulting in the County Council receiving the maximum percentage reduction possible) this is a minor issue compared to the overall level of grant reductions applied across the local authority sector.

**Local authority grant distribution**

3.4 A two-year Revenue Support Grant Settlement for 2011/12 and 2012/13 was confirmed by DCLG in January 2011. The main features of the grant settlement were as follows:

- no change to the broad principles of the four block model, but variable floors introduced for County Councils based on grant dependency. The County Council's grant reduction is the maximum 14.3% in 2011/12 (£30.9m), and 10.4% (£19.0m) in 2012/13
- a baseline transfer of £3.3m in respect of central services relating to the transfer of schools to academy status and the transfer of planning functions to the South Downs National Park, neither of which will be matched by an equivalent reduction in spending need in 2011/12
- a baseline transfer of funding for concessionary fares, which after allowing for a 14.3% reduction, provides funding of £0.8m less than the cost of the minimum scheme required to meet statutory requirements
- additional health funding of £12.7m in 2011/12, falling by £0.5m to £12.2m in 2012/13 which was allocated to Hampshire PCT to pay to the County Council for Adult Services

3.5 The grant settlement also included some significant changes affecting area based and specific grants, which have either been discontinued, merged or assimilated into formula grant – leaving four significant non-schools grants:-

- Early intervention grant (£38.1m) including early years funding previously ring-fenced within the Schools Block
- Learning Disability and Health Reform grant (£41.9m), based on funding transferred from the NHS;
- Private Finance Initiative (PFI) grant towards the Street Lighting PFI (£9.4m) and
- Council tax freeze grant (£13.2m) to compensate for council tax income foregone

3.6 No detailed figures have been released for 2013/14 and 2014/15, but it has been assumed in the MTFS that further reductions in formula grant of 9% (£14.8m) and 8% (£11.9m) will be made in these respective years. This allows for an element of top slicing in the national grant allocations for purposes which are unlikely to benefit the County Council. Further reductions in specific grants have also been assumed of 6% (£5.2m) and 5% (£4.3m) but it is recommended that these are passported to the services affected in line with the existing policy.

3.7 The charts in Annex 1 show that Hampshire County Council has the third lowest formula grant per head in the Country, but perhaps more stark is the reduction in the County Council's formula grant before and after damping. Whilst the County Council was at the maximum grant decrease of 14.3% after damping, the actual decrease was nearer 25%, the 5$^{th}$ highest decrease in the Country. For 2012/13 there was a similar position and the grant per head has reduced to £125 and the reduction in formula grant was at the maximum of 10.4% after damping

### Council tax and borrowing

3.8 The Government abolished the practice of pre-announcing capping limits for local authority council tax as from 1999/2000, (referred to as ‘crude and universal capping’) but retained reserve powers in the 1999 Local Government Act both to cap the current year’s council tax, requiring a rebilling; or to ‘nominate’ the authority for possible capping in the following year. In recent years, although there has been no return to the formal pre-announcement of capping limits that were a feature of the pre-1999 system, the Secretary of State has given fairly clear indications of his intention on the use of the reserve capping powers before local authorities have set their budgets.

3.9 In 2011/12, the Coalition Government offered local authorities an additional grant, conditional on freezing the Council tax at its 2010/11 level. As this offer was taken up by all local authorities, no capping decisions were required. No further grants will be payable in subsequent years to enable the freeze to be extended and the proposals in the Localism Bill will give local communities in future the role of determining whether a council tax increase is ‘excessive’ through a referendum process.

3.10 The County Council’s record of setting low council tax increases prior to 2011/12 has enabled it to maintain its position of having a Band D council tax in the lower quartile of comparable County Councils. Annex 2 sets out in graphical form, the level of Hampshire County Council’s council tax relative to other authorities.

3.11 Part 1 of the Local Government Act 2003 introduced a new approach to the control of local authority borrowing to finance capital expenditure, replacing a system of Government borrowing approvals with the requirement to comply with a Code of Practice, the Prudential Code for Capital Finance in Local Authorities, designed to allow local authorities to determine their own capital investment plans, subject to them being affordable, prudent and sustainable. However local authorities are now able to incur additional prudential borrowing subject to the requirements of the code and the County Council has established a policy on prudential borrowing that has enabled the capital programme to be extended to support projects which will generate a financial return to the County Council either in the form of additional operating income or lower operational expenditure or in the form of capital income from land disposals and developer contributions.

## 4. Three year budget plan 2012/13 to 2014/15

4.1 The three year budget plan for 2012/13 to 2014/15 has been set within the broad context of the County Council’s corporate strategy, priorities emerging from the Open for Business Plan and of the national context outlined in Section 3.

### Provisional budget guidelines

4.2 Budget guidelines for 2011/12 and 2012/13 were set following the announcement on provisional grant levels in December last year. These incorporated Departmental savings arising from the Corporate Efficiency Savings programme together with the 8% per annum savings target. No specific budget guideline figures have been set for 2013/14 or 2014/15 pending the Local Government Resource Review which could have a further significant impact on the County Council’s finances, but the broad assumptions for those later years are set out below.

4.3 The spending assumptions underpinning the three year budget plan for 2012/13 to 2014/15 can be summarised as follows:

- Assumptions about changes to Council Tax levels will be zero or low
- An 8% reduction in Department spending in 2012/13 and a return to an annual efficiency target of 2% from 2013/14 onwards.
- reductions in specific grants to be passported to departments to achieve equivalent reductions in direct expenditure.
- pay freeze for 2012/13 with a 1% increase assumed for 2013/14 and 1.5% for 2014/15. Superannuation rates have been maintained at 19.1% following the last actuarial valuation, this level has been assumed for the period pending the likely changes due to take place in public sector pension schemes.
- general inflation of 2.5% per annum but this will not be applied to all budget heads. Volatile or negotiated increases such as energy and adult social care costs will be retained centrally within contingencies. Additional contingency provision has been made for the anticipated impact of inflation affecting the various elements of waste management.
- Corporate consideration of service pressures and initiatives as part of the development of the budget.
- release of the grant equalisation reserve on a tapering basis over the period to 2016/17, as agreed in the previous Medium Term Financial Strategy. This policy provides support to the budget as reductions in damping grant take effect, but without creating a cliff edge.
- contingency provision provided to allow for the slippage or non-delivery of savings recognising the risks associated with trying to achieve 4 years worth of savings over only two years.

4.4 The concentration for Departments over the next 18 months will be to deliver the savings assumed in the 2011/12 budget and to develop and deliver savings plans for a further 8% savings in 2012/13. Flexible policies around the carry forward of unspent budgets and early planning for the budget reductions mean that the majority of Departments are also in a strong position to fund the cost of change arising from the reductions in spending, with central support still available to fund the discretionary elements of the voluntary redundancy scheme.

**Partnerships**

4.5 One of the key considerations in drawing up service budget proposals is the need to link the County Council's decisions on resource allocation with its responsibilities to operational partnerships, those partnerships where there is either a formal or informal pooling of budgets in seeking to secure agreed common priorities. These partnerships are numerous and affect the majority of services eg. Supporting People, Comprehensive Children's and Adolescent Mental Health Services Commissioning Trust, Integrated Mental Health and Substance Misuse Services, Safer Roads, Transport for South Hampshire, M3 LEP, Solent LEP, Project Integra, Wessex Youth Offending Team, Integrated Community Equipment Service, Basingstoke Canal, Sir George Staunton Country Park and the South East Museums Hub. In some cases there are dedicated partnership funding streams, but in most instances partners are required to co-ordinate their decisions on budget contributions within the context of the authority's budget strategy.

**Risk Management**

4.6 The approach to risk management for the MTFS was related to the corporate risk assessment process and adopted a number of different approaches to the management of those risks. The most significant financial risks are :-

- Equal pay claims which are being addressed by means of an earmarked reserve and subject to Government approval the impact may also be spread over up to 20 years by a capitalisation direction.
- Slippage or non-delivery of the 8% per annum savings for 2011/12 and 2012/13. This may be as a result of longer implementation timescales or reductions in forecast savings figures or time delays and changes in proposals arising from public consultation. These issues have been addressed by making allowances for one off contingencies. This assumes that the full value of recurring savings will still be made but there is some flexibility for this to be over a longer time period .
- Uncertainty around grant levels beyond 2012/13 and the impact of the Local Government Resource review. Forecasts based on prudent levels of formula grant income and further reductions in specific grants have been allowed for.
- Uncertainty regarding the future of Government funding for Health passported via Hampshire PCT for Adult services.

4.7 IT risks associated with business continuity are being addressed by establishing back up arrangements for critical systems. The financial impact of arson is addressed through the insurance reserve and by the allocation of resources arising from the risk assessment of the built estate. Other risks and uncertainties are addressed either by specific earmarked reserves, contingency provisions or as part of the risk assessment of general balances, carried out in conjunction with the S25 report to the Council on the robustness of the estimates in the budget and adequacy of financial reserves.

**Alternative scenarios**

4.8 The Council's policy is to set challenging but realistic budget assumptions, but risk assesses its general level of balances accordingly. Although the level of grant reductions is known for 2011/12 and 2012/13 and we can forecast likely reductions for the final 2 years of the CSR from the published figures there is still more risk in current budget assumptions (particularly around delivery of savings) than in previous MTFS periods.

4.9 Changes in assumptions can have a significant impact on the budget and the table below outlines some of the impacts on the budget following changes to key assumptions.

| | Impact on level of net expenditure or council tax requirement |
|---|---|
| | £m |
| 1% on pay | 3.0 |
| 1% on prices | 4.7 |
| 1% reduction in government grant | 1.5 |
| Nil increase in tax base | 1.3 |
| No collection fund surplus | 1.5 |
| 1% change in council tax level | 5.3 |

4.10 However it is felt that sufficient contingencies and reserves exist to cover changes in assumptions and the strategy allows for some elements of mitigation, although any significant changes in Government funding related to grant level and/or Health funding would require the assumptions in the Medium Term Strategy to be revisited .

4.11 Annex 3 contains some further analysis of the 2011/12 budget in graphical form differentiating between spending funded from taxation, including schools and other spending financed by specific grant, and spending which forms part of the budget requirement funded by formula grant and council tax, which the County Council has the responsibility for determining.

## 5. Capital Programme 2011/12 to 2014/15

5.1 The County Council approved a capital programme for 2011/12 to 2014/15 at its meeting in February 2011. The capital programme is integrated within the medium term financial strategy in a number of respects.

- it reflects the broad priorities of the corporate strategy and new investment will be targeted to support the Council's 'Open for Business' programme which seeks to align resources with policy decisions
- the programme is drawn up in accordance with the capital programme policies included within the County Council's financial management policies
- decisions on the level of revenue contributions to capital have been taken into account as part of the three year budget plan
- the use of prudential borrowing is determined in conjunction with the setting of the prudential indicators, approved by the County Council in accordance with the prudential code of practice
- the treasury management strategy incorporates the strategy for making borrowing decisions.

5.2 The approved capital programme already spans the period to 2014/15 and is based on individual Departmental guidelines for capital spending. The guidelines comprise three elements:

- a locally resourced capital programme – supported by revenue contributions to capital, service based capital receipts and the non-transport and non-education elements of the single capital pot. Guidelines were set based on the previously approved programmes adjusted for inflation but spread over three years to reflect the sharp downturn in the availability of capital receipts.

- a programme of projects supported by Government grants and supported borrowing, although changes in Government capital allocations now mean that all capital allowances are given in the form of cash grants.
- the use of prudential borrowing in accordance with the County Council's policy, which concentrates its use on supporting projects which yield a financial return and/or whose investment results in reduced costs in future, and which are therefore self-sustaining in the medium and longer term. Prudential borrowing is also used in the short-term to deal with any slippage which may arise in the generation of capital receipts to support the capital programme guidelines**.**

5.3 Based on these three elements, the capital programme for 2011/12 to 2014/15 totalled £491.6m and was made up as follows:

| | **Locally Resourced £000** | **Government approvals £000** | **Prudential borrowing £000** | **Total £000** |
|---|---|---|---|---|
| 2011/12 | 13,415 | 98,150 | 12,560 | 124,125 |
| 2012/13 | 27,840 | 100,373 | 11,000 | 139,213 |
| 2013/14 | 27,493 | 80,149 | 11,000 | 118,642 |
| 2014/15 | 12,195 | 86,413 | 11,000 | 109,608 |
| **Total** | **80,943** | **365,085** | **45,560** | **491,588** |

5.4 This programme comprises a mixture of new individual schemes, mainly for larger specific projects, and planned expenditure across the years, mainly for capital repairs and other block sum approvals. Annex 4 summarises graphically the overall programme for the four years over services.

## 6. Capital Investment

6.1 The capital investment priorities for the County Council will consist of a mixture of maintaining existing infrastructure assets such as roads, buildings and IT, projects that provide a rate of return whilst also meeting other strategic ambitions such as sustainable energy or rural broadband and service based schemes which enhance the offer to residents of the County Council through the provision of new or enhanced facilities.

6.2 The allocation of scarce capital resources must therefore balance these differing priorities and it is therefore imperative that a strategic view of capital investment is taken rather than approving schemes on an individual case by case basis. Annex 7 to the MTFS provides a summary of the key capital investment theme areas which have been identified and which will be considered more fully in February in light of available capital resources and once the County Council has decided on it's broader policy direction for key investment areas.

## 7. Underpinning policy statements and strategies

### Financial management policies

7.1 The County Council's financial management polices relating to financial planning are set out in Annex 5, covering overall financial planning and budget strategy, capital programmes and value for money. These policies form the framework within which the three year budget plan and the capital programme are set, and within which the other policies and strategies included in this section are framed.

### Treasury management and investment strategies and prudential indicators

7.2 These strategies provide the framework within which authority is delegated to the County Treasurer to make decisions on the management of the County Council's debt and the investment of the County Council's surplus funds. The County Council is authorised to borrow on a long-term basis to finance capital expenditure and short-term to deal with cash flow fluctuations pending the receipt of revenues.

7.3 The starting point for the development of the treasury management strategy for the period 2012/13 to 2014/15 is the assessment of changes in the long-term borrowing position which is dictated by changes in the capital financing requirement, even though in the short-term the need to borrow may be offset by surplus funds derived from holding reserves and balances and from creditors exceeding debtors. The main determinants of the change in the capital financing requirement are:

- the level of new borrowing approved in setting the capital programme, taking into account new prudential borrowing approved in accordance with the County Council's financial management policy and the repayment of any temporary prudential borrowing
- the annual repayments charged to the revenue account or to external bodies in respect of transferred services, based on the requirement to make a minimum revenue provision for the repayment of debt within the revenue budget on a prudent basis.

7.4 The capital financing requirement for the period 2012/13 to 2014/15 is estimated as follows:

| | **2012/13** | **2013/14** | **2014/15** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Capital financing requirement at 1 April | **771.3** | **765.3** | **761.7** |
| New borrowing net of repayments of temporary prudential borrowing | **47.1** | **43.2** | **38.4** |
| Repayments charged to revenue account and external bodies | **-53.1** | **-46.8** | **-39.1** |
| Capital financing requirement at 31 March | **765.3** | **761.7** | **761.0** |

7.5 The other key consideration in setting the treasury management strategy is the assessment of interest rate trends and the balance to be struck between the certainty and stability of longer term fixed rate borrowing and the flexibility of short-term borrowing at variable rates. The historically low level of the base rate over a long period of time has meant that short term borrowing and investments have been at very low rates, therefore any fixed long term borrowing attracts a 'cost of carry' during this low interest period. The County Council has therefore avoided locking in to large amounts of fixed rate maturity borrowing and has been utilising 10 year Equal Instalment of Principal (EIP) loans which give some long term certainty but at a lower premium than the longer dated loans.

7.6 The Treasury Management Strategy approved by Council in February promoted a more active approach to managing the portfolio of existing borrowing looking for opportunities which may arise in an environment of changing interest rates to refinance some borrowing to offer improved revenue costs of capital financing. Consequently, the prudential indicators related to borrowing limits have been reviewed to set reasonable upper limits and yet enable flexibility within delegated powers for the County Treasurer to secure opportunities which do arise. The Treasury Management Strategy reflects the changed capital financing environment for the Council with the move to capital grant from supported borrowing.

7.7 The County Council's investment strategy treats security and liquidity as paramount in investing surplus funds and such funds are invested solely in what are defined by the Government as 'specified investments'. Surplus funds are invested in:

- fixed term deposits for period of up to two years with local authorities
- fixed term deposits for period of up to one year with banks and building societies with a long-term credit rating of at least A+ (or equivalent) by all three credit rating agencies
- call deposits with NatWest Bank (rated AA-), and same-day liquidity deposits with managed AAA rated money market funds

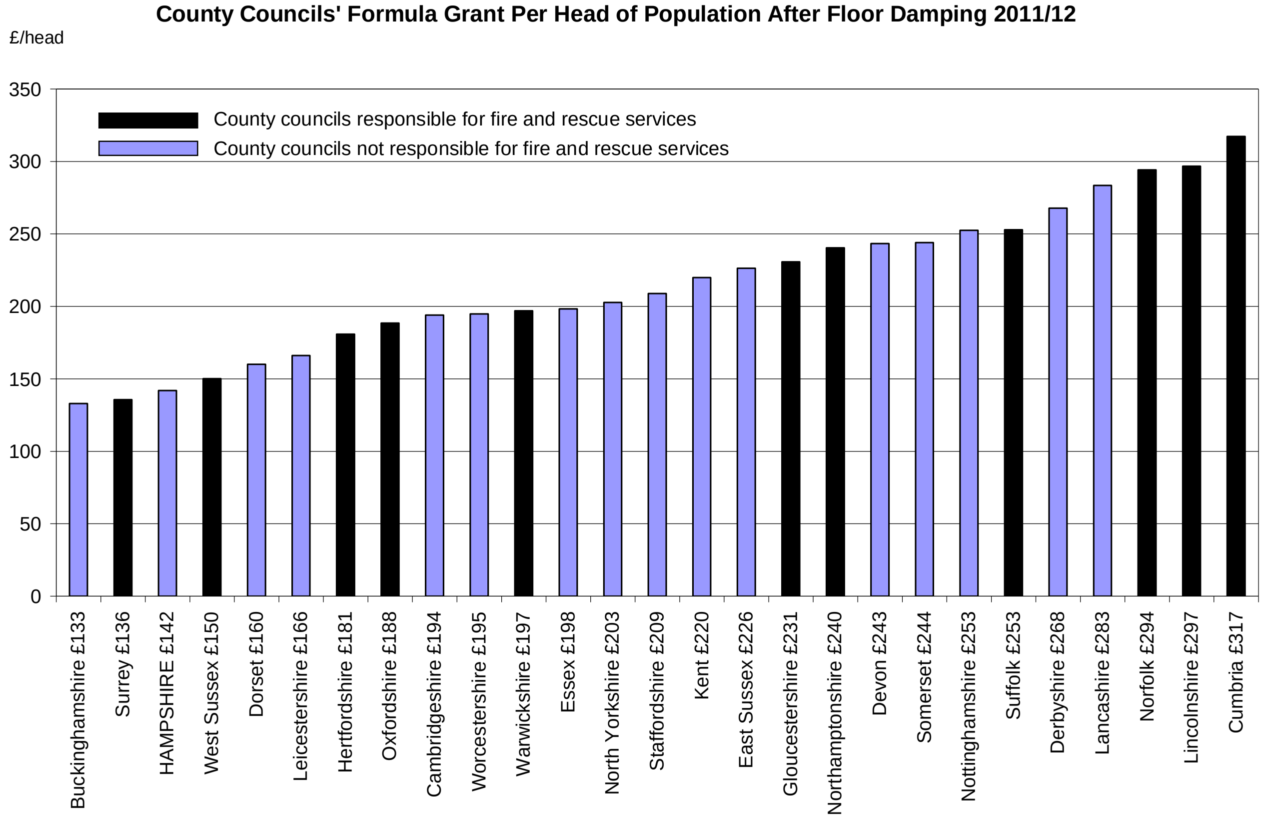
7.8 The County Council appointed Arlingclose as its Treasury Advisors and they provide strategic advice to the Treasurer as well as daily updates on a range of market and credit information. The lending list is regularly updated using credit ratings and other information, and limits are placed on the levels and the maturity profile of deposits made with individual institutions. Changes in the lending list are monitored carefully on a daily basis given the continued concern about credit worthiness of individual institutions and indeed countries. An overall review of the lending list and the investment limits is undertaken annually, subject to the approval of the County Treasurer.

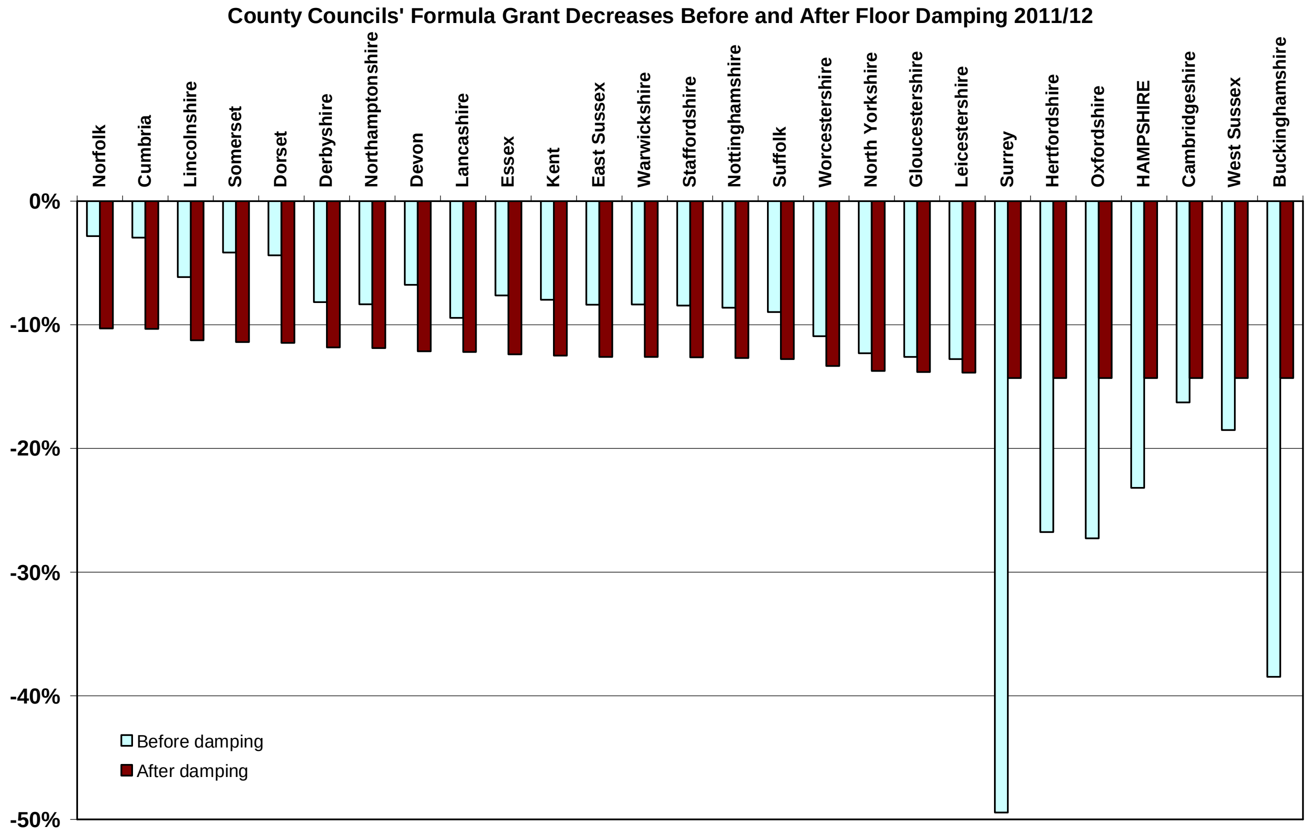
**Prudential indicators**

7.9 The Prudential Code for Capital Finance incorporates a series of indicators requiring annual approval by the County Council, designed to ensure that:

- capital programmes are affordable
- external borrowing and other long-term liabilities are within prudent and sustainable levels
- treasury management decisions are taken in line with professional good practice.

7.10 The relevant indicators are reported in Annex 6. The single most important indicator is the capital financing requirement, and in particular the component within it relating to prudential borrowing, as this is the most important measure of the affordability of the capital programme and of the prudence and sustainability of borrowing levels. The Council's policy on the use of prudential borrowing is set out in financial management policy 32 (as set out in Annex 5).


County Councils' Formula Grant Per Head of Population After Floor Damping 2011/12
£/head
County councils responsible for fire and rescue services
County councils not responsible for fire and rescue services
350
300
250
200
150
100
50
0
Buckinghamshire £133
Surrey £136
HAMPSHIRE £142
West Sussex £150
Dorset £160
Leicestershire £166
Hertfordshire £181
Oxfordshire £188
Cambridgeshire £194
Worcestershire £195
Warwickshire £197
Essex £198
North Yorkshire £203
Staffordshire £209
Kent £220
East Sussex £226
Gloucestershire £231
Northamptonshire £240
Devon £243
Somerset £244
Nottinghamshire £253
Suffolk £253
Derbyshire £268
Lancashire £283
Norfolk £294
Lincolnshire £297
Cumbria £317


County Councils' Formula Grant Decreases Before and After Floor Damping 2011/12
Norfolk
Cumbria
Lincolnshire
Somerset
Dorset
Derbyshire
Northamptonshire
Devon
Lancashire
Essex
Kent
East Sussex
Warwickshire
Staffordshire
Nottinghamshire
Suffolk
Worcestershire
North Yorkshire
Gloucestershire
Leicestershire
Surrey
Hertfordshire
Oxfordshire
HAMPSHIRE
Cambridgeshire
West Sussex
Buckinghamshire
0%
-10%
-20%
-30%
-40%
-50%
Before damping
After damping

# County Councils' Council Taxes 2011/12

| | Increase % | Council Tax Band D | |
|---|---|---|---|
| Somerset | 0.0% | £1,027.30 | |
| Northamptonshire | 0.0% | £1,028.11 | |
| Staffordshire | 0.0% | £1,028.81 | |
| **HAMPSHIRE** | **0.0%** | **£1,037.88** | **SE** |
| Worcestershire | 0.0% | £1,039.06 | |
| Cambridgeshire | 0.0% | £1,047.78 | |
| Kent | 0.0% | £1,047.78 | SE |
| North Yorkshire | 0.0% | £1,057.48 | |
| Leicestershire | 0.0% | £1,063.00 | |
| Lincolnshire | 0.0% | £1,065.69 | |
| Derbyshire | 0.0% | £1,077.22 | |
| Buckinghamshire | 0.0% | £1,077.74 | SE |
| Essex | 0.0% | £1,086.75 | |
| Gloucestershire | 0.0% | £1,090.50 | |
| Lancashire | 0.0% | £1,108.30 | |
| Devon | 0.0% | £1,116.36 | |
| Surrey | 0.0% | £1,116.36 | SE |
| Hertfordshire | 0.0% | £1,118.83 | |
| Suffolk | 0.0% | £1,126.53 | |
| Norfolk | 0.0% | £1,145.07 | |
| Warwickshire | 0.0% | £1,155.25 | |
| East Sussex | 0.0% | £1,158.30 | SE |
| Cumbria | 0.0% | £1,161.50 | |
| Oxfordshire | 0.0% | £1,161.71 | SE |
| West Sussex | 0.0% | £1,161.99 | SE |
| Dorset | 0.0% | £1,168.29 | |
| Nottinghamshire | 0.0% | £1,193.18 | |

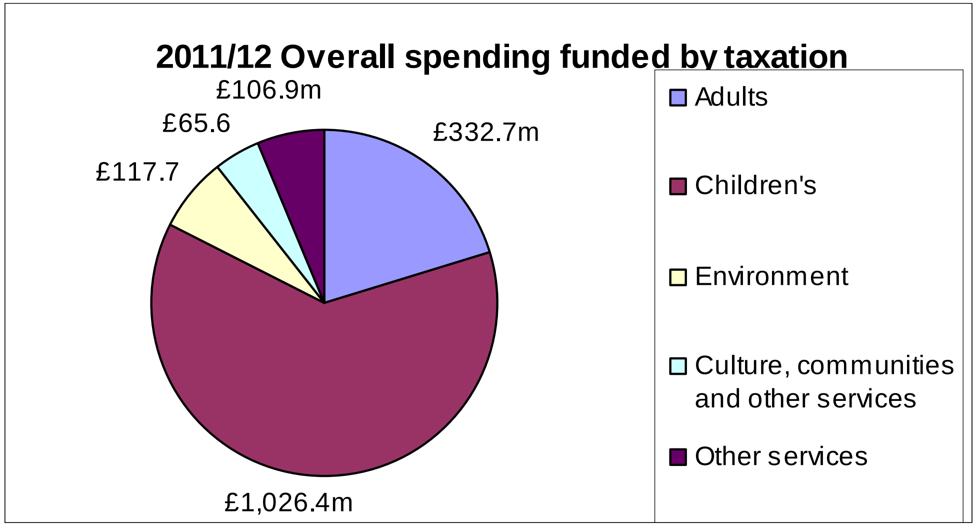

**Averages**

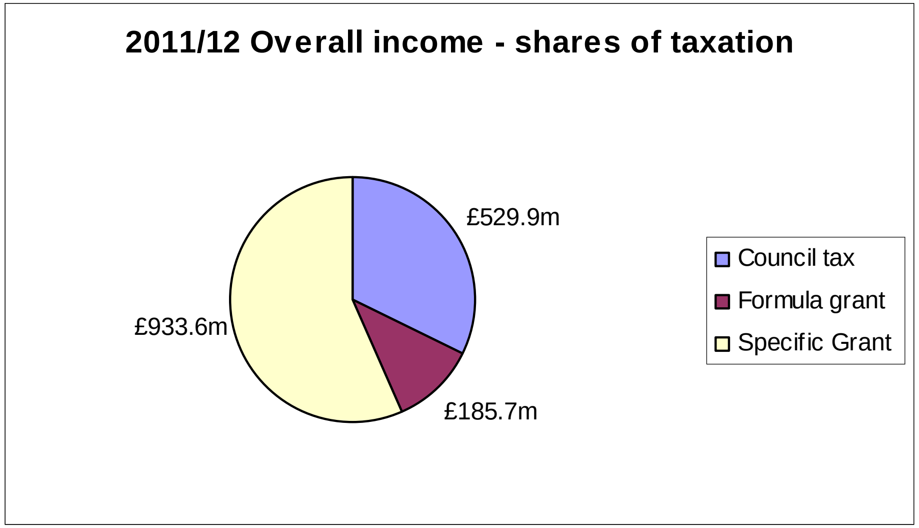
| | | |
|---|---|---|
| All counties | 0.0% | £1,098.77 |
| Counties with CFAs | 0.0% | £1,083.45 |
| Counties without CFAs | 0.0% | £1,121.05 |

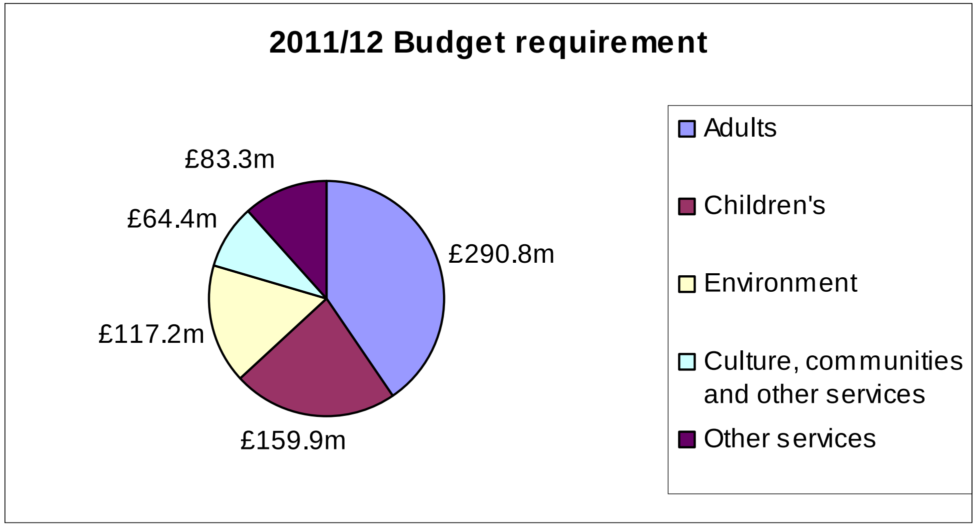
Since 2004/05 council tax payers in Hampshire, and other English counties with Combined Fire Authorities (CFA), have been charged for fire services by the CFA. As a result, the council tax figures for counties with CFAs are not directly comparable with those without CFAs.

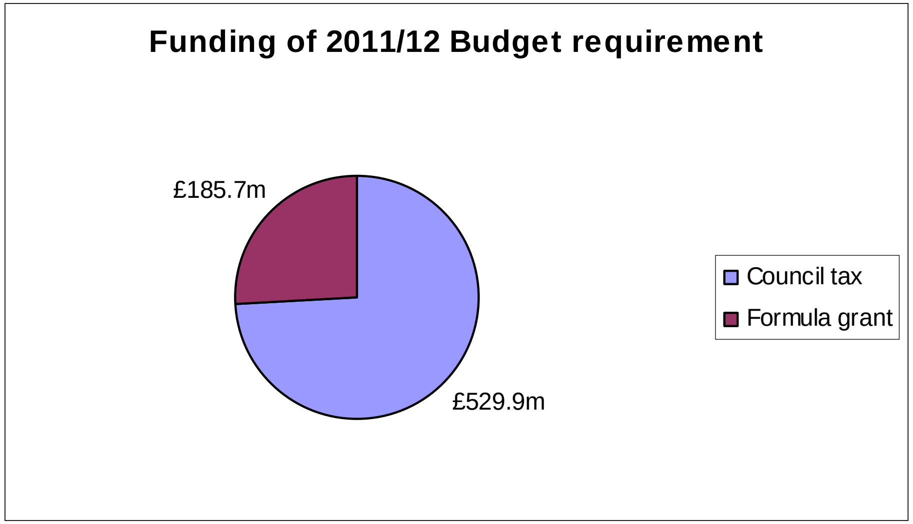
**SE indicates counties in the South East**

**Appendix 1 - Annex 3**

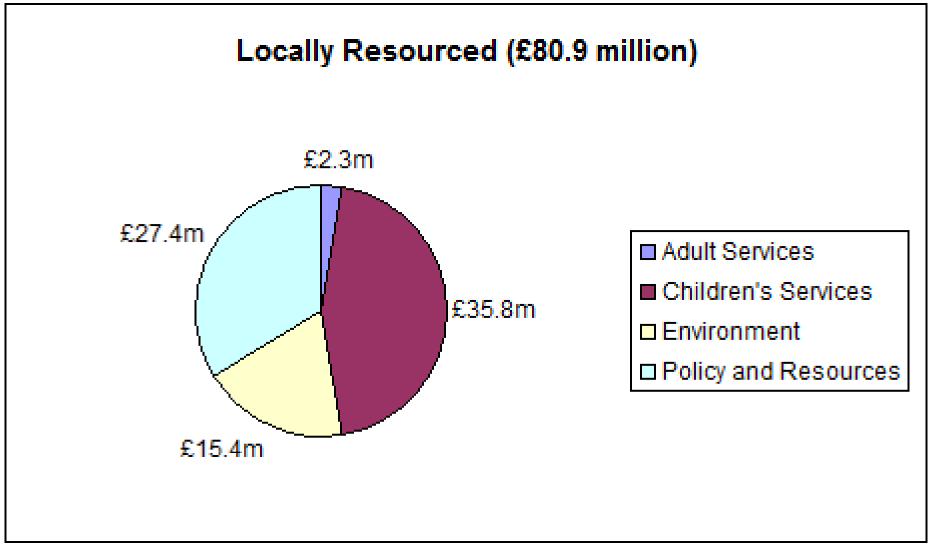


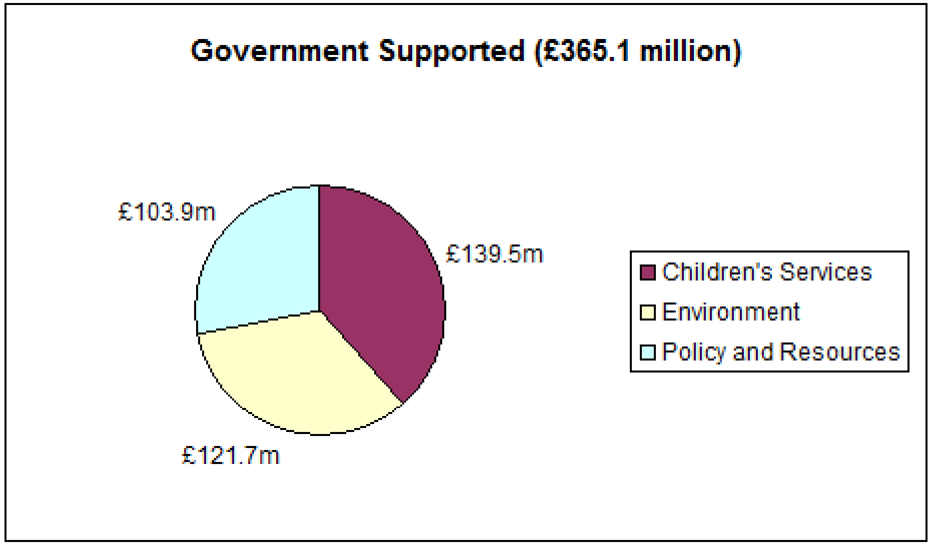



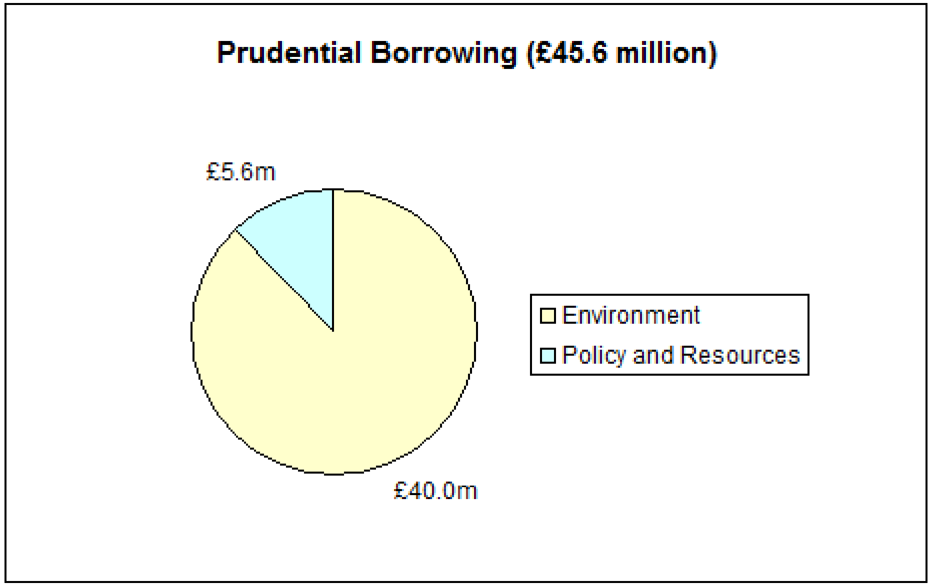



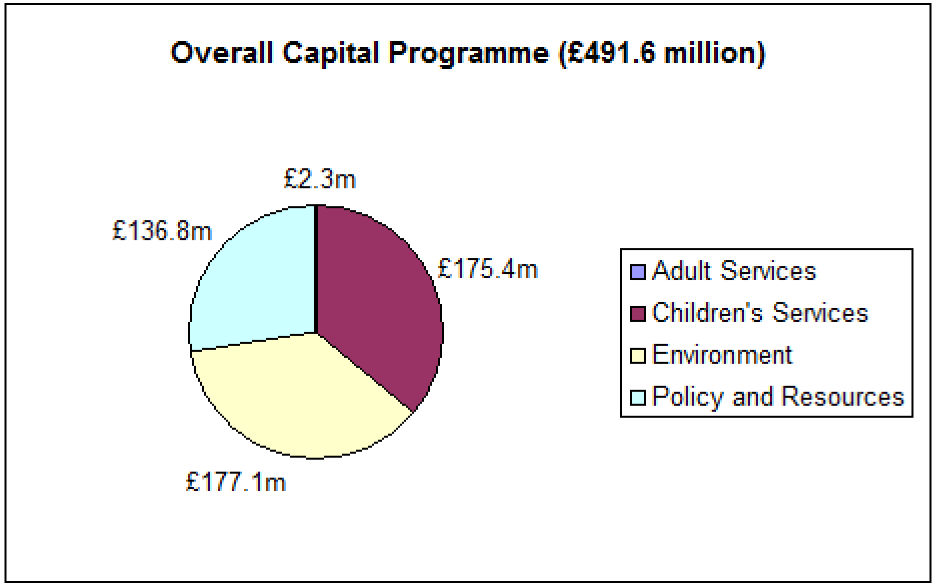



**2011/12 - 2014/15 Capital Programme**



## Financial Management Policies 2012/13 to 2014/15

| | Policy | Related targets/outcomes |
|---|---|---|
| | **Overall financial planning and budget strategy** | |
| 1 | Budget strategy related to corporate priorities, as reflected in corporate strategy and open for business plan | Linkage to corporate strategy and open for business made explicit in budget proposals and in preparation of business cases requiring approval prior to the release of increased sums in the budget, or in developing savings plans. |
| 2 | Consult on a cyclic basis with interested stakeholders (e.g. the public, private sector and staff) on budgetary priorities. | Consultation on spending priorities in the Medium Term Financial Strategy to be undertaken before the budget setting process in February 2012 |
| 3 | Growth pressures, service initiatives and saving plans to be submitted to the Cabinet, identifying reasons and assumptions for pressures, planned outcomes and performance improvements for service initiatives and mechanisms for achieving any significant savings. | Will form the basis for the submission of the final budget to Cabinet and Council and the baseline for monitoring in the subsequent year. |
| 4 | Ensure that the long-term level of revenue commitments does not exceed long-term funding likely to be available including forecast levels of future grant settlement and council tax. | Revenue commitments to be assessed based on the current grant settlement and Council tax assumptions built into the three year budget plan |
| 5 | Ensure integration of medium term financial and service planning. | Framework developed by Corporate Performance and Efficiency group, focussing on the Open for Business priorities |
| 6 | Incorporate in the medium term financial strategy the impact of joint plans agreed with partners. | Medium term financial strategy sets out how the County Council incorporates partnership arrangements within the budget process. |

| | Policy | Related targets/outcomes |
|---|---|---|
| 7 | Maintain three year budget projections in order to support medium term financial planning, subject to fine tuning of resource allocation decisions on an annual basis. | A budget for 2011/12 was approved in February 2011. Following approval of the MTFS, a budget for 2012/13 and provisional budgets for 2013/14 and 2014/15 will be developed in the next budget cycle. Subject to the Government agreeing school funding levels for periods exceeding one year, a medium term budget projection for the schools budget will be developed. |
| 8 | Minimise levels of non-earmarked reserves, at a level determined by risk assessment, in order to maximise use of available funds on service provision. | Risk assessment incorporated in 2011/12, with a target of 2.5% of the net budget requirement in 2011/12 as a result of the assessment. |
| 9 | Review the rationale and adequacy of earmarked reserves on at least an annual basis. | Protocol reviewed twice yearly, in conjunction with approval of the budget and final accounts by the Cabinet. |
| 10 | Build up an earmarked reserve in recognition of the equal pay compensation risks associated with Pay and Benefits implementation. | Reserve amounts to £47.2m at 31 March 2011. 2011/12 budget assumes that claims will be resolved in 2011/12. |
| 11. | Maintain an insurance reserve based on a periodic actuarial review of the liabilities falling on the County Council | Reserve increased to £16.7m at 31 March 2011, just below the level. recommended in a report commissioned in 2011. |
| 12 | Seek to minimise the degree of instability in the employers' contribution to the Hampshire Pension Fund, subject to objective of securing 100% funding in the long-term. | Employers contribution maintained at an equivalent level to the 19.1% payable in 2010/11 for the three year period 2011/12 to 2013/14, following the March 2010 actuarial valuation. |
| 13 | Continue policy of taking into account increased service demand for social care services in setting budgets. | 2011/12 service budgets include increased provision for social care, partially offsetting required savings. In addition the central contingency includes a risk contingency to cover increased demand for adult social care services as a result of demographic pressures and increased complexity of needs. |

| | Policy | Related targets/outcomes |
|---|---|---|
| 14 | Set a schools budget in consultation with the Schools Forum based on specific grants allocated by the Government. | 2011/12 budget set at a level equal to estimated specific grants, including the carry forward of DSG from 2010/11. No school funding allocations have been agreed for the period beyond 2011/12. |
| 15 | Manage the application of the grant equalisation reserve in order to protect services from future grant loss from the 2006/07 and 2008/09 revised formulae. | 2011/12 budget allows for use of the grant equalisation reserve as part of an 8 year programme to phase in the impact of loss of grant, ending in 2015/16. |
| 16 | Incorporate provision within the budget for future inflation and allocate to services during the course of the year to reflect agreed pay increases and the incidence of unavoidable price increases, requiring any excess inflation to be absorbed within service budgets. | Inflation assumptions included in central contingency within the Medium Term Financial Strategy. Revised policy on allocation of inflation set out in MTFS. |
| 17 | Services expected to contain spending within the approved cash limit, with no supplementary allocations being available other than in exceptional circumstances unless a specific contingency provision made within the budget. | Policy applied in 2010/11, with the main exception in respect of the effect of in year grant cuts experienced by Children's Services. |
| 18 | Services expected to carry forward 100% of any overspending against the overall service cash limit, but in respect of 2010/11 and 2011/12 are allowed to retain 100% of any underspendings to be used for and contribute to the change agenda and the Council's Efficiencies and Expenditure Reduction Programme, in consultation with the County Treasurer. | Policy applied in dealing with under and overspendings in 2010/11's final accounts, allowing service underspendings of £9.8m to be carried forward to support the change agenda. |
| 19 | Require the continuing absorption of cost increases by expecting services to absorb any net cost arising from the annual cost of salary step increases. | Step increases in April 2011 to be absorbed in 2011/12 budget. |

| | Policy | Related targets/outcomes |
|---|---|---|
| 20 | Seek to identify and deliver efficiency gains on an annual basis, with a view to enabling cuts in service to be avoided. | Planned 8% savings in 2011/12 include more than £40m of efficiency savings. Medium Term Financial Strategy sets an annual target for cashable efficiency savings of at least 2% per annum beyond 2012/13. |
| 21 | Encourage service chief officers to submit applications for specific funding from Government and other partners designed to maximise the resources available to the County Council, by allowing capital and revenue cash limits to be adjusted to reflect changes in grant levels. | Applied in 2011/12 budget process. |
| 22 | Assist in developing the third sector's capacity by setting financial assistance within clear frameworks and on a three year basis where possible. | Basis of current grants to community based organisations under review. |
| 23 | Require services to review the level of fees and charges at least annually and set budget limits on the assumption that the level of charges will be increased in line with assumed inflation on gross expenditure. | Reflected in 2011/12 budget strategy. |
| 24 | Seek best value in spending, bearing in mind that considerations of quality, risk, sustainability, environmental impact, local economic development and equalities may all be relevant in addition to price. | Taken into account as part of procurement process and as part of decision making process in assessing priorities for new spending. |
| 25 | Seek to retain relatively low council taxes in Hampshire and to ensure that increases are contained at or below the rate of inflation. | Government grant taken up in freezing the 2011/12 council tax. The tax remains within the lower quartile of County Council's without fire funding responsibilities. Assumption about changes to Council Tax levels will be zero or low. |

| | Policy | Related targets/outcomes |
|---|---|---|
| | **Capital programming** | |
| 26 | Prepare three year capital programme (consistent with CSR periods) in accordance with the strategy. | Current approved programme was extended to 4 years to tie in with the current CSR period. |
| 27 | Seek to maintain the level of the locally-resourced capital programme by continued recycling of surplus assets to generate capital receipts. | Current programme utilises capital receipts to achieve this aim but at reduced levels to reflect the reduction in asset values and volume of sales during the recession. |
| 28 | Allow services to retain at least 25% of the value of their capital receipts and where necessary to finance investment in replacement assets, up to 100%. | Services authorised to retain £10.7m of 2010/11's capital receipts. |
| 29 | Adopt alternative Public Private Partnership (PPP) approaches to financing investment in the assets required to deliver the Council's services, including the use of the Private Finance Initiative (PFI), where this provides best value for the Council. | Waste management contract infrastructure and Street Lighting PFI have adopted this approach. |
| 30 | Make full use of Government grant allocated for capital projects, subject to the affordability of any additional running costs generated. | All government support for capital projects from 2011/12 onwards is being provided by means of capital grant. |
| 31 | Seek to maximise capital resources by developing capital schemes in conjunction with external partners where appropriate. | Funding of £70m from external partners, incorporated in 2011/12 to 2014/15's estimated capital payments. |

| | Policy | Related targets/outcomes |
|---|---|---|
| 32 | Approve the use of prudential borrowing within the framework of the County Council's prudential code<br>- business unit investment where the financing costs will be funded by charges made to customers<br>- 'invest to save' projects generating savings which will enable the financing costs to be funded, capital receipts or developer contributions which will enable borrowing to be repaid, or alternative costs to be avoided.<br>- Temporary borrowing to cover short-term shortfalls in capital financing resources. | The current capital programme includes proposals for further prudential borrowing of £85m over the period 2011/12 to 2014/15, in accordance with the Council's policy. |

| Summary of prudential indicators and treasury management indicators | | 2010/11 Actual | 2011/12 Estimate | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate |
|---|---|---|---|---|---|---|
| **Prudential indicators for capital expenditure** | | | | | | |
| Capital expenditure | £m | 196.3 | 189.0 | 177.9 | 136.6 | 124.8 |
| Capital financing requirement | £m | 747.6 | 771.3 | 765.3 | 761.7 | 761.0 |
| **Prudential indicators for affordability** | | | | | | |
| Ratio of financing costs to net revenue stream | % | 7.44 | 8.84 | 9.41 | 9.37 | 9.66 |
| Incremental impact of capital programme on council tax | £ | 4.04 | 1.22 | 3.27 | 2.50 | 1.76 |
| **Prudential indicators for prudence** | | | | | | |
| Medium-term borrowing not to exceed capital financing requirement | | County Treasurer will ensure this is not breached | | | | |
| **Treasury management indicators for external debt** | | | | | | |
| Actual external debt | £m | 499.2 | n/a | n/a | n/a | n/a |
| Authorised limits | £m | 780.0 | 860.0 | 850.0 | 850.0 | 850.0 |
| Operational boundaries | £m | 660.0 | 780.0 | 770.0 | 770.0 | 770.0 |
| **Other treasury management indicators** | | | | | | |
| Adoption of revised CIPFA Code of Practice (2009) | | Agreed by County Council in February 2010 | | | | |
| Upper limits – fixed rates | £m | 405.0 | 780.0 | 770.0 | 770.0 | 770.0 |
| Upper limits – variable rates | £m | 198.0 | 780.0 | 770.0 | 770.0 | 770.0 |

| **Maturity structure of fixed rate borrowing** | **Actual Level 2010/11 %** | **Lower Limit for 2011/12 %** | **Upper Limit for 2011/12 %** |
|---|---|---|---|
| under 12 months | 2 | 0 | 50 |
| 12 months and within 24 months | 2 | 0 | 50 |
| 24 months and within 5 years | 10 | 0 | 50 |
| 5 years and within 10 years | 15 | 0 | 75 |
| 10 years and within 20 years | 28 | 0 | 75 |
| 20 years and within 30 years | 39 | 0 | 75 |
| 30 years and within 40 years | 4 | 0 | 100 |
| 40 years and within 50 years | 0 | 0 | 100 |
| 50 years and above | 0 | 0 | 100 |

| **Upper Limit for total principal sums invested over 364 days** | **2010/11 Actual £m** | **2011/12 Estimate £m** | **2012/13 Estimate £m** | **2013/14 Estimate £m** | **2014/15 Estimate £m** |
|---|---|---|---|---|---|
| | **10.0** | **60.0** | **50.0** | **40.0** | **40.0** |

| Capital Investment Theme | Potential Project Areas | Link to Open for Business Priorities |
|---|---|---|
| Energy | Cabinet is considering its wider strategy for energy later in the year but could include potential projects such as Photo Voltaic Cells (approved in principle by Cabinet in June) District Heating schemes, and Energy Performance Contracting. Many of these schemes should be self financing and will be dependent on individual business cases but key aims will be to provide a mix of cheaper, sustainable energy sources that significantly reduce the County Council's carbon footprint. | 4. Enhance Hampshire's environment and promote sustainability<br><br>5. Develop new models of service provision.<br><br>6. Deliver efficiencies and expenditure reductions / effective management of resources |
| Information Technology | Priorities will focus on the maintenance and refresh of existing infrastructure to ensure it is fit for purpose and to explore opportunities of working with others to improve the technology available and maintain good value for money, in particular improving the offer in respect of a managed service for schools. Work has already been completed on the potential roll out of rural broadband but this will be dependent on the detailed business case. | 1. Enhance community engagement and partnership working – strengthening/empowering communities<br><br>2. Support and enable sustainable economic development – 'place shaping'<br><br>5. Develop new models of service provision |
| Strategic Land Development | There are a number of key strategic sites across the County that the Council may either wish to purchase to secure future development opportunities, or to enhance other land values together with existing sites where investment in infrastructure will significantly enhance the value of the land and provide attractive development opportunities to the private sector. Other sites may also provide the County Council with further opportunities to develop new facilities for County Council residents or provide new starter units / small workshops to facilitate improved micro business start ups and fill a gap in the commercial property market. | 2. Support and enable sustainable economic development – 'place shaping'<br><br>4. Enhance Hampshire's environment and promote sustainability<br><br>6. Deliver efficiencies and expenditure reductions / effective management of resources |

| Capital Investment Theme | Potential Project Areas | Link to Open for Business Priorities |
|---|---|---|
| Strategic Transport Infrastructure | A key area relates to up front costs associated with project design and bidding to Government for major transport infrastructure funding. Specific projects relate to the Bus Rapid Transit schemes phases 1B and 3 which are progressing in line with the HCC project plan approved by the Transport for South Hampshire Joint Committee in April this year. | 2. Support and enable sustainable economic development<br><br>4. Enhance Hampshire's environment and promote sustainability |
| Flood and Coast Defence | HCC is now a lead Local Flood Authority, and will be developing a statutory Flood Risk Management Strategy which will include priorities for capital investment, some of which may be funded by the Government. Similarly HCC owned land and assets on the coast are potentially at risk of breaches or failure of sea defences and the Council must identify key risk areas that require coastal defence works, which may attract Environment Agency funding. | 4. Enhance Hampshire's environment and promote sustainability<br><br>6. Deliver efficiencies and expenditure reductions / effective management of resources<br><br>5. Develop new models of service provision |
| Strategic Project Investments | The County Council will no doubt wish to form it's own views on priorities for service based capital initiatives, but initial ideas include the extension of the discovery centre programme, the provision for the transformation of social care provision and the potential for a new Country Park. Approval has already been given for investment in the 'Hampshire Workstyle' initiative which is delivering significant revenue savings through asset rationalisation, related to the release of office accommodation through the investment in a modern approach to flexible working– overall to achieve a reduction of approximately one third in floor area. | 1. Enhance community engagement and partnership working – strengthening/empowering communities<br><br>2. Support and enable sustainable economic development<br><br>4. Enhance Hampshire's environment and promote sustainability<br><br>5. Develop new models of service provision<br><br>6. Deliver efficiencies and expenditure reductions/effective management of resources |

| Capital Investment Theme | Potential Project Areas | Link to Open for Business Priorities |
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| Planned Repairs and Maintenance (Non-schools estate) | A programme of targeted planned maintenance over a 3 year period to ensure that service and administrative buildings remain fit for purpose and to reduce the ongoing cost of reactive maintenance. | 6. Deliver efficiencies and expenditure reductions / effective management of resources |
| Children's Services | Key themes for capital investment in schools tend to remain consistent although centred around the availability of Department for Education (DfE) funding which can be targeted towards:-<br>• Maintaining the fabric of the school estate and ensuring that the health and safety of pupils is paramount, including targeted investment in replacing temporary classrooms with permanent solutions and improving toilet facilities<br>• Providing primary, secondary and specialist school places and removing surplus capacity where appropriate<br>• Ensuring that education and study centres remain fit for purpose and improving the offer to pupils.<br>Other priorities include increased provision for early years centres to cope with the increased birth rate, maintenance of children homes and a potential programme for skills centres across the County. | 2. Support and enable sustainable economic development<br>3. Prevent poor outcomes<br>4. Enhance Hampshire's environment and promote sustainability<br>6. Deliver efficiencies and expenditure reductions / effective management of resources |