

meeting COUNTY COUNCIL

date 25 February 2010

agenda item number **13**

REVISED BUDGET 2009/10

ANNUAL BUDGET 2010/11

CAPITAL PROGRAMME 2010/11 to 2013/14

MEDIUM TERM FINANCIAL STRATEGY 2010/11 to 2013/14

1. Purposes

The purposes of this report are:-

- To seek approval to the Revised Budget for 2009/10
- To seek approval to the Annual Budget for 2010/11
- To approve the level of the Capital Programme for 2010/11 to 2013/14.
- To outline the Medium Term Financial Strategy for 2010/11 to 2013/14. The new Medium Term Financial Strategy is elsewhere on the agenda.
- To make recommendations on the amount of Council Tax to be levied for County Council purposes for 2010/11 and the arrangements for collecting this from District and Borough Councils.
- To seek approvals to borrowing limits that the Council is required to make by Statute.

2. Summary of Key Points

2009/10

- The Revised Budget for 2009/10 shows net underspendings of £2.5 million on Portfolio budgets after contributions to reserves.

2010/11

- Budget proposals are based around the Promises and Priorities of new the Strategic Plan, which are consistent with the Medium Term Financial Strategy. Emphasis has been given to protecting front-line services as far as possible.
- A net cash increase of 3.69% in the Schools budget after taking account of declining pupil numbers, which is wholly financed by the Dedicated Schools Grant (£442.1 million).
- An increase in a range of budgets of £30.1 million mainly in respect of adults and children's caring responsibilities.
- Re-prioritisation of areas of lower priority amounting to £29.9 million (including inflation adjustments) across all Portfolios, and central activities.
- A gross Capital Programme of £145 million for 2010/11.
- No change to the Council Tax for 2010/11.
- Working balances of £22.8 million at the end of 2010/11.

2011/12 to 2013/14

- Additional budget pressures identified in 2010/11 will continue to rise. Additional funding will be required to support the Council's Building Schools for the Future Programme.
- Following the general election there will be a Comprehensive Spending Review for the period 2011 to 2014. It is anticipated that this review will precede a period of significant financial constraint as the Government seeks to manage the national budget deficit.
- Reduced Formula Grant at a rate of at least 2% per annum is anticipated.
- There will be a continuing drive to achieve cashable efficiency savings over the medium term.
- The Improvement Programme "**One Council – One Business – One Plan**" will contribute towards the future budget restrictions and value for money. Actions will include fundamental reviews of:
 - business and operating systems
 - managerial tiers, spans of control and staffing levels
 - commissioning and procurement activity
 - shared services and working in partnership
 - property rationalisation and flexible working
 - service provision

3. Background

- 3.1 The County Council is committed to improving the quality of life for people in Nottinghamshire. This is reflected in the Strategic Plan, in which five priorities are identified,
- to foster aspiration, independence and personal responsibility
 - to promote the economic prosperity of Nottinghamshire and safeguard our environment
 - to make Nottinghamshire a safer place to live
 - to secure good quality, affordable services
 - to be financially robust and sustainable
- 3.2 The Strategic Plan also sets out a series of values which describe the way we will do things. These values are:
- **Customer driven**
We will deliver high standards of customer care and service; we will listen carefully and will respond positively to what we hear from our customers.
 - **Prudent and efficient**
We will use the Council's resources effectively by reducing bureaucracy and ensuring maximum efficiency.
 - **Enthusiastic and positive in our approach**
We will be realistic, enthusiastic and ambitious. We will make sound evidence based decisions, acknowledge where we can do better and lead by personal example.
 - **Considerate and show respect for others**
We will treat the public and colleagues with fairness, respect and honesty.
 - **Constantly strive and encourage others to be creative**
We will continually challenge the way we work and strive to find new creative and innovative solutions and ways of working.
- 3.3 Underpinning the five priorities are a series of hard performance targets which will be monitored during the lifetime of the Strategic Plan.
- 3.4 The budget proposals within the Medium Term Financial Strategy contribute towards the achievement of the targets that are set out in the Strategic Plan.
- 3.5 The Medium Term Financial Strategy provides a framework within which the budget proposals for 2010/11 and later years have been developed. As ever, a balance has to be struck between the pace of improvement and the affordability of proposals that deliver the desired improvements to services. The Strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the Capital Programme for future years.
- 3.6 Additional budget pressures or new initiatives are supported by a detailed budget pro forma which sets out the business case for the proposal and examines alternative options. Business cases are expected to be supported by detailed service related and financial

information. All new proposals are peer reviewed and challenged by both officers and Members before they are included in the budget. Service planning takes into account the specific needs of particular client groups and services are provided which take into account the diversity of the County's population. Services are subject to equality impact assessments to ensure that there are no adverse effects for differing service users.

- 3.7 The Council strives to provide services in a sustainable and environmentally friendly manner. Many of the building schemes in the Capital Programme have included sustainable features such as ground source heat pumps and sophisticated energy and water management systems. Wind turbines are now a possible feature on new buildings and wood burning boiler technology is used wherever possible. The Council is one of the leading authorities in respect of wood burning boilers. Recent schemes have been built to the Building Research Establishment Environmental Assessment Method (BREEAM) "excellent" standard.
- 3.8 The Waste PFI contract is another example of sustainable development, featuring increased composting and recycling as well as major reductions in landfill to meet government targets. When the new incinerator is complete it will be possible to generate electricity from the refuse burned. In 2010/11 the Council is continuing to invest with District Council partners to encourage increased recycling. This will be reviewed during 2010/11.
- 3.9 Carbon emission management in the Council's building stock remains a high priority and actions in support of the Carbon Management Plan have achieved reduced CO2 emissions year on year.

4. Revised Budget 2009/10

4.1 The build up of this budget position is shown on the Revenue Budget Summary at the end of the report which shows a revised budget of £472.576 million. Details of the main variations are as follows:

4.2 Portfolio Budgets

Original Portfolio budgets for 2009/10 have been adjusted for contingency allocations, budget carry forwards, changes to capital charges, changes in accounting treatment of certain grants and other items. Details of these adjustments are shown in the Summary Page for each Portfolio in the Budget Book. The revised Portfolio budgets are £510.779 million, and at this stage there is a forecast net underspending of £2.458 million on Portfolio budgets after transfers to reserves. The forecast variations by Portfolio are:

	£000
Underspendings	
Children & Young People	(683)
Adult Social Care & Health	-
Environment & Sustainability	-
Culture & Community	(450)
Community Safety	(525)
Leader	-
Deputy Leader	(450)
Finance and Property	(550)
Personnel and Performance	(100)
Overspendings	
Transport & Highways	300
Total	<u>(2,458)</u>

The principal reasons for these underspendings are:

- vacancies across most Portfolios and higher staff turnover than anticipated.
- A VAT refund of £0.3 million.
- Freezing of spending programmes in Community Safety for Weeks of Action and the Regeneration service.

These underspendings have been partially offset by some overspendings including:

- Increased number of Older People in long term residential and nursing care.
- Increased number of specialist placements of children in care and the use of independent Fostering agencies.
- reduced income from Land Searches, Skip Licences and Section 38 Agreements.
- Expenditure on direct payments within Adult Social Care and Health
- Reduced income from client contributions and preserved rights within Adult Social Care and Health.

4.3 **Flood Defence Levies**

The amount required of £0.271 million is in line with the original budget.

4.4 **Trading Organisations' Pension/Redundancy/ Pay Review Costs**

An amount of £1.261 million is set aside to cover the difference between the overall employers contribution rate including past deficits, and the rate that applies for "current service", so that trading accounts do not have to recover these "past deficit" costs in their charges. A further £2.590 million of additional costs arising from the pay review have been met from the Pay Review Reserve.

4.5 **General Contingency**

The General Contingency can be set at £1.4 million for the remainder of 2009/10. This amount may be required to meet the costs of school redundancies, life cycle maintenance and other variations.

4.6 **Capital Financing Costs**

The capital charges included in Portfolio budgets amount to £41.559 million. This notional figure is removed from the budget and replaced in the "Items outside Portfolios" section with the actual costs of borrowing as follows:

	£000
Interest	14,302
Loan Repayments	18,054
	<u>32,356</u>

4.7 **Local Authority Business Growth Incentive (LABGI)**

The 2009/10 Original Budget anticipated £0.327 million income from the LABGI scheme. The Government have indicated that the final figure for 2009/10 will be of the order of £0.283 million.

4.8 **Area Based Grant (ABG)**

Previously the individual grants within ABG were earmarked for specific services. ABG has now been deemed a non-specific grant by Central Government. As a result the grants no longer need to be shown against specific services and, instead, can be used as general funding. The grant funding previously shown within portfolios of £33.752 million has therefore been moved into "Items outside Portfolios".

4.9 **Use of Budget Carry Forwards**

Departments were allowed to carry forward £1.461 million from their underspendings in 2008/09. These amounts have been added, temporarily, to original budgets for 2009/10, and are expected to be spent on the specific purposes for which carry forward was approved. The amount being carried forward from 2009/10 underspends is £1.259 million.

4.10 Pay Review Reserve and Provision

The amount in this reserve and provision at the end of 2008/09 was £12.396 million. Payments of backpay and current year adjustments have been successfully completed for the vast majority of staff and it is anticipated that the reserve will be largely utilised by the end of the current financial year.

4.11 Other Transfers to Earmarked Reserves

The amounts being transferred into/from earmarked reserves are for:

	£000
Net PFI Grant surplus on NET Line 1	383
Net PFI Grant surplus on Bassetlaw and East Leake Schools	216
Leasing Alternative Reserve	170
Trading Units Asset Replacement Reserve, etc	520
Waste PFI	2,701
NET Phase 2	(1,496)
Improvement Programme	675
Contingency Reserve	(787)
Area Based Grant Reserve	(3,609)
Life cycle maintenance	572
	<u>(655)</u>

In addition to the items identified above, portfolios plan to use a further £4.621 million from departmental reserves and £1.256 million from the Capital Expenditure Reserve. Trading activities also plan to use £519,000 of their reserves.

4.12 County Fund Balances

The level of County Fund balances at 31 March 2009 was £24.837 million. The original budget for 2009/10 assumed that £3.7 million would be used from balances to support the budget on a temporary basis.

Due to underspends and interest earned on reserves etc. in 2009/10 it is now possible to avoid using County Fund Balances. As a result the revised estimate for 31 March 2010 is £24.837 million after transfers to earmarked reserves outlined above.

5 Annual Budget 2010/11

- 5.1 When the budget for 2009/10 was approved in February 2009, the forward look for 2010/11 showed that a budget of £489.9 million would be achievable with an indicative increase in the Council Tax of 3%. Following the County Council election the policy of the current administration is that there should be no Council Tax increase in 2010/11.
- 5.2 Service related budget pressures have been reassessed and some new pressures and initiatives identified. In total these pressures are £30.1 million, some of which had been previously identified. The underlying reasons are:-
- The need for increased expenditure on specialist placements for young people. £3.1 million.
 - Costs to be incurred in preparation for the Building Schools for the Future Programme. £0.2 million after a contribution to reserves of £1.0 million in 2009/10.
 - Additional costs associated with Safeguarding Children at risk. £1.7 million.
 - Increased costs of providing Home to School Transport services. £0.8 million.
 - Growth in services for people with mental health and learning disabilities where the number of people requiring assistance in various forms is growing annually. £6.1 million.
 - To fund the care costs of the growing numbers of older people. £2.5 million.
 - Increased costs of services for people with physical disabilities. £1.9 million.
 - Additional costs of care home fees payable for service users living in independent care homes. £2.3 million.
 - Costs arising from the provision of services as a result of the reduction in Supporting People Grant. £0.7 million.
 - Increased costs of care for people living independently in their own homes. £2.0 million.
 - Increased highway maintenance costs as the network grows, together with above average inflation costs for materials. £0.5 million.
 - Additional expenditure on highways drainage. £0.6 million.
 - Running costs associated with new/improved bus stations. £0.1 million.
 - Loss of income in the Highways Portfolio. £0.6 million.
 - Above average inflation costs of the waste PFI contract. £0.4 million.
 - Provision of costs of implementing improved business support systems. £2.0 million.

- Non capitalisable costs of improved Health and Safety in Council buildings. £1.5 million.
 - Costs of redundancies associated with other budget changes. £3.0 million.
 - Revenue costs of the ICT infrastructure renewal programme contained in the capital proposals. £0.1 million.
- 5.3 The previous Medium Term Financial Strategy anticipated growth pressures of £11.9 million in 2010/11. These are included in the paragraph above. In order to manage the additional budget pressures in 2010/11 Cabinet proposed a package of budget reprioritisation measures to achieve savings of £29.9 million which will be redirected towards increased expenditure on more pressing services.
- 5.4 Initial proposals for budget reprioritisation were included in the 18 November Cabinet report. Following the consultation period some changes were agreed at Cabinet on 3 February 2010. The revised proposals are set out in the tables which follow. These are in a fairly summarised format as the changes have been described in detail in the earlier reports. The figures differ slightly from those in the 3 February report as the reductions flowing from a reduced inflation assumption have been amalgamated with other inflation adjustments since these are shown separately in the Portfolio Summary pages. Individual savings of under £100,000 have been grouped together, but details have been provided previously.
- 5.4.1 Children and Young People's Portfolio

A wide range of savings totalling £5.484 million (excluding inflation adjustment). Certain costs such as premature retirement costs and the Nottinghamshire Learning Centre have been charged to the Schools (Non ISB) Budget. Some central support budgets including Strategic Services, ICT budgets and the Planning and Provision service have been reduced. Some reductions to the Dukeries Community College and the Sutton Centre School will be phased in over a number of years, with temporary protection being provided from within departmental underspendings. Other savings are as identified below.

Children & Young People	Amount £000
Premature retirement costs for school staff – reduce the LA retained budget and charge costs above the budget to the Schools (non-ISB) budget.	1,000
Strategic services reductions, including ICT budget.	632
Planning and provision service – projected efficiency savings from a reconfiguration of the service following its realignment with the BSF core team.	113
Local education services – staffing reduction.	102
Nottinghamshire Learning Centre – charge costs to the Schools (non-ISB) budget.	557
Youth Support Service – general service reductions.	401

Reduction in funding for non-school activities for Dukeries Community College and Sutton Centre School.	376
Specialist family support service – charge costs to the Sure Start grant.	314
Connexions Service – initial, target 5% reduction in the funding for the service.	315
Dukeries Community College – Reduction of community resources funding.	201
SEN training budget – reduction in funding for innovation projects and increased charges to schools.	237
School improvement service – reduced monitoring of elective home education cases; efficiency savings e.g. on staff travel; and increased charges for sold services.	196
Joint use budget – reduce to the minimum required to support current agreements with schools and district councils.	193
BSF – reduction in budget pressures bid by scaling back the planned use of consultants and other efficiency measures.	152
Extended school services – scale down and/or discontinue funding contributions to some projects.	111
Planning and provision service – reductions in maintenance of non-school premises, support for school removal costs, school site protection and sports development work.	104
Play service – initial target reduction in the service’s core budget.	100
Other Savings less than £100K.	380
Total	5,484

5.4.2 Adult Social Care and Health Portfolio

Numerous changes across the Portfolio amounting to £7.352 million (excluding the inflation adjustment). A number of these changes relate to the increase in charging such as in respect of homecare services, meals at home, transport and day care services. A number of staffing changes are proposed in administration, senior management and local service advisors. The proposal to sell the remaining residential care homes will be delayed in order to allow sufficient time to manage the process of marketing and sale and the procurement of alternative provision. Other savings are as identified below.

Adult Social Care & Health	Amount £000
Increase in charging for Homecare services. £120 maximum.	1,100
Residential Care - Reduce provision of in-house services. Sell on as a going concern	800
New START service which aims to reduce ongoing service packages through a period of reablement. It is also proposed to review all current service user packages wherever possible	700
Meals Service. Increase of charges.	150

End Dial a Ride subsidy - taxi's only	364
Increase charging for transport	303
Reduction in training provision	438
Strategic Management and Business Change - Reduction in admin posts across the department	400
Centralise procurement of agency staffing across ASCH	250
Reviewing all transport arrangements with service users alongside the ASCH policy – all service areas.	250
Welfare Rights - rationalise in-house service	150
Retendering of ICT Provision for Homecare	240
Day Services - Charge £20 per week	200
Senior Management Review	200
Review of Day Centres for Older People, taking into account re-provision elsewhere	129
Structural change to merge Occupational Therapists within both PD and OP teams.	158
Merger of Day Centres for Learning Disabilities	150
Reduction in ASCH grant allocation for voluntary sector	200
Local Service Advisors - Managed reduction in posts	200
Cease of electronic monitoring team	103
Care home fees for self funders increased from £400 pw to £450 pw	192
Other Savings less than £100K.	675
Total	7,352

5.4.3 Transport and Highways Portfolio

The Portfolio has protected the highways maintenance budget, and some additional funding has been added in respect of winter maintenance and gritting. Savings (excluding inflation) amount to £3.196 million for this Portfolio. Some new charges have been introduced e.g. residents parking permits and others increased. A number of posts will be reduced. Details are set out below.

Transport & Highways	Amount £000
Highway Management - Freeze number of vacancies and restructure to reduce staff numbers.	625
Highway Management - Capitalise the final revenue element of structural maintenance	300
Residents Parking Permits. Charge of £50 per 2 years. Concessions for Blue Badge holders and age >75.	200
Staffing reduction to mirror capital programme within Planning & Sustainability	140
Increase existing charges for skip permits, NRSWA and charge for dropped crossings where included in a maintenance scheme (currently free)	125

Highway Operations - Greater engagement with external markets to increase surplus of Operations and Fleet.	100
Reduce street lighting patrols, reduce maintenance budget for traffic signals.	100
Transport Services - Efficiency savings on network design, new framework contract withdraw Sherwood Forester and freeze IT developments	440
Withdrawal of the discretionary elements of the concessionary fare scheme	300
Savings as part of Transport Integration project	100
Withdraw accessible coach service, reduce bus shelter cleaning, integrate schools services, reduce fleet maintenance costs.	290
Strategic Services - Deletion of vacant posts and various reductions to non-staffing budgets. Also a reduction in Performance and Learning & Development functions.	362
Other Savings less than £100K.	114
Total	3,196

5.4.4 Environment and Sustainability Portfolio

Overall reductions in this Portfolio have been proposed amounting to £0.792 million. Details are set out below.

Environment & Sustainability	Amount £000
Waste Management - Closure of Sutton, Stapleford & Gedling sites.	360
Waste Management - Increase admin charges to 7 Waste Collection Authorities.	200
Waste Management - Reduce waste awareness programme and discretionary asbestos disposal.	135
Planning Services - Reduction in sustainability, local development framework and planning salaries.	97
Total	792

5.4.5 Culture and Community Portfolio

Savings in this Portfolio amount to £1.758 million. There are some proposals to increase income generation as well as some staffing adjustments. The main changes are as follows:

Culture & Community	Amount £000
Country Parks and Conservation - Efficiency savings and increased sales at coffee shops / retail outlets	145
Reduce Greenwood Community Forest funding, delete tree inspector and conservation posts.	166

Libraries introduce self service, single staff mobile libraries, Christmas closedown.	525
Reduction to Nottingham Playhouse grant, delete admin / technical posts, cut service investment budget	108
Temporary underspending in 2009/10. Economic Development Project Funding and Staffing.	300
Libraries, Archives and Information	300
Other Savings less than £100K.	214
Total	1,758

5.4.6 Community Safety Portfolio

Reductions of £1.614 million are proposed. These relate to a number of staffing changes and curtailing the Community Weeks of Action Programme. Details are as follows:

Community Safety	Amount £000
Community Safety Weeks of Action (CSWA)	410
Temporary underspendings - halting CSWA programme in 2009/10, vacancy freeze in Trading Standards	400
Staffing reduction in Stronger Communities, Service Improvement, Safer Communities, Trading Standards, Strategic Partnerships	499
Healthier Communities. Budget reduction made up from restructure and reduced policy	60
Efficiency saving across all groups and support budgets	245
Total	1,614

5.4.7 Leader's Portfolio

Savings of £0.425 million are included, mainly resulting from staffing proposals. The following table shows the detail:

Leader	Amount £000
Office of Chief Executive - Restructuring of the support team	26
Policy & Performance - Restructure	149
Legal & Democratic - Restructure, Reduce Members expenses	115
Reduce number of County News publications to 4 per year, Restructure, Service Director savings	135
Total	425

5.4.8 Deputy Leader's Portfolio

Reductions totalling £1.430 million are planned for this Portfolio. These are a combination of staffing savings and a reduction in the County Contact service.

Deputy Leader	Amount £000
Reduction of County Contact Service	700
Customer Service Centre - On-going Staff savings	450
Customer Management - Restructure	180
Notts Connect - Restructure	100
Total	1,430

5.4.9 Finance and Property Portfolio

Reductions of £2.552 million are to be made in this Portfolio, The majority of the savings relate to staff structures.

Finance & Property	Amount £000
Finance - Deletion of various vacant posts including a service manager post.	218
Finance – Restructure.	283
Restructuring of ICT Services will focus on management reductions, and process redesign.	742
Reduced development funding.	197
Employee & Overhead savings in Design & Procurement.	271
Property – Restructure.	235
Reducing the amount of free Building Client Advice.	165
Property - Saving in running costs & additional income generation.	100
Other Savings less than £100K.	341
Total	2,552

5.4.10 Personnel and Performance Portfolio

A restructuring of the Human Resources function is planned to achieve the required savings of £0.376 million.

Personnel & Performance	Amount £000
HR – Restructure.	376
Total	376

5.4.11 Corporate Initiatives

The Improvement Programme which is under development and certain changes to staff terms and conditions will deliver savings of £2.500 million.

Corporate Initiatives	Amount £000
Changes to essential user, car mileage, leave entitlements and other changes	1,500
Initial savings from the Improvement Programme	1,000
Total	2,500

5.5 **The Improvement Programme**

Current indications for 2011/12 and beyond are that many of the additional budget pressures identified in 2010/11 will continue to rise such that, the Authority will still need to find significant additional savings elsewhere in the budget.

5.6 Some planning for a major Improvement Programme has been done to identify actions to address the 2011/12 budget issues and beyond, and a number of proposals are recommended for implementation. A separate report elsewhere on the agenda sets out the main features of the Improvement Programme. These include:

- Implementing a “one system” approach to business system management in the key areas of Procurement, Human Resources and Finance.
- Refreshing the Corporate Procurement Strategy and achieving further cashable savings as a result of better and collaborative procurement activities.
- Reviewing a range of services and processes using “systems thinking” and “business process re-engineering” type techniques to streamline functions and release savings.
- Reviewing and rationalising property usage across the portfolio and in particular in the West Bridgford campus together with the introduction of a range of flexible working policies.
- Further rationalisation of staffing structures and job design to enhance individual initiative and responsibility.
- Fundamentally reviewing all services with a view to achieving greater efficiency and alignment with the Strategic Plan priorities.

5.7 Work on establishing the costs of the Improvement Programme has advanced since the report to Cabinet in January and a more detailed paper is included elsewhere on the agenda. The costings in the report are still at a medium stage of development, but are sufficiently refined to require an indicative definition of how they will be financed. These will be refined over time. The Improvement Programme will include a major service improvement programme with skills and expertise being brought into the Council to identify and deliver significant savings in line with Medium Term Financial Strategy. It will also include the

implementation of the new business systems as well as changes in procurement activities. Costs include support for departmental improvement plans and the establishment of a dedicated programme office to co-ordinate all of the activities.

- 5.8 The current estimated cost of delivery the Improvement Programme has been phased over a five year period as follows:

2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
10.2	7.3	2.6	0.6	0.6	21.3

The outline costs shown above include the costs of external inputs and some internal staff costs where backfilling support will be required, but exclude internal secondments where no replacement is required. Even at this stage the figures are broad estimates and include a contingency approaching £2 million to allow for unforeseen costs.

- 5.9 The budget report to Cabinet on 3 February identified that a variety of funding sources had been co-ordinated to support the initial stages of the Improvement Programme. Full details of the costs involved were not know at that time and remain indicative.

- 5.10 The funding solutions identified in the February report were as follows

	2010/11 £m	2011/12 £m	Total £m
ERP budget	2.0	2.0	-
Invest to Save and other reserves	3.3	-	-
Revenue underspends	1.0	-	-
	6.3	2.0	8.3

- 5.11 Further analysis of the General Contingency for 2010/11 has been undertaken and it will be possible to release £2 million in support of the Improvement Programme. This will bring the overall funding envelope up to £10.3 million, mainly in the early years of the programme.

- 5.12 In order to address the shortfall over the life of the Improvement Programme leading Members have proposed that savings targets in later years should be increased to provide funding for the Improvement Programme, and that as a last resort the use of County Fund Balances of up to £5 million would be sanctioned.

5.13 Before County Fund Balances are released every effort will be made to recycle savings from the early wins to finance later stages of the Improvement Programme. In summary the potential financing sources are as follows:

	2010/11	2011/12	2012/13	2013/14	2014/15	Total
	£m	£m	£m	£m	£m	£m
ERP Budget	2.0	2.0	-	-	-	4.0
Invest to save and other reserves	3.3	-	-	-	-	3.3
Revenue underspends	1.0	-	-	-	-	1.0
Contingency	2.0	-	-	-	-	2.0
Additional savings	-	2.6	2.2	0.6	0.6	6.0
County Fund Balances	2.0	2.6	0.4	-	-	5.0
Total	10.3	7.2	2.6	0.6	0.6	21.3

5.14 It is considered unrealistic to assume that savings identified in the earlier budget consultation report and the report to the February Cabinet could be increased for 2010/11 and a call on County Fund Balances is now anticipated for 2010/11 of around £2 million.

5.15 It is proposed that funding will only be drawn down as and when required, and in addition, revenue budgets will be monitored regularly and any underspending be used to support the Improvement Programme as a first call. Funding draw-down from Balances will be authorised by the Finance Member Reference Group on the basis of detailed Business Case submissions.

5.16 It is considered an imperative that the Improvement Programme should be launched as soon as possible in 2010/11 in order to deliver savings in 2011/12 and beyond. Selection of a partner organisation to assist in designing and driving through the necessary changes will be procured through authorised Council procedures.

5.17 **Flood Defences**

The Flood Defence levies are estimated at £0.271 million for 2010/11.

5.18 **Trading Service Pensions Costs**

The sum of £1.361 million is included to cover the difference between the basic employers contributions used in the trading accounts and the amounts actually charged, as required by the actuarial valuation. A further £2 million is included to assist the trading activities while they identify savings to recover the additional costs of the pay review.

5.19 **General Contingency**

The General Contingency of £4.650 million is provided to cover certain redundancy costs, life cycle maintenance costs, potential pay awards changes in legislation and other eventualities. Cabinet approval is required for the release of Contingency funds.

5.20 **Capital Charges included in Portfolios**

The capital charges included in Portfolio budgets amount to £41.559 million. This notional figure is removed from the budget and replaced in the “Items outside Portfolios” section with the forecast costs of borrowing as follows:

	£000
Interest	18,902
Minimum loan repayments	18,914
	<hr/>
	37,816

5.21 **Annual Minimum Revenue Provision (MRP) Statement**

Local authorities are required each year to set aside a minimum amount as a provision in respect of capital expenditure previously financed by borrowing. Statutory Regulations governing this stipulate that authorities should prepare an annual statement on their policy on making MRP for submission to full Council. It is proposed that the following policy, approved by County Council (26 February 2009) for 2009/10, is continued for 2010/11:

- That MRP for capital expenditure financed by borrowing prior to 1 April 2007 continues to be based on the previous regulatory method;
- That MRP for capital expenditure financed by borrowing after 1 April 2007 be made on the basis of equal annual instalments over the estimated life of assets.

The Statement of Recommended Practice (SORP) 2009 includes revised accounting arrangements for Private Finance Initiative (PFI) schemes such that more schemes will be “on Balance Sheet” and therefore subject to MRP. Consequently, the following addition to the Council’s policy on making MRP is proposed:

- That, for “on Balance Sheet” PFI contracts, the MRP requirement is regarded as met by a charge equal to the element of the unitary charge applied to write down the liability.

Since the write down of the liability for PFI contracts has not yet been identified, the revised accounting arrangements are not taken into account in the calculations of figures in this report. Following due process, the prudential indicators will be reviewed during the year and revised to take into account the changes in accounting practice.

5.22 **Local Authority Business Growth Incentive (LABGI)**

The LABGI grant is anticipated to be £0.283 million in 2010/11.

5.23 **Area Based Grant (£56.127 million)**

In 2008/09 the Government introduced a new Area Based Grant which brought together a number of smaller specific grants. For 2010/11 the amount of Area Based Grant receivable by the County Council is £56.127 million. In 2010/11 the former Supporting People Grant was transferred to the Area Based Grant and some new elements were added to reflect additional responsibilities. Discussions within the Local Area Agreement framework influence the use of the Area Based Grant.

5.24 One former specific grant of £895,493 in respect of Safer and Stronger Communities which has been included in the County Council Area Based Grant was previously paid directly to the District Councils. It is proposed that in the interest of good partnership working and continuity of service delivery the amounts paid direct to the District Councils in 2008/09 should be passported to the Districts in 2010/11.

5.25 The Waste Infrastructure Capital Grant payable to the County Council replaces the Waste Performance and Efficiency Grant which was payable to the County Council and all of the District Councils. It is proposed that the grant should be allocated and paid pro rata to the old grant.

5.26 **Use of Balances and Reserves**

5.26.1 **Earmarked Reserves**

The complete picture on the proposed use of Earmarked Reserves and County Fund Balances in 2009/10 and 2010/11 is set out in the Summary Statement attached to this report. These Reserves show the purposes for which they were originally set up, and the adequacy and appropriateness of them have been reviewed as part of the budget process. This includes an analysis of Departmental Reserves which have been set up mainly for asset replacement, other capital purposes, and for trading activities like Supplies, Sheltered Employment and Design and Print. It is proposed to reduce Departmental Reserves by £7.930 million in 2010/11.

The review of reserves has also identified a number of reserves which were originally set up for efficiency and improvement purposes or which are no longer required for their original purpose and which can be re-allocated in support of the Improvement Programme. Details of the proposed movements in reserves are set out below.

5.26.2 Creation of a new reserve to support the Improvement Programme will be initiated by the consolidation of a number of existing reserves as indicated above. These are as follows:

	£000
• Invest to save	2,000
• Leasing alternatives reserve	1,210
• Systems development reserve	50
• Feasibility studies reserve	40
• Minor works reserve	20
• Children and Young People Improvement Programme reserve	300
• Efficiency and Development Programme reserve	<u>150</u>
	<u>3,770</u>

5.26.3 Underspendings of £675,000 which were identified in the December budget monitoring report to Cabinet will be included in the Improvement Programme Reserve.

5.26.4 **Budget Carry Forwards**

Expenditure of £1.259 million in Portfolio budgets is being financed from underspendings in 2009/10 that have been agreed for budget carry forwards and held in an Earmarked Reserve. The carry forwards were agreed by Cabinet on 21 December 2009, and in addition temporary funding for the Dukeries and Sutton Centre was proposed at Cabinet on 3 February.

5.26.5 **PFI Reserves**

The initial arrangements for calculating PFI grant meant that more grant was received in the early years of a PFI scheme than was needed to meet the payments to providers of the service through the annual “unitary charge”. The grant arrangements were amended to an “annuity” basis from 2005/06, so that the level of surplus is smaller than under the previous arrangements, because the grant flow is more evenly spread over the life of the contract. These surpluses need to be kept in an Earmarked Reserve for use in later years. In addition, the overall financing of the schemes includes an assumption that interest will be paid on any reserves. The amounts estimated to be set aside in 2010/11 are:

	£000
NET Line 1	383
East Leake Schools	199
Bassetlaw Schools	78
Waste PFI	2,812

5.26.6 Pay Review Reserve and Provision

The Pay Review Reserve has been increased to £2.5 million from the General Contingency to begin to address the costs of job evaluation in Schools.

5.26.7 Use of County Fund Balances

The level of “free” Balances at the end of 2009/10 is estimated to be £24.837 million. This represents about 4.9% of non-schools expenditure. It is proposed to utilise £2 million of County Fund Balances in 2010/11 in support of the Improvement Programme.

5.27 Summary of 2010/11 Budget Proposals

The following table shows the build-up of the Budget Requirement for 2010/11:

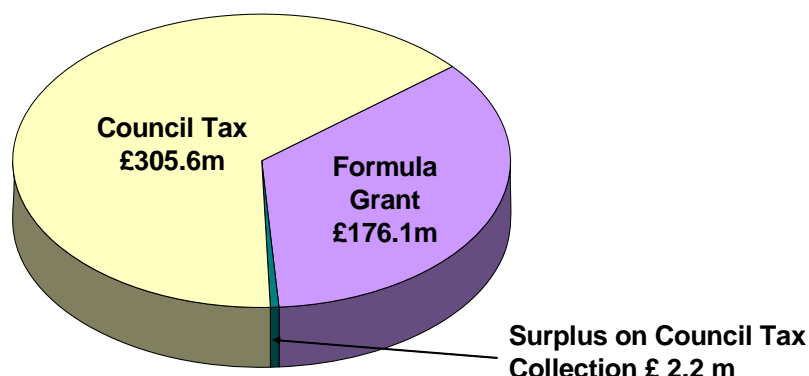
	£000	£000
Schools Budget	442,111	
Less Dedicated Schools Grant	442,111	-
	<hr/>	
Other Service Requirements		530,426
Central Items		(43,571)
Expenditure before use of Reserves		486,855
Net transfer from Reserves		(2,995)
Budget Requirement		483,860

5.28 Robustness of Budget and Level of Balances

The Section 151 Officer is required to provide Members with his view of the overall robustness of the budget proposals and the adequacy of Reserves and Balances. The Service Director, Finance has carried out a Risk Assessment of the budget and his report is attached at Appendix A.

6. Methods of Financing Budget Requirement 2010/11

6.1 Funding of Budget Requirement 2010/11



6.2 Council Tax Collection Surplus

The surplus on Council Tax collection arises from Districts collecting more tax than they anticipated when the original budgets were set. The total amount notified by Districts is £2.205 million.

6.3 Formula Grant

Formula Grant was introduced in 2006/07. It takes account of:

Relative Needs	e.g.	extent of social deprivation
Relative Resources	i.e.	size of council taxbase
Central Allocation	-	basic amounts for all authorities
Damping	-	to protect some authorities against significant losses of grant

A complex calculation produces a figure for Formula Grant, which for 2010/11 is £176.074 million, assessed as follows:

	£m
Relative Needs	142.724
Relative Resources	(50.509)
Central Allocation	99.121
Damping	(15.262)

The Formula Grant is then split between National Non-Domestic Rates (£153.748 million) and Revenue Support Grant (£22.326 million).

6.4 Council Tax Funding (£305.581 million)

The balance of the Budget Requirement has to be met by Council Tax.

7. Budget Consultations

- 7.1 During the summer and autumn of 2009, consultations took place with focus groups and other members of the public to inform the budget setting process. Contributors considered that the Council should be seeking to improve value for money and efficiency whilst providing good quality services. Views were expressed that the Council should cut or freeze the Council Tax in the current environment. An online survey via the Council's website also gathered public views on spending priorities.
- 7.2 There has been extensive consultation on the actual budget proposals and the consultation period ran from mid November to 22 January 2010.
- 7.3 Every effort was made to ensure the consultation was as inclusive as possible. About 3,000 individual responses were received via letter, email and the online questionnaire and a number of petitions were also received. Numerous meetings between Members and officers have taken place with Members of Parliament, Trade Unions, District Councils and other public bodies, service users etc. The views expressed have been carefully considered and taken into account in formulating the budget proposals. A summarised analysis of responses was considered at Cabinet on 3 February. An updated version of the analysis is attached to this report as Appendix C.
- 7.4 The Overview Committee has received presentations on the budget and also met with Corporate Directors at its meeting in January to question some of the proposed budget changes. The Scrutiny review found evidence of a thorough well researched and challenging approach to budget development. The Committee concluded that budget proposals were based on long term funding decisions by redistributing the budget rather than temporary financial measures. The Committee noted that there are to be further reviews of Community Transport and Waste Management and would welcome further information regarding these reviews. The Committee recommended that service pressures in relation to mental health and learning disability should be reviewed every six months rather than annually. The Committee also recommended that there should be further consideration of how budgets such as specialist placements can be predicted more accurately.
- 7.5 The Trade Union, UNISON has submitted a detailed response to the Council's budget proposals and has suggested an alternative budget strategy. The proposal seeks to avoid redundancies as far as possible through the use of 2009/10 budget underspendings and the use of these underspendings rather than establishing reserves, by reducing County Fund balances at a rate of £2 million a year for three years, and reduced use of Agency Staff and consultants. Unison also believe the Council should reverse its commitment to a Council Tax freeze and increase the Council Tax by 3% to "protect the most vulnerable in our communities". The Union also suggest that some Cabinet posts should

be deleted to save costs and the proposed Service Director, Communications post is unnecessary.

- 7.6 The union has suggested that set up costs for the BSF programme of £1.2 million should be a capital charge.
- 7.7 Unison also recommended that the proposed growth in Taxbase of 0% in the November Cabinet report should be reviewed. As is usual every year in January actual figures are notified by the District and Borough Councils and are now built into the final budget recommendations.
- 7.8 The union suggests that additional budget provision of £3.0 million for redundancy costs in 2010/11 could be avoided if their suggestions above were to be implemented.
- 7.9 Overall, the Union suggests that savings could be reduced to about £5 million if the proposals were adopted.

8. Council Tax Bill Calculation

8.1 Each District Council has to construct a “Council Tax-base” by assessing the number of “Band D equivalent” properties in its area, and then building in an allowance for possible non-collection. The notifications from the seven District Councils are a Tax-base of 256,106. This is higher than the equivalent figure from the seven Districts for 2009/10. The increase in Taxbase helps to reduce any increase in the Council Tax payable and has been taken into account in budget calculations.

8.2 The County Council’s Council Tax is calculated by dividing the Net Expenditure to be raised through Council Tax by the Council Tax base as follows:

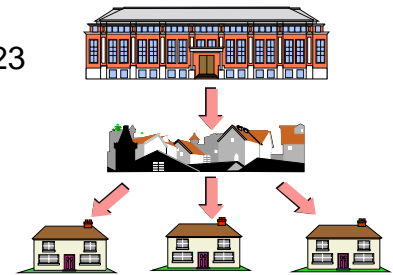
Amount to be raised by Council Tax £305,581,023

÷

Council Tax base 256,106

=

Amount per Band D Property £1,193.18



8.3 The amounts charged to properties in other Bands are based on relative proportions set by the Government. The amounts charged for each Band is as follows:

BAND	2010/11 £
A	795.45
B	928.03
C	1,060.60
D	1,193.18
E	1,458.33
F	1,723.48
G	1,988.63
H	2,386.36

The County Council’s proposed Council Tax for 2010/11 is the same as for 2009/10 in line with the administration’s proposal to freeze the Council Tax for 2010/11.

8.4 The actual amounts payable by householders will also depend on:-

- The District’s own Council Tax
- The Police Authority Council Tax
- The Combined Fire Authority Council Tax
- Any Parish precepts or special levies
- The eligibility for a 25% discount for single adult households.

People with very low income will also be eligible for rebates.

9. County Precept

- 9.1 The Council Tax is collected for the County Council by the District and Borough Councils. The County Council recovers the tax from the Districts by setting a County Precept. The total Precept is split according to the Council Tax base for each District. The figures are:-

District Council	Council Tax base	County Precept £
Ashfield	35,102.40	41,883,482
Bassetlaw	35,991.63	42,944,493
Broxtowe	35,513.65	42,374,177
Gedling	38,090.16	45,448,417
Mansfield	31,493.90	37,577,892
Newark & Sherwood	38,902.65	46,417,864
Rushcliffe	41,012.00	48,934,698
	256,106.39	305,581,023

- 9.2 Discussions have been held with District Councils and the following dates have been agreed for the collection of the precept:

2010	2010	2011
21 April	7 September	4 February
21 May	18 October	11 March
25 June	19 November	
30 July	31 December	

The dates shown are those by which the County Council's bank account must receive the credit, otherwise interest is charged. Adjustments for net variations in amounts being collected in 2009/10 will be paid or refunded on the same dates.

10. Capital Programme and Financing 2010/11 to 2013/14

- 10.1 The Council is currently refreshing its Capital Strategy and Corporate Asset Management Plan that link to the themes in the new Strategic Plan.
- 10.2 The selection of schemes for the Capital Programme is based on an options appraisal process supported by the submission of full business cases and overseen by the Corporate Asset Management Group, a cross-service group of officers with a finance, service and property background. This process assesses options for project delivery that meet a variety of corporate and service criteria, together with availability of funding sources and future savings and efficiencies. Information on the condition of existing assets is available in the Asset Management Plan and work has been undertaken to assess the suitability and sufficiency of existing assets.
- 10.3 The Government continues to support capital expenditure either by capital grants or through the Revenue Support Grant meeting part of the costs of borrowing. However, local authorities are able to determine their overall levels of borrowing, provided they have regard to “The Prudential Code for Capital Finance in Local Authorities” published by CIPFA. It is, therefore, possible to increase the Capital Programme and finance this increase by additional borrowing provided that this is “affordable, prudent and sustainable”. As such, the County Council is able to fund Capital Programme allocations from a combination of capital receipts, supported borrowing and other “prudential” borrowing. This is in addition to capital expenditure funded from other sources such as external grants and contributions, revenue and reserves.
- 10.4 The Government announced provisional capital support to local authorities for the three year period 2008/09 to 2010/11 as part of the 2007 Comprehensive Spending Review. This includes schools capital allocations and funding for the Local Transport Plan (LTP) which have both seen a movement towards funding by specific capital grants. The revenue implications of the Capital Programme are provided for in, and integrated with, the revenue budget.
- 10.5 Following a detailed review of the Capital Programme and its financing, some proposals have been made regarding both new and previously approved schemes.
- 10.6 Building Schools for the Future (BSF) funding is limited to curriculum accommodation only and does not specifically cover the range of other expenditure, such as land acquisition costs, sprinkler systems in schools and offsite highways works. It is proposed that funding of £4 million is made available in 2012/13 for the cost of items that fall outside the scope of specific BSF funding and that a further £5 million is made available in 2012/13 specifically for the provision of community facilities including leisure. This latter element would be used to lever in additional contributions from partners.

- 10.7 The Council's involvement in the BSF programme includes major rebuilds at some schools (usually PFI funded), significant refurbishments (Design and Build) and limited renovation at others. The Government's funding model is based on the assumption that the local authority will meet some of the costs of the Design and Build works from their own Capital Programme. In Nottinghamshire the Design and Build "affordability gap" has been assessed at £2 million and it is proposed that this is incorporated into the Capital Programme in 2013/14, together with anticipated associated external funding.
- 10.8 At the end of 2006/07, a reserve was created to fund expenditure on the Children's Centre projects. It is proposed that £1 million of funding from this reserve is invested in Children's Centre Phase 3 projects, subject to a business case review.
- 10.9 The Budget Book 2009/10 included provision of £21.7 million for the Aiming for Excellence (Mixed Care) strategy to modernise services for older people. This included provision of extra care housing for people who would otherwise need residential care and construction of a new residential care home in the Ashfield/Mansfield area. Following a review of this strategy, it is proposed that no new residential care home is built, but that all care homes are sold as going concerns and 160 extra care housing places are developed within seven extra care schemes. It is proposed that the Capital Programme is amended to reflect the estimated cost of £12.65 million for this revised scheme and that this budget is subject to a business case review.
- 10.10 The County Council and two Primary Care Trusts are responsible for re-provision of services to a group of learning disabled people living as long-term patients in NHS campus accommodation. It is anticipated that the externally funded Campus Re-provision scheme will cost £0.4 million less than originally anticipated and it is proposed that the budget is reduced accordingly. It is further proposed that the Mental Health Grant and Social Care Grant are incorporated within the supported borrowing figures since they form part of the County Council's single capital pot allocation.
- 10.11 A three year Street Lighting Renewal scheme of £1.7 million a year is proposed to replace lighting columns in poor condition throughout the County.
- 10.12 A three year Highway Drainage project of £0.5 million a year is proposed to carry out key drainage improvements at prioritised target areas throughout the County. Some of these improvements would be carried out in partnership with other surface drainage asset owners such as Severn Trent Water, the Environment Agency and the Internal Drainage Boards.
- 10.13 It is proposed to increase the funding available to meet the costs of unavoidable compensation payments for the Mansfield and Ashfield Regeneration Route (MARR) by £1.5 million. Most of the claims and

values are already known and the sum includes a small element in case additional claims are submitted.

- 10.14 The Mansfield Bus Station scheme has now been provisionally approved by the Department for Transport (DfT), with a DfT budget allocation of £7.6 million and the scheme will shortly be submitted for full approval. It is proposed that the DfT funding is incorporated into the Capital Programme to enable works to be ordered as soon as full approval is received.
- 10.15 A new inner relief road is being constructed in Hucknall so that the town centre can be pedestrianised. The scheme also involves the creation of a two-way 'bus-only' link and improvements to existing junctions. It is proposed that a contribution of £0.75 million towards this scheme from Ashfield District Council is incorporated into the Capital Programme in 2010/11.
- 10.16 Expenditure on Transport and Highways Vehicle Purchases is funded from revenue, but capitalised where the amounts meet the capital guidelines. It is proposed that the Capital Programme includes a budget of £0.5 million in each year from 2009/10 to 2012/13 for the purchase of such vehicles.
- 10.17 Grants and external contributions are regularly received as contributions towards schemes in the Transport and Highways Portfolio and the Environment and Sustainability Portfolio. In the past, these have been brought into the Capital Programme during the financial year, as and when received. It is proposed that these Portfolios recognise this funding within the Budget Book by including forecasts of anticipated funding within their budgets. These inclusions total £6.5 million over four years for Transport and Highways and £0.2 million in each of 2010/11 and 2011/12 for Environment and Sustainability.
- 10.18 The Carbon Management programme was originally funded via £0.5 million contributions from each of Salix and the County Council. Projects were undertaken, with participants repaying the original funding from energy savings. It is proposed that the annual repayments of £0.25 million are 'recycled' to fund further energy-saving projects.
- 10.19 The Mansfield Library scheme has been subject to a full options appraisal and a business case review. Following this review, the scheme has been revised to exclude relocation of the County Contact service and entrance improvements and it is proposed that the capital investment is reduced to £3.25 million (with a further £0.38 million of revenue funding for the provision of temporary library facilities).
- 10.20 A second wave of library refurbishments is proposed at a cost of £4.8 million over a six year period. This would enable a further fourteen libraries to be made fit for the 21st Century.

- 10.21 It is proposed that a total of £19 million over four years is allocated for a Health and Safety project to ensure that Council buildings such as schools, libraries, day centres and offices are safe to use by staff and service users and do not pose a significant Health and Safety risk to those people. The project would deliver basic statutory Health and Safety compliance that the public (and the Health and Safety Executive) would expect when using our buildings.
- 10.22 It is proposed that £1 million is invested annually for ICT Services to be able to systematically refresh the existing underlying ICT infrastructure on an ongoing basis.
- 10.23 It is proposed that £1.6 million of funding previously earmarked for Local Improvement Schemes is transferred to fund Carriageway Renewals in 2011/12. The budgets for both these programmes, together with those for other ongoing programmes (Roads Maintenance, Road Safety, Risk Management and Property Acquisition and Disposal Costs), will be reviewed in 2010/11. It is further proposed that £0.5 million is made available each year (from the Capital Expenditure Reserve) to fund Feasibility Studies to improve the effectiveness of the delivery of capital projects in terms of affordability and cost/time predictability.
- 10.24 During 2009/10, a full review of the Capital Programme has been undertaken which has resulted in the revision of a number of schemes. Several larger schemes are presently on hold, pending completion of their reviews. Whilst final decisions are yet to be made as to scheme revisions, indicative budgets are proposed, as follows:
- Funding of £2.9 million for investment in the Bassetlaw Specialist Day Centre has previously been approved to rationalise day care facilities in the Bassetlaw area. The level of this investment, which included £1 million of funding from reserves, has not yet been revised. However, it is now proposed that the investment is wholly funded from County Council capital allocations.
 - An indicative budget comprising £5.2 million of capital allocations over three years from 2010/11 is proposed for the construction of a replacement visitor centre for Sherwood Forest.
 - It is proposed that £4.9 million is invested for improvements to West Bridgford Library.
 - An options appraisal for the National Water Sports Centre at Holme Pierrepont is currently being undertaken. The previously approved budget of £9 million, including a £4 million grant from Sport England, has not been revised at this stage.
 - A reduced indicative budget of £10 million (from 2009/10 onwards) is proposed for the Highways Depots Rationalisation scheme.
 - It is proposed that the indicative budget for the Customer Services Centre scheme is reduced to £0.6 million.

Business cases are being prepared for all these schemes and their budgets will be reviewed as part of the business case process.

10.25 There are a number of anticipated future commitments yet to be fully incorporated into the Capital Programme, as follows:

- Issues with floor loading in the existing County Hall Data Centre mean that alternative accommodation will be required. Options are under consideration.
- A new salt barn is required at Gamston for storage of salt for winter maintenance.
- The Council's headquarters buildings in and around West Bridgford are of varying quality and in need of significant investment to bring them up to 21st century standards. A proposed project will seek to achieve offsetting savings in terms of premises related costs and through more efficient ways of working. Evaluation and costing of several options are underway.

10.26 The proposed Capital Programme for 2010/11 is £145 million, and this includes £56 million that will be financed by "unsupported borrowing" i.e. the financing costs are met wholly from Council Tax. The proposed Capital Programme includes £48 million of expenditure slippage from 2009/10. The overall summary position for the years 2010/11 to 2013/14 is:-

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Capital Expenditure	145	82	66	62
Financed by:				
Supported Borrowing*	15	-	-	-
Other Borrowing	56	37	15	17
Capital Grants etc	70	21	25	40
Capital Receipts	4	24	26	5
	145	82	66	62

*Based on Government approvals, with some support towards financing costs through Revenue Support Grant.

As a result of the current economic climate, anticipated funding from capital receipts in 2010/11 has reduced from that projected at the time of the 2009/10 Budget Report.

10.27 The principal schemes in the Capital Programme for 2010/11 are:-

Children and Young People's Services

Aiming High for Disabled Children
Beardall Street Primary
Children's Centre Programme
Eastwood Infants and Junior
Greasley Beauvale Infants and Junior
ICT Harnessing Technology
Primary Capital Programme
Samworth Academy
Schools Access Initiative
Young People's Centres at Eastwood and Mansfield

Adult Social Care and Health

Bassetlaw Specialist Day Centre
Campus Re-provision

Environment and Sustainability

Local Improvement Schemes
Waste Management

Transport and Highways

Highway Drainage
Integrated Transport Measures
Mansfield Bus Station
MARR Compensation Payments
Rationalisation of Highways Depots
Roads Maintenance and Renewals
Street Lighting Renewal

Culture and Community

Library Refurbishment Programme
Mansfield Library
National Water Sports Centre
Worksop Library

Finance and Property

Building Works, including Health and Safety
ICT Infrastructure
Network Development

10.28 Variations to the existing Capital Programme will be managed in accordance with the procedures set out within section 4 of the Authority's Financial Regulations.

10.29 The level of external debt at March 2009 was £251 million (£244 million at March 2008), which remains relatively low compared with the average for shire counties. One of the requirements of the Local Government Act 2003 is that the Council must set an "authorised limit" for its external borrowings. Any potential breach of this limit would require authorisation from the Council. There are a number of other

prudential indicators that are required by The Prudential Code. The assessment of these is set out in the report of the Service Director - Finance attached at Appendix B. The purpose of this report is to provide comfort that the proposed levels of borrowing, including the “unsupported borrowing”, are affordable, prudent and sustainable. In summary, the prudential indicators for the three year period are:-

	2010/11 £m	2011/12 £m	2012/13 £m
Estimated Capital Expenditure	145	82	66
Estimated Capital Financing Requirement	564	580	573
Authorised Limit for External Debt	453	469	463
Operational Boundary for External Debt	433	449	443
Financing Costs as Percentage of Net Revenue Stream	7.6%	8.1%	8.1%
Impact of total new capital investment on Council Tax	£2.58	£13.60	£20.23
Impact of proposed changes to the Capital Programme on Council Tax	(£0.11)	£2.49	£5.80

10.30 It is proposed that the Service Director - Finance be allowed to raise loans within the authorised limit for external borrowing, subject to the limits approved in the annual Treasury Management Policy and Strategy report. In addition there continues to be a short term (i.e. borrowing for less than one year) borrowing limit of £35 million.

11. Medium Term Financial Strategy

- 11.1 The County Council agreed at its meeting in April 2006 the Medium Term Financial Strategy and Capital Strategy for 2006/07 to 2009/10. This has now been overtaken by time and the change in administration as a result of the 2009 County Council election. The Strategy has been fully reviewed in preparation for the 2010/11 budget and subsequent years and is included as a separate item on the Council agenda.
- 11.2 The Council's Strategic Plan is supported by a wide range of corporate and departmental strategies. The core corporate strategies that integrate within the Medium Term Financial Strategy are the Workforce Strategy, the Information Technology Strategy the Property Strategy and the Procurement Strategy. As part of annual budget and business planning process within the Corporate Services department any additional funding requirements arising from the strategies are identified and built into the budget planning round.

11.3 Financial Implications

In addition to the policies outlined above the financial implications below take account of budget pressures and the Capital Programme for the next four years:

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Previous Year's Budget	472.6 ☆	483.9	481.9	481.2
Budget Reductions	(24.2)	(35.8)	(21.6)	(22.7)
Inflation/Pension Costs	3.5	10.7	9.3	9.2
Budget Growth:				
Improvement Programme	8.3 ☆	(3.0)	(2.6)	(2.1)
Budget Pressures	26.8	17.9	6.7	14.6
Borrowing Costs	2.3	2.9	1.0	(0.5)
Existing Commitments	(2.0)	(0.3)	0.0	0.0
Contingency	(1.3)	1.8	2.3	2.5
Reserves	(3.8)	4.4	0.0	0.0
County Fund Balances	1.7	(0.6)	4.2	(1.6)
Total Spend	483.9	481.9	481.2	480.6
Council Tax Increase	0%	0%	0%	0%
Government Grant Increase	5.1%	(2.0%)	(2.0%)	(2.0%)
County Fund Balances	£22.9m	£20.2m	£21.8m	£21.8m
	4.7%	4.2%	4.5%	4.5%

Notes:
 ☆ See page B2 for explanation of differences from Cabinet report of 3/2/10

- 11.4 The figures for 2013/14 include forward projections of budget pressures built into the earlier years figures. In addition, a budget pressure has

been included to reflect the first year payments of the “unitary charge” in relation to the Council’s first wave of BSF projects. The majority of the works are met by BSF “PFI credits” but there is an “affordability gap” of around £3 million which will be met from local financial contributions. The Council needs to commit to the local contributions when submitting the Outline Business Case for the BSF programme.

11.5 A projection of the summarised Balance Sheet for 2008/09 onwards is included within the Summary Statements at the end of this report. These show that the level of borrowing at present and anticipated in the future, is about 16% to 20% of the total value of assets, which is below the average position for shire counties.

11.6 Risk Analysis

- Pay and inflation rates are assumed to remain low. However, any increases above the assumptions made will generate additional budget pressures. A 1% variation amounts to around £1.8 million for pay costs and £3.2 million for other inflation.
- The position for 2011/12 indicates that savings and/or limitations on growth of £35.8 million will be required. Officers have already begun to plan for these changes. It is anticipated that the Improvement Programme including major service reviews across all Portfolios will make a major contribution to savings in 2011/12 and beyond.
- Section 10 regarding the Capital Programme indicates a number of potential future commitments which have not been incorporated in the Capital or Revenue forecasts.
- The assumption of a 2% reduction in Government Grant in 2011/12, 2012/13 and 2013/14 is considered reasonable given the unwinding of the damping effect of grant “floors”. If the assumption turns out to be optimistic there will be additional pressure on budget savings. A 1% variation in grant funding amounts to around £1.8 million.
- After allowing for carry forwards, Portfolios have shown a tendency to underspend in recent years, further adding to balances.
- Although there is reliable evidence for the predicted increase in social care, this has tended to be the most variable area of spend in recent years. The degree of additional funding to be found by the Council may however vary with changes in demand, and the Governments response to the pressures.
- The Government’s proposal on “free personal care” could introduce a new burden on local authorities. The Government has indicated it will provide some Department of Health funding but expects the balance (£250 million nationally) to be met by further efficiency savings.

12. Statutory and Policy Implications

- 12.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, Crime and Disorder and those using the service. Where such implications are material, they have been described in the text of the report.

13. Recommendations

Paragraph
Ref

- 13.1 The revised budget of £472.576 million for 2009/10 be approved. 4.1
- 13.2 The Annual Budget of £483.860 million for 2010/11 be approved. 5.27
- 13.3 A transfer from County Fund Balances of £2 million for 2010/11 be approved. 5.26.7
- 13.4 The Cabinet be authorised to make allocations from the General Contingency for 2010/11. 5.19
- 13.5 The County Council's Council Tax for 2010/11 for the various Bands of property shall be: 8.3

BAND	2010/11 £
A	795.45
B	928.03
C	1,060.60
D	1,193.18
E	1,458.33
F	1,723.48
G	1,988.63
H	2,386.36

- 13.6 The County Precept for the year ending 31 March 2011 shall be £305,581,023 and shall be applicable to the whole of the District Council areas as General Expenses. 9.1
- 13.7 The County Precept for 2010/11 shall be collected from the District and Borough Councils in the proportions set out in paragraph 9.1 with the payment of equal instalments on the following dates: 9.2

2010	2010	2011
21 April	7 September	4 February
21 May	18 October	11 March
25 June	19 November	
30 July	31 December	

13.8	The Capital Programme for 2010/11 to 2013/14 be approved at total amounts of:	10.26
	2010/11 £ 145 million	
	2011/12 £ 82 million	
	2012/13 £ 66 million	
	2013/14 £ 62 million	
	to be financed as set out in the report.	
13.9	Variations to the Capital Programme be approved in accordance with the procedures set out within Section 4 of the Authority's Financial Regulations.	10.28
13.10	The Minimum Revenue Provision policy for 2010/11 set out in paragraph 5.21 be approved.	5.21
13.11	The authorised limit on total external borrowings be set at £453 million for 2010/11, £469 million for 2011/12 and £463 million for 2012/13.	10.29
13.12	The Prudential Indicators shown in paragraph 10.29 be approved.	10.29
13.13	The limit on short-term borrowings be set as £35 million for 2010/11.	10.30
13.14	The Service Director - Finance be authorised to raise loans in 2010/11 within the limits of total external borrowings.	10.30
13.15	The principles underlying the Medium Term Financial Strategy as set out in a separate report including the passporting of elements of the Area Based Grant, as set out in paragraphs 5.24 and 5.25 of this report, be approved.	11
13.16	The report on the Annual Budget for 2010/11, and the Capital Programme 2010/11 – 2013/14 be approved and adopted.	

**CLLR KAY CUTTS
LEADER OF THE
COUNCIL**

**CLLR MARTIN SUTHERS
DEPUTY LEADER OF
THE COUNCIL**

**CLLR REG ADAIR
CABINET MEMBER FOR
FINANCE AND PROPERTY**

Background Papers Available for Inspection

Budget Book 2010/11

Head of Legal Services Comments (JMF 05/02/10)

The function of approving and adopting the budget and policy framework for the Council is reserved to Full Council under the constitution. Once approved by Full Council it is the responsibility of Cabinet to implement it.

The Budget and Policy Framework Procedure Rules set out the process for developing the budget. Full Council must consider the proposals of the Cabinet set out in this report and may adopt them, amend them or refer them back to Cabinet for further consideration, or substitute its own proposals in their place.

Financial Comments of the Service Director, Finance (AS 05/02/10)

The budget proposed has been prepared taking into account the major strategic objectives of the Council as set out in the Strategic Plan 2010 to 2014 and reflects all significant cost variations that can be anticipated. There is a realistic provision for inflation on running costs, and to the extent that this may be insufficient or that other unexpected events arise there are appropriate County Fund Balances.

The budget is in my opinion robust and meets the requirements of the Local Government Finance Act 1992, the Local Government Act 2003 and the CIPFA Prudential Code.

Risks are outlined in section 11 above and a comprehensive risk analysis is included as an Appendix to this report.

REPORT OF THE SERVICE DIRECTOR - FINANCE

BUDGET 2010/11

**RISK ASSESSMENT AND IMPACT ON COUNTY FUND
BALANCES AND RESERVES**

1. Introduction

- 1.1 The revenue budget and Capital Programme that make up the Medium Term Financial Strategy are closely aligned to the five priorities in the Strategic Plan 2010 to 2014 and so all major policies and objectives have been reflected in the budget. The Strategic Plan priorities are supported by a wide range of specific strategies and plans aimed at achieving the desired outcomes and targets within the Strategic Plan.
- 1.2 Each of these strategies or plans links into the departmental business planning process of the Council, and where additional resources are needed to achieve the outcomes this has been addressed as part of the annual budget bids round. Each additional budget pressure or new initiative is supported by a Business Case which amongst other things, identifies improved service outcomes that will result from the expenditure. All new revenue funding bids that emerge from the Council's strategies have been assessed via this process.
- 1.3 The Council has developed a more comprehensive and robust Business Case process for the assessment of capital schemes. In this way all of the financial implications of the Council's various strategies and plans are reflected in the annual budget and Medium Term Financial Strategy. The budget preparation process involves Members, Corporate Directors and the appropriate budget managers in order that all Strategic Plan objectives are appropriately resourced. Where there is uncertainty as to the timing or level of expenditure, monies have been set aside in specific reserves. The levels of reserves are reviewed annually as part of the budget and/or closedown process to ensure they are adequate for the purpose for which they were established.
- 1.4 As a consequence of the Council's robust financial planning there is therefore a LOW RISK of any significant unplanned expenditure, but nevertheless it is prudent to have a General Contingency and a level of County Fund Balances that is adequate to meet unforeseen events.
- 1.5 The budget includes a three year forecast which will be reviewed on an annual rolling basis.

2. Revenue Budget

2.1 Portfolio Budgets

- 2.1.1 Experience in recent years suggests there is a HIGH RISK that Portfolios will underspend by the year end. However, as budgets are becoming increasingly restrained it is probable that underspends will reduce. Carry forward arrangements allow Portfolios to rearrange any timing issues etc. that arise, while budget monitoring arrangements continue to identify variances early and implement corrective action, where necessary.
- 2.1.2 Social Care budgets in particular have been subject to variations in demand, so there remains a MEDIUM RISK that the Social Care spending may vary from budget.
- 2.1.3 As all budgets will be tighter in the future, monitoring will be key to ensuring that the Council's finances are prudently managed.

2.2 Employee Costs

- 2.2.1 About 37% of gross revenue expenditure is spent on employees' costs, including pay, National Insurance and pensions contributions.
- 2.2.2 The cost drivers for basic pay are the number of people employed and the rates of pay.
- 2.2.3 The County Council accepts the national pay negotiating arrangements and implements the pay awards that are agreed. The pay award for 2010/11 has yet to be agreed and the assumption included in this budget is for no increase. If the final figure exceeds that level, the additional costs will need to be met either from within departmental budgets or from the General Contingency. For 2011/12 and beyond an increase of 1.0% has been provided in departmental budgets. This is in line with the public sector pay cap which was announced by the Chancellor in his Pre Budget Report. Schools will have to meet the increased costs of the teachers pay award from their overall increase of 3.69% for 2010/11, which is now wholly funded through the Dedicated Schools Grant. Risks in respect of pay awards during 2010/11 are therefore considered LOW RISK.
- 2.2.4 Cabinet Members and Corporate Directors have a responsibility to ensure that budgets are managed within the resources made available. The County Council has a consistent track record of doing this and the external Auditors have stated their satisfaction with our budget management arrangements. It is not likely that managers will create budget problems by employing more staff than there is budget cover for.
- 2.2.5 The cost of National Insurance is dependent on the numbers and pay of people employed and the employer's contribution rates. The Government have already set these rates for 2010/11 and so the risk of a variation for next year at this stage is MINIMAL. For future years the Medium Term Financial Strategy has made allowance for the changes announced by the Chancellor in the Pre Budget Report.

2.2.6 The cost of employers' pension contributions is also dependent on the numbers and pay of people employed, and also on whether people opt to join the Pension Scheme and the level set by the Actuary for employers' contributions. The 2010/11 contribution rate for the Local Government Pension Scheme has been set at 17.3% which is an increase of 0.6% on the 2009/10 figure. This increase has been built into Portfolio budgets.

2.3. Other Running Costs

2.3.1 These items make up about 56% of gross revenue expenditure. This proportion has risen in recent years because of the higher level of payments to third parties, for instance, for the provision of nursing and residential care for older people. The cost drivers are the levels of demand that have to be met, the quality of goods and services that are purchased and the prices that are negotiated for these.

2.3.2 The budget management arrangements in place have generally avoided any significant net overspendings on running costs.

2.3.3 It is expected that the track record in sound financial management will ensure that significant running costs overspendings are avoided. This confidence is enhanced by the recognition within the budget for 2010/11 of anticipated budget problems including:

- Increased provision for people with Mental Health, Learning Disabilities and Physical Disabilities
- Additional funding for the growing number of older people requiring care
- Higher provision for independent sector care home fees
- Increased expenditure on specialist placements and safeguarding
- Increased highways maintenance budgets
- Provision to meet redundancy costs associated with staffing change across all Portfolios

2.3.4 All non-pay budgets have been increased by an allowance for inflation.

2.3.5 Savings of £29.9 million are proposed in Portfolio and corporate Budgets from efficiencies, increased income and deleting lower priority items. There is a risk that these savings might not be fully achieved within the 2010/11 financial year.

2.3.6 There continues to be a risk that the Council's other running costs could be affected by a major emergency such as the flooding that occurred in 2007/08 or a repetition of the severe adverse weather conditions experienced recently. In previous emergencies the Council has received limited support from Central Government, and the Bellwin Scheme has never been activated for an event within the County.

2.3.7 The conclusion is that it should continue to be possible to manage running costs within available budgets and there is a LOW RISK of some support being needed from County Fund Balances, but probably only if a major emergency occurred.

2.4. Capital Charges

- 2.4.1 The cost drivers here are the levels of capital expenditure and interest rates.
- 2.4.2 The Capital Programme traditionally underspends and in the 2009/10 financial year underspends and slippage have increased partly as a result of delays in schemes as the administration reviewed the Capital Programme. The likelihood of planned capital expenditure exceeding the budgeted amounts in 2010/11 is minimal.
- 2.4.3 The Bank of England Base Rate was reduced to 0.5% (its lowest ever level) early in 2009 as part of a response to the “Credit Crunch” in 2008 to attempt to avoid a long and deep recession. As a consequence of this action and expectations of negative or very low inflation, borrowing rates declined – shorter periods much more than longer periods. Early in 2010 some economists are suggesting that the recession is over, inflation is again rising, and although there are no indications that the base rate will increase soon, borrowing rates are rising. Currently 50 year borrowing rates are again over 4.5%. However, forecasts are for low future economic growth and inflation to decline again in a year’s time. So increases will hopefully not be too dramatic. Increased borrowing rates will only affect new borrowing as currently all the Council’s long-term borrowing is at fixed rates of interest.
- 2.4.4 The possibility of an overspend on capital charges is regarded as LOW RISK.

2.5. Income

- 2.5.1 Income can be categorised into:
- Revenue Support Grant and National Non-Domestic Rates
 - Precept Income – Council Tax
 - Specific Grants
 - Fees and Charges
- 2.5.2 The income from Revenue Support Grant is fixed and certain for the year.
- 2.5.3 District Councils are committed to making precept payments to the County Council on the due dates, irrespective of whether they have actually collected Council Taxes at that time. In practice, they tend to be prudent about their collection rates, and pay over the extra amounts they collect in the following year.
- 2.5.4 The amounts of specific grants received will depend on whether the grant conditions have been fulfilled. Since there are direct or indirect links with expenditure being incurred, there is little scope for a net overspending to take place, provided that External Auditors can be satisfied.
- 2.5.5 The major items of income, grants and Council Tax, are regarded as LOW RISK.

- 2.5.6 The income from fees and charges is potentially more volatile because it depends on customer demand and ability to pay for items like, charges for Home Care and Residential Accommodation, and services provided to other organisations.
- 2.5.7 Arrangements are in place for monitoring the level of debt on Adult Services residential charges for older people. Where appropriate, the outstanding debt is secured on property.
- 2.5.8 Where services are provided to external organisations, this should be backed up with a service level agreement and a commitment to pay for the services provided.
- 2.5.9 Other sources of income, like library fines and country park income can be more volatile but variations are not likely to be material.
- 2.5.10 Some income sources such as charges for land searches, skip licences and adoption of highways have reduced and the impact has been allowed for in the 2010/11 budget and beyond.
- 2.5.11 The conclusion is that material variations affecting County Fund Balances from income shortfalls are likely to be MEDIUM RISK. Furthermore, our accounting practice is to create a Provision for Doubtful Debts for debts that are more than six months old.

3. Capital Expenditure and Financing

3.1. Expenditure

- 3.1.1 The Capital Programme is approved as part of the budget each year. Schemes are selected following a full project appraisal and Business Case. The financing costs of the approved programme are integrated with the revenue budget. Consultation with the Corporate Asset Management Group is required for major variations. Variations can only be made if approved by the Cabinet Member of Finance and Property, Cabinet, or County Council depending on the size of the variation.
- 3.1.2 The level of capital expenditure is monitored throughout the year and regular reports made to the Cabinet Member for Finance and Property and the Cabinet. Schemes are managed to recognised project management standards. However, unanticipated delays in schemes can result in slippage within the Capital Programme.
- 3.1.3 There is still a considerable backlog of maintenance work on the County Council's building stock. Some of this might be more effectively tackled by replacement with new buildings, rather than trying to patch-up old buildings. Where this approach is preferred, there could be preparatory costs involved in land assembly and design works. This might require an increase in the overall level of the Capital Programme.
- 3.1.4 The Council is well advanced on the preparatory work on the first wave of Building Schools for the Future and has submitted Strategy for Change 2

and the Outline Business Case will be submitted shortly. An indicative funding envelope has been received from Partnerships for Schools of £127.9 million including IT costs. The Capital Programme includes two schemes, one to fund some of the costs of non-curriculum activities at the school sites and the other addresses the “affordability gap” of the Design and Build element of the BSF programme.

3.2. Financing

3.2.1 Capital expenditure is financed from:

- Borrowing
- Capital Grants and Contributions
- Capital Receipts
- Revenue and Reserves

3.2.2 Local Authorities can set their own borrowing limits at levels they regard as affordable, prudent and sustainable. Some borrowing continues to be supported through the Revenue Support Grant process, but the financing costs of other discretionary borrowing has to be met from the Council’s own resources. However, there is certainty about the amounts of borrowing that can take place within the limits set by the Council.

3.2.3 Capital grants are uncertain beyond 2010/11 and there are projections that cuts of up to 20% per annum could be possible. However, no capital schemes which rely on capital grants will be approved until the amount of capital grant is known in advance.

3.2.4 Income from capital receipts depends on completed sales of land and property. It is therefore vulnerable to market conditions and resolution of planning and legal requirements. The County Council anticipates raising £4.1 million from capital receipts in 2010/11. There has to be an element of risk that this may not be achieved, but the risk has been addressed by:

- Identifying the land and property that should realise the anticipated amount.
- Preparatory work to ensure that a number of major sales are ready to be progressed.
- Regular monitoring of progress by the Cabinet Member for Finance and Property, the Service Director - Finance and the Service Director - Corporate Property.

If the capital receipts target is not achieved, it should be possible to cover any shortfall by borrowing within the limits set. This would incur additional financing costs. There are particular challenges with regard to realising capital receipts in the current economic climate.

3.2.5 The use of revenue contributions to support the Capital Programme is kept to a minimum.

3.2.6 The likelihood of County Fund Balances being required to finance the Capital Programme is regarded as LOW RISK but there is a MODERATE RISK of additional financing costs.

4. Risk Management Measures

- 4.1 The Council has developed a strategic approach to risk management that seeks to identify potential risks at an early stage so that remedial action can be taken.
- 4.2 The External Auditors review our financial arrangements each year and issue a number of formal reports on the Council's financial health.

The Council has a good record in terms of its financial management and appropriate measures are in place to ensure that this will continue. As part of the Comprehensive Area Assessment the Council's Auditor carries out a Use of Resources assessment. The most recent assessment relates to the 2008/09 financial year. The Auditor concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness in its Use of Resources. A number of key comments demonstrate the good work in financial management.

"The Council sets a timely comprehensive and balanced budget which is fully integrated with the medium term planning process. Service planning reflects changing priorities and budget pressures and the financial strategy had contributed significantly to achieving improved outcomes in priority areas."

"The Council has a strong track record in understanding its service costs but more work is required to understand its unit costs. It tackles areas of higher or increasing costs methodically and ensures re-investment in priority areas. The Council knows it needs to look at significant changes to maintain momentum and meet more demanding targets."

"Although your current financial health and major challenges lie ahead in the light of the uncertain economic prospects and the expected cuts in central government funding from 2010/11 onwards."

The Council will maintain the track record and build a financially robust and sustainable financial future.

5 County Fund Balances

5.1 The level of County Fund Balances at the end of recent years has been:

	£000
2006/2007	19,502
2007/2008	22,271
2008/2009	24,837
2009/2010	24,837

These levels of working balances have been sufficient to deal with unforeseen events that have happened in those years. It has been possible to increase County Fund Balances such that they are close to 5% of the non-schools budget. As such a full risk assessment is less important, but has been undertaken as good practice.

5.2 The level of County Fund balances at 31 March 2011 is estimated at £22.837 million.

5.3 The budget presented to the County Council includes a three-year projection which incorporates the major items of likely additional expenditure.

6. Recommendations

6.1. The level of proposed County Fund balances in 2010/11 be regarded as acceptable cover for any reasonable level of unforeseen events.

6.2. The report be noted.

ALAN SUMBY
SERVICE DIRECTOR, FINANCE

REPORT OF THE SERVICE DIRECTOR – FINANCE

FINANCING CAPITAL EXPENDITURE BY BORROWING AND THE PRUDENTIAL CODE INDICATORS

1. Purpose of the Report

- 1.1 To outline the prudential indicators and to suggest how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

2. Information and Advice

- 2.1 The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to the Prudential Code for Capital Finance in Local Authorities developed by CIPFA and also take advice from the Section 151 Officer.
- 2.2 The Executive Summary of the Code states that “The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. In exceptional cases, the Prudential Code should provide a framework which will demonstrate that there is a danger of not ensuring this, so that the local authority concerned can take timely remedial action.”
- 2.3 The Code sets out a number of prudential indicators designed to support and record local decision making and it is the duty of the Service Director - Finance (the Council’s Section 151 Officer) to ensure that this information is available to Members when they take decisions on the County Council’s capital expenditure plans and annual budget. Key issues to be considered are:
 - Affordability, e.g. implications for Council Tax
 - Prudence and sustainability, e.g. implications for external borrowing and whole life costing
 - Value for money, e.g. option appraisal
 - Stewardship of assets, e.g. asset management planning
 - Service objectives, e.g. within the Council’s Strategic Plan
 - Practicality, e.g. whether the capital plans are achievable

3. Prudential Indicators

3.1 Affordability

3.1.1 The Code requires the Council to be aware of the impact of financing capital expenditure on its overall revenue expenditure position and on its Council Tax requirements.

3.1.2 The costs of financing capital expenditure are:

- Interest payable to external lenders less interest earned on investments
- Amounts set aside for repayments of amounts borrowed

The relevant figures from the 2008/09 Accounts are:

	£000
Interest Payable	15,722
Interest on Investments	(3,033)
Amounts set aside for Repaying Debt	<u>17,460</u>
Capital Financing Costs	<u>30,149</u>
Net Revenue Stream	486,168

Capital financing costs were therefore 6.2% of the County Council's net revenue stream. The estimated proportions for the following years are:

2009/10	7.0%
2010/11	7.6%
2011/12	8.1%
2012/13	8.1%

Whilst the proportion of capital financing costs to net revenue stream needs to be kept under review, the current projections are both relatively low and stable.

3.1.3 Excluding Government capital support through supported borrowing beyond 2010/11 and capital grants beyond 2011/12 which have not yet been announced, the forecast levels of capital expenditure and sources of finance for the next four years are:

APPENDIX B

	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m
Capital Expenditure	145	82	66	62
Funded From:				
Supported Borrowing	15	-	-	-
Other Borrowing	56	37	15	17
Capital Grants etc.	70	21	25	40
Capital Receipts	4	24	26	5
Total	145	82	66	62

This table demonstrates that as well as using borrowing as a source of finance, it continues to be important to use external grants and contributions and capital receipts raised locally. A figure of £56 million in 2010/11 is proposed to make use of the flexibilities on borrowing levels that are available under the Prudential Code. This is larger than previously envisaged because of significant levels of slippage from prior years and lower than anticipated capital receipts.

- 3.1.4 The County Council's external debt per head of population at the end of 2007/08, the last year for which comparative figures are available, was £310. This was £206 per head or 40% below the average for shire counties.
- 3.1.5 The impact of financing new borrowing on Council Tax levels needs to be assessed. The estimated levels of total new borrowing (for both the continuing Capital Programme and the proposed changes to the Capital Programme) in the next three years and the associated cumulative financing costs in those years are:

	2010/11	2011/12	2012/13
	£m	£m	£m
Borrowing Supported through RSG	15	-	-
Borrowing not supported through RSG	56	37	15
Total	71	37	15
Estimated Gross Financing Costs	£1.05m	£5.55m	£8.26m
Council Tax impact (Band D)	£4.11	£21.67	£32.24
Estimated Financing Costs (based on 37% of financing funded through grant)	£0.66m	£3.48m	£5.18m
Council Tax impact (Band D) adjusted for grant	£2.58	£13.60	£20.23

APPENDIX B

The Band D Council Tax for 2009/10 was £1,193.18. After applying a 37% grant contribution, capital financing would increase Council Tax by up to £2.58 in 2010/11, equivalent to an increase of 0.2%. However, the Council has determined that there will be no increase in the Council Tax for 2010/11 and the increased capital financing costs will be met by reprioritisation. The cumulative amounts for 2011/12 and 2012/13 are £13.60 and £20.23 respectively, equivalent to 1.1% and 1.7% based on the levels of borrowing outlined in the table above.

- 3.1.6 The County Council is required to forecast the total budgetary requirements arising specifically from the changes proposed to the Capital Programme in paragraph 10 and to calculate the resulting impact of these capital investment decisions on Council Tax levels. The estimated levels of borrowing for these proposals, and the associated financing and other revenue costs, in the next six years are:

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	£m	£m	£m	£m	£m	£m
Unsupported Borrowing	(0.7)	9.4	17.7	8.7	1.6	1.5
Financing Costs	0.0	1.1	2.5	3.4	4.0	4.2
Other Revenue Costs	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.1)
Total	(0.1)	1.0	2.4	3.3	3.8	4.1
Council Tax impact (Band D)	(£0.18)	£3.97	£9.23	£12.99	£14.83	£15.84
Council Tax impact (Band D) adjusted for grant	(£0.11)	£2.49	£5.80	£8.15	£9.31	£9.95

These figures exclude the impact of any savings that may arise from revisions to schemes that are currently under review and the impact of proposed new schemes for which no figures are yet available. After applying a 37% grant contribution, the proposed capital investment would reduce Council Tax by up to £0.11 in 2010/11. The cumulative increases for the subsequent five years are shown in the above table.

APPENDIX B

As such there is a requirement to ensure that borrowing in 2010/11 does not exceed £573 million, i.e. preceding year plus current plus next two years. On past experience, this will not cause any problems.

- 3.2.3 The Local Government Act 2003 requires the County Council to set an "Authorised Limit" for its total external debt for 2010/11 and for each of the following two years. There is also a requirement to set an "Operational Boundary" for next year and each of the following two years. It is recommended that the Operational Boundary should be assessed initially, and then an Authorised Limit set that is higher than this.

If it appears that the "Authorised Limit" might be breached, the Service Director - Finance has a duty to report this to the County Council for appropriate action to be taken.

- 3.2.4 The "Operational Boundary" for external debt for the next 3 years can be built up from the existing levels of external debt shown in the Balance Sheet at 31 March 2009, which was £251.443 million.

- 3.2.5 This figure can be rolled forward to provide Operational Boundaries for 2010/11 and subsequent years.

	£m
External borrowing at 31 March 2009	251
Net new borrowing in 2009/10	40
Estimated external borrowing at 31 March 2010	291
Capital expenditure financed by borrowing 2010/11	71
Additional borrowing due to pension fund regulation changes	70
Amounts set aside for repayment of debt	(19)
Contingency for unforeseen borrowing	20
Operational Boundary 2010/11	433
Capital expenditure financed by borrowing 2011/12	37
Amounts set aside for repayment of debt	(21)
Operational Boundary 2011/12	449
Capital expenditure financed by borrowing 2012/13	15
Amounts set aside for repayment of debt	(21)
Operational Boundary 2012/13	443

The contingency for unforeseen borrowing is available to cover any temporary cash flow issues that might arise, and also for increases in the Capital Programme that require financing by borrowing.

- 3.2.6 The Authorised Limit should not need to be varied during the year, except in exceptional purposes. It is proposed to add a further £20 million to the

APPENDIX B

Operational Boundaries to provide this cover. The suggested Authorised Limits are:

2010/11	£453 million
2011/12	£469 million
2012/13	£463 million

Both the Authorised Limits and Operational Boundaries are less than the Capital Financing Requirement because best practice in treasury management means that actual borrowing is below the notional underlying borrowing requirement.

3.2.7 The Prudential Code indicator in respect of treasury management is the adoption of the CIPFA Treasury Management Code of Practice. The County Council has formally adopted the code and approves an annual Treasury Management Policy and Strategy. This includes setting the treasury indicators:

- upper limits for fixed and variable interest rate exposures
- upper limit for investments over 364 days
- upper and lower limits for the maturity structure of borrowing.

3.2.8 In addition to considering the implications for external borrowing, the Council demonstrates further regard for prudence and sustainability in its requirement that all costs of a proposed major capital scheme, including service costs and other ongoing revenue costs, are analysed over the whole life of that scheme to inform the capital investment decision-making process.

3.3 Value for money – option appraisal

3.3.1 The County Council's Capital Programme is driven by the desire to provide high quality, value for money public services. It is monitored by the Corporate Asset Management Group, which is a cross-service group of Officers with a finance, service and property management background. Business cases for proposed new capital schemes are reviewed by this group and presented to Cabinet Members. The review process requires that the sponsoring department submit detailed appraisals of a range of options, each costed over the whole life of the scheme.

3.4 Stewardship of Assets

3.4.1 The Council is reviewing its Asset Management Plan, which sets out the condition of its assets and the arrangements for managing these effectively. The Council's Corporate Property Strategy is also under review and will enhance these arrangements, including increasing the awareness that efficient use of property is an important element of maximising the value obtained from the Council's overall resources.

3.5 Service Objectives

3.5.1 The option appraisal of proposed capital schemes overseen by the Corporate Asset Management Group considers, amongst other factors, the following:

- How the proposal links with the Council's Strategic Plan
- How the proposal will improve the Council's performance and, in particular, how it will deliver value for money and/or savings
- The service improvements and other anticipated benefits expected to be delivered from the investment
- The extent that the proposal will impact across the Council's taxpayers
- Details of any consultation or challenge that has influenced the proposals.

3.6 Practicality

3.6.1 The Capital Programme is monitored throughout the year to ensure that:

- Any slippage on major schemes is identified as soon as possible.
- Variations to the Capital Programme are reported to Cabinet on a regular basis.
- Funding sources, particularly capital receipts, are available when required.

4. Summary of Prudential Indicators

	2010/11	2011/12	2012/13
	£m	£m	£m
Estimated capital expenditure	145	82	66
Estimated capital financing requirement	564	580	573
Authorised limit for external debt	453	469	463
Operational boundary for external debt	433	449	443
Financing costs as a percentage of net revenue stream	7.6%	8.1%	8.1%
Impact of total new capital investment on Council Tax	£2.58	£13.60	£20.23
Impact of proposed changes to the Capital Programme on Council Tax	(£0.11)	£2.49	£5.80

5. Recommendation

That this information is taken into account when County Council takes its decisions on the budget.

ALAN SUMBY
SERVICE DIRECTOR – FINANCE