Nottinghamshire County Council

meeting	**COUNTY COUNCIL**
Date	**24 FEBRUARY 2011**

REVISED BUDGET 2010/11

ANNUAL BUDGET 2011/12

CAPITAL PROGRAMME 2011/12 to 2014/15

MEDIUM TERM FINANCIAL STRATEGY 2011/12 to 2014/15

COUNCIL TAX PRECEPT 2011/12

1. Purposes

The purposes of this report are:

- To seek approval to the Revised Budget for 2010/11.
- To seek approval to the Annual Budget for 2011/12.
- To approve the level of the Capital Programme for 2011/12 to 2014/15.
- To approve the Medium Term Financial Strategy for 2011/12 to 2014/15.
- To approve the amount of Council Tax to be levied for County Council purposes for 2011/12 and the arrangements for collecting this from District and Borough Councils.
- To approve borrowing limits that the Council is required to make by Statute.

2. Summary of Key Points

2.1 2010/11

- The Revised Portfolio Budget for 2010/11 shows estimated net underspendings of £7.850 million after contributions to reserves. Actual figures will be confirmed in the Final Outturn report to Cabinet in June.
- The proposed contribution from County Fund Balances of £2 million will not be required.
- The normal carry forward rules will be amended in order that underspendings will first be used to fund the cost of redundancies and car user buy-out in 2010/11 before carry forwards will be considered.
- Slippage on the Capital Programme of £18 million is anticipated.

2.2 2011/12

- Budget proposals are based around the Promises and Priorities of 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.
- The funding settlement for Nottinghamshire Schools for 2011/12, including the new Pupil Premium, is a 1.38% per pupil increase which, because of falling rolls, amounts to a 1.25% cash increase. In addition, the Government has announced that former specific grants totalling £63.8 million will be incorporated into the Dedicated Schools Grant (DSG). The total DSG for 2011/12 is £442.6 million.
- An increase in a range of budgets mainly in respect of adults (£12.6 million) and children's caring responsibilities (£18.7 million).
- Re-prioritisation of areas of lower priority amounting to £87.2 million across all Portfolios, and central activities.
- A significant loss of Government Grant funding. The Government Formula Grant reduced from £227.587 million in 2010/11 (restated) to £198.777 in 2011/12 a loss of £28.810 million (-12.66%). Other grants have also been reduced or withdrawn.
- A gross Capital Programme of £113.4 million for 2011/12.
- No change to the Council Tax for 2011/12.
- Working balances of £20.956 million at the end of 2011/12.

2.3 2012/13 to 2014/15

- Additional budget pressures identified in 2011/12 will continue to rise.
- Reduced Formula Grant is anticipated. Formula Grant for 2012/13 was announced in the Finance Settlement in December 2010. The amount receivable by the Council will be £181.657 million, a reduction from the amount in 2011/12 of £17.120 million (-8.6%).
- There will be a continuing need to achieve cashable efficiency savings over the medium term.

- The efficiencies identified by the Improvement Programme will continue to contribute towards the future budget restrictions and value for money.

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 Underpinning the five priorities are a series of performance targets which are being monitored during the lifetime of the Strategic Plan.

3.3 The budget proposals within the Medium Term Financial Strategy contribute towards the achievement of the targets that are set out in the Strategic Plan.

3.4 The Medium Term Financial Strategy provides a framework within which the budget proposals for 2011/12 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 Medium Term Financial Strategy has been revised in the light of changing economic circumstances and Government funding changes. The Strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the Capital Programme for future years.

3.5 Additional budget pressures or new initiatives are supported by a detailed analysis 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.

3.6 The Council strives to provide services in a sustainable and environmentally friendly manner wherever possible. 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.

3.7 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.

3.8 Carbon emission management in the Council's building stock remains a priority and actions in support of the Carbon Management Plan have achieved reduced carbon dioxide emissions year on year.

4. Revised Budget 2010/11

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 £483.860 million. Details of the main variations are as follows:

4.2 **Portfolio Budgets**

Original Portfolio budgets for 2010/11 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 £539.879 million, and at this stage there is a forecast net underspending of £7.850 million on Portfolio Budgets. The forecast variations by Portfolio are:

	£ million
Underspendings	
Children & Young People	(1.40)
Adult Social Care & Health	(2.00)
Transport & Highways	-
Environment & Sustainability	(2.00)
Community Safety	(0.90)
Culture and Community	-
Leader	(0.10)
Finance and Property	(1.70)
Personnel and Peformance	-
Overspendings	
Deputy Leader	0.25
Total	**(7.85)**

The principal reasons for these underspendings are:

Children and Young People's Services
The forecast underspending of £1.4 million is after one-off additional funding totalling around £5.4 million comprising:

- £2.3 million use of reserves
- £1.1 million ledger items written back
- £2.0 million allocation from contingency

together with the realignment of £1.3 million of expenditure to the Schools (non-ISB) Budget.

The underspendings in the Portfolio have arisen as a result of vacancy savings and budget control measures that have been introduced during the year. The additional funding and underspendings offset a forecast overspending on Children's Social Care of £9.7 million arising primarily as a result of a rapid increase in the number and complexity of Looked After Children (LAC) cases.

Adult Social Care and Health
The forecast underspending of £2 million is primarily due to additional income received from clients for residential and nursing care as a result of the mix of clients involved and sales of clients' properties. In addition, there has been a reduction in expenditure on residential and community care for clients with learning disabilities. The figures are based on estimates for slippage against recorded commitments. In addition there remains a potential liability of over £1 million for disputed invoices for the provision of homecare services by the independent sector. The department has also applied in year spending controls on non-essential items of expenditure.

Transport and Highways
This Portfolio is expected to spend in line with the Revised Budget. Underspendings include:

- Deferral of non-essential expenditure of about £1.0 million
- Underspendings of the Councillor Scheme budget by £0.2 million
- A freeze on recruitment, resulting in savings of £0.1 million
- Savings on the Transport Services Development budget of £0.2 million

The underspendings will be offset by increased costs of winter maintenance associated with the recent severe weather of about £1.5 million.

Environment and Sustainability
The underspending of £2.0 million relates primarily to lower than expected waste volumes and a reduced level of maintenance expenditure on Eastcroft Incinerator following major improvements to the site in recent years.

Community Safety
The underspending of £0.9 million mainly arises from staff vacancies and in year control of discretionary expenditure.

Culture and Community
This Portfolio is forecasting to be on budget for the year.

Leader
A minor underspending of £0.1 million is predicted due to spending controls during the current year.

Deputy Leader

A minor overspending of £0.25 million is projected which relates to staff costs of the former County Contact Centre which is now integrated with the Customer Services Centre. Retention of a residual staff group from the Contact Centres was agreed during 2010/11. The costs will be met from the Customer Services Centre Reserve.

Finance and Property

An underspending of £1.7 million is anticipated. The main reasons are:

- Reduced planned maintenance of £1.2 million
- Savings on IT replacements of £0.4 million
- Staff and running costs savings in Finance of £0.1 million.

Personnel and Performance

This Portfolio is expected to be in line with the Revised Budget.

All of the Portfolio underspendings will be used to meet the costs of redundancies and car user buy-outs. The Revenue Budget Summary Table therefore shows no underspendings. The cost of redundancies resulting from the 2011/12 savings programme, but falling in 2010/11 were highlighted in the report to Cabinet on 9 February. There are 433 people who have volunteered to accept redundancy in advance of the start of the 2011/12 financial year at a cost is £10.9 million. The cost in 2010/11 will be met from the underspendings on Portfolio budgets above together with the 2010/11 budget for redundancies of £3 million.

4.3 **Flood Defence Levies**

The amount required of £0.265 million is in line with the original budget.

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

An amount of £1.110 million is set aside to cover the difference between the overall employer's 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 £2.202 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 £2.340 million for the remainder of 2010/11. 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 £46.425 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	15,973
Loan Repayments	17,618
	33,591

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

The 2010/11 Original Budget anticipated £0.283 million income from the LABGI scheme. In June 2010, the Government announced that the LABGI scheme was to be withdrawn and that the payments for 2010/11 would not be made. The full amount of £0.283 million has been removed.

4.8 **Area Based Grant (ABG)**

The Government implemented a range of in year grant reductions in June 2010. The impact on the County Council was a reduction of £4.672 million. Cabinet agreed a package of proposals on 14 July to address the reductions.

4.9 **Use of Budget Carry Forwards**

Departments were allowed to carry forward £1.571 million from their underspendings in 2009/10. These amounts have been added, temporarily, to original budgets for 2010/11, and are expected to be spent on the specific purposes for which the carry forwards were approved. There will be no carry forwards from 2010/11 to 2011/12 as any departmental underspendings will be used to fund redundancy costs.

4.10 **Pay Review Reserve and Provision**

The amount in this reserve and provision at the end of 2009/10 was £5.027 million. A contribution to the Reserve of £2.734 million was made in 2010/11. The Reserve will be required to contribute to the costs of implementing the National Job Evaluation Scheme for school based, non-teaching staff.

4.11 **Transfers to/from 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	276
Trading Units Asset Replacement Reserve, etc	517
Waste PFI	2,812
NET Phase 2	0
Capital Projects	112
Improvement Programme	(1,323)
LAA Reward Grant	(1,782)
Life cycle maintenance	(17)
	978

In addition to the items identified above, Portfolios plan to use £17.563 million from Earmarked Reserves.

4.12 **County Fund Balances**

The level of County Fund Balances at 31 March 2010 was £24.839 million. The original budget for 2010/11 assumed that £2.0 million would be used from Balances to support the budget on a temporary basis.

Due to underspendings and interest earned on reserves etc. in 2010/11, it is now possible to avoid using County Fund Balances. Following the settlement with Nottingham City Council regarding the withdrawal from the second phase of the NET scheme, most of the Tram Phase 2 Reserve has been transferred to County Fund Balances. As a result, the revised estimate for 31 March 2011 is £26.056 million after the transfers to earmarked reserves outlined above.

5 Annual Budget 2011/12

5.1 When the budget for 2010/11 was approved in February 2010, the forward look for 2011/12 showed that a budget of £483.9 million would be achievable without any increase in the Council Tax.

5.2 Service related budget pressures have been reassessed and some new pressures and initiatives identified. In total these pressures are £35.9 million, some of which had been previously identified. The underlying reasons are:

- Specialist placements. The specialist placements budget is used primarily to procure external placements from the independent sector for children in care. The numbers of children in care in Nottinghamshire has risen significantly over the last year (exceeding predicted expectations), and the availability of in house foster carers has been fully utilised. An estimate of £15 million has been identified as the potential budget pressure for 2011/12. Due to the difficulty of making a precise projection of future caseloads, £5 million will be held in a specific contingency.

- Safeguarding Children. There is significant workload pressure within children's social care as a result of growing client numbers and the Council needs to increase its capacity both in terms of frontline staff and operational managers to support those staff. The budget pressure is aimed at addressing the volume related demands on the department. This includes the increase in legal costs associated with the increased numbers of children being taken into care. It is anticipated that the pressure will reduce in future years as less reliance is placed on agency staff. Additional expenditure of £2.8 million is proposed in 2011/12.

- Academies. A number of schools have already indicated their intention to "opt out" of local authority control. As each school opts out, the Council will be left with a funding shortfall as the Government top slices the Revenue Support Grant to fund the expansion in the academies programme. Additional funding in 2011/12 of £0.5 million has been included.

- School Transport. This additional funding relates to the new Home to School Transport Policy which makes provision for a free travel scheme for pupils travelling to their preferred maintained and academy secondary schools and special schools in the County. The cost of the scheme in 2011/12 will be approximately £0.4 million. Additional costs will be incurred in later years as the scheme is rolled out to subsequent cohorts of secondary school pupils.

- Mental Health and Learning Disability. The additional expenditure is required to provide services to the numbers of young learning disabled people who, at the age of 18, will transfer from Children's to Adult Services. Funding is also needed for existing learning disabled service users who are ageing and whose conditions are deteriorating. There is also year on year growth in the numbers of people with mental ill health requiring residential and domiciliary care and growing numbers of people with aspergers/autistic spectrum disorders. Additional funding of £6.3 million has been provided for 2011/12. Further increases in later years are anticipated at around the same level. This is about 8% per year growth in this area of complex needs and is in line with national trends.

- Older People Demographics. At 31 March 2010, the County Council was providing services to approximately 10% of the population aged 65 plus. The trends in population show that the number of older people is continuing to rise. The additional costs are estimated at £2.8 million in 2011/12. It is anticipated that the trend will continue into the future at a similar level. This includes the cost of providing a range of services including both residential and nursing care, and community based services such as homecare and day care.

- Physical Disability. Demand for specialist services for people with complex physical disabilities and degenerative illnesses continues to increase. The pressure is a combination of young people with physical disabilities reaching the age of 18; people who currently receive low level services, requiring complex support packages in the near future and new cases who will require support for the first time following serious accidents etc. The annual additional cost in 2011/12 is estimated to be £1.5 million, with similar increases in later years.

- Independent sector care home fees. This budget pressure involves the costs of implementing the local fair price for care model. The original budget pressure included in the December Cabinet report was for £2.3 million. This has been reduced to £1.1 million in 2011/12 with the balance of £1.2 million included in 2012/13.

- Young Carers. This proposal is to provide increased support for disabled parents and young carers. The support would be provided by means of direct payments or personal budgets. Assuming a gradual take up of the new support arrangements, the budget provision has been phased. Additional funding of £0.9 million has been provided in 2011/12 and a further £0.9 million in 2012/13.

- Increased Highway maintenance and inflation. As new roads are built or improvement schemes completed, the ongoing maintenance costs increase each year by an estimated 3%. Additionally, inflation on highway building materials has been increasing by over 10% per annum. Additional funding of £0.5 million has been included in 2011/12.

- Winter Maintenance. Salt prices have increased beyond the level of normal inflation following the harsh winters of 2009/10 and 2010/11. The pressure also reflects extra gritting on bus routes and in the vicinity of schools. Additional funding of £0.5 million has been included.

- Concessionary Fares (Discretionary Element). Responsibility for the Concessionary Fare Scheme transfers from the District Councils to the County Council in April 2011. The statutory scheme is currently predominantly funded by the Government. The present scheme funds companion travel, which is a discretionary element. Responsibility for equipment replacement will also transfer to the County Council next year. Additional budget of £0.2 million has been included.

- Area Based Grant. The Area Based Grant has been assimilated into Formula Grant from 2011/12. The budget assumptions included an anticipated reduction of £1 million a year. This has been taken into account with other grant reductions.

- Additional Pension Fund Contributions. This budget pressure was initially assessed at £2 million for 2011/12. The Pension Fund Actuary has now nearly completed the triennial valuation based on 31 March 2010. A revised figure of £1 million is now considered sufficient. The employer's contribution rate will increase in 2011/12 by 0.9%.

- Carbon Reduction Commitment Energy Efficiency Scheme. In the October Spending Review it was announced that there will no longer be any recycling of allowance payments back to participants. Instead, money raised through the sale of allowances will be retained by the Treasury. The first year of the scheme was deferred to 2012/13. The costs associated with 2011/12 will need to be accounted for in that year and provision of £1.4 million has been included.

- Ways of Working. The Ways of Working programme will develop and support a modern, flexible workforce, enabled by efficient and effective processes, technology and property provision. Over the medium and longer term the programme will deliver significant savings. In the early part of the programme there are some unavoidable revenue costs associated with staff relocation, maintenance works and capital financing costs in advance of capital receipts. The original proposals included funding of £4.5 million in 2011/12. Revised proposals include slippage of £2.0 million to 2012/13 and funding of the remaining £2.5 million from County Fund Balances. No additional funding is, therefore, required in 2011/12 and the budget pressure has been reduced accordingly.

5.3 The previous Medium Term Financial Strategy anticipated growth pressures of £17.9 million in 2011/12. These are included in the paragraph above. In order to manage the additional budget pressures together with Government grant reductions in 2011/12, Cabinet proposed a package of budget savings measures to achieve savings of £87.2 million which will be redirected towards increased expenditure on more pressing services and will offset the loss of grant income.

5.4 Initial proposals for budget savings were included in the 15 December and 19 January Cabinet reports. Following the consultation period, some changes were agreed at Cabinet on 9 February 2011. The revised proposals, incorporating the changes agreed on 9 February, insofar as they relate to individual reductions, are set out in the tables which follow.

5.4.1 Children and Young People's Portfolio

A wide range of savings totalling £19.761 million in 2011/12. These have been previously reported in detail and include reductions in most service areas and some reallocation of costs to the Schools (non-ISB) Budget. This has recently been agreed with the Schools Forum. Savings also flow from management restructuring, efficiencies in terms of business support and administration and a reduction in the contribution to the Connexions service. The savings can be summarised as follows:

Children & Young People	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Management Restructuring	525	175	-	-
Improvements to the Youth Support Service delivery and management structure	1,097	548	186	37
Connexions	1,201	601	418	392
Youth Offending Service Cost Reduction Programme	452	146	30	1
Review of Health Promotion	553	-	-	-
14-19 Strategy Team, including Study Support, Global Dimension and Post-16 Commissioning	510	274	-	-
ECAS	238	-	13	13
Enrichment Services - full cost recovery (consider sports & arts with Communities' service offer)	364	166	153	35
Inclusion Services – Remodelling	1,067	1,370	62	63
School Improvement Service – Remodelling	1,792	336	45	67
Premature Retirement Compensation Costs for School Staff-Natural wastage	25	25	25	25
Play Service	468	-	-	-

Sure Start Early Years and Childcare Grant	1,250	750	1,000	1,000
Extended Services ABG	742	-	-	-
Premises Support	384	-	-	-
Joint Use	1,018	-	-	-
Children's Social Care Placements	791	511	-	-
Social Care Fieldwork Services	202	-	204	406
Adoption Services	-	107	-	-
Family / Parenting Support (including CAF & early intervention projects)	750	485	-	-
CYPS Planning/Commissioning, data management and performance review	266	-	-	-
Miscellaneous Area Based Grant	80	-	-	-
CYP Business Support Services Review	2,025	1,350	-	-
Workforce Development and Culture	381	319	10	-
CYPS Grant Aid	40	40	40	40
Alternative Use of the Dedicated Schools Grant	3,330	-	-	-
Strategic Place Planning 0 - 19 and School Admission	210	210	-	-
Total for Children & Young People	**19,761**	**7,413**	**2,186**	**2,079**

5.4.2 Adult Social Care and Health Portfolio

Numerous changes have been made across the Portfolio amounting to £25.929 million in 2011/12. A number of these changes relate to the increase in charging, together with alternative forms of service delivery. There is an emphasis on preventative measures to assist people to remain in their own homes. A number of staffing changes are proposed in administration, senior management and other service areas. Savings are summarised in the table below.

Adult Social Care & Health	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Increased income through increased charges (pre-agreed & current work)	400	251	-	-
Increased income through increased charges (additional)	239	55	26	-
Increased income - Revision to Fairer Contributions policy	600	300	-	-
Increased income through increased charges (new proposals)	40	-	-	-
Reablement & Homecare (Service Delivery Costs)	1,300	700	-	-
Reablement & Homecare (Staff Savings)	600	200	-	-
Day Services	600	2,434	3,035	-

Fair Access to Care eligibility	1,000	1,000	-	-
Sale of Residential Care Homes	-	2,500	-	-
Reduce use of residential care and increase alternatives	158	324	1,024	1,202
Interagency planning and Commissioning - Linkages efficiencies	96	152	256	296
Notts 50+ (Early Intervention and Prevention)	-	46	15	-
Notts 50+ (Early Intervention and Prevention)	30	160	-	-
Welfare Rights – cease service	350	450	-	-
Mental Health Services	262	-	-	-
Learning Disabilities Teams	207	-	-	-
Learning Disability & Mental Health Community Care	1,281	1,281	1,281	1,281
Adult Placement Scheme	-	75	38	38
Mental Health commissioning	315	100	-	-
Learning Disability commissioning	238	109	150	11
Supported Employment - Balance - Cease provision	188	-	-	-
Voluntary Sector Payments	1,370	-	-	-
Reduce spend on Supporting People	2,500	4,000	3,000	500
Procurement and Market Management Unit staffing	108	-	-	-
ACFS - Moving to net payments and resulting reductions in staffing	100	150	-	-
Strategic Services	1,021	-	-	-
Learning & Development	660	440	-	-
Administration	400	300	-	-
Organisational Redesign	1,800	1,109	-	-
Staffing Strategies	800	-	-	-
Implementation of Putting People First	1,000	1,000	-	-
Carers Team	70	-	-	-
Market Management	500	-	-	-
Inflation reductions	6,000	6,000	-	-
Occupational Therapy	243	-	-	-
Outsource Sensory Impairment Service	214	155	-	-
Learning Disability Short Breaks	-	100	403	-
Ordinary Residence	300	150	-	-
HIV AIDS	32	32	-	-
Disability Living Centre	102	-	-	-
Assistive Technology	25	25	-	-
Supplies and services	500	-	-	-
Luncheon Clubs	30	-	-	-

Repair & Maintenance budget	200	-	-	-
Property support	50	-	-	-
Total for Adult Social Care & Health	**25,929**	**23,598**	**9,228**	**3,328**

5.4.3 Transport and Highways Portfolio

The Portfolio will achieve savings of £9.327 million in 2011/12. Reductions include savings to the local bus service budget, some reductions in highways maintenance and reduced costs of street lighting from lower electricity prices. A number of posts will be reduced across the Portfolio. Details are set out below.

Transport & Highways	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Nottinghamshire Transport Services - Efficiencies and Economies	473	-	-	-
Local Bus and Community Transport	1,000	-	-	-
Street Lighting: Energy cost savings and reduced maintenance	782	185	183	144
Highway Safety Service Review	669	-	-	-
Highways Budget & Maintenance Provision Reductions	2,345	-	-	-
Street Lighting and Traffic Signals – Highways	1,523	-	-	-
Maximise Highways income and recharges	383	-	-	88
Highways Service Redesign – Structure Review and Increased Efficiencies	1,180	935	304	149
Merge Local Transport Plan & Programmes group with Highways Policy and Programmes group	75	-	-	-
Review Local Transport Plan and Programmes (LTP&P) staffing requirements	251	-	-	-
Rights of Way – Planning Services, Cease arrangement & development activity, reduction in maintenance and management of network, reduce activity on Definitive Map work, develop new model for function (new partnership arrangements)	310	-	-	-
Development Control (Highways)	60	-	-	-
Nottinghamshire Transport and Travel Services / Shared Transport Centre	276	149	-	-
Total for Transport & Highways	**9,327**	**1,269**	**487**	**381**

5.4.4 Environment and Sustainability Portfolio

Overall reductions in this Portfolio have been proposed amounting to £1.983 million in 2011/12. Details are set out below.

Environment & Sustainability	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Waste Management – Cessation of discretionary performance and recycling credits	560	-	-	-
Waste Management – other	370	-	-	-
Reduce Staff and Budget for Production of the Council Minerals and Waste Framework Documents and reduction in service (Planning) development control	90	5	-	-
Revenue Savings Sustainability – PS&R	128	-	-	-
Reduction of admin support for Spatial Planning	15	-	-	-
Energy Management – Sustainability	70	-	-	-
In year top line budget saving Waste Management	750	-	-	-
Total for Environment & Sustainability	**1,983**	**5**	**-**	**-**

5.4.5 Culture and Community Portfolio

Savings in this Portfolio amount to £4.313 million in 2011/12. There are changes to library provision, but no library closures. Other reductions affect the Sports and Arts services as well as conservation. The main changes are as follows:

Culture & Community	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Restructure of Country Parks & Sherwood Forest Trust & closure of Lakeside Garden Shop at Rufford	-	159	359	-
Restructuring of Conservation Specialists	382	381	-	-
Libraries and Archives – remodel service whilst maintaining existing network of 60 libraries	2,210	780	216	-
Adult and Community Learning – full cost recovery	194	96	-	-
Sports and Arts services - service review & reduction	427	93	115	-
Sports and Arts services - grant aid reductions	115	-	-	-
Redesign of economic regeneration service	985	12	-	-
Total for Culture & Community	**4,313**	**1,521**	**690**	**-**

5.4.6 Community Safety Portfolio

Reductions of £2.396 million in 2011/12 are proposed. These relate to a number of staffing changes and additional income creation proposals. Details are as follows:

Community Safety	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Healthier Communities Service	187	-	-	-
Safer and Stronger Communities – Staffing Reductions	270	-	-	-
Trading Standards Service – Management Rationalisation, Staffing Reductions and Service Redesign	520	-	-	-
Emergency Management – Increase income proposal	56	-	-	-
Community Safety Commissioning Budget	754	-	-	-
Reduction of Grant Aid to Citizens Advice Bureaux	200	-	-	-
Emergency Management & Registration – Coroner's Budget Reduction	65	-	-	-
Registration Service – Maximising Income Opportunities and Cessation of Security Guard	133	98	98	98
Emergency Planning – Staffing Reductions and Efficiencies	136	-	-	-
Trading Standards – Regional Working and Income Generation	76	77	-	-
Total for Community Safety	**2,396**	**176**	**98**	**98**

5.4.7 Leader's Portfolio

Savings of £0.226 million are included for 2011/12. These are mainly from staffing proposals. The following table shows the detail:

Leader	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Share post of Chief Executive with other public bodies	-	52	-	-
Merge/co-locate Legal & Democratic admin teams	-	48	-	-
Reduce Civic Office Support	74	-	-	-
Reduce support for Scrutiny	152	-	-	-
Reduction in Special Responsibility Allowances	-	60	-	-
Total for Leader	**226**	**160**	**-**	**-**

5.4.8 Deputy Leader's Portfolio

Reductions totalling £0.255 million are planned for this Portfolio in 2011/12. These are a combination of staffing savings and a reduction in the Customer Services Centre. The savings are summarised below:

Deputy Leader	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Outsource of Debt Recovery within Legal Services	25	25	-	-
Shared Legal Service with Other Public Bodies	123	123	11	-
Legal Services - Process Efficiency and Work Reduction	50	100	50	-
Legal Services - Managing Demand Reduction	37	75	38	-
Legal Services - Dropping Trading Status	13	-	-	-
Customer Services	457	262	281	-
Post consultation change to re-phase the Grant Aid saving	- 425	425	-	-
Post consultation change to Citizens Advice Bureaux Grant Aid saving	-25	25		
Total for Deputy Leader	**255**	**1,035**	**380**	**-**

5.4.9 Finance and Property Portfolio

Reductions of £2.609 million are to be made in this Portfolio. There are various savings relating to staff structures and a significant reduction to the Planned Maintenance budget. The savings are summarised in the table below:

Finance & Property	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Finance Reduced Capacity	182	182	-	-
Internal Audit charging schools	73	-	-	-
Internal Audit staff reductions	46	46	29	-
Closure of the cash office	25	-	-	-
ICT - staffing reductions	650	150	339	591
ICT - ISP and connectivity rationalisation	90	160	150	180
ICT - Applications rationalisation	50	100	50	190
ICT - desktop strategy review	100	150	50	100
Business Case for Building Direct Client	211	-	-	-
Reduction in strategic property function	140	140	381	-
Planned Maintenance reduction	1,400	-	-	-
Corporate performance and business services	169	79	-	-

Deletion of a service director post	100	-	-	-
County Supplies income	73	29	29	29
Business Management System	-	2,500	1,200	-
Building Design - fee income	- 700	-	-	-
Total for Finance & Property	**2,609**	**3,536**	**2,228**	**1,090**

5.4.10 Personnel and Performance Portfolio

A restructuring of the various functions of the Human Resources service is planned to achieve the required savings of £0.672 million in 2011/12. In addition, in later years there will be savings in the trading functions.

Personnel & Performance	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Building, Cleaning and Landscape Services, Catering and County Hall Facilities Management	-	500	-	-
Occupational Health	182	-	-	-
Health & Safety	79	-	-	-
Human Resources – Employee Services Centre	172	-	-	-
Human Resources - Management structure review	239	-	-	-
Total for Personnel & Performance	**672**	**500**	**-**	**-**

5.4.11 Cross Portfolio reductions

Savings from a more integrated approach to fleet management and transport costs will be achieved by central management and control. There will also be savings associated with "grey fleet" or the use of private vehicles by staff. The savings will be made in all Portfolios, but have not been shown in the departmental tables above.

Cross Portfolio	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**2014/15 £'000**
Refocus Partnership work	288	-	-	-
Fleet Consolidation (Shared Transport Centre)	800	500	500	-
Total for Cross Portfolio	**1,088**	**500**	**500**	**-**

5.4.12 Capital related savings

There have been some reductions to the Capital Programme which will have a consequential saving on the revenue costs of capital financing.

Capital Related	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Cultural Services – Deferral of Capital Projects	591	206	98	-
Planned Maintenance – reduced capital	250	-	-	-
Total for Capital Related	**841**	**206**	**98**	**-**

5.4.13 <u>Cross cutting Service Review Proposals</u>

Some of the Service Reviews were of a cross departmental nature. The main savings activity for 2011/12 relates to savings from improved procurement which will lead to economies in all Portfolios.

Cross Cutting Services per Cabinet report (15 December 2010)	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Business Support and administration	-	400	-	-
Customer Service	-	500	500	-
Business Management System (BMS)	-	1,053	347	-
Strategic Services	-	70	70	-
Marketing, PR and Communications	500	400	-	-
Income generation	-	150	350	-
Learning and Development across the Council	103	262	-	-
Management and Supervision	400	-	-	-
Procurement and Contracts	3,000	1,000	1,000	1,000
Charges to schools	270	542	-	-
Passenger transport transformation	-	1,040	1,040	-
Total Cross Cutting Services	**4,273**	**5,417**	**3,307**	**1,000**

5.4.14 <u>Savings identified in the January Cabinet report</u>

Some further savings were identified in the report to Cabinet on 19 January.

Additional Savings - per Cabinet report (19 January 2011) (excluding reduced budget pressures)	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Reduced contingency for the Improvement Programme	1,500	-	-	-
Use of health funding to support budget pressures	4,000	-	-	-
Energy savings for non-schools buildings	1,300	-	-	-
No contribution to the Life Cycle Maintenance Reserve in 2011/12	1,000	-	-	-

No contribution to the NET Reserve in 2011/12	400	-	-	-
New Homes Bonus	500	-	-	-
Total Additional Savings	**8,700**	**-**	**-**	**-**

5.5 **Flood Defences**

The Flood Defence levies are estimated at £0.281 million for 2011/12.

5.6 **Trading Service Pensions Costs**

The sum of £1.164 million is included to cover the difference between the basic employer's contributions used in the trading accounts and the amounts actually charged, as required by the actuarial valuation. A further £0.637 million is included to assist the trading activities while they identify savings to recover the additional costs of the pay review.

5.7 **General Contingency**

The General Contingency of £6.538 million is provided to cover certain redundancy costs, changes in legislation and other eventualities. Cabinet approval is required for the release of General Contingency funds. A separate, specific, contingency of £5 million will be held for Specialist Placements costs in the Children and Young People Portfolio.

5.8 **Capital Charges included in Portfolios**

The capital charges included in Portfolio budgets amount to £46.425 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	18,011
Minimum loan repayments	16,731
	34,742

5.9 **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 (25 February 2010) for 2010/11, is continued for 2011/12:

- 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;

- 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.

The introduction of the International Accounting Standard on leasing has necessitated a review of all leases to determine whether any leases classified as operating leases under previous accounting standards must be re-classified as finance leases. Assets held under such leases are now required to be recognised on the Council’s Balance Sheet. Consequently, the following addition to the Council’s policy on making MRP is proposed:

- That, for finance leases, the MRP requirement is regarded as met by a charge equal to the element of the rent that goes to write down the Balance Sheet liability.

In order to ensure that these changes to accounting arrangements maintain the Council’s revenue account balances at the same level as if these changes had not occurred, the following addition to the Council’s policy on making MRP is proposed:

- That, where a lease (or part of a lease) or PFI contract is brought onto the Balance Sheet, having previously been accounted for off-Balance Sheet, it is brought on at its written down value so that the MRP requirement is regarded as met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write-down for that year only (i.e. there is no requirement to include in the charge any retrospective writing down of the Balance Sheet liability that arises from the restatement).

  Although the review of leases has not yet been completed and audited, indications are that the figures for the associated MRP requirement and for the amounts of finance lease liability adjustments and additions will not be material. Following due process, the prudential indicators will be reviewed during the year and revised to take into account any required adjustments.

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

The LABGI grant has been abolished in 2011/12 following the mid year withdrawal in 2010/11. The Government remains committed to promoting business as the driver of economic growth and innovation, but is not convinced that LAGBI offers a real incentive to promote economic development.

5.11 **Area Based Grant**

The former Area Based Grant has been discontinued in 2011/12. Some elements have been included in the Formula Grant and others relating to children’s services, in the Early Intervention Grant. Some elements have been deleted.

One former grant in respect of Safer and Stronger Communities which had been included in the County Council Area Based Grant was previously paid directly to the District Councils. In 2011/12 this grant has been merged with the Young People Substance Misuse Grant, and the combined total reduced by around 26%. At the time of writing no detailed figures have been published for individual authorities. It is proposed that any decision on the distribution of the new Community Safety Fund Grant should be deferred until actual figures are confirmed, and there has been an opportunity to discuss the options with partners.

5.12 **Review of Balances and Reserves**

5.12.1 Each year, as part of the budget preparation process, a review of Balances and Reserves is carried out to determine whether they are still required for the original purpose and whether the value held remains appropriate.

5.12.2 As at 31 March 2010 the Council had Balances and Reserves as follows:

	£ million
Schools Reserves	38.0
Other Earmarked Reserves	96.5
County Fund Balances	24.8
Total	**159.3**

5.12.3 Since the 2009/10 accounts were closed, certain funds relating to the Supporting People Programme have been restated in the Balance Sheet from "Creditors" to "Reserves" to accord with new accounting rules. This has increased the opening balance for Earmarked Reserves in the Summary Table of Balances and Reserves to £101.121 million.

5.12.4 The Schools Reserve comprises money that schools have set aside from their Dedicated Schools Grant and these funds are not available for County Council purposes.

5.12.5 There are a variety of "Earmarked Reserves" which are sums set aside for future events which can be reasonably predicted and a value of a future liability estimated. Sometimes these may be for legal reasons e.g. the Insurance Reserve, or because we are committed to a certain course of action which will incur future costs e.g. Job Evaluation in Schools. Most of the Departmental Reserves are effectively Repairs and Renewals Funds to replace assets when they reach the end of their useful life. A brief explanation of each of the reserves is set out below:

- **Carry Forwards.** These are the result of underspendings in one year being transferred to the following year, usually to help dampen budget pressures. Carry forwards are approved by Cabinet. There will be no carry forwards from 2010/11 to 2011/12.
- **PFI Reserves**. The way the Government funds PFI schemes means that Councils get more money in the early part of the contract than is needed to pay the PFI contractor. Towards the end of the contract the Government funding is reduced and is insufficient. These Reserves are therefore held to be used in the later years of the contract. Any use of such Reserves other than for the intended purpose would need to be repaid into the Reserve at a future date so that funding is available towards the end of the contract

- **Departmental Reserves.** The majority of these Reserves are held to replace vehicles or equipment or to fund capital schemes. The reasons for holding these Reserves is because some equipment and vehicles are quite expensive and departments would not be able to find the money in departmental budgets in a single year. Erosion of these Reserves would limit the replacement programme for items which are no longer fit for purpose.
- **Insurance Reserve.** These are sums set aside for insurance claims which have not yet been settled and the amount is linked to individual claims as well as some money set aside for claims which will be received in the future but which relate to previous insurance years. For example "abuse" claims can arise many years after the events.
- **Pay Review Reserve.** Monies set aside to fund the costs of Job Evaluation for non-teaching staff in schools.
- **PSA Reward Grant.** We had anticipated receiving Reward Grant, and because the activities were performed in 2009/10 we had to account for it in that year even though we had only received a proportion. The Reward Grant has been halved in recent Government announcements. The Council honoured the agreement with the District Councils to pass over a proportion of the Reward Grant. The balance was used in 2010/11 to support services affected by the in year grant reductions
- **Capital Projects**. A sum set aside to allow purchases of land etc for future capital schemes.
- **Redundancy Reserve**. Monies held to pay for the costs of redundancies associated with staffing reductions.
- **Improvement Programme**. This is part of the funding for the Improvement Programme that was approved by Council in February 2010.
- **Life Cycle Maintenance.** When a new office, library etc is built the Council puts aside 0.75% per annum of the capital costs to pay for future maintenance liabilities.
- **Tram Phase 2**. Monies held pending the resolution with the City Council of the County's decision to withdraw from the tram.
- **Trading Activities**. Monies set aside by the Trading Units e.g. Catering, Cleaning, Landscape, County Supplies etc for replacement equipment etc.

5.12.6 The only "free" Reserves which are not held for a specific purpose were County Fund Balances of £24.839 million as at 31 March 2010. These balances represent about 5% of non schools budgets which is considered a reasonable level. The 2011/12 budget plans to use about £5.1 million of County Fund Balances in support of the Improvement Programme and the Ways of Working Programme.

5.13 **Use of Balances and Reserves**

5.13.1 **Earmarked Reserves**

The complete picture on the proposed use of Earmarked Reserves and County Fund Balances in 2010/11 and 2011/12 is set out in the Summary Statement attached to this report. This statement shows 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 County Supplies, Sheltered Employment and Design and Print. It is proposed to reduce Departmental Reserves by £6.057 million in 2011/12.

5.13.2 In 2011/12 there is likely to be a call on these reserves to fund the costs of redundancies. Some of the cost of redundancies associated with the 2011/12 budget reductions will fall in 2010/11. The report to Cabinet on 9 February identified costs of about £10.9 million (433 people). These will be met from departmental underspendings of £7.85 million and the budget for 2010/11 of £3.0 million.

5.13.3 In 2011/12 the full cost of redundancies is not finally known. To date 72 people have volunteered and confirmed their intentions. The cost identified is £2.3 million. It has been estimated that around 1,300 redundancies will be required to meet the 2011/12 budget. Taking account of the 500 volunteers to date, for whom the costs are known, a further 800 posts are still to be specifically identified. Using an estimated cost per post of £25,000 the additional cost will be of the order of £20 million. The total cost falling in 2011/12 is therefore of the order of £22.3 million.

5.13.4 The 2011/12 budget has identified a sum of £10 million available to pay for redundancies which includes the use of the Redundancy Reserve (£3.1 million). There is an estimated shortfall of about £12.3 million which will be funded by the temporary use of Earmarked Reserves or County Fund Balances. The Medium Term Financial Strategy includes budget growth of £5 million for redundancies in 2012/13, giving a permanent ongoing budget of £8 million per annum. This budget will be used in later years to replenish the Earmarked Reserves used on a temporary basis in 2011/12.

5.13.5 **Budget Carry Forwards**

In light of the immediate financial issues it has been decided to modify the carry forward rules from 2010/11 to 2011/12. The first call on any underspendings in the 2010/11 financial year will be to meet the costs of redundancies and the car user buy-out costs. Any residual underspendings will be held as a reserve for future redundancy costs. It is not expected that any carry forwards will be permitted.

5.13.6 **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 2011/12 are:

	£'000
NET Line 1	0
East Leake Schools	318
Bassetlaw Schools	3,054
Waste PFI	2,840

5.13.7 **Pay Review Reserve and Provision**

The Pay Review Reserve has been increased to £8.8 million from the General Contingency to address the costs of National Job Evaluation in Schools.

5.13.8 **Use of County Fund Balances**

The level of "free" Balances at the end of 2010/11 is estimated to be £26.056 million. This represents about 4.8% of non-schools expenditure. It is proposed to utilise £2.6 million of County Fund Balances in 2011/12 in support the Improvement Programme as agreed in last years budget. A further £2.5 million will be used to finance Ways of Working Programme expenditure in 2011/12. The County Fund Balances at 31 March 2012 are therefore estimated to be £20.956 million which is 4.1% of 2011/12 non-schools expenditure.

5.14 **Summary of 2011/12 Budget Proposals**

The following table shows the build-up of the Budget Requirement for 2011/12:

	£000	£000
Schools Budget	506,423	
Less Dedicated Schools Grant	(506,423)	-
Other Service Requirements		544,886
Central Items		(30,931)
Expenditure before use of Reserves		**513,955**
Net transfer from Reserves		(7,330)
Budget Requirement		**506,625**

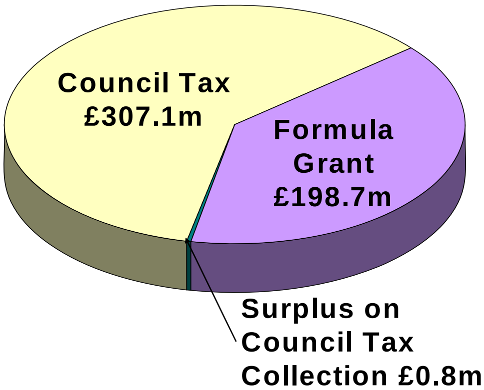
5.15 **Robustness of Budget and Level of Balances**

The Council's Section 151 Officer (the Service Director, Finance) 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 provided appropriate assurances in his financial comments on this report. He has concluded that the budget is robust and meets the requirements of the Local Government Finance Act 1992, the Local Government Act 2003 and the CIPFA Prudential Code. In his opinion, the proposals for 2011/12 fulfil the requirement to set a balanced budget. A Risk Assessment of the budget has been carried out by the Section 151 Officer, and his report is attached at Appendix A.

6. Methods of Financing Budget Requirement 2011/12

6.1 Funding of Budget Requirement 2011/12



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 £0.755 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

In 2011/12, a number of grants previously included in the Area Based Grant were merged into the Formula Grant. This process was described as "rolling-in".

A complex calculation produces a figure for Formula Grant, which for 2011/12 is £198.727 million, assessed as follows:

	2010/11 £m	**2011/12 £m**
Grants "rolled in"	-	23.05
Relative Needs	142.72	173.38
Relative Resources	(50.51)	(58.81)
Central Allocation	99.12	70.32
Damping	(15.26)	(9.22)
Total	**176.07**	**198.73**

The Formula Grant is then split between National Non-Domestic Rates (£151.804 million) and Revenue Support Grant (£46.923 million).

6.4 Council Tax Funding (£307.143 million)

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

7. Budget Consultations

7.1 The Council has undertaken a variety of budget consultation exercises with residents, stakeholder groups and service users to help guide and inform the 2011/12 budget process. This year's budget consultation process has been far more high profile and robust to reflect the scale of the decisions the Council has needed to make.

7.2 On 1 September 2010, The Big Budget Conversation campaign was launched. This was designed to gauge the public's view on their broad priorities as to how the County Council's spend should be apportioned at a strategic level. This included the use of a Budget Simulator which participants could use to suggest alternative budget scenarios. In addition to raising awareness of the financial constraints facing the Council, the campaign was also designed to gauge views on how the Council can save money; what residents would be prepared to do to help themselves and their community; which services are valued most and least; and which services the Council should spend less money on.

7.3 The key findings arising out of The Big Budget Conversation are that people understand that the Council has to make savings; they put forward some 'good ideas', which are being investigated; they are in favour of retaining spending levels on social care, country parks and libraries; and do not want to pay more for services, but at the same time do not want to lose any of the services which are important to them.

7.4 The Big Budget Conversation closed on 31 December 2010.

7.5 Following the publication of the service review proposals in October 2010 and the draft budget proposals in December, further consultation has taken place. Consultation on the County Council's detailed budget proposals closed on 21 January 2011.

7.6 Every effort has been made to make the consultation process as inclusive as possible. Methods for consulting have included

- an on-line questionnaire on the County Council's public website;
- paper copies of the above questionnaire, contained in two editions of County News inviting comments;
- making paper copies of the above questionnaire available in reception points at Libraries and county information points;
- providing a freepost address for residents to send in their own handwritten letters;
- including a link to the budget proposals on the 'Big Issues' website for all employees;
- numerous articles in the local press;
- radio and television interviews by Members and Officers;
- direct email and traditional correspondence with stakeholder groups;
- letters and emails to all parish councils;

- letters to voluntary sector providers;
- emails to all local Members of Parliament;
- numerous face to face meetings between Members and/or officers regarding specific proposals; and
- meetings between providers of services and Members and Officers.

7.7 The above list is not exhaustive and full details of the consultation methodology were contained in the report to Cabinet on 9 February.

7.8 About 10,000 individual responses were received via all channels. The total number of overall responses received in respect of the budget proposals was over 67,000 with many individuals responding to more than one proposal. Details of responses were included in Appendix A to the Cabinet report of 9 February.

7.9 In addition, a number of petitions were received. Again, full details were included in the 9 February Cabinet report.

7.10 The views expressed have been carefully considered and taken into account in formulating the final budget proposals. A number of modifications to the original proposals were made as a result of consultation feedback.

7.11 The main changes arising from the consultation are as follows:

- In respect of Supporting People it is now proposed to reduce the budget by £2.5 million in 2011/12. This compares with the Government Grant reduction in the same year of £4.9 million.
- It is proposed that the announced increase in charges for residents of Council residential homes will increase by £100 per week from April 2011 rather than £200 per week as had previously been proposed.
- In regard of Household Waste Recycling Centres it is no longer intended to implement the proposal to reduce the opening hours and opening days of these facilities and alternative savings will be found elsewhere within the Portfolio.
- £200,000 will be reinstated over the next two years in the budget for Country Parks which will allow a ranger service at all three Country Parks to be retained, and also to be able to support a number of annual events.
- Grant Aid to voluntary groups will have £425,000 reinstated.
- Citizens Advice Bureaux are a further area where the proposals have been reconsidered, and £25,000 will be added back in 2011/12 to assist with an orderly transition to a lower funding level over time.
- The Welfare Rights Service will be closing down in its current form over the next two years but it is intended to provide a service to the public through the Customer Service Centre where a number of specialist Welfare Rights Advisors will be transferred in order to give the public access to an advice function.

- Finally, in respect of Libraries funding of £70,000 has been reinstated which will allow the opening hours to be increased from the previous proposals, and over £400,000 will be added back to the Library Book Fund.

7.12 The Trade Unions were consulted on the proposals through normal channels. Unison provided a detailed response which comments on most of the individual savings proposals. The main themes of the Unison response were reported to Cabinet in early February. Unison was totally opposed to the proposals, which they considered to be based on ideology, rather than necessity, and would have a “devastating impact on services”. The union was also opposed to any planned privatisation of services, and did not believe there is any need for job cuts or service cuts. The union proposed the use of Reserves to maintain services, and suggested that the Authority should link with other authorities and campaign for appropriate Government funding.

7.13 Members and Officers met with representatives of the business ratepayers and this statutory consultation meeting took place on 20 January 2010. Councillors outlined the main features of the Council’s budget proposals and received comments on the proposals from a business perspective. The main comments raised by the business ratepayers included concerns regarding traffic congestion and potholes which restrict the movement of business vehicles; questions regarding the proposed closure of the Gedling School; enquiries about the reduction in staffing levels at the Council; and concern regarding the increase in charges for the Meals Service.

7.14 The Overview Committee received a presentation on the details of the consultation methodology and provisional responses as at early December. The Committee also considered in some detail the specific proposals in respect of Supporting People and reviewed the opportunities for joint consultation with other public sector organisations such as the Health Service and Police.

7.15 The Overview Committee recognised that, whilst ensuring meaningful consultation on the budget proposals is a challenging task, the prominence given to this year’s consultation and the high response rate demonstrated the Authority’s commitment to meeting that challenge. Members noted the support available through the Customer Service Centre as part of the consultation, and the effective use of the Leader in explaining the proposals. The Committee also considered that, whilst Portfolio Holders have also been involved publicly, there is possibly an opportunity for them to be used further in future. The difficulty in providing the right level of information to the public on which to base their responses was noted. However, the Committee also recognised the availability of additional information - such as on the Council’s website - for those wishing to obtain it. The role of Members in communicating the approach that the Council and its partners are taking was acknowledged, and it was accepted that Members would be able to direct the public to further information. The Committee recommended that options for providing Members with up to date key messages/information be explored. The Committee considered that NHS Nottinghamshire County had been successful in engagement through communicating the basic cost of services. The Committee recommended that the County Council look at ways of communicating the cost of its services based on the learning from the "play your NHS right". The positive response of Partners to the possibility of future collaboration on budget proposals and sharing key messages was welcomed. The Committee recommended that greater collaboration be explored at an early stage of considering the process for 2012/13.

8. Council Tax Bill Calculation

8.1 Each District Council has to construct a "Council Taxbase" 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 Taxbase of 257,416. This is slightly higher than the equivalent figure from the seven Districts for 2010/11. The increase in Taxbase 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 Taxbase as follows:

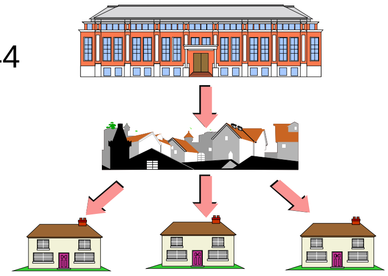
Amount to be raised by Council Tax £307,143,444

÷

Council Taxbase 257,416

=

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 amount charged for each Band is as follows:

BAND	2011/12 £
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 2011/12 is the same as for 2010/11 in line with the administration's proposal to freeze the Council Tax. This is the second year of Council Tax freeze.

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 Taxbase for each District. The figures are:-

District Council	Council Taxbase	County Precept £
Ashfield	35,350.80	42,179,868
Bassetlaw	36,217.26	43,213,710
Broxtowe	35,635.49	42,519,554
Gedling	38,206.85	45,587,649
Mansfield	31,618.90	37,727,039
Newark & Sherwood	39,229.55	46,807,914
Rushcliffe	41,157.00	49,107,709
	257,415.85	**307,143,444**

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

2011	**2011**
21 Apr	17 October
23 May	18 November
24 June	30 December
1 August	**2012**
7 September	6 February
	9 March

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 2010/11 will be paid or refunded on the same dates.

10. Capital Programme and Financing 2011/12 to 2014/15

10.1 The Council is currently refreshing its Capital Strategy and Corporate Asset Management Plan that link to the themes in the 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 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 "prudential" borrowing and, if desired, capital receipts. This is in addition to capital expenditure funded from other sources such as external grants and contributions, revenue and reserves. The revenue implications of the Capital Programme are provided for in, and integrated with, the revenue budget.

10.4 The Government continues to support capital expenditure by capital grants and, in December 2010, announced unringfenced capital support to local authorities from some Government Departments. This announcement includes Schools Capital Allocations, the Local Transport Capital Block Settlement and Adult Personal Social Services Capital Grant allocations. The Capital Programme incorporates these capital grants (including those whose announced figures are indicative in later years). Additionally, the Department for Transport has established a Local Sustainable Transport Fund which will be allocated to local authorities via a bidding mechanism.

10.5 Following a review of the Capital Programme and its financing, some proposals have been made regarding both new and previously approved schemes.

10.6 Schools 'Basic Need' schemes relate to the statutory requirement placed upon local authorities to provide sufficient school places. In particular, there is a legal duty to respond to any shortfall of school places within a local area which may arise through population movement, changes in birth rates, or more general demographic changes. Long-term structural change in the local population may require additional classrooms and other teaching spaces to be provided. Although, in some cases, the Community Infrastructure Levy makes a contribution to these costs, it does not cover the total cost of providing the necessary school places. It is proposed that £9.5 million is provided to meet the shortfall in 2011/12, that £2.5 million is provided from 2012/13 to 2015/16 and that £2.0 million per year is provided on a rolling basis thereafter. These indicative allocations are subject to submission of a business case.

10.7 It had been hoped that the Building Schools for the Future (BSF) programme would allow for the stock of secondary schools to be rebuilt or significantly refurbished over the medium term. With the termination of the BSF programme, the Council's bid for around £150 million was terminated. The revenue budget of the Medium Term Financial Strategy contained an approved budget growth bid of £3 million per year from 2013/14 onwards to fund the "affordability gap" associated with the BSF scheme. As the scheme will not now go ahead it is proposed to utilise the revenue funding to support a Capital Programme scheme of £30 million over the period 2012/13 to 2014/15 to address some of the very highest priority property issues in schools. A business case will be prepared to detail the expenditure to be undertaken.

10.8 The Big House provides short periods of respite care for up to eight young people at any one time. The young people are aged between four and nineteen years and have severe learning disabilities and challenging behaviour. The current Big House building itself is no longer fit-for-purpose and a scheme of £1.7 million is proposed to construct a new purpose-built unit within the grounds of the existing site. This indicative level of funding is subject to submission of a business case.

10.9 The County Council is a party to a regional contract that provides cost-effective school broadband connectivity and internet related services. Previously, these have been funded by retaining the Harnessing Technology Grant and top-slicing school budgets on an annual basis. This arrangement results in significantly lower costs than would be the case if schools negotiated their own arrangements. Within the 2010/11 financial year, the Harnessing Technology Grant was cut by £1.58 million, but this funding was already committed for paying for school broadband connectivity and internet related services for the year. It is proposed to make available one-off replacement funding of £1.58 million in 2010/11.

10.10 With approval, grants and external contributions are incorporated into the Capital Programme throughout the year. It is proposed that CYPS budgets are adjusted to include section 106 developer contributions of £0.31 million for Brookside Primary and £0.97 million for Chuter Ede Primary.

10.11 In recognition of the predicted increase in numbers of older people in the future and the associated increase in demand for services, it is necessary to develop additional services that will help people live as independently as possible in local communities. In February 2010, the County Council approved a development programme for extra care housing, committing £12.65 million for the development of seven extra care housing schemes providing up to 160 extra care units with nomination rights to Nottinghamshire County Council. There is a need to continue this modernisation programme into the future and beyond the initial five year period. Although this requirement falls outside the current year Capital Programme horizon, an indicative future need for £7.35 million in the subsequent three years (Phase 2) is noted. Business cases are to be prepared for both phases of the scheme.

10.12 The Transformation of Social Care and Self-Directed Support agendas will change people's usage of day activities, giving people more choice for support during the day. Therefore, reduced demand for buildings based provision is anticipated. However the growth in the population of frail older people, the rise in dementia type illness and the increasing numbers of people with complex physical and learning disabilities means that a core service offering specialist, buildings-based provision will need to be retained. Pending submission of a business case, it is proposed that indicative capital funding of £8.0 million is included in the Capital Programme for the re-provision of Day and Community Services.

10.13 Investment is needed to structurally maintain 4,400 km of critical highway infrastructure. Together, the fabric of the road network, bridges, lighting columns, traffic signals, signs and lines combine to provide a network which is fit for purpose in terms of safety and capacity for traffic flow. Some funding for the on-going planned structural maintenance (carriageway renewal) of the county's road network was previously approved for 2011/12 and 2012/13, but additional funding is proposed in those and future years to support an annual programme of structural maintenance expenditure at a level of £12 million per year.

10.14 The 'Integrated Transport Measures (ITM)' is a package of capital schemes developed to support the Local Transport Plan and funded by direct grant from Government. The annual programme includes hundreds of schemes including bus priority schemes, public transport interchanges, park and ride facilities, bus infrastructure provision, cycling facilities, pedestrian improvements, smarter choices, safer routes to school, local safety schemes, road crossings, traffic management schemes, new and local road improvements and footway enhancements. It is proposed to incorporate into the Capital Programme funding of £5.9 million in 2011/12, £6.4 million in 2012/13, £6.7 million in 2013/14 and £9.4 million per annum thereafter.

10.15 The Nottingham Safety Partnership (with the Police, District Councils, etc.) promotes casualty reduction engineering schemes, safety cameras and safety awareness/education. The current Capital Programme contains a County Council borrowing allocation of £271,000 in each of 2011/12 and 2012/13. In June 2010, it was announced that the capital element of the Road Safety Grant funding from Government would no longer be provided. It is proposed to increase funding by £0.35 million in each of 2011/12 and 2012/13 to replace this grant and to provide an ongoing funding stream of £0.35 million per annum from 2013/14.

10.16 The Mansfield Public Transport Interchange has now been approved for support by the Department for Transport. The Government is to provide £7.16 million and it is proposed that the budget includes an additional £0.2 million of County Council capital allocations and incorporates additional contributions of £0.65 million from Mansfield District Council.

10.17 It is proposed that the Capital Programme includes £0.095 million in each of 2010/11 and 2011/12, and £0.075 million in each of 2012/13 and 2013/14, to meet the ongoing legal requirement to settle residual land compensation claims resulting from completed transport infrastructure projects. Additionally, it is proposed that a further £0.9 million is made available specifically to satisfy the Part 1 claims arising on the A612 Gedling Transport Improvement scheme over the period 2010/11 to 2013/14. It should be noted that there is a still an outstanding 'significant' claim which is being resisted.

10.18 The 2010/11 budget provided for a three year rolling programme of street lighting replacement at £1.7 million a year. During 2010/11 some of the funding was utilised to fund the Street Lighting Energy and Cost Saving Project and it is proposed that £1.05 million of capital allocations are made available to partially reinstate the funding that was reallocated. Implementation of the two projects will be combined wherever possible.

10.19 The 2010/11 budget included a three year capital scheme, at £0.5 million a year, to carry out key drainage improvements at prioritised target areas throughout the County. It is proposed to extend this scheme on a rolling basis at £0.6 million a year from 2013/14 onwards.

10.20 Cabinet agreed in March 2010 to terminate the Manage and Operate Partnerships in Mansfield, Ashfield and Broxtowe. Funding will be required for the capital costs associated with this termination and transfer of functions. Pending submission of a business case, it is proposed that an indicative allocation of £1.0 million is included in the budget for 2012/13.

10.21 The 2010/11 budget contained an indicative but unfunded scheme to erect a purpose-built salt barn at the Gamston Highways depot during 2010/11. It is proposed that this scheme should be funded by capital allocations of £0.18 million in 2011/12.

10.22 As part of the Improvement Programme, the Council is reviewing its provision, operation and management of it vehicles. A new integrated Shared Transport Centre will allow transportation functions to be controlled more effectively under a centralised service. The changes will affect all vehicles other than Highways fleet and some specialised heavy vehicles. In order to reflect these improved arrangements, it is proposed that all non-Highways vehicle budgets are to be included together in the Transport and Highways Portfolio. Vehicle purchases are being carefully planned and it is proposed that an indicative budget of £1.156 million per annum for vehicles is incorporated into the Capital Programme. Actual expenditure will be subject to approval of detailed vehicle replacement plans.

Provision for vehicle purchases has been removed from other Portfolios' budgets, with the exception of Highways Services. Pending the outcome of a review of Trading Services, it is proposed that the Personnel and Performance Portfolio includes a budget of £0.4 million per annum from 2011/12 for Highways Services vehicles and plant, together with budgets of £0.05 million and £0.07 million per annum for plant for Central Workshops and Landscape Services, respectively.

10.23 Grants and external contributions are regularly received as contributions towards schemes in the Transport and Highways Portfolio and the Environment and Sustainability Portfolio. These are brought into the Capital Programme during the financial year, as and when received. It is proposed that these Portfolios continue to recognise this funding within the Budget Book by including forecasts of anticipated funding within their budgets. These inclusions are £2.0 million per year for Transport and Highways and £0.2 million per year for Environment and Sustainability.

10.24 The Local Improvement Scheme (LIS) is a countywide programme to improve the environment of Nottinghamshire through schemes promoted by local communities and endorsed by County Council ward Members. During 2009/10, 53 of 54 electoral divisions benefited from one or more schemes being delivered or developed for implementation. It is proposed to include £3 million per annum in the Capital Programme to extend this well-respected programme into future years.

10.25 County Council (20/05/10) approved investment into the Business Management System to improve the quality and transparency of information on which decisions are made and to transform administration and support activities, yielding significant ongoing savings. It has been identified that around £5.2 million of the previously approved costs of this system relate to capital and these have, therefore, been incorporated into the Capital Programme.

10.26 County Council (09/12/10) approved funding for the Ways of Working Programme to rationalise office accommodation and provide supporting facilities to develop modern ways of working across the whole of the office portfolio. As well as generating significant ongoing savings, this invest-to-save programme will increase efficiency and effectiveness through amalgamation of teams and improve recruitment and retention of staff through a better working environment. The estimated capital cost of the approved scheme is £10.2 million, of which £8.5 million will be covered by capital receipts. This programme has been incorporated into the Capital Programme.

10.27 The existing Capital Programme has a rolling planned maintenance programme and it is proposed to extend this Building Works programme by investing £2.4 million per annum from 2014/15. The Capital Programme also has a rolling programme for essential repairs and security for properties that have been declared surplus to requirements. It is proposed to extend this rolling programme of £0.5 million per annum from 2012/13.

10.28 It is proposed that £0.5 million of capital funding is invested over a three year period for the development of ICT business continuity arrangements for around forty ICT services that would be required in the event of a wide scale emergency.

10.29 It is proposed that five further invest-to-save schemes are included in the Capital Programme. In order to avoid high costs of treatment and disposal to specialist landfill, a £0.4 million Highway Waste Transfer scheme is proposed to provide special bays and collection points, together with a treatment facility at a centrally located depot to treat hazardous waste. A £0.25 million Energy Efficiency Revolving Loan scheme is proposed to enable individual site managers to invest in capital projects that reduce site energy costs, with the loan (including financing costs) being fully repaid from the energy cost savings. A £0.25 million scheme to implement fixed/mobile convergence technology will provide seamless connectivity across the fixed (wired) and mobile (wifi and cellular) networks, delivering cost savings on call charges both from and to mobile phones. It is proposed to invest a further £0.5 million in hardware and software solutions to migrate away from the current IBM Lotus Domino platform to a predominantly Microsoft platform, enabling savings in support costs. Finally, it is proposed to invest an additional £0.22 million to extend libraries self-service lending facilities to a further thirteen medium-sized libraries, releasing staff from transactional work to focus on broader customer service work.

10.30 In order to finance the schemes outlined above it will be necessary to delay progress on some other schemes which are of slightly lower priority. The Council remains committed to these schemes but, given the pressures elsewhere in the Capital Programme, the start of Phase 2 of the Libraries Refurbishment Programme will be delayed until 2014/15 and the major re-modelling of the National Water Sports Centre and the construction of a new Sherwood Forest Visitor Centre will be re-phased with intended start dates in the year 2015/16. The budget for the National Water Sports Centre scheme includes funding for some minor capital proposals which will be accommodated in the dilapidations budget and reflects likely delays in match-funding.

10.31 The amounts of Schools Capital Allocations and the Local Transport Capital Block Settlement announced by Government in December 2010 exceeded the amounts of capital grants that the Council expected to receive. Consequently, some unringfenced capital funding has not yet been allocated to specific schemes. Such funding is shown within the Capital Programme under the heading “Anticipated Future Schemes”, together with an element of contingency for urgent unplanned capital works that may arise during the financial year. The high priority areas identified for additional capital funding are improvements to the condition of school buildings and further investment in roads maintenance and renewals. Allocation of additional funding to these areas will first require the submission of full business cases.

10.32 The proposed Capital Programme for 2011/12 is £113 million, and this includes £59 million that will be financed by borrowing (with financing costs met wholly from Council Tax). The proposed Capital Programme includes £18 million of expenditure slippage from 2010/11. The overall summary position for the years 2011/12 to 2014/15 is:-

	2011/12	2012/13	2013/14	2014/15
	£m	**£m**	**£m**	**£m**
Capital Expenditure	**113**	**101**	**79**	**85**
Financed by:				
Borrowing	59	50	38	43
Capital Grants etc	54	51	41	42
	113	**101**	**79**	**85**

10.33 The following capital receipts forecasts for 2011/12 to 2014/15 are based on a full review of expected property disposals and incorporate anticipated slippage between years.

	2011/12	2012/13	2013/14	2014/15
	£m	**£m**	**£m**	**£m**
Capital Receipts	17,034	27,151	15,691	5,450

The County Council may use capital receipts to meet capital expenditure in the year in which it is incurred or to repay the principal of any amount borrowed. In order to relieve pressure on the revenue budget, it is anticipated that capital receipts from 2011/12 to 2014/15 will be used to repay the principal of borrowing in previous years. Although this will result in a higher level of in-year borrowing, the overall level of external debt will be unaffected. This policy will be reviewed on an annual basis.

10.34 The principal schemes in the Capital Programme for 2011/12 are:-

Children and Young People's Services

Chuter Ede Primary
Greasley Beauvale Infants and Junior
Primary Capital Programme
School Basic Need Programme (Phase 2)
Schools Access Initiative
Special Schools Programme
Springbank (Eastwood Infants and Junior)
The Big House

Adult Social Care and Health

Bassetlaw Specialist Day Centre

Environment and Sustainability

Carbon Management
Local Improvement Schemes

Transport and Highways

Flood Alleviation and Drainage
Integrated Transport Measures
Land Reclamation
Mansfield Public Transport Interchange
Rationalisation of Highways Depots
Road Safety
Roads Maintenance and Renewals
Street Lighting Renewal

Culture and Community

Mansfield Library
National Water Sports Centre
West Bridgford Library

Deputy Leader

Business Management System
Ways of Working

Finance and Property

Building Works, including Health and Safety
ICT Infrastructure
IT Data Centre
Microsoft Enterprise Agreement

10.35 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.

10.36 The level of external debt, excluding finance lease liabilities, at 31 March 2010 was £287 million (£251 million at 31 March 2009), 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 are affordable, prudent and sustainable. In summary, the prudential indicators for the three year period are:-

	2011/12 £m	2012/13 £m	2013/14 £m
Estimated Capital Expenditure	113	101	79
Estimated Capital Financing Requirement	728	731	733
Authorised Limit for External Debt	486	490	492
Operational Boundary for External Debt	451	455	457
Financing Costs as Percentage of Net Revenue Stream	13.7%	16.5%	14.1%
Impact on Council Tax of total new capital investment	£2.08	£12.34	£22.00
Impact on Council Tax of proposed changes to the Capital Programme	£0.56	£2.60	£8.64

10.37 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 February 2010 the Medium Term Financial Strategy and Capital Programme for 2010/11 to 2013/14. The Strategy has been reviewed in preparation for the 2011/12 budget and subsequent years.

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 the annual budget and business planning process within the Environment and Resources department any additional funding requirements arising from the strategies are identified and built into the budget planning round.

11.3 The Medium Term Financial Strategy contained a number of economic and financial assumptions which were based on a review of the economic climate at the time. Since the publication of the Medium Term Financial Strategy in February 2010, there has been a number of changes to the national and local government financial landscape. The Government has published the Spending Review to 2014/15, and detailed grant figures have been produced for 2011/12 and 2012/13. In the light of changing circumstances, some revisions to the main assumptions are required.

11.4 <u>Government Grants</u>

Very little was known about possible grant settlements for 2011/12 and beyond when the Medium Term Financial Strategy was written. Based on the economic outlook at the time, it was assumed that grants would reduce by 2% per annum in cash terms from 2011/12 and each year thereafter. Whilst the level of reduction now appears modest, it should be noted that Nottinghamshire lost over £15 million of its Formula Grant as a result of the grant "floors" in 2010/11. It was assumed that, as the financial climate became more constrained, the overall grant for all authorities would be reduced and that the "floor" authorities would have the protection removed. This would have redistributed additional funding to Nottinghamshire and the other authorities that contribute to the "floor" mechanism.

In the light of the Spending Review and the December Finance Settlement alternative assumptions are now proposed as follows

	£ million	**Reduction from Previous year %**
2012/13 Formula Grant	181.7	-8.6
2013/14	not available	-0.9
2014/15	not available	-5.6

The assumptions regarding Formula Grant reductions in 2013/14 and 2014/15 are drawn from the Spending Review.

11.5 Council Tax

Following the County Council elections, the Council proposed a freeze on Council Tax for 2010/11. No increase was planned for 2011/12 to 2013/14. The Council Tax strategy was to stabilise the Council Tax at 2009/10 levels.

This strategy remains in place for 2011/12 and will be reviewed each year in the light of Government funding and emerging service pressures.

11.6 County Fund Balances

The Medium Term Financial Strategy concluded that the County Council's balances were relatively healthy compared with similar authorities. Given the prevailing economic conditions and financial outlook and uncertainties of future service demands, a reasonable level of balances would provide a financial buffer. The Strategy anticipated that the Council would manage its expenditure carefully and any year end underspendings would be used to increase County Fund balances if possible.

A level of County Fund Balances at about 5% was considered prudent and the Council aimed to achieve this level over time.

It is still considered prudent to maintain a reasonable level of County Fund Balances in case of unexpected events. The budget proposals for 2011/12 include the use of £5.1 million of County Fund Balances.

11.7 Reserves

The policy for departmental reserves was established in 2004/05. In broad terms, departmental reserves should only be held for specific purposes, principally:

- Asset replacement of short life assets, usually 10 years or less

- To “Save to invest” for items of expenditure which are irregular
- For trading activities (no more than 2% of annual turnover)
- To support items of capital expenditure

This policy remains reasonable. In 2011/12 all departmental Reserves for vehicles (excluding Highways vehicles) were amalgamated under the Transport and Travel Service. In future, vehicle replacements will be met from capital allocations. Departmental reserves will continue to be reviewed annually in line with the agreed policy to ensure they are not excessive. The Reserves are still considered necessary, adequate and not excessive for the purposes for which they are held. If some of the Reserves are used to fund the costs of redundancies in 2011/12 and future years they will need to be replenished.

11.8 Inflation Assumptions

The Medium Term Financial Strategy forecasts included inflation based on the best estimates of future inflation rates and pay awards available at that time.

Payroll is a major element of the Council’s expenditure. The predicted pay award assumptions in the Medium Term Financial Strategy were 0% for 2010/11 and 1% thereafter.

The public sector pay freeze means that in 2011/12 and 2012/13 the pay award is limited to those earning under £21,000 a year who will receive a flat figure of £250. This has been built into the latest financial model. For 2013/14 and 2014/15 the pay award assumption is revised to 3%.

The Medium Term Financial Strategy assumed that inflation would be built into non pay budgets at 2% per annum.

In order to assist with managing the budget pressures, no inflation uplift has been applied to non staffing budgets in 2011/12, and managers will be expected to control expenditure within their cash limited budgets. For 2012/13 and beyond, inflation is assumed at 3%

11.9 Capital Funding

The Authority seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring any surplus assets are sold. Due to economic factors, the timing of asset sales is the most volatile element of funding. As a result**,** regular monitoring of asset sales takes place by the Cabinet Member for Finance and Property, the Service Director, Finance and the Service Director, Transport, Property and Environment. Any temporary shortfalls in receipts from asset sales will result in additional financing costs.

11.10 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. The tables below show the build up of the savings required to balance the budget and the changes to that requirement following the decisions of Cabinet on 9 February. The second table shows the reasons for the required savings e.g. loss of grants, budget pressures etc.

Savings Requirement Update

	2011/12 £'m	2012/13 £'m	2013/14 £'m	2014/15 £'m	TOTAL
Savings Requirement (19/01/11)	**87.2**	**41.4**	**25.8**	**30.4**	**184.8**
Reduction in Pressures	(6.1)	3.2	-	-	(2.9)
Inflation Pressure withdrawn	(6.0)	-	-	-	(6.0)
Departmental Savings Contingency	(1.5)	-	-	-	(1.5)
Health Funding	(5.5)	-	-	-	(5.5)
Design Fee Income	0.7	-	-	-	0.7
Life Cycle Maintenance Reserve	(1.0)	1.0	-	-	-
NET Reserves	(0.4)	-	-	-	(0.4)
New Homes Bonus	(0.5)	-	-	-	(0.5)
Supporting People Reserve	(1.2)	-	1.2	-	-
Revised Savings Requirement	**65.7**	**45.6**	**27.0**	**30.4**	**168.7**

Analysis of Savings Requirement

	2011/12 £'m	2012/13 £'m	2013/14 £'m	2014/15 £'m	TOTAL
Government Grants	26.2	14.2	0.8	9.4	50.6
Budget Pressures	35.9	15.6	13.1	8.3	72.9
Inflation/Pay/Pensions	2.8	11.1	14.8	14.5	43.2
Redundancies	3.9	(3.9)	-	-	-
Improvement Programme	(3.0)	(2.6)	(2.1)	-	(7.7)
Borrowing	2.2	0.7	0.2	(0.2)	2.9
Contingency	1.0	2.8	2.1	(0.6)	5.3
County Fund Balances	(3.1)	5.1	-	-	2.0
Taxbase	(1.5)	(1.5)	(1.6)	(1.5)	(6.1)
Other Items	1.3	4.1	(0.3)	0.5	5.6
Revised Savings Requirement	**65.7**	**45.6**	**27.0**	**30.4**	**168.7**
Departmental Savings(reality checked)	(71.6)	(38.7)	(14.5)	(7.0)	(131.8)
Departmental Savings Reinstated	5.0	(0.7)	(1.6)	0.2	2.9
Inflation savings withdrawn	6.0	-	-	-	6.0
Cross Cutting Savings	(2.2)	(5.4)	(5.3)	(1.0)	(13.9)
Add'l Cross Cutting Savings	(1.3)	-	-	-	(1.3)
Shortfall (+)/ Surplus (-) ☆	**1.6**	**0.8**	**5.6**	**22.6**	**30.6**

☆ Shortfall in 2011/12 met by reduced contingency and thereafter by additonal savings

A summary of the overall budget figures for the next four years together with the anticipated level of County Fund Balances and changes in Government Grant is shown in the table below:

	2011/12 £'m	2012/13 £'m	2013/14 £'m	2014/15 £'m
Total Spend	**506.6**	**491.1**	**491.2**	**482.6**
County Fund Balances	**21.0**	**21.0**	**21.0**	**21.0**
	4.1%	**4.3%**	**4.3%**	**4.4%**
Council Tax Increase	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Government Grant increase	**-12.7%**	**-8.6%**	**-0.8%**	**-5.6%**

11.11 A projection of the summarised Balance Sheet for 2009/10 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 19% to 21% of the total value of assets, which is below the average position for shire counties.

11.12 **Risk Analysis**

- No allowance has been included in Portfolio budgets in 2011/12 for inflation. There is a risk that inflation could rise in year. Beyond 2011/12 an allowance will be made for inflation. It will be necessary to review economic conditions each year and amend the assumptions as necessary.
- Pay inflation is known for 2011/12 and 2012/13. Beyond that the revised 3% assumption is considered appropriate at this stage.
- The savings reductions required for 2011/12 pose a very challenging target, and whilst plans are in place they will require determined implementation. With such ambitious plans, there is a risk that some of the savings proposals may be delayed or fail to meet the targets set. Corporate Directors are well aware of the risks and there is an expectation that any slippage will need to be met by other savings in year. The savings identified have been risk assessed and a contingency has been provided.
- Most of the savings required for 2012/13 and beyond have been identified and, for the first time ever, these have been specifically assigned to individual activities and service areas. Some further work is still required to identify specific savings in later years and this activity will commence early in the 2011/12 financial year.
- Although there is reliable evidence for the predicted increase in both adults' and children's social care, these have tended to be the most variable areas of spend in recent years.
- Reductions over the four year period in the Supporting People programme may result in some additional demands on mainstream adult care services. Regular monitoring of the client base will be required.

12. Equality Impact Assessments

12.1 At its meeting on 15 December 2010 Cabinet considered a report which outlined the Council's equalities duties to which ongoing regard has been had throughout the process and included information on the initial equality impact of the service reviews. This report detailed that the equality implications of the service review proposals for service users, stakeholders and staff were being considered through an Equality Impact Assessment process. This involved an initial high level assessment screening process on each service review proposal, based on information available. This was followed by a group equality impact assessment undertaken in conjunction with the consultation process.

12.2 In taking account of the final consultation responses and determining consequent adjustments to budget proposals, consideration has been given to whether the initial screening and group impact assessment findings require amendment. To date no need for change has been identified and in reaching the final budget proposals due regard has been had to the findings of the assessments and equalities duties. In addition, ongoing monitoring of the proposals will follow during implementation and any necessary action will be taken to address issues as they arise in line with the Council's equalities duties.

13. Statutory and Policy Implications

13.1 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.

14. Recommendations

		Paragraph Ref
14.1	The revised budget of £483.860 million for 2010/11 be approved.	4.1
14.2	The Annual Budget of £506.625 million for 2011/12 be approved.	5.14
14.3	A transfer from County Fund Balances of £5.100 million for 2011/12 be approved.	5.13.8
14.4	The Cabinet be authorised to make allocations from the General Contingency for 2011/12.	5.7
14.5	The County Council's Council Tax for 2011/12 for the various Bands of property shall be:	8.3

BAND	2011/12 £
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

14.6 The County Precept for the year ending 31 March 2012 shall be £307,143,444 and shall be applicable to the whole of the District Council areas as General Expenses in the proportions set out in paragraph 9.1. 9.1

14.7 The County Precept for 2011/12 shall be collected from the District and Borough Councils, with the payment of equal instalments on the following dates: 9.2

2011	**2011**
21 April	17 October
23 May	18 November
24June	30 December
1 August	**2012**
7 September	6 February
	9 March

14.8 The Capital Programme for 2011/12 to 2014/15 be approved at total amounts of: 10.32

2011/12	£ 113 million
2012/13	£ 101 million
2013/14	£ 79 million
2014/15	£ 85 million

to be financed as set out in the report.

14.9	Variations to the Capital Programme be approved in accordance with the procedures set out within Section 4 of the Authority's Financial Regulations.	10.35
14.10	The Minimum Revenue Provision policy for 2011/12 set out in paragraph 5.9 be approved.	5.9
14.11	The authorised limit on total external borrowings be set at £486 million for 2011/12, £490 million for 2012/13 and £492 million for 2013/14.	10.36
14.12	The Prudential Indicators shown in paragraph 10.36 be approved.	10.36
14.13	The limit on short-term borrowings be set as £35 million for 2011/12.	10.37
14.14	The Service Director - Finance be authorised to raise loans in 2011/12 within the limits of total external borrowings.	10.37
14.15	The principles underlying the Medium Term Financial Strategy be approved.	11
14.16	That a decision on the allocation of the former Safer and Stronger Grant, (which has been incorporated into the Community Safety Fund Grant) be deferred.	5.11
14.17	The report on the Annual Budget for 2011/12, and the Capital Programme 2011/12 – 2014/15 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 2011/12

Equality Impact Assessments

Unison response to consultations.

Head of Legal Services Comments (JMF-W 07/02/2011)

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 07/02/2011)

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.

The budget has been prepared in conjunction with all Cabinet Members, Corporate Directors and other senior officers. There has been robust examination and challenge of all the additional spending pressures and savings proposals.

There is a realistic provision for inflation on pay and other running costs, and to the extent that this may be insufficient or that other unexpected events arise there are appropriate County Fund Balances.

The levels of Reserves and Balances have been reviewed and are considered to be adequate. The use of Earmarked Reserves will be required to meet some of the costs of redundancies in 2011/12. The Council has a strategy for replenishing those reserves over the medium term.

Risks are outlined in section 11.12 above. A Contingency has been provided in recognition of the risk of underachievement of some of the savings proposals. The risks and assumptions have been communicated to, and understood by, elected Members and Corporate Directors.
A comprehensive risk analysis is included as an Appendix to this report.
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. The proposals for 2011/12 fulfil the requirement to set a balanced budget.

REPORT OF THE SERVICE DIRECTOR - FINANCE

BUDGET 2011/12

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. For 2011/12 regular budget monitoring will be even more important, to ensure that the planned budget reductions are on track. Traditional budget monitoring will be supplemented by regular updates against each of the specific budget reduction proposals using the Council's Verto software. In year corrective action will be taken if there is any divergence from the savings plans. Given the extent of savings required in 2011/12, a contingency has been established to allow a small degree of slippage. This should mitigate against the risk of overspending. However, it would be prudent to assess the risk of overspending as MEDIUM in the 2011/12 financial year.

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.

2.2 Employee Costs

2.2.1 About 30% 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. For 2011/12 and 2012/13, the pay award has been announced and, in common with the rest of the public sector, the pay for Council workers will be subject to a pay freeze. The exception is for those staff earning less than £21,000 a year where a flat rate increase of £250 has been announced. The budget assumptions for 2011/12 and 2012/13 include the limited pay award. The residual risk is in respect of staff numbers if the reduction in posts is delayed during the financial year. For 2013/14 and beyond an increase of 3% has been provided in departmental budgets. Schools will have to meet the costs of the teachers pay award from the Dedicated Schools Grant. Risks in respect of pay awards during 2011/12 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. There is a risk that staff reductions may not be achieved as quickly as predicted, and this could lead to an overspending. Careful budget monitoring will be required and corrective action will be taken in the event of an emerging overspend.

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 has already set these rates for 2011/12 and so the risk of a variation for next year at this stage is MINIMAL.

2.2.6 The cost of employer's 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 employer's contributions. The 2011/12 contribution rate for the Local Government Pension Scheme has been set at 18.3% which is an increase of 0.9% on the 2010/11 figure. This increase has been built into Portfolio budgets.

2.2.7 The costs of redundancies in 2011/12 are likely to exceed the budget allocation and a call on County Fund Balances or Earmarked Reserves must be anticipated. The Council has identified a means of replenishing those Reserves over time.

2.3. Other Running Costs

2.3.1 These items make up about 64% 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 2011/12 of anticipated budget problems including:

- Additional funding for Specialist placements to procure external placements from the independent sector for children in care.
- Safeguarding Children. The Council needs to increase its capacity both in terms of frontline staff and operational managers to support those staff.
- Academies. Funding has been provided to address any financial shortfall as the Government top slices the Revenue Support Grant to fund the expansion in the academies programme.
- School Transport. This additional funding relates to the new Home to School Transport Policy.
- Additional budget provision for Mental Health and Learning Disability.
- Additional funding for the growing number of older people requiring care.

- Additional funding to provide specialist services for people with complex physical disabilities and degenerative illnesses and those requiring support following serious accidents etc.
- Increased expenditure for independent sector care home fees as part of the local fair price for care model.

- Increased support for disabled parents and young carers.
- Increased Highway maintenance and inflation.
- Winter Maintenance.
- Funding for the discretionary elements of the Concessionary Fares Scheme.
- Additional Pension Fund Contributions.
- Carbon Reduction Commitment Energy Efficiency Scheme.
- Funding for the Ways of Working Programme from County Fund Balances.

2.3.4 Non-pay budgets have not been increased by an allowance for inflation in 2011/12. There is a risk that inflation could rise during the course of the financial year and that budgets will come under increasing pressure. If this occurs, managers will be expected to make further in year spending adjustments in order that they manage within the cash limited sums.

2.3.5 Savings of £87.2 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 2011/12 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 TO MEDIUM 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 2010/11 financial year underspends and slippage of £18 million is anticipated compared with the Budget Book 2010/11. The likelihood of planned capital expenditure exceeding the budgeted amounts in 2011/12 is MINIMAL.

2.4.3 The Bank of England Base Rate has remained at 0.5% (its lowest ever level) since early 2009. This was part of a response to the "Credit Crunch" in 2008 to attempt to avoid a long and deep recession. The recession ended towards the end of 2009 and there are some indications that the Base Rate will increase soon as inflation is continuing at higher than targeted levels. Fifty year borrowing rates have increased during the year and are currently approaching 5.5%. Any new borrowing should be around these levels, but all existing long-term borrowing is at fixed rates of interest and consequently unaffected by market rates.

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. The number and value of specific grants has reduced significantly in 2011/12 as the Government has removed the “ring fence” from most grants.

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 The conclusion is that material variations affecting County Fund Balances from income shortfalls are likely to be LOW 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 for 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 are 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.

3.2. Financing

3.2.1 Capital expenditure may be 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. The financing costs of such discretionary borrowing must 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 Alongside the 2011/12 Finance Settlement announced in December 2010, the amounts of most 2011/12 and some 2012/13 capital grants were announced. However, announcements of the amounts of the remaining capital grants in those and later years are either indicative or have yet to be made. No capital schemes which rely on capital grants will be approved until the amount of capital grant is known with sufficient certainty 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 £17.0 million from capital receipts in 2011/12. There is 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 – Transport, Property and Environment.

It is anticipated that capital receipts raised from 2011/12 to 2014/15 will be used to repay the principal of borrowing in previous years. There are particular challenges with regard to realising capital receipts in the current economic climate. If the capital receipts target is not achieved, any shortfall will result in additional financing costs. However, these may be offset by the impact of any net slippage in the Capital Programme.

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.

4.3 The Council has a good record in terms of its financial management and appropriate measures are in place to ensure that this will continue.

4.4 At the end of May 2010, the Government announced that work on the Comprehensive Area Assessment would cease with immediate effect and the Audit Commission would no longer issue scores for its use of resources assessments. However, the External Auditor is still required by the Code of Audit Practice to issue a value for money conclusion. The Auditor used the results of the work completed on the use of resources assessment up to the end of May to inform his 2009/10 conclusion. The Value for Money conclusion was reported to the Audit Committee in December 2010. The Auditor concluded that the Council has put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources and issued an unqualified value for money conclusion in September 2010. The Annual Audit letter included the following comments on the Council's financial arrangements:

"Widespread budget consultation has informed the updated 2010/14 financial strategy and has helped shape the Improvement Programme to deliver significant financial savings over the period of the plan. The budget is comprehensive and service plans reflect changing priorities. Financial standing has been good and no significant under or overspends were reported in the year. The Council has not needed to draw on reserves and the capital programme has been significantly reduced to reflect new Council priorities and changes in the economy and availability of capital resources.

"The Council has improved its understanding and control of its costs and is delivering efficiency savings. The Council has set challenging targets for budget reductions and is making progress on its programmes to deliver them. Decisions have been informed by a wide-ranging analysis of cost, performance and future pressures. The Council has continued to achieve reasonable VFM with high spending areas reflecting priorities and performance. There is improved understanding of costs and outcomes from significant partnerships.

"Financial monitoring and forecasting information is reliable and is used effectively. The financial reporting arrangements are well established and new accounting requirements have been successfully addressed in the year. Published reports are accessible and provide an objective and understandable assessment of performance.

"The Council has been making good progress on its programme of service reviews, including fundamental reviews of trading services.

"The Council promotes good governance both internally and in its partnerships. A good range of member briefings and training has been made available and attendees' evaluation has overall been positive.

"The Council continues to manage risk effectively and the arrangements are embedded. The Council's fraud and corruption strategy is understood and supported by managers and members. Internal Audit's work programme covered the key systems in the Authority and they found that the controls and procedures continue to operate satisfactorily."

4.5 The Auditor also recognised the efforts the Council has made to address future financial challenges and made the following observations:

"Across the country, all councils face severe and long-term social and financial challenges over the next few years. The government plans to eliminate the structural deficit in the period 2011/12 to 2014/15. Public spending will have to fall and councils will play a major part in helping to reduce the deficit. Revenue grants (excluding schools) will fall by an approximate 28 per cent with the majority impacting in the first two years. Capital funding will also fall by 45 per cent.

"As well as facing increases in cost through normal inflation there are demographic pressures on the adult care and the looked after children budgets. The Council has had to deal with in-year cuts in government grant for 2010/11, including a £5 million reduction in Area Based Grant, and has made good progress in planning its response to the further cuts indicated by the recently announced Comprehensive Spending Review. The Council has an ambitious Improvement Programme underway to deliver the £181 million savings it forecast as being needed to balance its medium term financial plan. The Improvement Programme is resourced and has significant member support. The Council is delivering savings in 2010/11, is restructuring its management and has identified further proposals, to be implemented by 2011/12, to free up further resources to be used to mitigate the impact on front line services.

"The challenge will be to continue to maintain and manage core services in line with strategic objectives as income from central government falls, given the limited opportunities to raise income from fees and charges and any increase in council tax. The Council's current financial health and strategy provides a solid basis for future planning but some uncertainties remain about future funding levels and the full implications of the comprehensive spending review. These uncertainties will become clearer over the next few months as budgets are reviewed when the provisional finance settlement is published in December 2010."

4.6 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	24,839	
2010/2011	26,056	Estimated

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 2012 is estimated at £20.956 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 2011/12 be regarded as acceptable cover for any reasonable level of unforeseen events.

6.2. The report be noted.

ALAN SUMBY
SERVICE DIRECTOR, FINANCE

APPENDIX B

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. alignment with 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; and
- Amounts set aside for repayments of amounts borrowed which, following recent changes to accounting treatments, include repayments of other finance lease liabilities (the amounts of which are not material) and amounts relating to PFI schemes (from 2009/10).

The relevant figures from the 2009/10 Accounts are:

	£000
Interest Payable (incl. PFI/Finance Leases)	31,081
Interest on Investments	(2,106)
PFI Residual Interest	207
Repayment of Previous Years' Borrowing	2,520
Repayment of PFI/Finance Lease Liabilities	3,643
Other Amounts set aside for Repaying Debt	17,486
Capital Financing Costs	**52,831**
Net Revenue Stream	**535,155**

Capital financing costs were therefore 9.9% of the County Council's net revenue stream. The estimated proportions for the following years are:

2010/11	11.6%
2011/12	13.7%
2012/13	16.5%
2013/14	14.1%

These proportions are not directly comparable with those shown in previous years' Budget Books since the above figures incorporate financing costs relating to PFI schemes and the use of capital receipts to repay previous years' borrowing. The former change is a consequence of revised accounting rules known as International Financial Reporting Standards (IFRS). Re-calculation of these proportions on the previous basis (i.e. excluding the impact of PFI financing costs and the use of capital receipts) yields that estimates of capital financing costs as a proportion of net revenue stream are no higher than the estimates presented in the Budget Book 2010/11. Moreover, almost all of the variation over time in the above estimated proportions is a consequence of the impact of using capital receipts to repay the principal of amounts previously borrowed. The proportion of capital financing costs to net revenue stream will be kept under review.

3.1.3 The forecast levels of capital expenditure and sources of finance for the next four years are:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Capital Expenditure	**113**	**101**	**79**	**85**
Funded From:				
Borrowing	59	50	38	43
Capital Grants etc.	54	51	41	42
Total	**113**	**101**	**79**	**85**

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. A figure of £59 million in 2011/12 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 the revised policy of using of capital receipts to repay the principal of borrowing in previous years, rather than to finance new expenditure. Neither of these factors results in a higher overall level of debt.

3.1.4 The County Council's external debt per head of population at the end of 2008/09, the last year for which comparative figures are available, was £317. This was £208 per head (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:

Borrowing	**2011/12 £59m**	**2012/13 £50m**	**2013/14 £38m**
Estimated Gross Financing Costs	£0.88m	£5.23m	£9.32m
Council Tax impact (Band D)	£3.42	£20.30	£36.21
Estimated Financing Costs (based on 39% of financing funded through grant)	£0.54m	£3.18m	£5.66m
Council Tax impact (Band D) adjusted for grant	**£2.08**	**£12.34**	**£22.00**

The Band D Council Tax for 2010/11 was £1,193.18. After applying a 39% grant contribution, capital financing would increase Council Tax by up to £2.08 in 2011/12, equivalent to an increase of 0.2%. However, the Council has determined that there will be no increase in the Council Tax for 2011/12 and the increased capital financing costs will be met by reprioritisation. The cumulative amounts for 2012/13 and 2013/14 are £12.34 and £22.00 respectively, equivalent to 1.0% and 1.8% based on the levels of borrowing outlined in the table above.

3.1.6 Under the Prudential Code, the County Council is required to forecast the total budgetary requirements arising specifically from the changes proposed to the Capital Programme in the Budget Report (section 10) and to calculate the resulting impact of these capital investment decisions on Council Tax levels. The proposed changes that tend to impact Council Tax fall into two categories. Schemes with proposed additional funding from borrowing tend to increase the Council's financing costs. Conversely, where capital grants are to be applied to reduce the level of borrowing required, this tends to reduce the Council's financing costs.

The figures shown below include the impact of proposed capital investments to be made over the period 2010/11 to 2014/15, but exclude the impact of invest-to-save schemes for which estimated revenue savings have not been calculated in detail. Such invest-to-save schemes will exert favourable pressures on Council Tax levels. Similarly, the figures exclude the impact of any unquantified ongoing revenue savings that may arise from capital investments. Finally, whilst the proposals have not yet been finalised for a number of anticipated future schemes to be funded from borrowing, their impacts are prudently incorporated in the figures.

The estimated impact on borrowing levels for the proposed changes and the associated changes to financing costs in the next four years are:

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
Net Impact on Borrowing	**3.0**	**6.0**	**31.5**	**32.8**	**38.4**
Financing Costs of new Borrowing	0.08	0.81	3.13	5.91	8.58
Savings from use of Capital Grants	-0.03	-0.57	-2.03	-2.25	-2.21
Total	**0.05**	**0.24**	**1.10**	**3.66**	**6.37**
Council Tax impact (Band D)	-	£0.93	£4.28	£14.22	£24.74
Council Tax impact (Band D) adjusted for grant	-	£0.56	£2.60	£8.64	£15.04

After applying a 39% grant contribution, the proposed changes to the Capital Programme, if considered in isolation, would increase Council Tax by up to £0.56 in 2011/12. The cumulative increases for the subsequent three years are shown in the above table.

3.2 Prudence and Sustainability

3.2.1 One of the features of the Prudential Code arrangements is the need to calculate the "Capital Financing Requirement". This figure covers capital expenditure which has not yet been permanently financed through the revenue account. It is derived by consolidating a number of Balance Sheet items.

	£m
Fixed Assets	1,712
Long-term Debtors relating to Capital Transactions	-
Capital Adjustment Account	(656)
Revaluation Reserve	(154)
Government Grants Deferred	(251)
Capital Financing Requirement*	**651**

* As at 31 March 2010

The Code states that "In order to ensure that over the medium term, net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years." This is a key indicator of prudence.

The Capital Financing Requirement needs to be rolled forward to the estimated position at the end of 2010/11:

	£m
Capital Financing Requirement 2009/10	**651**
Supported Borrowing in 2010/11	15
Other Borrowing in 2010/11	54
Additional PFI/Finance Lease Liabilities in 2010/11	9
Repayment of PFI/Finance Lease Liabilities in 2010/11	(4)
Use of Capital Receipts to repay Debt in 2010/11	(4)
Other Amounts set aside for Repayment of Debt in 2010/11	(18)
Estimated Capital Financing Requirement 2010/11	**703**

3.2.2 The additional Capital Financing Requirements for the next 3 years are:

	2011/12	2012/13	2013/14
	£m	**£m**	**£m**
New Borrowing	59	50	38
Additional PFI/Finance Lease Liabilities	3	-	-
Repayment of PFI/Finance Lease Liabilities	(3)	(4)	(4)
Use of Capital Receipts to repay Debt	(17)	(27)	(16)
Other Amounts set aside for Repayment of Debt	(17)	(16)	(16)
Additions (net)	**25**	**3**	**2**

As such there is a requirement to ensure that net external borrowing does not, except in the short term, exceed £733 million in 2011/12, 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 2011/12 and for each of the following two years. There is also a requirement to set an "Operational Boundary" for external debt (expressed as the sum of the Operational Boundary for borrowing and the Operational Boundary for other long-term liabilities) 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 level of external borrowing, which was £287.024 million, and the level of relevant liabilities (including finance lease liabilities), which was £146.254 million, both shown in the Balance Sheet at 31 March 2010.

3.2.5 These figures can be rolled forward to provide Operational Boundaries for 2011/12 and subsequent years.

	Borrowing £m	Other Long-Term Liabilities £m	**TOTAL £m**
External borrowing at 31 March 2010	287		287
Deferred Liability at 31 March 2010		3	3
PFI Finance Lease Liabilities at 31 March 2010		143	143
Net new borrowing in 2010/11	(22)		(22)
Net increase in PFI/finance lease liabilities		5	5
Estimated external borrowing at 31 March 2011	265	151	**416**
Capital expenditure financed by borrowing 2011/12	59		59
Use of capital receipts to repay debt	(17)		(17)
Other amounts set aside for repayment of debt	(17)		(17)
Net increase in PFI/finance lease liabilities		-	-
Contingency for unforeseen borrowing	10		10
Operational Boundary 2011/12	300	151	**451**
Capital expenditure financed by borrowing 2012/13	50		50
Use of capital receipts to repay debt	(27)		(27)
Other amounts set aside for repayment of debt	(16)		(16)
Net increase in PFI/finance lease liabilities		(3)	(3)
Operational Boundary 2012/13	307	148	**455**
Capital expenditure financed by borrowing 2013/14	38		38
Use of capital receipts to repay debt	(16)		(16)
Other amounts set aside for repayment of debt	(16)		(16)
Net increase in PFI/finance lease liabilities		(4)	(4)
Operational Boundary 2013/14	313	144	**457**

The contingency for unforeseen borrowing is available 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 for exceptional purposes. In line with the short term (i.e. borrowing for less than one year) borrowing limit, it is proposed to add a further £35 million to the Operational Boundaries to provide sufficient headroom for events such as unusual cash movements. The suggested Authorised Limits are:

2011/12	£486 million
2012/13	£490 million
2013/14	£492 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 are available when required.

4. Summary of Prudential Indicators

	2011/12 £m	2012/13 £m	2013/14 £m
Estimated capital expenditure	113	101	79
Estimated capital financing requirement	728	731	733
Authorised limit for external debt	486	490	492
Operational boundary for external debt	451	455	457
Financing costs as a percentage of net revenue stream	13.7%	16.5%	14.1%
Impact of total new capital investment on Council Tax	£2.08	£12.34	£22.00
Impact of proposed changes to the Capital Programme on Council Tax	£0.56	£2.60	£8.64

5. Recommendation

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

ALAN SUMBY
SERVICE DIRECTOR, FINANCE