

AGENDA ITEM 5	
ES/002/12	
Committee:	Executive Scrutiny Committee
Date:	31 January 2012
<u>THE ESSEXWORKS CORPORATE PLAN 2012-17, REVENUE AND CAPITAL BUDGETS 2012-13 AND MEDIUM TERM RESOURCES STRATEGY</u>	
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Purpose of report

- The report presents information to enable the Cabinet to consider and make relevant recommendations to the Full Council on the new Corporate Plan for 2012/13 to 2016/17, on the revenue budget and Council Tax precept for 2012/13 and the capital programme to 2016/17, and to consider the medium term resource strategy for the period to 2014/15 in the light of the best information available regarding funding.

Decision Areas and Recommendations

- As regards the EssexWorks Corporate Plan, Cabinet is asked to:
 - Consider and agree the draft EssexWorks Corporate Plan 2012/13 - 2016/17 (presented as an accompanying paper to this report); and
 - Recommend to Full Council that it adopt the document as the Council's Corporate Plan for 2012/13 – 2016/17.
- As regards the Revenue and Capital Budgets 2012/13 and Medium Term Resources Strategy, Cabinet is asked to:
 - Consider the short and longer term resource issues confronting the Authority, particularly over the period to 2014/15, based upon the best information available.
 - Recommend to the Full Council:
 1. The budget requirement being £858,142,443 (para. 2.4)

2. The council tax requirement being £581,568,886 (para. 2.4)
 3. The net cost of services being £937,906,451 (para. 2.4)
 4. The Revenue Budget for 2012/13, as set out in sub-sections 2 and 3.
 5. That the second tranche of Council Tax Freeze Grant be accepted, thereby implying that there will be no increase in the Band D Council Tax for 2012/13, which will therefore remain at £1,086.75.
 6. The reserves and general balances as set out in sub-section 2.
 7. That £582,000 of the 2012/13 Transformation Reserve be used to support the development of the full business case for the Corporate Services Phase 2 programme (para. 3.5.4).
 8. The capital programme for the period 2012/13 to 2016/17, as set out in sub-section 5 noting the funding sources and implications for the medium term resource strategy.
 9. That the Executive Director for Finance, in consultation with the Cabinet Member for Finance and Transformation, be authorised to make adjustments to the phasing of payments between years should that be necessary as the capital programme is finalised, and to report any impact on the Prudential Indicators at the next available quarterly review.
 10. The 2012/13 Prudential Indicators, Treasury Management Strategy and Minimum Revenue Provision policy as set out in sub-section 6.
 11. The Pay Policy Statement for 2012/13 as set out in sub-section 7.
 12. That the Executive Director for Finance (Section 151 Officer) statement on the robustness of the budget (para. 2.14) be noted.
- Note the provisional Dedicated Schools Grant (DSG) figures set out in paragraph 2.7.
 - Consider the summary equality impact assessment (EIA) carried out.
 - Agree that a schedule be presented to the Full Council setting out the Council Tax for each category of dwelling and the precepts on each of the Council Tax collecting authorities for 2012/13, along with the final Council Tax base.

Structure of this report

- This report is presented in two main sections. Section 1 outlines the development of Essex County Council's (ECC's) new Corporate Plan. It outlines the purpose of the Corporate Plan, the structure and presentation of the Plan, how ECC will assess its progress in delivering the Plan's priorities, and links between the Corporate Plan and ECC's other strategic documents including its Vision.
- Section 2 outlines the proposed revenue and capital budgets for 2012/13 and the capital programme to 2016/17. It also sets out the medium term resource strategy for the period to 2014/15 based on the best information available regarding funding.
- Both the Corporate Plan and the budget will be considered by the Executive Scrutiny Committee on 31st January 2012 and presented before Full Council on 7th February 2012. If these documents are agreed and adopted, they will be published on ECC's public website.

Section 1: The EssexWorks Corporate Plan

Background

1. The EssexWorks Corporate Plan is a high-level strategic document that articulates the council's priorities, the outcomes it aims to achieve and the measures it will use to track its success and assess its performance. The Corporate Plan is therefore relevant to all County Divisions.
2. The EssexWorks Corporate Plan will shape the development of all other strategic plans. It will also guide and shape the operational plans prepared by individual directorates, teams and business units across ECC. These plans will set out the operational detail of how ECC will deliver the priorities and outcomes articulated in the Corporate Plan.
3. The Corporate Plan has been developed with input from officers and members. It draws on, and builds upon, recent work to develop ECC's Corporate Vision, the EssexWorks Commitment 2012-2017. This was formally adopted by Council in December 2011.

The role of the EssexWorks Corporate Plan

4. The EssexWorks Corporate Plan plays a vital role in connecting the EssexWorks Commitment 2012-17 (the corporate vision) with the operational planning frameworks that guide the work of commissioning directorates.
5. The Corporate Plan sets out the five strategic priorities that ECC will aim to deliver for Essex residents, businesses and communities over the period 2012-2017. These priorities are derived from the corporate vision for 2012-17 adopted by Council in December 2011. Corporate Plan Annex A sets out, for each strategic priority, why it is important, the relevant trends in ECC's operating environment and the work that is underway to support the delivery of the priority.
6. To support ECC's strategic priorities, the plan articulates 15 key outcomes (three per priority). The successful delivery of these outcomes will represent the successful delivery of the overarching priority. These outcomes have been derived from analysis conducted by the Transformation Support Unit in collaboration with service managers across ECC. They represent the outcomes on which ECC will focus its future commissioning activity.
7. Finally, the plan articulates a range of key activities and success measures that ECC will use to assess its progress in delivering outcomes and priorities. Corporate Plan Annex B sets out some of the most important pieces of information that Members and senior managers will use to inform assessments of performance. Where appropriate, ECC will set specific targets against these, and those targets will be brought before Cabinet for approval in March 2012 (once council have agreed final budget allocations). Performance assessments based on this information, and on wider evidential sources will be published at www.essex.gov.uk.

Resourcing the EssexWorks Corporate Plan

8. It is important that ECC has the resources it needs to deliver the commitments it makes in its Corporate Plan. In developing its Corporate Plan and its budget for 2012-13, ECC has followed a process designed to ensure alignment between the outcomes ECC seeks to achieve and the resources it has available.
9. Work to articulate ECC's strategic priorities began in Spring 2011. An initial phase of research and development saw officers lead a programme involving:
 - consultation with partners, employees and communities
 - analysis of salient trends affecting ECC's operating environment
 - scenario planning exercises.
10. Informed by the intelligence gathered through this research phase, Cabinet Members drafted the five high-level strategic priorities that structure the Corporate Plan:
 - enabling every individual to achieve their ambitions by supporting a world-class education and skills offer in the county
 - securing the infrastructure and environment to enable businesses to grow
 - improving public health and wellbeing
 - protecting and safeguarding vulnerable people
 - giving people a greater say and a greater role in building safer and stronger communities.
11. These strategic priorities provided context for the early stages of the budget development process. During this process, members of the Corporate Leadership Team (CLT), with their own Directorate Leadership Teams (DLTs), prepared documentation, articulating the financial challenges and opportunities associated with commissioning/delivering services that support ECC's strategic objectives. Following a series of service review sessions, led by Cabinet members, DLTs looked to develop specific delivery proposals to address key pressures, deliver necessary savings and hence balance the ECC budget.
12. In parallel with this work, specific outcomes and success measures were developed to complete the new Corporate Plan. Once final budget allocations are agreed by Full Council on 7th February, work to define appropriate targets will begin. Again, these will be developed in consultation with Portfolio Holders, CLT members and DLTs. This process will be undertaken as part of wider directorate-level planning. By ensuring that targets in each area reflect the resources available, this stage of the process will finalise the alignment between the ambitions set out in the Vision, the commitments made in the Corporate Plan and ECC's resources.
13. It is anticipated that the link between resource allocation and strategic priorities will be enhanced in future years. It is anticipated that, subject to annual reviews, the priorities and outcomes articulated in the Corporate Plan will remain stable for the duration of the Corporate Vision (2012-2017). This stability will help ensure that future decisions on resource allocations reflect ECC's strategic priorities and the outcomes it wants to achieve.

Managing performance under the EssexWorks Corporate Plan

14. ECC will use the measures of success set out in Annex B of the Corporate Plan to help assess progress in delivering outcomes for Essex residents, businesses and communities. In order to assess performance, ECC will analyse a range of relevant sources of evidence which will include customer feedback, research and public engagement, statistical analyses and information collected as in commissioning and delivering services. These sources of information will allow Members and officers to form rounded judgements on ECC's performance in delivering outcomes.
15. Where appropriate, ECC will set targets against the measures in the Corporate Plan to provide an indication of whether it has been successful in delivering outcomes. These targets will be based on comparative and trend information but also take into account the financial challenges facing the council.
16. The measures in the EssexWorks Corporate Plan 2012-17 are high-level and, as such, are often not the operational measures which will be used to help with day to day operational delivery. These will be presented in Directorate Plans and used to form the basis of directorate performance monitoring.
17. A range of stakeholders will continue to play a role in helping ECC to deliver the commitments made in the Corporate Plan. At a strategic level, this will include Cabinet and the Corporate Leadership Team alongside Executive Scrutiny Committee – whose role is to scrutinise delivery of the Council's Corporate Plan. Progress in delivering specific priorities may also be reviewed by other arrangements (e.g. Local Government Group's peer review may be considered for such purposes).
18. At the level of individual Directorates, the Portfolio holder and Directorate Leadership Team will continue to play a key role alongside the relevant Policy and Scrutiny Committee – who should have a role in scrutinising delivery of the relevant Directorate Business Plan. These Committees may also have an input into specific commissioning frameworks.
19. Performance against Corporate Plan commitments, and underlying operational activity, will be reported through a series of Management Information Scorecards. In 2012-13 this will mean:
 - a. continued monthly operational reporting at a Directorate and Corporate Leadership Team level. Scorecards will continue to be shared with the relevant Policy and Scrutiny Committee on an informal basis (with areas of concern being referred for formal discussion to the relevant Committee)
 - b. quarterly outcomes based monitoring to Cabinet and to the Executive Scrutiny Committee in line with the programme for quarterly financial reporting. This will focus on delivery of the Corporate Plan priorities and outcomes, drawing on comparative information where available and on other relevant outcomes based information as appropriate
 - c. annual reporting on progress made against the priorities outlined in the EssexWorks Corporate Plan (as well as a financial summary) to Cabinet and to the Executive Scrutiny Committee.

Section 2: Revenue and Capital Budgets 2012/13 and Medium Term Resource Strategy

Executive Summary

- The draft financial settlement for local authorities for 2012/13 indicates available revenue resource of £937.906m, which will be subject to final settlement information due in January. Whilst this is slightly higher than the estimated sum discussed in December, the extra sums relate to additional responsibilities or re-classification of cost, as detailed in Appendix A.
- Draft revenue budgets were prepared for 2012/13 at the time that the 2011/12 budget was published, and due to this careful planning it has now been possible to refine these draft plans to ensure that proposed budgets can be presented within the available financial envelope for the coming year. The service and portfolio breakdown of the total budget are contained in tables within the main report.
- Draft budgets for 2013/14 have also been refreshed, and initial plans for 2014/15 have been drafted. We know from the Chancellor's autumn statement that further austerity is likely to impact significantly on the public sector, and more specifically on local authority funding, but at present we can only make assumptions as to the magnitude of this impact.
- The draft budgets for 2013/14 and 2014/15 are not, therefore, currently balanced. At the moment there is a shortfall of around £4m projected for 2013/14 and a more significant shortfall of around £34m in 2014/15. The shortfall in 2013/14 has been contained by the careful planning undertaken previously by this Authority. It reflects the continuing impact of the Transformation Programme and the three-year medium term resource strategy put in place in February 2011.
- The larger shortfall in 2014/15 reflects the fall-out of the one-year Council Tax Freeze Grant and the level of pressures likely to be experienced in services, especially in adult social care where significant cost and demographic pressures continue to impact the service. Continuing to maintain safe and effective systems which target resources for children and families most in need remain a priority to Schools Children and Families and further cost pressures are evident to meet the challenges next year and beyond.
- Taking account of the future funding prospects makes it even more important that the Council maintains a prudent level of reserves and balances to provide for known exceptional expenditure, unexpected demands and the potential for slippage in savings delivery plans.
- The Council has also reviewed its capital programme to identify how priorities can be met within a diminishing capital funding envelope. A prioritisation process was established to review all capital requirements against an agreed set of principles and taking into account the change to mainly non-ringfenced grants.
- In December 2011 the Department for Education announced that the capital grant for ECC for 2012/13 would be reduced by £13.6m, reflecting the conversion of schools to academies, which further impacted on the planning process under way.

- The composition of the Capital programme for 2012/13 – 2016/17 and associated financing is included in tables in the main section of the report. Total new capital expenditure planned in 2012/13 is £134.581m, which is reduced compared to earlier years. Slippage from 2011/12 is currently estimated to be £59.908m, making the total expenditure in 2012/13 £194.489m. This total sum will now need to be financed in 2012/13.

1. Background

- 1.1. It is essential to the delivery of the Council's objectives that there are robust revenue and capital budgets in place, not only for the forthcoming year but for years beyond that. This enables the Council to plan more effectively, especially in an era of declining resources. The Government is also announcing many new funding and administrative arrangements for local government, which the Council must take into account in its planning framework.
- 1.2. Members will recall the report to the Cabinet on 6 December 2011, which set out the budget strategy. This report aims to build upon the information contained in that document. At that time, it was not entirely certain that the Government would adhere to the Formula Grant figures that had previously been announced for 2012/13. There were suggestions of changes for academies and pensions. In the event these changes did not happen and there was slightly more money given through Formula and other grants than anticipated, although some came with more responsibilities or were due to the rephrasing of grants such as that for PFI. It was anticipated that the Council would have funding totalling £930.333m, but the provisional settlement revealed £937.906m. Appendix A shows the detailed comparison.
- 1.3. The figures in Appendix A are also predicated on the assumption that the second tranche of Council Tax Freeze Grant will be accepted, which implies that there will be no increase in the Band D Council Tax set by the Council. In addition, all projections included in this report have been based on the assumed increase in the tax base of 0.5% from the 2011/12 base of 532,492 Band D equivalent properties, which gives an implied tax base of 535,154 Band D equivalents. The final tax base will be reported to Council in February, along with any changes from the provisional settlement to the final settlement expected to be announced at the end of January.

2. Revenue Budget 2012/13

2.1. In December 2011 the net cost of services reported to the Cabinet was as set out in the table below ('December' column).

Controllable Net Budget	Draft 2012/13 Budget	
	December	February
Directorate	2011	2012
	£000	£000
Adults Health & Community Wellbeing	360,916	354,470
Schools, Children & Families	211,261	204,892
Environment, Sustainability & Highways	174,699	189,171
Finance	21,722	21,722
Strategic Services	11,967	10,968
Transformation	25,718	24,792
Central & Other Operating Costs	117,180	131,891
Asset Charges	2,660	-
Building Maintenance	4,210	-
Total	930,333	937,906

2.2. This compares to a latest 2011/12 budget of £924.816m. These figures assume substantial savings plans in order to absorb the pressures arising from demographic growth, inflation and other cost pressures. The savings and efficiencies incorporated into the 2011/12 budget amounted to £98m. The equivalent amount in the draft 2012/13 budget amounts to £123.3m, comprised of both business as usual savings and those derived from the Transformation Programme (see para. 2.8).

2.3. As indicated above, when the provisional settlement was announced, the funding allocations and arrangements changed giving a revised funding envelope (shown below) and hence budget requirement. In addition, there have been many internal technical adjustments to the budget since December, including centralising the budget for past service pensions deficit (£13m), centralising remaining elements of the facilities management budgets (£3.5m) and other movements.

2.4. In addition to setting its budget requirement the Council now also has to carry out an additional budget calculation under sections 42A and 42B of the Local Government Finance Act 1992, as inserted by the Localism Act 2011. This calculation is required to be made in order to arrive at a Council Tax requirement for the year.

Revised Funding Envelope 2012/13	
	£000
Gross expenditure	2,144,396
Income	(175,129)
Specific Govt Grants (excluding DSG)	(116,348)
Specific Govt Grants (DSG)	(915,013)
Net cost of services	937,906
General Government Grants	(79,764)
Budget Requirement	858,142
Collection fund surpluses	(1,774)
NNDR	(269,574)
Revenue Support Grant	(5,226)
Council Tax Requirement	581,569

- 2.5. So while the requirement for savings or efficiencies from services have not changed, the budget figures have been altered to reflect the adjustments described in the paragraph above. The resultant figures are also shown in the table above ('February' column) under paragraph 2.1.
- 2.6. To date, the revenue budget has been prepared on the directorate basis, but now that the figures are in a position to be recommended to the Council, they have been recast into portfolio format. This is in accordance with the normal practice of presenting the budget book to the Council in line with Cabinet Members' respective responsibilities for discharging the functions of the Council (i.e. the portfolio format, with policy lines) and, of course supports the principles of good financial control as set out in the Financial Regulations (also presented to the same meeting of the Full Council).

2.7. The revenue budget in portfolio format is shown in the table below.

Controllable Net Budget	2012/13 Draft
Portfolio	£000
Adults, Health & Community Wellbeing	338,835
Children's Services	173,033
Communities & Planning	5,528
Deputy Leader	16,476
Economic Development and Waste & Recycling	64,504
Education & 2012 Games	41,922
Environment & Culture	14,023
Highways & Transportation	91,316
Other Operating Costs	113,851
Procurement Property & Major Projects	1,489
The Leader	8,074
Recharged Strategic Support Services	68,855
Net Cost of Services	937,906

Notes to table: *Other Operating Costs* includes debt financing costs, emergency contingency and contributions to and from reserves. *The Leader* portfolio includes costs associated with the democratic process, members' support and corporate policy. *Recharged Strategic Support Services* are central overhead services which are subsequently charged out to the other services.

- 2.8. Sub-section 3 of this part of the report describes the impact of the budget on services. This makes it clear there are considerable cost, service and demographic pressures on most services and that significant savings are necessary in order to balance the budget. The extent of this business activity clearly brings with it a degree of risk and it is therefore imperative that the Council takes a prudent view of the reserves held by the Authority.
- 2.9. Services will be assisted in the delivery of further savings through the ongoing pursuit of the Transformation Programme. This Programme will have delivered approximately £197m of savings to March 2012. Over the period to the end of March 2013 a further £67m is programmed to be saved. Adding "business as usual" savings (para. 2.2) takes the four-year total to more than £329m. The Programme is a forward thinking set of

projects that are reducing headline expenditure in both front line and support service activity, enabling the Authority to live within the reducing budgets available.

2.10. While schools' expenditure, predominantly funded through Dedicated Schools Grant (DSG), lies largely outside of ECC's control, it is important to report it here. The forecast for the Dedicated Schools Grant (DSG) for 2012/13 is in the table below; the final DSG 2012/13 will be determined following the January Schools Census. It is expected that pupil numbers will be available in mid to late February. The Pupil Premium for 2012/13 is £1.25 billion nationally and will increase to £2.5 billion nationally by 2014/15. Resources will be delivered to schools on the basis of the numbers of 4-15 year olds who are currently or have been in the last six years entitled to a free school meal. The per pupil rate increases from £488 in 2011/12 to £600 in 2012/13. Looked after children receive the same rate and children from a military background will be supported at £250 per pupil. The Department for Education will release data for local authorities to estimate their allocations in February.

Year	Amount per pupil (GUF) £	Pupil Numbers	Gross DSG £,000	Academies Deductions £,000	DSG remaining with LA £,000
2011-12 (updated) DSG	4,816.13	193,896	933.848	(174.638)	759.209
2012-13 DSG (estimate)	4,816.13	193,896	933.848	*(312,909)	620.939

GUF – Guaranteed Unit of Funding

* the 2012-13 Academies deduction is based on the schools which have or will have transferred to Academy status by 31 March 2012 according to a national formula. Numbers change on a monthly basis as more schools opt to transfer. There has been no increase in school funding per pupil, year on year, and there is unlikely to be any increase in per pupil funding through 2012-15.

2.11. The reserves, set out in Appendix B, fall into two broad categories: earmarked and general balances. Both are equally important to the Council's financial wellbeing. The former are amounts set aside for very specific policy purposes, the most important of which is preparation for significant future expenditure, which would otherwise cause very uneven cash flows. In turn, that would have potential negative effects on the Council Tax increases or on service budgets.

2.12. The General Balance does not have a specific purpose, but is set aside to allow the Council to deal with unexpected events or costs without impacting services at short notice. A generally accepted guideline is that such balances are 5% of the budget requirement. Essex County Council is proposing general balances of £45.7m at the beginning of

2012/13; this is slightly less than 5%, but combined with a proposed £8m contingency in the revenue budget, the 5% guideline is achieved.

- 2.13. Having such reserves and balances at a time when the Council has to find significant savings in its operating budgets is essential. This allows the Council to have some measure of safety net should the unexpected occur or should some savings plans not deliver the required figures at the required time.
- 2.14. An integral part of the budget preparation process is for the Section 151 Officer (Margaret Lee, Executive Director for Finance) to give her view on the robustness of the budget. The S151 Officer has guided the Council through its preparations of this budget and is therefore thoroughly acquainted with it. Her statement is as follows:
- 2.14.1. I have considered carefully the pressures upon all services, along with the plans to mitigate those pressures by finding efficiencies and savings. Coming as they do, after several years of efficiency programmes, I do not underestimate the challenge that the large, front-line service directorates will have in doing more. Similarly, the support directorates have faced many years of reductions but are key to enabling service delivery. They too will find the further reductions difficult.
- 2.14.2. However, the County Council has an impressive track record in sound financial management and in the delivery of savings and efficiency programmes, while continuing to deliver high quality services. Many programmes began in 2011/12 and earlier in order to deliver benefits in 2012/13 and beyond, and these are making good progress. Continued tight monitoring of delivery plans by directors, portfolio holders and corporate groups will be required throughout 2012/13 in order to deliver the savings and efficiency programme totalling £123.3m required to balance the budget.
- 2.14.3. The continued provision of adequate earmarked reserves and general balances is essential to my confidence in the ability of the Council to successfully manage its financial affairs within a tight cash limit. Without these reserves and balances the Council may need to take remedial action within year to address budget shortfalls; such urgent action is seldom satisfactory nor without longer term consequences.
- 2.14.4. On that basis I am pleased to recommend to Council the budget for 2012/13 as being robust. However, I would wish at the same time to flag that our own funding projections, based upon the best information available, show increasing funding gaps in the years beyond 2013/14. Only by taking early and positive action, while preserving reserves and balances, will it be possible to ensure that future budgets are robust.

3. Service Implications of the Revenue Budget 2012/13

3.1. This section of the report will describe the most significant issues confronting each main service area.

3.2. Adults, Health and Community Wellbeing

3.2.1. In this directorate, the most significant pressure area is that of adult social care (ASC). Pressures come mainly from demographic growth, estimated at £14.2m for 2012/13, but also from price inflation. This has meant that the directorate has had to continue with the savings programme from 2011/12 and identify new initiatives to offset the increased pressures.

3.2.2. The savings for the Strengthening Commissioning programme in 2012-13 are £200,000 and in 2013-14 £4.8m. These are from the Joint Commissioning work stream of the project which will identify the opportunities and associated efficiencies from joint commissioning with health. The other work streams within the Strengthening Commissioning project have required investment of £546,000 in 2012-13 to deliver the Council's new statutory responsibilities resulting from the Health and Social Care Bill. The NHS is also facing pressures and there will be future risks to manage as they seek efficiencies, which could impact on the ECC budget. Good partnership working will mitigate some of this but the reform programme in the NHS and other areas of the welfare system present tough financial risks to manage.

3.2.3. The Authority is also confronting the transfer of public health to local government. At present the government has not made any announcements on what the future budgets for public health will be. There is likely to be less money in the system but it is too early to understand the impact of this. District and borough colleagues are also involved in the public health development work.

3.2.4. The majority of the proposals for budget reduction have been classified as delivering further efficiency savings, which have the potential to impact positively on the service user experience. However, there are £50m of pressures to offset in total in 2012-13, which will have a direct impact on providers and the way customers access our services in this challenging economic climate.

3.2.5. There is a proposal that is identified as a service reduction, although the impact will be for new service users only. It is to reduce 12 weeks' free monitoring to 6 weeks for new assistive technology (Telecare) users. This is in line with other intermediate care services including existing supporting people care line and will bring us in line with other local authorities. This will be reviewed and monitored for an adverse impact on take up.

3.2.6. In relation to any specific reductions:

3.2.6.1. Grant funding will be replaced by a commissioning approach to services and inevitably some organisations will not receive grants for certain activities.

However existing funding is for one year only and it was stated specifically there would not be a roll over

3.2.6.2. The Supporting People position is as agreed with no change

3.2.6.3. In relation to service times and their reduction, we are working with primary care consortia to look at increasing the ease and scope of contact.

3.2.7. The Equalities Impact Assessment (EIA) at Appendix D makes reference to the reduction in expenditure on mental health services for adults through procurement and operational activities, and to the remodelling of the meals service contract. Cabinet are advised that impact assessments have been undertaken with mitigating actions put in place.

3.2.8. For the Library, Arts and Heritage Service there are proposals to increase income from bidding for additional contracts. If these are successful it will alleviate the necessity for significant service reductions. The service reductions currently proposed are:

3.2.8.1. Special Services to the public such as Community Information Points (CIPs), Answers Direct (e.g. homework help and business advice) and increased charging for performing arts (e.g. music scores). The reduction in CIP's could have a consequential effect on our partners and the reduction in Answers Direct could have an impact on Chambers of Commerce.

3.2.8.2. One off in 2012-13 reduction in the Resources (book) Fund.

3.2.8.3. Reduction in local and cross-county activity which increase the use of libraries and services by adults, families and children.

3.3. *Schools, Children and Families*

3.3.1. This Directorate is facing some £17m of new pressures for 2012/13, of which some are mitigated by existing efficiency and savings plans. This is a significant challenge, especially as we continue on our improvement journey.

3.3.2. The number of Children in Care (CIC) remains a cause for concern both locally and nationally. Whilst a downward trajectory is evident in Essex with numbers decreasing from 1,590 as at January 2011 to 1,537 as of 31st December 2011, the volume continues to put pressure on the Schools, Children and Families budget. Overall demand for social care intervention remains high and the service is managing the demands by ensuring resources are reasonable and appropriately targeted whilst developing services to support vulnerable families.

3.3.3. The placement plan is a long-term strategy with the objective of stabilising the placement expenditure. This includes increasing the number of in-house foster carers and negotiating lower prices with external providers. Further short term investment is required whilst we continue to manage placement demand and achieve the service mix which will achieve the best outcomes.

- 3.3.4. The demand for fostering placements is high due to the number of CIC. It has been necessary to increase the level of fees paid to in-house foster carers to ensure we remain competitive with the Independent Fostering Agencies. The use of in house carers will enable closer working with Council staff, improved experience for CIC and reduction in the use of more expensive placements.
- 3.3.5. ECC has a duty to provide 'reasonable contact' for children who live separately from their birth families. The supervised contact service arranges contact for CIC with family members. It is a statutory provision in response to court direction. There are increased costs in relation to these arrangements and an increase in the number of CIC receiving some form of supervised contact.
- 3.3.6. Increased investment is required from 2012/13 to facilitate the provision for free places for disadvantaged two-year-olds as we move towards a legal duty to provide free places for all disadvantaged two-year-olds from 2013.
- 3.3.7. The service savings are classified as efficiencies, including new ways of working, these will be achieved through:
- 3.3.7.1. Supporting, through a range of services, more children and young people to live safely at home and therefore reducing the number in care
 - 3.3.7.2. More effective and efficient commissioning of children's services. This will focus on the development of an outcome focused mix of services that will be targeted to those that most need them
 - 3.3.7.3. Development of alternative in county options for children with special educational needs to reduce the number of independent school places required
 - 3.3.7.4. Service redesign and the provision of alternatives such as short breaks to provide respite services for children with disabilities more effectively and efficiently.
- 3.3.8. The following two models for alternative delivery are anticipated to have a potential impact on partner bodies.
- 3.3.8.1. Commissioning of locality services across the county; including direct support to the early years workforce, strategic development and reduction in small grants.
- 3.3.9. In mitigation of the above Child Care Settings will be assisted to self assess and access appropriate support services to drive up performance as oppose to receiving direct support from the local authority. The Early Years and Childcare Workforce Development Unit will be joined up with the wider Schools, Children and Families Workforce Development Unit. This will result in economies of scale which will enable efficiencies to be provided minimising impact on front line service delivery. The reduction in small grants may prevent some settings developing provision and the local authority will assist in helping them access other streams of funding.

- 3.3.11. The EIA in Appendix D refers to the reduction in Education Welfare Service expenditure, through a restructure that has been through consultation. Specific mitigations are in place around safeguarding and early intervention capacity.
- 3.3.12. The Schools Forum on 8th February will be asked to consider and/or give approval to the proposals put forward by the Council in relation to the balancing of the Dedicated School Grant (DSG) Budget for 2011-12, the impact on the year 2012-13, and the setting of the DSG' Budget for 2012-13.
- 3.3.13. The proposals presented to the Schools Forum will contain details of 2010-11 carry forward overspends, unfunded cost pressures within the 2011-12 centrally retained DSG and new cost pressures and savings identified in the DSG medium term resource plan. Agreement will be sought from the Forum that the 2010-11 and 2011-12 cost pressures are a first call on the 2012-13 DSG prior to determining available headroom for distribution when setting the 2012-13 budget.

3.4. *Environment, Sustainability and Highways*

- 3.4.1. In addition to £5.9m of pressures predicted from when the 2011/12 budget was created, a further £10.7m of pressures have been identified for 2012/13. The most significant of these derive from the increase in recycling costs and payments under the Inter-Authority Agreement (IAA) for waste, the increase in waste arising, scheme growth and demographic pressures on concessionary fares and winter (road) maintenance costs.
- 3.4.2. As with other services, attempts have been made to avoid service impacts when seeking to mitigate the pressures. Initiatives identified include:
 - 3.4.2.1. Headline saving from the Highways Strategic Transformation project through delivering the requirements more efficiently. Due to the nature of the work of the Highways service, a full understanding of the budget can only be gained from reviewing the capital element of the service budget. Please see the capital programme sub-section (5) of this report
 - 3.4.2.2. Savings from reduced property related costs across Essex County Council and savings from the new property management and facilities management service (PMFMS) single provider contract
 - 3.4.2.3. Passenger transport savings through a range of measures including reduced subsidies to some local bus services. We will consult on any proposed changes
 - 3.4.2.4. Applying the waste reserve to the increasing cost of waste in order to smooth the impact on the revenue budget.
- 3.4.3. Some smaller savings have been identified that may have a consequential effect on customers or partners. These include:

- 3.4.3.1. A recalculation of the volume to tonnage trade waste calculation, which could therefore have an impact on district councils' trade waste customers assuming costs are passed through
- 3.4.3.2. Ongoing negotiations with IAA partners to drive out savings requires district councils to make efficiency savings;
- 3.4.3.3. Potentially fewer supported bus routes following consultation could limit passenger accessibility and choice.

3.5. *Transformation, Finance and Strategic Services*

- 3.5.1. Combined, these three central directorates have pressures totalling some £5.7m, with the majority (£4m) being in Transformation. Of the £4m, £2.9m is attributable to the IS Modernisation Programme, recently approved, of which only £1m is ongoing; i.e. £1.9m contributes to the £4.1m set out in paragraph 3.5.2 below.
- 3.5.2. A significant amount of the pressures are being mitigated by plans that are already under way from 2011/12. However, a further £4.1m is derived from new proposals including the First for Public Law project and reduced audit fees
- 3.5.3. Care is being taken to minimise the impact of reductions in support services on the ability to deliver services to front line departments.
- 3.5.4. The Transformation Support Unit has overseen the production of an outline business case (OBC) for the Corporate Services phase 2 programme, which embraces proposals for further IS investment. It is proposed that £582,000 is drawn from the Transformation Reserve in 2012/13 in order to provide the resources to create a full business case (FBC).

4. Medium Term Resource Strategy

4.1. Members may recall that the previous report to the Cabinet in December 2011 set out some of the challenges ahead. These have now been updated.

- 4.1.1. Further funding restraint as the Government wrestles with the problem of economic recovery while managing public indebtedness. We now know, from the Chancellor's Autumn Statement, that the Government anticipates that at least the two years beyond the current Comprehensive Spending Review (CSR) 2010 (i.e. 2015/16 and 2016/17) will be austere, with real terms reductions in public spending of 0.9% a year. This could translate into a central government reduction in support for local government of the order of 30% - 40% (via National Non-Domestic Rates (NNDR) and Revenue Support Grant). This latter projection is not used in this report.
- 4.1.2. The proposals for NNDR retention were issued in December 2011. The Government has continued with the theme of limiting the amount of NNDR that can be retained locally as mentioned above. Furthermore, the intention to support more grants from the pool of resource (including now the first tranche of Council Tax Freeze Grant), the need to support authorities who are less able to generate business growth and the need to periodically align resources with needs all lead to unpredictable volatility in the system. The Government has also indicated its intention to allocate 80% of NNDR to collecting authorities and 20% to precepting authorities where relevant. This will imply that most precepting authorities such as Essex County Council will be classified as a top-up authority.
- 4.1.3. The Government also issued proposals on Council Tax Benefit localisation in December. The plans are mostly as expected and will bring with them new responsibilities for precepting authorities, and challenges for all local authorities who will have to manage eligibility criteria within protective rules for pensioners and a 10% reduced grant allocation. The outcome of this new regime is difficult to quantify but it is certain that it will impact negatively on current Council Tax collection rates as well as imposing a direct financial burden on all local authorities, to compensate for gaps in benefits funding. Combined with many other proposed changes in the welfare system, concerns are emerging about the cumulative impact on those dependent on the welfare system and hence on our services.
- 4.1.4. The first tranche of Council Tax Freeze Grant will drop out in 2015/16, implying a funding gap of about £14m, all other things being equal. If the second tranche of funding is accepted, then there will be an earlier drop-out of the same amount in 2013/14.
- 4.1.5. The Government is currently consulting on the funding alterations that will ensue from schools converting to academies. This is likely to see substantial sums removed from local authority budgets that could be beyond the implied reduction in cost to those authorities. Modelling is under way to seek to predict more accurately the consequences of this change, although we now know that 2012/13 is not affected.

4.1.6. Discussions continue on the transfer of public health to local government in the absence of any information on the likely funding transfer.

4.1.7. Pension reforms are now unlikely to take place until 2014, and there will be only one set of changes. However, the Treasury target of £900m saving is likely to produce a grant adjustment (downwards) in that year and beyond.

4.2. Given the Government's funding constraints and the spending pressures brought about by demographic increases and inflation, an increasing gap between funding requirements and availability is certain. Based upon the best information available, the Finance Team has undertaken some modelling of likely funding settlement beyond 2012/13. This takes account of the CSR headline reduction in funding of 28% over the four years, Council Tax Freeze Grants, potential Council Tax rate and base increases. The table below shows a possible scenario based upon realistic assumptions.

	2012/13	2013/14	2014/15
	£m	£m	£m
Revenue Support Grant	5.225	4.833	4.471
NNDR	269.574	250.443	232.748
Total Formula Grant	274.799	255.276	237.219
Council Tax	581.569	599.089	617.136
Collection Fund Surplus	1.774	1.774	400
General Gov't Grant	79.764	65.210	65.210
Total Revenue Resources	937.906	921.349	919.965

4.3. When the budget for 2011/12 was prepared, draft budgets for 2012/13 and 2013/14 were also considered. The projection for 2013/14 has now been updated using the best information available from the creation of the 2012/13 budget, and a projection for 2014/15 has also been prepared. Given that the funding envelope is imprecise at the moment, and that there has been no discussion of pressures, savings and priorities for years beyond 2012/13, the forward years are not balanced. However, the preparations so far identify the scale of the challenge. The table below shows the projected funding envelope and draft budget proposals created to date.

Directorate	2012/13	2013/14	2014/15
	£m	£m	£m
Adults, Health & Community Wellbeing	354.470	367.893	387.491
Schools, Children & Families	204.892	200.263	203.443
Environment, Sustainability & Highways	189.170	194.438	200.025
Finance	21.722	20.851	20.971
Strategic Services	10.968	10.200	10.359
Transformation	24.792	19.584	19.745
Central & Other Operating Costs	131.891	112.391	112.369
Total projected spend	937.906	925.623	954.405
Gap	-	4.274	34.44

4.4. It is noticeable that the projected gap in 2013/14 has been quite well contained. This is largely because of the careful forward planning of the Authority, both the Transformation Programme and the three year medium term resource strategy put in place in February 2011. The latter saw many savings proposals take three years to come to fruition; i.e. not fully delivering until 2013/14. In addition, in accordance with previous planning, the contributions to the transformation and redundancy reserves are removed in that year, which may be premature. Attempts will be made to make contributions from one-off underspends in 2011/12, but further contributions may be needed in 2012/13 and 2013/14.

4.5. However, while those plans continue to deliver savings into 2014/15, new pressures emerge, especially relating to adult social care where there are significant cost and demographic pressures.

4.6. From previous experience, these predicted gaps are likely to prove optimistic. For example, it will almost certainly be necessary to make further contributions to the transformation and redundancy reserves and there will undoubtedly be more emerging pressures on services. These could be price, demography or additional responsibilities assigned by the Government, and further turbulence in the economic markets, especially linked to the Eurozone, does mean that we are estimating in an unstable environment. Some growth in particular areas could also be desirable to address the Council's priorities. Any of these issues will extend the gaps beyond those shown above.

4.7. It is clear from the financial planning undertaken so far that there will be considerable pressure on savings programmes to deliver significant benefits in order to mitigate pressures and maintain key services. The Council already has begun planning for the next iteration of transformation and is formulating several workstreams both focused on internal structure and process and on working more closely with partners to sustain and improve services while reducing costs. Examples of such programmes include:

- Economic growth – identifying how the Council may best invigorate growth in the county, working in partnership with others. Ultimately this could benefit the public sector through the localisation of NNDR, thereby offering the potential for a virtuous circle
- All age commissioning – instead of commissioning for children’s and adults’ services independently, bringing the two together to offer both procurement and service benefits
- Systematic review of services – a review of the processes and soft-structure of the Council to ensure that it is working as efficiently as possible
- Community budgets – an innovative pilot project to enable the public sector and other partners to work more closely together to deliver services in a more efficient and effective manner.

5. Capital Programme 2012 – 2017

- 5.1. As part of the 2012/13 budget setting process the Council reviewed its capital programme to identify how its capital priorities could be met within a diminishing capital funding envelope. Services submitted capital proposals that were evaluated against capital prioritisation criteria that were derived from both the Council's Corporate Vision and priorities and from an evaluation of the proposed project's complexity and deliverability.
- 5.2. The prioritised capital projects were then compared to the available capital funding envelope to identify projects for inclusion in the capital programme. The prioritisation process was underpinned by the following principles for the financing of the capital programme:
 - 5.2.1. Unringfenced grants would be held corporately and not allocated to the service for which they are notionally provided for by central government
 - 5.2.2. Growth in unsupported borrowing was not budgeted for
 - 5.2.3. Projects that are fully funded by external funding were evaluated against the capital prioritisation criteria to ensure proposed projects are congruent with the council's corporate priorities.
- 5.3. The capital prioritisation process began in summer 2011 and was based on the projections of capital grant funding provided as part of the 2011-12 local government finance settlement. In addition, the available capital funding envelope included a review of available Section 106 (S106) monies to identify where projects could use available and projected S106 contributions.
- 5.4. However, in December 2011 the Local Government Finance Settlement was announced and the level of capital grant provided by the Department of Education (DfE) to the Council is reduced by £13.6m in 2012-13. This is to reflect the conversion of maintained schools to academies as local authorities do not have maintenance responsibilities for these schools. In response to the reduced capital grant the council re-profiled and reduced the budgeted capital expenditure for schemes.
- 5.5. The financing sources and split of the proposed capital programme across service directorates and portfolios for the period 2012-13 to 2016-17 are shown in the tables below. It should be noted that these figures do not include slippage from the 2011/12 programme. When slippage occurs, the relevant financing is slipped at the same time to ensure a neutral impact on the budget. The figures that are reflected in the Prudential Indicators and Treasury Management strategy, that also forms part of this report, do take account of slippage.

Financing Source	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
Ringfenced Grants	17.183	25.899	7.434	0.000	0.000
Unringfenced Grants	59.707	52.005	47.447	47.197	47.447
Developer contributions	18.875	11.485	21.634	22.959	29.626
Capital Receipts	0.000	9.266	0.000	1.800	0.000
Unsupported Borrowing	37.657	37.332	18.906	13.227	0.000
Borrowing financed by revenue contributions	1.255	2.138	0.116	0.000	0.000
Total Financing Available	134.678	138.126	95.537	85.183	77.074
Financing not applied	(0.097)	0.000	0.000	(10.173)	(7.738)
Total Financing Applied	134.581	138.126	95.537	74.441	69.335

5.6. In building this programme, we have included ringfenced grants and developer contributions we are aware of. Clearly as further amounts under these streams are announced or negotiated, then these can be added to the programme. Similarly the level of capital receipts included in this draft programme reflects those which are known or agreed at this time. As more are realised these too could be either used to supplement the programme or repay debt (thereby reducing the ongoing impact on the revenue budget).

Directorate	Gross Capital Expenditure				
	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
Adults Health and Community Wellbeing	5.825	7.750	2.250	2.250	0.250
Environment Sustainability and Highways – Major Projects and Infrastructure	21.339	17.118	3.170	0.168	0.000
Environment Sustainability and Highways – Highways	52.594	52.511	32.618	25.200	25.168
Environment Sustainability and Highways – Essex Property and Facilities	1.200	0.950	0.750	0.000	0.000
Transformation	9.350	4.190	1.800	0.000	0.000
Schools, Children and Families	40.509	50.607	49.949	42.823	39.918
Strategic Services	3.765	5.000	5.000	4.000	4.000
TOTAL CAPITAL EXPENDITURE	134.581	138.126	95.537	74.441	69.335

Portfolio	Gross Capital Expenditure				
	2012-13	2013-14	2014-15	2015-16	2016-17
	£m	£m	£m	£m	£m
Heritage, Culture and the Arts	0.625	0.550	0.250	0.250	0.250
Adults Health & Community Wellbeing	5.200	7.200	2.000	2.000	0.000
Environment & Waste	21.339	17.118	3.170	0.168	0.000
Highways & Transportation	52.594	52.511	32.618	25.200	25.167
Procurement, Property and Major Projects	1.200	0.950	0.750	0.000	0.000
Finance & Transformation	9.350	4.190	1.800	0.000	0.000
Education & the 2012 Games	40.774	50.607	49.949	42.823	39.918
Communities & Planning	3.500	5.000	5.000	4.000	4.000
Total	134.581	138.126	95.537	74.441	69.335

5.7. The figures for the programme above do not include any slippage from 2011/12 at this stage as the Cabinet and Full Council is being asked to consider the new programme. However, slippage from 2011/12 is currently estimated to be £59.908m, making total expenditure in 2012/13 £194.489m, all of which will need to be financed in 2012/13.

6. 2012/13 Prudential Indicators, Treasury Management Strategy and Minimum Revenue Provision Policy

6.1. Appendix C of this report is presented in compliance with statutory regulations and Codes of Practice that require the Council to compile:

6.1.1. Prudential indicators that are intended to demonstrate that the borrowing the Council plans to undertake for capital financing purposes is at a prudent, affordable and sustainable level;

6.1.2. A treasury management strategy that explains how the Council's cash flows, borrowing and investments will be managed;

6.1.3. A policy that explains how the Council will discharge its duty to make prudent revenue provision for the repayment of debt.

7. Pay Policy Statement 2012/13

7.1. Section 38 (1) of the Localism Act 2011 requires English and Welsh local authorities to produce a pay policy statement for 2012/13 and for each financial year forward.

7.2. The pay policy statement must include:

7.2.1. The Authority's policy on the level and elements of remuneration for each chief officer

7.2.2. The Authority's policy on the remuneration of its lowest paid employees

7.2.3. The Authority's policy on the relationship between the remuneration of its chief officers and other officers

7.2.4. The Authority's policy on other specific aspects of chief officer remuneration such as remuneration on recruitment, increases and additions to remuneration, use of performance related pay and bonuses, termination payments and transparency.

7.3. A draft pay policy statement has been considered by the Chief and Deputy Chief Officers Panel and will be presented for agreement by Full Council in February.

8. Conclusions

8.1. The public sector is facing severe financial pressures as the Government seeks to address the fiscal issues confronting the Country. This means that local government, amongst others, must seek to deal with increasing pressures on its services, seek to support the economy in its recovery, aim to be more efficient and ensure that through robust leadership and management, safe financial control is delivered. The budget proposals set out in this report, in conjunction with the Corporate Plan priorities and objectives will support effective service delivery and good financial management.

8.2. During the development of these budget recommendations, members and officers have considered many different proposals in order to address any budget gaps, both in revenue and capital. The proposals put forward in this report are seen to be the most effective in delivering the Council's objectives in line with the Corporate Vision and Plan for 2012/13 to 2016/17, whilst addressing the funding pressures.

Supporting Information

Internal and External Consultation

- The *EssexWorks* Corporate Plan 2012-2017 draws heavily on the *EssexWorks* Commitment 2012-2017 which was developed through extensive Member, public, partner and employee consultation. Both Cabinet and Council have received a report of this consultation process (see Cabinet Report FP/667/10/11 and item8_Corporate Vision Council Paper)
- As part of the Corporate Vision development process, Cabinet Members set out their views on the priorities that ECC should seek to deliver. The priorities that structure the Corporate Plan were drafted by Cabinet Members and the drafting process was informed by a programme of engagement involving all ECC Members. Cabinet Members have also been consulted, individually and collectively, about the specific outcomes and success measures that complete the *EssexWorks* Corporate Plan
- The Executive Scrutiny Committee will also be engaged in the development of the Corporate Plan prior to its consideration at Full Council. The draft corporate plan is being discussed by ECC's Executive Scrutiny Committee on 31st January 2012. The committee's findings will be used to inform debate and discussion at Council on 7th February
- In addition to the above, Cabinet and Executive Scrutiny members have been engaged in the budget process, and consultation has been undertaken with business groups and unions.

Legal Implications (Monitoring Officer)

- In each financial year the Council must make its budget calculation in accordance with section 43 of the Local Government Finance Act 1992. In particular, it must calculate the aggregate of -
 - the expenditure the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year
 - such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year;
 - the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure; and
 - such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.
- The Council is required to set a balanced budget and in considering the budget the Council must have regard to the advice of its Chief Finance Officer appointed under section 151 of the Local Government Act 1972
- Under section 25 of the Local Government Act 2003 the Chief Financial Officer is required to report to the authority on the robustness of the estimates made for the purposes of the calculations required to be made by the Council. These are the

estimates which the Cabinet is required to determine and submit to Full Council and are contained within this report. The Chief Finance Officer is also required to report on the level of reserves

- In deciding its Capital Programme for the year, the Council should have regard to the “Prudential Code” established in the Local Government Act 2003. This is addressed in the report
- The Council is required to consider the equality and diversity implications of all its policy decisions. In cases where services are likely to be reduced or cease or grants are likely to be reduced or ceased then there will need to be an equality impact assessment conducted in order to assess the equality and diversity impacts of any particular decision. As part of this process, the decision maker will need to consider different options
- In addition to setting its budget requirement, the Council now also has to carry out an additional budget calculation under sections 42A and 42B of the Local Government Finance Act 1992, as inserted by the Localism Act 2011. This calculation is required to be made in order to arrive at a Council Tax requirement for the year
- The Council must issue any precept or precepts in accordance with section 40 of the Local Government Finance Act 1992. The section prescribes what must be included in the issue of the precept. It must be issued before 1st March in the financial year preceding that for which it is issued, but is not invalid merely because it is issued on or after that date
- The setting of the budget is a function reserved to Full Council but the Cabinet are required to consider the recommendations it wishes to make to Full Council on the various calculations the authority is required to make. Once the budget is agreed by Full Council, the Cabinet cannot make any decisions which conflict with that budget, although variations and in year changes may be made in accordance with the Council’s Financial regulations which have been adopted by the Council. Similarly, any decision made by the Cabinet or by an officer exercising executive functions must be made in accordance with the policies, plans and strategies agreed by Full Council, including the Essex Works Vision and the Corporate Plan.

Finance and Resources Implications (Section 151 Officer)

- The Budget and Medium Term Resource Strategy have been submitted by the Executive Director for Finance and as such, no further comments are required here.

Human Resources Implications

- Although the content of this report does not have any direct staffing implications, it is likely that the consequences of some of the savings plans will have such implications. Where this is the case, the impact for employees will be managed in accordance with the ECC Organisational Change policy and procedures.

Equality Impact Assessment

- As outlined above, the EssexWorks Corporate Plan 2012-2017 is a high-level strategic document setting out the authority's focus over the next five years. It does not in itself provide services or policies on how those services should be provided. As such, Equality Impact Assessments will need to be in place for individual services and policies
- Advice from ECC's Head of Equality and Diversity suggests that, given the close ties between the Corporate Plan and the Corporate Vision, preparing an additional Equality Impact Assessment on the Corporate Plan itself would not add value. A range of Diversity and Equality groups shaped the development of the draft corporate vision through a process of consultation, providing comments on the emerging proposals
- Although the primary concern was the importance of equality and diversity issues during service delivery, specific issues, principally crime and fear of crime and the importance of high quality health care and access to services were considered to be particularly important. A number of key priorities focusing on safer and stronger communities, improving wellbeing and protecting and safeguarding vulnerable people will help address these concerns
- The Council has taken a qualitative approach to undertaking an overarching impact analysis of the budget. Further information on the impacts of this budget are available within the screening and the emerging full impact analysis of the agreed activity within developing directorate and service plans. More detail of the overarching impact analysis is contained in Appendix D of this report.

Background papers

- The following background papers can be referred to:
 - The EssexWorks Commitment 2012-2017; and
 - The EssexWorks Commitment 2012-2017 Equality Impact Assessment.
 - Report to Cabinet 6 December 2011, *Financial Strategy 2012/13 and Beyond*, FP/702/11/11.

Revenue Funding – Comparison of anticipated 2012/13 figures and draft release.

	2012/13	
	Anticipated £000	Draft release £000
Revenue Support Grant	80,668	5,226
NNDR	179,738	269,574
Total formula Grant	260,406	274,800
Council Tax Freeze grant	28,955	14,555
Early Intervention Grant	47,286	48,937
PFI Grant	9,001	11,367
Local Service support grant	1,342	2,805
New Homes bonus	-	2,101
Total General Government Grants	86,584	79,764
Council Tax	581,569	581,569
Collection Fund surplus	1,774	1,774
Total funding	930,333	937,907

Explanatory notes:

1. This assumes that ECC will opt to accept the second tranche of Council Tax Freeze grant.
2. The settlement announced that the first tranche of Council Tax Freeze Grant will be funded via NNDR, hence the formula grant total has been increased by £14.4m to reflect this
3. The composition of the formula grant elements has otherwise altered, but the total remains as expected.
4. Council Tax Freeze Grant total now represents only the second tranche of funding as the first tranche is included in the NNDR total
5. Early Intervention Grant is £1.651m higher than previously anticipated. Work is underway to verify if this additional funding brings with it further responsibilities.
6. PFI grant is £2.4m more than anticipated. Some of this is due to the effect of re-profiling the payments to local authorities. The re-profiled funding will be fully used in supporting the PFI projects for which it is allocated.
7. Local Services Support Grant is £1.463m higher than anticipated. This is largely due to an increased allocation relating to the extended rights for free travel
8. New Homes bonus was announced for 12/13 at £2.1m. It is intended that this funding is to be used to support the capital programme, and the Integrated County Strategy in particular.

Reserves and Balances



	Balance at 31 March 2011	2011-12	Estimated closing balances			2013-14	2014-15
			Estimated contributions	2012-13 Estimated withdrawals / usage	Estimated closing balances		
	£000	£000	£000	£000	£000	£000	£000
General Balance	(31,991)	(45,283)	-	-	(45,283)	(45,283)	(45,283)
Earmarked Revenue Reserves							
General reserves							
Transformation Reserve	(877)	(4,209)	(12,997)	7,842	(9,364)	(8,045)	(8,045)
Essex Pledges	(0)	(0)	-	-	(0)	(0)	(0)
Quadrennial Elections reserve	(571)	(530)	(500)	-	(1,030)	(1,530)	(2,030)
Capital receipts pump priming	(964)	(418)	(1,000)	-	(1,418)	(2,418)	(3,418)
IMT development	(212)	-	-	-	-	-	-
Partnerships	(1,570)	(1,045)	-	-	(1,045)	(1,045)	(1,045)
Insurance	(2,616)	(6,053)	-	-	(6,053)	(6,053)	(6,053)
Pensions reserve	-	-	-	-	-	-	-
Debt financing reserve	-	-	-	-	-	-	-
Essex Art Fund	(258)	-	-	-	-	-	-
LAA performance reserve	(4,241)	(2,710)	-	-	(2,710)	(2,710)	(2,710)
Health and Safety reserve	(1,087)	(1,087)	-	-	(1,087)	(1,087)	(1,087)
ESF reserve	(2,934)	(2,934)	-	-	(2,934)	(2,934)	(2,934)
Carbon Reduction reserve	(1,536)	(1,536)	(1,419)	-	(2,955)	(4,374)	(5,793)
Essex on-line partnership	(255)	(255)	-	-	(255)	(255)	(255)
Highways Maintenance reserve	-	-	(2,000)	-	(2,000)	(2,000)	(2,000)
Children's Reserve	-	-	-	-	-	-	-
Essex Transport Reserve	(1,321)	(500)	-	-	(500)	(500)	(500)
Carry Forwards Reserve	(13,801)	-	-	-	-	-	-
Developing Partnerships	(1,500)	-	-	-	-	-	-
Life Raft Pledge reserve	(728)	-	-	-	-	-	-
Newton bequest reserve	(118)	(118)	-	-	(118)	(118)	(118)
Personal Care reserve	(1,800)	-	(2,400)	2,400	-	-	-
Severe weather reserve	(252)	(252)	-	-	(252)	(252)	(252)
Building maintenance	(713)	(713)	-	-	(713)	(713)	(713)
Procurement	(24)	(24)	-	-	(24)	(24)	(24)
Street lighting reserve	(476)	(476)	-	-	(476)	(476)	(476)
Energy Inflation reserve	-	-	(1,200)	-	(1,200)	(1,400)	(1,600)
Redundancy reserve	(0)	(0)	(8,500)	4,381	(4,119)	(4,071)	(4,071)
AHCW Section 75 reserve	(674)	(674)	-	-	(674)	(674)	(674)
Tending PPP	(422)	(422)	-	-	(422)	(422)	(422)
Trading activities	(1,736)	(1,759)	(33)	-	(1,792)	(1,825)	(1,858)
Future capital funding							
General	(2,789)	(2,789)	(8,494)	3,400	(7,883)	(7,977)	(8,071)
Bellhouse landfill	(61)	(61)	-	-	(61)	(61)	(61)
Historic Buildings reserve	(120)	(120)	-	-	(120)	(120)	(120)
Equalisation Reserves							
PFI reserves							
A130 PFI	(57,337)	(57,183)	-	634	(56,549)	(55,915)	(55,281)
Clacton secondary schools' PFI	(4,887)	(4,671)	(188)	-	(4,859)	(5,047)	(5,235)
Debden PFI	(5,155)	(5,309)	-	251	(5,058)	(4,807)	(4,556)
Waste reserve	(42,491)	(38,626)	(17,550)	-	(56,176)	(83,189)	(110,202)
Grants equalisation reserve	(8,201)	(2,869)	-	-	(2,869)	(2,869)	(2,869)
Schools	(47,380)	(47,380)	-	-	(47,380)	(47,380)	(47,380)
Total	(241,098)	(230,006)	(56,281)	18,908	(267,379)	(295,574)	(325,136)

Note: The Council must clarify the purpose and terms of usage for new reserves when they are established.

2012/13 Prudential Indicators, Treasury Management Strategy and Minimum Revenue Provision Policy

1. Introduction

This section of the Essex County Council budget report is presented in compliance with statutory regulations and Codes of Practice that require the Council to compile:

- Prudential indicators that are intended to demonstrate that the borrowing the Council plans to undertake for capital financing purposes is at a prudent, affordable and sustainable level
- A treasury management strategy that explains how the Council's cash flows, borrowing and investments will be managed
- A policy that explains how the Council will discharge its duty to make prudent revenue provision for the repayment of debt.

Further detail is provided in the following paragraphs.

2. Prudential indicators

2.1. Context

The CIPFA Prudential Code provides the framework that must be applied when assessing the affordability, prudence and sustainability of the Council's capital investment plans and for ensuring that consequential treasury management decisions will be taken in accordance with good professional practice.

One of the key outputs from this assessment is the production of a series of prudential indicators. These indicators show the level of the Council's capital expenditure plans, the impact of that expenditure upon the revenue budget and upon borrowing and investment levels, and the overall controls in place to ensure that the activity remains affordable, prudent and sustainable.

A summary of the Prudential Indicators for the period 2010/11 through to 2016/17 is provided in **Annex A**. Explanatory comments are provided, where considered necessary to give a greater understanding of the prudential indicators, in the following paragraphs.

2.2. Capital Expenditure Plans

Actual capital expenditure and sources of financing for 2010/11, together with the original and updated plans for 2011/12, proposals for 2012/13 (incorporating new starts and payment slippage from 2011/12) and the indicative guidelines for the subsequent four years, are summarised in **Annex A**. These capital expenditure proposals are presented in detail elsewhere within the Corporate Business Plan.

2.3. Capital Financing Requirement

The actual Capital Financing Requirement (CFR) for 2010/11 provides a measure of the amount of borrowing the Council needs to undertake because it has not yet financed past capital expenditure from cash resources such as from capital receipts, capital grants and contributions from the revenue budget. The annual movements in the CFR from this point forward result from:

- The Council's intention to finance further capital expenditure from borrowing
- Revenue budget provision being made for the repayment of debt.

The actual CFR for 2010/11 and the estimated movements for the current and forthcoming five years are set out in **Annex A**. These estimates show that the CFR will plateau over the period 2011/12 to 2013/14, after which incremental reductions are forecast. These estimates are predicated on the basis that the Government will continue to support local authorities' capital investment via the provision of capital grant, as has been the case in both 2011/12 and 2012/13, and on the basis that the Council will not undertake significant levels of unsupported borrowing over a sustained period.

Credit arrangements (arrangements that enable the Council to acquire the use of assets on deferred payment terms) are also included in the calculation of the CFR because they have the same practical impact as borrowing.

2.4. External borrowing

As the Council is only permitted to borrow up to the level implied by its Capital Financing Requirement, limits are established for external debt, as follows:

- **Authorised limit** – defines the maximum amount of debt permitted by the Council, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003
- **Operational boundary** – is an estimate of the probable level of the Council's debt, and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

The proposed limits, which are set out in **Annex A**, are based upon an estimate of the most likely, prudent, but not worst case scenarios. They allow sufficient headroom for fluctuations in the level of cash balances.

The proposed limits are well below the current estimates of the Capital Financing Requirement; this is because the Council is able to temporarily use the cash that has been set aside, such as in earmarked revenue reserves, as a short to medium term alternative to external borrowing. This practice, which is referred to as 'internal borrowing', does not diminish the magnitude of funds held in reserves and balances; the funds are merely being borrowed to defer the need to secure external loans.

2.5. Ratio of financing costs to net revenue streams

An indication of the trend in the cost of capital is provided by the 'ratio of financing costs to net revenue streams'. This ratio shows the percentage of the annual revenue budget that is being consumed in order to finance the costs of borrowing (i.e. interest and debt repayments, net of investment income).

The actual ratio for 2010/11 and the estimates for the current and forthcoming five years are provided in **Annex A**, and these show that the Council has been able to maintain a position where the proportion of the revenue budget used to finance borrowing costs has remained largely static. However, the indicators do not make any allowance for potential reductions in net revenue streams in subsequent years (i.e. beyond those already announced in the Chancellor's Autumn Statement).

2.6. Incremental impact on Council Tax

A key measure of the affordability of new capital investment is the impact upon Council Tax. The prudential indicators for the incremental impact upon Council Tax (as shown in **Annex A**) therefore show the additional council tax at band D that would result from commencing new capital projects in 2012/13 and subsequent years.

In reality, the actual impact upon Council Tax may be lower than that implied by the indicators set out in **Annex A** because no account has been taken of the savings that may accrue from invest to save / improve schemes.

2.7. Treasury Management

The Prudential Code requires the Council to confirm adherence to the principles of the CIPFA Treasury Management Code. This confirmation is provided within the Treasury Management Strategy, as detailed in the following section.

3. Treasury Management Strategy

3.1. Introduction

The Prudential Indicators, as summarised in **Annex A** and explained in the previous section, considered the affordability and impact of the Council's capital expenditure proposals, this section considers funding of these decisions.

The Council's treasury activities are strictly regulated by the CIPFA Treasury Management Code and by statutory regulations. One of the key aspects of the Treasury Management Code, and the underlying regulations, is the requirement to produce an annual Treasury Management Strategy. The following paragraphs address this key requirement.

3.2. Borrowing and Investment Projections

The Council primarily undertakes borrowing in order to finance capital expenditure, although can also borrow for cash management purposes. Separately, the Council has cash backed resources which it has set aside for longer term purposes (such as funds set aside in reserves and balances) that are available to be invested.

A forecast of the amount of external borrowing and investment balances for the forthcoming three years is provided in **Annex B**. Revenue budget provision for interest payments and investments income has been determined on the basis of these estimates.

3.3. Economic outlook and interest rates

The economic outlook for the forthcoming few years is likely to remain both challenging and uncertain. This has the following implications for the Council's treasury management functions:

- The Eurozone sovereign debt difficulties provide a clear indication of much higher counterparty risk. This means that it will be critical that the Council continues to only use high quality counterparties for investment purposes and that it maintains high liquidity of funds by investing for shorter periods
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any new borrowing will need to be considered carefully though, particularly if borrowing results in a temporary increase in the cash available for investment (i.e. there may be a cost associated with carrying the new loans in the short term, if the interest payable on these loans exceeds the returns achievable from investing the associated cash).

An estimate of the movement in interest rates over the forthcoming three years is provided in **Annex B**. Revenue budget provision for interest payable and receivable in 2012/13 has been determined in accordance with the interest rate forecasts set out within **Annex B**. An estimate of the impact of a **1%** variance from these rates is also provided.

3.4. Borrowing Strategy

Borrowing requirement

Estimates of the Council's net additional borrowing requirement for each of the forthcoming three years are provided in **Annex B**. These estimates take account of:

- The borrowing required to finance the capital programme (as set out within **Annex A**)
- The Council's ability to sustain 'internal borrowing'
- The annual revenue provision for the repayment of debt

- Maturing loans, which it is assumed will be refinanced, depending upon interest rates, the prevailing cash flow position and the Council's Capital Financing Requirement (CFR).

The net additional borrowing requirement for 2012/13 can be accommodated within both the authorised limit and operational boundary for external debt (as set out within **Annex A**).

Borrowing decisions

The Council will not borrow more than it needs; any decision to borrow will be taken in compliance with the borrowing limits and Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Opportunities to generate savings by refinancing or prematurely repaying existing debt will be kept under review. Potential savings will be considered in the light of the current treasury position and the costs associated with such actions.

Counterparties

The Government intends that the Public Works Loans Board (PWLB) will be able to meet every local authority's legitimate need for long term borrowing. Applications for loans from the PWLB are considered without regard to an authority's ability to raise funds elsewhere. Thus, the Council will be able, if it so wishes, to satisfy the whole of its borrowing requirement from the PWLB. Money market loans from UK financial institutions will however be considered alongside those offered by the PWLB, together with opportunities to borrow from other local authorities.

If short term borrowing is necessary, this will be secured via the money markets or from other local authorities.

Maturity structure of borrowing

In order to avoid having large concentrations of debt maturing in any one year, upper and lower limits are proposed in **Annex B** for the maturity structure of borrowing. The purpose of these limits is to ensure that the Council does not have to refinance a significant number of maturing loans at a time when interest rates may be less favourable, and to ensure that the Council maintains sufficient flexibility to vary the level of external debt alongside fluctuations in the Capital Financing Requirement.

Interest rate exposure

In order to manage and minimise the impact of movements in interest rates, limits are proposed within **Annex B** that will establish the ranges within which fixed and variable rate borrowing will be undertaken.

Performance indicators

Borrowing performance will be assessed against the average PWLB rate for the year for the applicable loan type and interest rate banding; the aim being to secure new loans at a rate that is equivalent to, or less than, the average rate for the year.

3.5. Investment Strategy

Investment objectives

When the Council has surplus cash balances, these will be invested until they are next required. Usually, this means that funds will be invested on a short term basis (up to a maximum period of 364 days), but funds may occasionally be invested for periods beyond 364 days.

The primary objectives when investing the Council's funds are, firstly, to safeguard the principal sums invested secondly, to ensure adequate liquidity; and, lastly, to consider investment returns or yield.

Investment counterparty selection criteria

The Council's funds will primarily be invested according to the Secretary of State's definition of **specified investments**, these being sterling deposits made for periods of less than one year, offering high security and high liquidity. Specified investments may include deposits with the UK Government, other local authorities, money market funds and bodies of high credit quality.

Funds may also be invested according to the Secretary of State's definition of non specified investments. **Non specified investments** are undertaken for longer periods, or with bodies that are not of high credit quality. Their sole use in this Strategy is for the purpose of investing funds for periods in excess of one year (i.e. up to the limit set out within **Annex B**).

A lending list will be compiled to include counterparties satisfying the criteria set out within **Annex C**. The lending limits that will be applied to counterparties satisfying these criteria are also set out within **Annex C**. Additional operational market information (e.g. Credit Default Swaps, negative rating watches/outlooks etc) will also be considered before making any specific investment decisions.

The criteria for choosing counterparties set out within **Annex C** provide a sound approach to investing in normal market circumstances. However, the Executive Director for Finance will determine the extent to which the criteria set out within **Annex C** will be applied in practice (i.e. according to prevailing circumstances).

Interest rate exposure

In order to manage and minimise the impact of movements in interest rates, limits are proposed within **Annex B** that will establish the ranges within which fixed and variable rate investments will be undertaken.

Liquidity

Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, at all times, for the achievement of the Council's objectives. In this respect, the Council will seek to maintain liquid short term deposits of at least **£10 million** available with a week's notice.

Performance

Investment performance will be measured against the Local Authority Seven Day rate (LA7DR); the aim being to achieve investment returns that are equivalent to, or greater than, the average LA7DR for the year (i.e. subject to security and liquidity considerations being fully satisfied).

3.6. Treasury management advisors

The Council recognises that there is value in employing external advisors in order to acquire access to specialist treasury management skills and resources. The Council currently employs Sector in this capacity. Sector provides a range of services to the Council, including technical advice on treasury matters and capital finance issues, economic and interest rate analysis and creditworthiness information. The services received from Sector are subject to regular review.

Whilst Sector provides treasury management advice to the Council, the final decision on all treasury matters remains vested with the Council.

3.7. Other matters

The Council currently provides treasury management support to the Essex Pension Fund, Essex Probation Board, Essex Cares Ltd and Library Services (Slough) Ltd. As part of the agreement to provide treasury management support to these organisations, the Council may borrow their surplus funds, or lend to them to cover temporary shortfalls of cash. Any amounts borrowed from, or lent to, these organisations are consolidated on a daily basis with the Council's own cash balances, and the Council invests or borrows on the basis of the net position. The Council charges interest on amounts lent to these organisations, or pays interest on amounts borrowed, in accordance with the terms of a formal agreement between the respective parties.

4. Revenue Provision for the Repayment of Debt Policy

4.1. Introduction

The Council has a statutory duty to make a prudent annual provision, from the Revenue Budget, for the repayment of debt. External debt for this purpose is deemed to represent the sum of borrowing undertaken for capital financing purposes and credit arrangements used to acquire fixed assets under deferred payment terms, such as via finance lease or PFI arrangements.

4.2. Revenue Provision for Debt Repayment Policy 2012/13

In accordance with the requirement to make a prudent provision for the repayment of borrowing undertaken for capital financing purposes, the Council will ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by the Government, reasonably commensurate with the period implicit in the determination of that support.

This will be achieved by:

- Applying the **Regulatory Method** to determine revenue provision in relation to borrowing undertaken prior to 1 April 2008, and in relation to government-supported borrowing undertaken since this date. This represents a continuation of the methodology previously prescribed by the Capital Financing Regulations and is consistent with the basis applied to determine the Council's Revenue Support Grant entitlement in relation to government supported borrowing
- Applying the **Asset Life Method** to determine revenue provision in relation to unsupported borrowing undertaken since 1 April 2008. This option spreads capital expenditure financed from unsupported borrowing over the useful life estimated at the start of the relevant assets' lives (or over a shorter period where use of the standard useful life would not be supportable as prudent). The annual revenue provision is determined using an equal instalment or annuity method.

Revenue provision is chargeable in the first financial year after the relevant capital expenditure is incurred.

In the case of finance leases and on balance sheet PFI contracts, the MRP requirement will be met by a charge equal to the element of the rent/charge that goes to write down the balance sheet liability.

The revenue budget provision for Revenue Provision charges in 2012/13 has been compiled on a basis consistent with this policy.

Prudential Indicators (Part 1)

Summary of prudential indicators		2010-11 Actual	2011-12		2012-13 Estimate	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
			Original Estimate	Updated Estimate					
Capital expenditure & financing									
Capital Expenditure	£m	248	221	213	194	138	96	74	69
Capital Financing									
Supported borrowing	£m	52	-	-	-	-	-	-	-
Unsupported borrowing	£m	66	43	39	61	37	19	2	-
Grants and contributions	£m	122	172	166	131	90	77	70	69
Capital receipts and earmarked reserves	£m	8	6	8	2	11	-	2	-
Total capital financing	£m	248	221	213	194	138	96	74	69
Capital financing requirement									
Capital financing requirement (CFR)									
Opening CFR	£m	778	861	864	943	967	966	945	909
Add									
Additional borrowing	£m	118	43	39	61	37	19	2	-
Additional credit liabilities (PFI schemes)	£m	-	100	75	-	-	-	-	-
		896	1,004	978	1,004	1,004	985	947	909
Less									
Revenue provision for debt repayment	£m	(32)	(36)	(35)	(37)	(38)	(40)	(38)	(36)
Capital Financing Requirement	£m	864	968	943	967	966	945	909	873
Analysis of the Capital Financing Requirement									
Supported borrowing and pre 2008/09 unsupported borrowing	£m	627	601	601	577	555	531	510	490
Unsupported borrowing (2008/09 and later)	£m	116	152	150	202	227	233	222	210
Sub total - borrowing	£m	743	753	751	779	782	764	732	700
Credit arrangements (PFI / Finance leases)	£m	121	215	192	188	184	181	177	173
Total	£m	864	968	943	967	966	945	909	873
Net borrowing and the CFR									
Medium term forecast of CFR	£m	967	941	966	945	909	873	839	808
Forecast external debt (long term) and credit arrangements	£m	483	655	582	626	623	619	614	609
Headroom	£m	484	286	384	319	286	254	225	199

Prudential Indicators (Part 2)

Summary of prudential indicators		2010-11 Actual	2011-12		2012-13 Estimate	2013-14 Forecast	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
			Original Estimate	Updated Estimate					
External debt									
Authorised limit									
Borrowing	£m	510	630	530	570	570	570	570	560
Other long term liabilities	£m	150	250	250	250	250	250	250	250
Total authorised limit	£m	660	880	780	820	820	820	820	810
Operational boundary									
Borrowing	£m	430	510	440	470	480	470	470	470
Other long term liabilities	£m	130	220	200	200	190	190	190	180
Total operational boundary	£m	560	730	640	670	670	660	660	650
Actual external debt (incl. credit arrangements)	£m	490	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Financing & net revenue streams									
Specific government grant revenue streams	%	5.0%	6.1%	5.2%	6.0%	6.1%	6.2%	6.1%	5.7%
Specific and general grant revenue streams	%	4.6%	5.6%	4.8%	5.5%	5.7%	5.8%	5.7%	5.3%
Incremental impact on Council Tax									
Effect of capital schemes starting in:									
2012/13	£	-	£0.02	-	£0.53	£2.53	£4.53	£6.48	£6.46
2013/14	£	-	-	-	-	£0.30	£1.21	£1.46	£1.46
2014/15	£	-	-	-	-	-	£0.04	£0.13	£0.12
2015/16	£	-	-	-	-	-	-	-	-
2016/17	£	-	-	-	-	-	-	-	-
Total	£	-	£0.02	-	£0.53	£2.83	£5.78	£8.07	£8.04

Treasury Management Summary

Treasury Management Summary		2011-12 Latest Estimate	2012-13 Estimate	2013-14 Forecast	2014-15 Forecast
Estimated debt and investments					
Investments (estimated balance at each 31st March)	£m	70	100	130	170
External debt (operational boundary for borrowing)	£m	440	470	480	470
Expected movement in interest rates					
Bank Rate	%	0.5%	0.5%	0.9%	2.1%
Money rates					
3 month	%	0.7%	0.7%	1.1%	2.2%
1 year	%	1.5%	1.6%	2.1%	3.1%
PWLB (borrowing) rates					
5 year	%	2.6%	2.4%	2.8%	3.4%
10 year	%	3.7%	3.4%	3.8%	4.5%
25 year	%	4.6%	4.3%	4.7%	5.1%
50 year	%	4.7%	4.4%	4.8%	5.2%
Source: Sector (December 2011)					
Effect of 1% increase in interest rates					
Interest on borrowing	£000		670		
Interest on investments	£000		(1,745)		
Interest attributed to reserves & balances	£000		1,830		
Interest attributed to other bodies	£000		260		
Net total	£000		1,015		
Borrowing requirement	£m	30	49	8	-
Interest rate exposures					
Upper limits for exposure to fixed rates					
Net exposure	%	100%	100%	100%	100%
Debt	%	100%	100%	100%	100%
Investments	%	100%	100%	100%	100%
Upper limits for exposure to variance rates					
Net exposure	%	70%	70%	70%	70%
Debt	%	30%	30%	30%	30%
Investments	%	100%	100%	100%	100%
Maturity structure of borrowing (upper limit)					
Under 12 months	%	40%	40%	40%	40%
12 months and within 24 months	%	40%	40%	40%	40%
24 months and within 5 years	%	60%	60%	60%	60%
5 years and within 10 years	%	60%	60%	60%	60%
10 years and within 25 years	%	60%	60%	60%	60%
25 years and within 40 years	%	50%	50%	50%	50%
40 years and within 50 years	%	50%	50%	50%	50%
50 years and above	%	10%	10%	10%	10%
Maturity structure of borrowing (lower limit)					
All maturity periods	%	0%	0%	0%	0%
Total sums invested for more than 364 days					
Upper limit for sums invested for more than 364 days	£m	50	50	50	50
Actual sums invested for more than 364 days (maximum)	£m	5	N/A	N/A	N/A

Counterparty Criteria for Investments

Lending List

The Council will only use UK banks and building societies, and non UK banks domiciled in a country with a minimum sovereign rating of **AA**, that have credit ratings equivalent to or better than the following:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1	A-1	P-1
Long term rating	A	A	A2
Viability / financial strength rating	a	-	C
Support rating	3	-	-

The above ratings will be used to determine the pool of counterparties with whom the Council can transact. The short and long term ratings will then be used further, to determine the maximum amount that can be invested with each of these counterparties, and for what period – see lending limits section.

In addition, the Council may invest its funds with:

- The UK Government
- Other local authorities
- Pooled investment vehicles (i.e. Money Market Funds) that have been awarded an **AAA** credit rating
- Financial institutions fully or part nationalised by the UK Government whose credit ratings do not meet the above criteria.

Bank subsidiaries and treasury operations which do not have a full set of credit ratings can be included on the list provided the parent bank has the necessary ratings outlined above. In addition, the subsidiary must itself have short and long term ratings meeting the above criteria or have an unconditional guarantee from the parent bank.

Finally, the Council may use banks and building societies whose ratings fall below the criteria specified above if all of the following conditions are satisfied:

- Wholesale deposits in the bank are covered by a government guarantee
- The government providing the guarantee is rated **AAA** by Fitch, Standard and Poor and Moody's.

The Council's investments with the bank are limited to amounts and maturities within the terms of the stipulated guarantee.

Notes:

- There are three main credit rating agencies that assign ratings to financial institutions, namely Fitch, Standard and Poor and Moody's. When these agencies assign ratings, they take account of any country specific circumstances. Ratings are therefore applicable worldwide; hence the risk of investing with two different counterparties that have similar ratings is the same, irrespective of their country of origin
- Definitions of the credit ratings of the three main credit ratings are not reproduced within this report, but are available upon request
- The criteria outlined above will ensure that the Council's funds are only invested with high quality counterparties
- Not all ratings categories are assessed by each of the ratings agencies
- Counterparties will only be considered for inclusion on the Council's lending list if they have all of the following credit ratings:
 - Short term rating
 - Long term rating
 - Viability / financial strength rating
 - Support rating
- Where a counterparty is rated by more than one credit rating agency, the lowest ratings will be used to determine whether or not it is included on the counterparty list
- Credit ratings are continually monitored, with changes in credit ratings being notified by the Council's treasury management advisors. Counterparties will be removed from the Council's lending list in the event that they receive a downgrading to their credit rating status below the minimum criteria outlined above
- Counterparties that are placed on 'negative ratings watch' will remain on the Council's lending list at the discretion of the Executive Director for Finance, in consultation with the Cabinet Member for Finance and the Transformation Programme
- For group organisations, the viability rating of the group will be used if an individual entity does not have a viability rating
- A minimum viability rating of a+ will apply to non UK financial institutions
- Money Market Funds (MMFs) are short term investment instruments; they are pooled investments that are placed, by a manager, in a wide range of money market instruments. The size of the investment pool of a MMF enables the manager to not only offer the flexibility of overnight and call money but also the stability and returns of longer dated deposits. Strict rules and criteria are set down by the official rating agencies, covering the types of investment counterparties used, the maturity distribution of the funds and investment

concentrations. The MMFs that the Council would use will all be denominated in sterling and be regulated within the EU.

Lending Limits

For banks and building societies satisfying the 'lending list' criteria, lending limits will be determined with reference to the counterparties' short and long term credit ratings, as follows:

- Investment limit of **£60 million** for investments of up to three years with UK financial institutions only

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1+	A-1	P-1
Long term rating	AA-	AA-	Aa3

- Investment limit of **£50 million** for investments of up to one year with UK and non UK financial institutions:

Rating category	Credit rating agencies		
	Fitch	Standard and Poor	Moody's
Short term rating	F1	A-1	P-1
Long term rating	A	A	A2

- Lending limits for other counterparties will be as follows:
 - No restrictions will be placed on the amounts that can be invested for periods of up to one year with the UK Government (ie. Debt Management Office, UK Treasury bills or Gilts with less than one year to maturity)
 - Investments with fully or part nationalised organisations will be restricted to periods of up to one year
 - An investment limit of **£50m** will be applied for investments with individual Money Market Funds
 - An investment limit of **£50m** will be applied for investments with individual top tier local authorities. Top tier local authorities will include county councils, unitary and metropolitan authorities and London boroughs
 - An investment limit of **£35m** will be applied for investments with individual lower tier local authorities. Lower tier local authorities will include district / borough councils and police and fire authorities

- In addition to the limits outlined above, a further restriction will be applied in respect of investments with non UK financial institutions; that is, a country
- Limit of **£35m** will be applied. The country limit will restrict the total amount that can be invested within any one country outside of the UK at any one time.

Credit Ratings

There are three main agencies assigning credit ratings to financial institutions, namely Fitch, Standard and Poor and Moody's. When these agencies assign ratings, they take account of any country specific circumstances. Ratings are therefore applicable worldwide; hence the risk of investing with two different counterparties that have similar ratings is the same, irrespective of their country of origin.

Equality Impact Implications of the Revenue Budget 2012/13

1.1. This section of the report will describe the most significant equality impacts confronting each main service area. These impacts have the potential to be of medium to high impacts for voluntary sector organisations and/or our customers. The report also highlights those impacts which are intended to be positive or neutral.

1.2. *Adults, Health and Community Wellbeing*

- 1.2.1. The majority of the proposals for budget reduction have been assessed as delivering further efficiency savings, which have the potential to impact positively on customers' experience. There are also budgetary pressures that will have a direct impact upon older and disabled people.
- 1.2.2. The pressure of price inflation and demographic growth has meant that adult social care services will operate within a maintained zero per cent uplift within an economic climate of rising costs and inflation. There is a risk that this could impact upon the quality of care delivered by service providers, or in some circumstances result in providers ceasing to trade. This outcome would have a direct impact upon the customers they support. The impact would be especially felt by those voluntary sector providers whose margins are already being squeezed. The Council will continue to monitor the effect of this action. Cabinet is advised to understand this impact in advance of taking any decisions on price and demographic inflation in 2013/14.
- 1.2.3. A reduction in mental health services for adults will be achieved through service procurement and operational activities. Any efficiency achieved through procurement may impact on the financial viability of some Small Medium Enterprise providers. There is also a challenge to implement operational efficiencies to front line services without impacting on the quality of the customers' experience. Cabinet is advised that a full impact assessment has been undertaken of this reduction with mitigating actions in place.
- 1.2.4. The savings for the Strengthening Commissioning programme in 2012-13 will be achieved, in part, from joint commissioning with health. Working with health partners to develop and commission preventative services, transport services and efficiencies in the health and social care economies should provide savings with neutral impacts upon customers' access and experience of services. Service development will be supported by further detailed equality analysis.

- 1.2.5. The review of procurement activity such as residential care will achieve a shift from block to framework agreements with care providers. Voluntary sector organisations contribute to the provision of residential and domiciliary care and may be more at risk of remaining financially viable and competitive. This situation will be monitored through contract management procedures.
- 1.2.6. There were 40,800 adults and older people accessing social care via Essex County Council during the year 2010/11. Of these, Essex has supported 8,100 in registered care and 12,140 with ongoing community-based services such as homecare, day care, or cash payments. A total of 1,840 people were supported with reablement only and 18,720 people were supported with either advice and information, equipment or Telecare. Part of the efficiency programme within adult social care is to support more people through reablement to become more independent through the use of assistive technology and less reliant upon the physical presence of staff. This is likely to have positive benefits to those customers who are confident to take up this opportunity.
- 1.2.7. Remodelling the meal service contract to remove the complexity of management will ensure customers will be able to interact directly with meal providers to improve service quality. The removal of the subsidy for meals on wheels creates the need to review current prices, which have not changed over the last five years. Customer engagement, as part of the full impact assessment revealed that people do not disagree with proposed cost increases but expected service improvements that the revised contract will achieve.
- 1.2.8. The transfer of public health to local government also presents the opportunity to achieve efficiencies. It is too early to determine the equality impacts to any changes in service provision. Equality analysis will be integral to the transfer and provision of any revised or new service.
- 1.2.10 As part of its savings target the libraries service has reduced expenditure on resources. The reductions will affect the full range of resources available. The reduction is likely to affect critical areas of service delivery of learning, information and literacy for both adults and children. These reductions affect all demographic groups in Essex.
- 1.2.11 Reduction in cross-county activity is likely to have an impact upon services. Customer services, complaints and enquiries may be affected because of reduced capacity. The ability to provide events, outreach activities and partnership building and maintenance is also restricted.
- 1.2.12 As with the general public, reductions in management capacity affect access and availability of both services and premises. Special

services to the public, such as providing help with homework, advice for business and community information points, are useful resources for families and local business. These services will also be reduced. It is too early to determine the overall impact upon strategic objectives related to raising skills and education attainment. Cabinet is advised that the situation should be closely monitored.

1.3 *Schools, Children and Families*

- 1.3.1 The directorate is planning to reduce the number of children in care and to support more children and young people to live at home. Supporting families to remain together will have a positive impact upon the life chances of young people.
- 1.3.2 Efficiencies in the placements budget for out of county placements as part of the overall review of special educational needs will require a full impact assessment to ensure there are no unintended adverse effects upon young people and their families. This is planned to be undertaken during 2011/12.
- 1.3.3 Efficiencies in respite care homes for disabled children will be achieved through the redesign of the service with the provision of alternatives services, such as short breaks. There is expected to be no adverse impact on children or carers. Customers will also benefit from greater independence and choice.
- 1.3.4 The effect of a reduction in locality commissioning activities will be mitigated through the work of the Locality Children's Commissioning Delivery Boards (LCCDB). The Boards will continually review the impact of service reductions and changes (in ECC and partners' services) at a strategic level, supported by the data on service mix and gaps provided by the Multi-Agency Allocation Groups operating weekly in each district.
- 1.3.5 In West Essex, the MAAG is experiencing a rise in the numbers of referrals for support for child and young people with violent and aggressive behaviour and for family support for families experiencing domestic abuse and requiring support with behaviour management. Although neither the Council nor health have reduced their budgets for key services to respond to these needs there is a growing capacity issue within services and growing waiting lists resulting from increased referrals with more complex issues. Cabinet is advised to seek further clarification and a review of the situation.
- 1.3.6 A reduction in funding to support early years workforce development and small grants will be reduced by supporting child care providers to self assess and access appropriate support services to drive up performance, as opposed to receiving direct support from the local authority. The reduction in small grants may prevent some childcare

settings developing provisions. The local authority will assist in helping them access other streams of funding. The council will continue to monitor the impact on children and families recognising that these services also play an important role in facilitating women's access to employment opportunities.

- 1.3.7 Primary Improvements – budget reduction. Reductions are a result of the government decision to transfer funding directly to individual schools' budgets for school improvement.
- 1.3.8 The reduction in Educational Welfare Service (EWS) budget has necessitated a reduction in workforce and the majority of the non statutory work is now traded to schools. The service has just completed a consultation and a selection process is currently in place to streamline the Service by end of March 2012. Remaining staff will be upskilled to be more flexible in order to meet statutory responsibilities and meet the need of customers. It is difficult to predict how many schools will buy into the EWS, as some will employ their own staff to carry out school attendance work. In order to try to mitigate concerns regarding safeguarding and the loss of early intervention capacity, the service intends to continue to offer free advice, seminars, consultations and casework for children in care and young people subject to a child protection plan.

1.4 Environment, Sustainability and Highways

- 1.4.1 Savings from reduced property related costs and savings from the new management services continue to ensure that the Council operates from buildings with reasonable access, including accessible communications facilities. Customers will also continue to benefit from good customer service provided by employees with relevant training.
- 1.4.2 Reduction of local bus subsidies presents a risk of unintended impacts. A potential outcome could be a reduction in the frequency of services, termination of a service or a revision of fares. Fewer bus routes could potentially limit residents' travel choices and their ability to access services such as health, education, leisure and work opportunities. Geographical impacts are yet to be determined. Cabinet are advised to consult on the implementation.
- 1.4.3 There will be a transfer of some funds from Schools, Children's and Families for financing outreach work to ethnic minorities to fund the new Essex County Wide Traveller Unit, to deliver improved outcomes for the Gypsy and Traveller communities. These groups achieve poor education outcomes and there will be an expectation of greater outcomes for the community by pooling resources from all partners.

1.5 *Transformation, Finance and Strategic Services*

- 1.5.1 These three central directorates provide support to front of house services. More than 50% of the savings to be generated in these functions is attributable to the IS Modernisation Programme.
- 1.5.2 Care is being taken to minimise the impact of reductions in support services on the ability to deliver services to front line departments and particularly employees who require support as part of their reasonable adjustment.
- 1.5.3 The Corporate Services phase two programme supports the proposals for further IS investment. An initial equality screening will ensure that any changes to technology will be accessible to all employees including those requiring specific reasonable adjustments.

1.6 *Our Employees*

- 1.6.1 A substantial part of the Council's efficiency savings will be achieved by the change to a new operating model as part of the Council move to a commissioning organisation.
- 1.6.2 There has been no significant change to the ECC workforce profile over the past year, despite a reduction of 380 posts during 2010/11 and 623 posts during quarter one to quarter three in 2011/12, suggesting no adverse impact from the initial reductions in workforce numbers on the diversity groups we monitor.
- 1.6.3 Using early retirement and voluntary redundancy as part of the mechanism to avoid compulsory redundancies has not led to a disproportionate number of older people leaving the Council. Employees over 50 continue to represent 39% (as at November 2011) of the Council's total workforce. Disabled people also do not appear to be exiting the Council through the selection process.
- 1.6.4 Women in Essex are the majority of workers throughout the public sector. Given the high proportion of women within the workforce, women will continue to be disproportionately represented in the number of people leaving the Council. There has also been a slight drop in the number of people under 25 within the workforce.
- 1.6.5 There are no significant gender pay gaps within the Council. All Public Sector workers will continue to experience the impact of a two-year pay freeze.
- 1.6.6 During 2012/13 the Council will continue to reduce the number of agency workers and will review vacant posts particularly within youth

services, to determine the opportunities for achieving further savings whilst maintaining service quality.

The headline comparisons are:

Group	2009/10	2010/11	Summary of percentage point changes in November 2011 compared to March 11 (overall headcount reduction 623)
ECC Black & Minority Ethnic employees	9%	9%	BME – 0.3% increase (actual numbers have decreased by 15)
ECC Disabled employees	3%	3%	Disability – 0.2% increase (actual numbers remain at 228)
ECC employees under 25	6%	5%	0.7% decrease (actual numbers decreased by 89)
ECC employees age 50+	39%	39%	0.5% increase (actual numbers increased by 201)
ECC employees gender profile	74% female 26% male	74% female 26% male	Male – 0.4% increase (actual numbers have decreased by 124) Female – 0.4% decrease (actual numbers have decreased by 499)

2 Conclusions

It is imperative that the Council continues to engage with customers on any changes to services and secures relevant data on service users including information on service uptake, customer satisfaction and outcomes.

Rationalisation of back of house services may also inadvertently impact upon front line services. Continuous monitoring will identify these risks.

Cabinet is advised to seek ongoing updates of the issues highlighted within this report to determine any remedial actions which may impact upon the development of the 2013/14 budget.