

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

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| <b>Decision Maker:</b> | Cabinet<br>County Council                                  |
| <b>Date:</b>           | 17 June 2019<br>18 July 2019                               |
| <b>Title:</b>          | 2018/19 – End of Year Financial Report                     |
| <b>Report From:</b>    | Deputy Chief Executive and Director of Corporate Resources |

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#### 1. Recommendations

##### **RECOMMENDATIONS TO CABINET**

##### **It is recommended that Cabinet:**

- 1.1 Approves the outturn position set out in Section 3.
- 1.2 Approves the increase of service capital programme cash limits for 2019/20 to reflect the carry forward of capital programme schemes and shares of capital receipts, as set out in Appendix 3.
- 1.3 Notes the urgent decision taken to stand up the site as required on the A31 to deal with traffic management issues predicted following the UKs exit from the European Union, which was previously anticipated in April, and that the approved funding of £968,000 to meet the potential costs if required will be met from contingencies in 2019/20.
- 1.4 Approves the transfer of £10m to the Invest to Save Reserve to fund the IT enabling investment that is anticipated, at this early planning stage, will be required to deliver the Transformation to 2021 (Tt2021) Programme which is currently being developed.
- 1.5 Approves the transfer of £1.0m to the Organisational Change Reserve to fund the next phase of management development costs under the Workforce Development Strategy.
- 1.6 Approves the transfer of the balance of the net corporate savings of just under £1.5m to the Grant Equalisation Reserve (GER).
- 1.7 **Recommends to County Council that:**
  - a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2 be approved.

## RECOMMENDATIONS TO COUNTY COUNCIL

This single report is used for both the Cabinet and County Council meetings, the recommendations below are the Cabinet recommendations to County Council and may therefore be changed following the actual Cabinet meeting.

### County Council is recommended to approve:

- a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2.

## 2. Executive Summary

- 2.1 This report provides a summary of the 2018/19 final accounts. The draft statement of accounts was submitted for audit on the 31 May 2019 and will be reported to the Audit Committee in July, in conjunction with the External Audit report on the accounts.
- 2.2 Due to the early delivery of resources from proposals in advance of need, net service cash-limited expenditure was £27.1m lower than expected against an overall gross budget of circa £1.9bn, a variance in the region of 1.4%. This position reflects the County Council's continuing successful financial strategy of early delivery, where it is safe and practical, which provides funding that can then be used to meet the costs of change, to cash flow the necessarily slower delivery of some savings or to offset other service pressures, for example within social care.
- 2.3 The position for each of the departments is summarised in the table below:

|                                       | <b>Variance<br/>(Under) / Over<br/>Budget<br/>£'000</b> |
|---------------------------------------|---|
| Adults' Health and Care               | (10.9)  |
| Children's Services - Non Schools     | 0   |
| Economy, Transport and Environment    | (7.9)   |
| Policy and Resources                  | (8.3)   |
| <b>Total Departmental Expenditure</b> | <b>(27.1)</b>   |

- 2.4 The position for Adults' Health and Care reflects the earlier than originally anticipated realisation of £9.9m of Transformation to 2019 Programme (Tt2019) savings. In addition, sustained management activity during the year to control spend in the face of well publicised care pressures and the effective use non-recurrent funding made available through various grants, including but not limited to, the Improved Better Care Fund (IBCF) and Winter Pressures grant, have all contributed to this position at the end of the year.
- 2.5 The break even position in Children's Services equally reflects significant management activity which has seen work to limit, as far as possible, pressures in the Children Looked After (CLA) budget, that continue to grow due to increasing activity levels and higher average costs due to the type of care being provided and the availability of that care. This alongside the early

delivery of resources, use of cost of change reserves and agreed targeted corporate support has resulted in a balanced position despite the considerable pressures.

- 2.6 The final outturn position for Economy, Transport and Environment (ETE) shows savings against the budget of almost £7.9m due to early delivery of resources and savings primarily in Highways Traffic and Transport of which £2.0m relates to the winter maintenance budget as a consequence of the relatively mild and dry weather. The savings on the winter maintenance budget will be carried forward to be spent in 2019/20 as part of an ongoing programme of maintenance work.
- 2.7 Policy and Resources achieved a saving against budget of approaching £8.3m, mainly due to ongoing efficiency savings and the early delivery aspects of the Tt2019 Programme.
- 2.8 The net savings within Adults' Health and Care, ETE and Policy and Resources have been set aside for use by the respective services to meet restructuring and investment costs associated with the Tt2019 Programme and beyond, in accordance with the current financial management policy and the Medium Term Financial Strategy (MTFS). These net savings do not represent a deterioration of service delivery but do represent careful stewardship which supports the safe delivery of necessary transformation.
- 2.9 In addition, within ETE it is specifically proposed to again reinvest available funding associated with the winter maintenance budget in highways maintenance to provide additional one-off resources to supplement existing maintenance programmes. This flexibility was approved in February by Cabinet and County Council.
- 2.10 Schools are facing increasing financial pressure, in particular relating to high needs for children with special educational needs and or disabilities (SEND), both at an individual school level and within the overall schools' budget. These pressures are outside the County Council's core budgets, but the County Council retains an active role and interest as the local education authority. In 2018/19 the overall position has been balanced through the use of the Dedicated Schools Grant (DSG) Reserve; albeit that this is in deficit.
- 2.11 Consequently, the resulting DSG deficit of £13.7m (up from £4.5m last year) will need to be met from future years school budgets and strategies have been developed, and agreed with the Schools Forum, to address the underlying pressures on high needs. The County Council must also submit a containment / recovery plan to the Government, which in the medium term will need to rely on significant additional government funding if it is to have any chance of addressing the underlying financial pressures in this area.
- 2.12 Savings on non-cash limited budgets total just under £12.5m. This is mainly as a result of treasury management activity (including the achievement of a return of more than 4.9% from higher yielding investments), additional grant income and unused contingencies. Contingencies were in the main set aside in recognition of the increased risk in the budget due to ongoing pressures within social care and other demand led services; such as waste disposal.
- 2.13 This report recommends that these corporate savings are allocated as follows:

- £1.0m is set aside to fund the next phase of management development costs under the Workforce Development Strategy. More detail is set out in paragraphs 3.41 to 3.43.
  - £10.0m is allocated to provide funding for the anticipated requirement for IT enabling investment to deliver the Transformation to 2021 (Tt2021) Programme that is being developed. More detail is set out in Section 4.
  - The balance of approaching £1.5m is transferred to the Grant Equalisation Reserve (GER). Building the provision within the GER will support the revenue position in future years, as set out in the MTFS, and give the County Council the time and capacity to implement the next phase of transformation. More detail is set out in Section 5.
- 2.14 Planning for the next phase of transformation is continuing and this report sets out the latest assessment of the financial implications and how the potential investment and cash flow support for Tt2021 will be provided.
- 2.15 The report contains a small section on reserves and balances highlighting that in line with the MTFS, the level of reserves has risen as we prepare for planned draws in 2019/20 and beyond.
- 2.16 The report also provides details of an urgent decision made in relation to preparations for Brexit and recommends approval of:
- The annual report on the operation of the treasury management strategy and the County Council's end of year prudential indicators, for subsequent approval by the County Council.
  - A revised capital financing plan for 2019/20.

### 3. 2018/19 Revenue Outturn

#### Service Cash Limits

- 3.1 The table below summarises the net outturn position for each department compared to the final cash limit for the year. The figures exclude schools spending but include cost of change paid for during 2018/19:

|                                       | <b>Variance<br/>(Under) / Over<br/>Budget<br/>£'000</b> |
|---------------------------------------|---|
| Adults' Health and Care               | (10.9)  |
| Children's Services - Non Schools     | 0   |
| Economy, Transport and Environment    | (7.9)   |
| Policy and Resources                  | (8.3)   |
| <b>Total Departmental Expenditure</b> | <b>(27.1)</b>   |

- 3.2 The third quarter monitoring position indicated that most departments, with the exception of Children's Services, were anticipating that they would be able to

manage the large-scale investment required to deliver their planned transformation activity and to meet service pressures through the use of cost of change and other reserves, along with agreed corporate funding.

- 3.3 Strong financial management has remained a key focus throughout the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that they deliver the savings programmes that have been approved. Enhanced financial resilience monitoring, which looks not only at the regular financial reporting but also at potential pressures in the system and the early achievement of savings being delivered through transformation, has continued through periodic reports to the Corporate Management Team (CMT) and to Cabinet.
- 3.4 This focus has ensured that at the end of the year the final position is in line with expectations and that departments have, where safe and practical to do so, delivered resources early, which will provide funding that can then be used to meet the costs of change and to cash flow the delivery of savings or offset service pressures.
- 3.5 For Children's Services, revised funding for growth in Children Looked After (CLA) numbers, and in turn the knock on impact for care leavers, previously agreed, alongside continued management focus, has enabled the Department to deliver a balanced position at the end of the year. This achievement underscores still further the quality of the Department's performance as evidenced by the recent Outstanding Ofsted judgement.
- 3.6 Key issues across each of the departments are highlighted in the paragraphs below and whilst pressures within social care services remain the highest risk and most volatile area of the County Council's budget the impact of successive savings programmes along with other service pressures means that all departments continue to face considerable and developing financial pressures.

### **Adults' Health and Care**

- 3.7 Adults' Health and Care have continued to contain care pressures, arising through demography and complexity changes in clients, and delivered a saving of £10.9m in 2018/19. However, this position is largely due to the early achievement of £9.9m of Transformation to 2019, (Tt2019) savings ahead of the budget being reduced in 2019/20.
- 3.8 This overall position is also heavily reliant on the utilisation of non-recurrent funding made available through various grants, including but not limited to, the Improved Better Care Fund (IBCF) and Winter Pressures grant. The scale of reductions in mainstream funding experienced by the Department is only partially offset by these non-recurrent grants and so to achieve the position reported is still a significant achievement, made possible through consistent and wider application of a strengths based approach to assessing clients care needs and the use of new initiatives; including Telecare.
- 3.9 These non-recurrent sources of funding will only mitigate the pressure in the short term and looking further ahead this funding will cease and over the same period it is anticipated that further care provision pressures will arise from both increases in demand and complexity of clients' needs and from care costs to ensure market stability.

- 3.10 More immediately, whilst the outturn position is positive it should be noted that there has been a marked increase in the level of spend on care packages for clients in the last four months of 2018/19. This has had a positive impact by assisting with an upturn in the County Councils reported performance on Delayed Transfers of Care (DToC). The additional spend in these last four months has been of a level than can be accommodated in 2018/19 through the non recurrent funds as stated above. However, should the volume of spend on care in the last four months continue as the new baseline throughout 2019/20 the full year effect will be considerably greater than the combined funding available through the annual budget and expected non recurrent funds.
- 3.11 In addition to meeting existing demand and costs pressures a large proportion of the IBCF and Winter Pressures funding has been spent on initiatives that support long term change and transformation of services, including those that benefit Health, such as improving DToC, and that provide stability within the care market. The full funding allocation of IBCF funding (£13.4m) and the Winter Pressures grant (£4.8m) for 2018/19 was spent in full by the Department.
- 3.12 The early realisation of £9.9m of savings within the Tt2019 Programme has placed the Department in a far stronger position as we move into 2019/20 to support both the costs of the Tt2019 Programme and to cash flow the delivery of their savings. However, the scale of the challenge faced by Adults' Health and Care will mean that approximately £9.6m of the corporate support available will be required over the lifetime of the programme.
- 3.13 Public Health ended the year with a balanced position, after making a contribution to the ring-fenced reserve of £1.7m. This has been achieved through planned work to deliver efficiencies and innovation within existing services in advance of future reductions in funding, including holding vacancies in the Public Health team and making reductions in contractual and non-contractual spend. The 2018/19 closing balance of the Public Health Reserve is £7.5m and it is planned to utilise this reserve over the short term to provide investment for further initiatives to drive down recurring costs and to offset reductions in the grant that will occur prior to the savings being achieved.

### **Children's Services**

- 3.14 Children's Services have seen the number of CLA, including Unaccompanied Asylum Seeking Children (UASC) continue to grow during 2018/19, above the levels that were forecast. The additional funding to meet the costs of UASC, announced by the Government in May 2019 is welcomed and it is anticipated this funding will be circa £1.0m for the County Council, but this still does not completely cover the full costs in providing care for these individuals. In addition, there are other increasing cost pressures, particularly in relation to the cost of agency staff and home to school transport costs for post 16 provision.
- 3.15 Nationally there is growing attention being focused on the pressures facing children's services and analysis by the Local Government Association (LGA) publications by the Association of Directors of Children's Services,

independent studies (Newton Europe) and published data from the Department for Education (DfE) all highlight that growing demand for support is leading to over spends in almost all authorities. The DfE have made it clear that they will be making submissions in the Spending Review in this context.

- 3.16 The Department have applied strong focus to these pressures and the reported position is break even, reflecting the pro-active management of the services together with early delivery of savings, the use of the departmental reserves and agreed corporate support. However, these pressures continue to be areas of some concern in Children's Services and for the County Council as a whole and will be closely monitored throughout the current year.
- 3.17 Funding has been set aside within contingencies to provide for the projected growth in CLA numbers (and in turn the knock on impact for care leavers) in 2019/20 and beyond.
- 3.18 Other challenges faced by the Department relate to the short supply of qualified social workers and the costs associated with the provision of school transport, mainly relating to those with special educational needs.
- 3.19 Further corporate support has been agreed to fund additional social worker capacity through increased recruitment and improved retention. This support alongside continued management focus on the other pressure areas, will help the Department to operate from a firmer financial base as work on the challenging transformation programme progresses.

### **Economy, Transport and Environment**

- 3.20 The final outturn position for Economy, Transport and Environment (ETE) shows a saving against the budget of almost £7.9m due to early delivery of 2019/20 savings totalling £6.7m together with more than £1.2m of net savings on planned departmental activity. Included within this result is an amount of £2.0m within the winter maintenance budget.
- 3.21 At their meeting on 1 February 2019 Cabinet agreed to transfer any one-off resources available within the 2018/19 winter maintenance budget to the highways maintenance budget for 2019/20. The highways maintenance budget will therefore be increased by £2.0m to reinvest in highways maintenance in 2019/20. This was agreed on an ongoing basis with the position to be reported to Cabinet in the End of Year report,

### **Policy and Resources**

- 3.22 Policy and Resources achieved a saving against the budget of approaching £8.3m, after transformation costs have been met in year, mainly due to ongoing efficiency savings and the early achievement of 2019/20 savings.
- 3.23 The successful implementation of the Tt2019 Programme and the resulting early delivery of savings will be crucial as successive budget reductions mean there is less scope to generate savings across the services and high levels of investment and resources are required over a longer time period to generate further savings.

### **Overall Position**

- 3.24 Detailed explanations for the outturn position for all departmental budgets are provided in Appendix 1.
- 3.25 The departmental savings will be set aside to meet the future cost of change in line with the current financial policy which incentivises good stewardship.
- 3.26 In addition, within ETE the remaining resources associated with the 2018/19 winter maintenance budget will be set aside to provide additional one-off resources in 2019/20 as part an ongoing programme of highways maintenance.

### **Schools Budget**

- 3.27 Financial pressures on schools are increasing, both at an individual school level and within the overall schools' budget, in particular within the High Needs Block.
- 3.28 Pressures on the High Needs Block have mainly arisen due to significant increases in the number of pupils with additional needs and as a result of the extension of support to young people with high needs up to the age of 25. This is a pressure that is mirrored nationally and has been seen since the SEND reforms in 2014. There are also increases in the amount of funding required for each pupil on average due to increasing levels of need and these factors have created a pressure on the top-up budgets for mainstream schools, resourced provisions and Post 16 colleges. There is also significant pressure due to more pupils requiring placements in independent and non-maintained schools.
- 3.29 In 2018/19 there was a net over spend of £9.2m against the school budget including a £10.5m over spend on the High Needs Block. This over spend will be added to the £4.5m brought forward deficit on the Dedicated Schools Grant (DSG) Reserve. Responsibility for addressing the deficit rests with schools and strategies are being developed to reduce demand and consider funding options from future years school budgets.
- 3.30 Nationally, there are many councils in this position, all of which are required to submit to government a containment / recovery plan in respect of the cumulative deficits in DSG which are mainly the result of pressures in the high needs block. Whilst the County Council will of course comply with this requirement, it will make it clear in the return that the only realistic chance of being able to address the deficit and underlying annual pressures in the long run is to receive significant additional government funding.

### **Other Budgets**

- 3.31 The outturn for other items contained within in the budget is shown in the following table:

|  | <b>Variance<br/>(Under) / Over<br/>Budget<br/>£m</b> |
|--|--|
| Capital Financing / Interest on Balances | (0.6)  |
| Waste Management                         | (2.9)  |
| Contingencies                            | (8.4)  |
| Other Net Variations                     | (0.6)  |
| <b>Total</b>                             | <b>(12.5)</b>  |

3.32 The main reasons for these variances are set out in the paragraphs below.

#### **Capital Financing and Interest on Balances (£0.6m Saving)**

3.33 These savings reflect the ongoing trend of a very prudent approach to capital financing costs and interest on balances and the continuing use of 'internal borrowing' to fund capital expenditure rather than taking out long term loans at this point. In addition, a return of more than 4.9% from higher yielding investments has been achieved, in line with the approved Investment Strategy.

#### **Waste Management (£2.9m Saving)**

3.34 Due to the number of variables associated with the provision of the Waste Management contract, separate central provisions are made within the budget each year and released in line with changes in waste volumes or contract terms. Whilst waste volumes stabilised in previous years, requiring less to be drawn from contingencies, 2014/15 saw the first real increase in volumes for several years and the provision in future years was reviewed in light of this.

3.35 The upward trend in 2018/19 has been less than forecast, reflecting amongst other factors, the impact of waste minimisation initiatives in ETE, resulting in savings against the budget however, continued close scrutiny of waste volumes will be required throughout 2019/20 to model and monitor the future costs.

#### **Contingencies (£8.4m Saving)**

3.36 The level of contingencies held as part of the 2018/19 budget reflected the well documented pressures and risk around demand and costs for the provision of social care services. Through strong management, applied to manage demand and suppress the additional costs, savings against these contingency amounts were realised.

3.37 Other contingencies which were not required in the year related to a central provision for carbon allowances and inflation / risk provisions (in particular for energy and business rates) which accounted for the balance of the overall saving within contingencies.

#### **Other Net Variations (£0.6m Saving)**

3.38 This relates to additional unanticipated Section 31 business rate relief grant income of approaching £0.5m received in 2018/19, and an under spend in the

Coroner's Service of £0.1m, due to a lower than anticipated number of inquests which are difficult to predict.

- 3.39 Whilst the outturn position for Coroners is favourable, the way in which charges for Coroners services across Hampshire are calculated is due to change part way through the current year and will have a substantial impact on costs going forward. The impact could be as much as £600,000 per annum, which will be reflected in the update of the MTFS which will be reported to Cabinet in October this year.

### **Allocation of Net Saving**

- 3.40 The net saving totals £12.5m and it is recommended that this amount is allocated as set out in paragraphs 3.41 to 3.46 below.

#### Workforce Development Strategy – Management Development

- 3.41 The County Council has previously identified the importance of capacity and an appropriately skilled workforce and funding of £1.0m was set aside at the end of 2015/16 for this purpose, which has been used to support the management development challenges arising from both Transformation to 2017 (Tt2017) and Tt2019.
- 3.42 This investment has now been fully committed and it is proposed that an additional £1.0m is added to the Organisational Change Reserve to fund the next phase of management development costs under the Workforce Development Strategy that will be aligned to changes arising from the Tt2021 Programme.
- 3.43 This would be the first set-aside of its kind for three years and it is anticipated this fund would cover an equivalent period. The funds are used to support a range of middle and senior management developmental work which have been critical to the delivery of transformation and have also been a key factor in HCC's ability to recruit and retain the best senior staff. This commitment underlines the ability of the Council to continue to provide for targeted investment, even during a prolonged period of tight spending control.

#### Investment in Enabling IT - Invest to Save

- 3.44 It is recommended that £10.0m is allocated to be added to the Invest to Save Reserve to fund the anticipated investment in enabling IT to support the delivery of savings for the Tt2021 Programme. Further detail is set out in Section 4, paragraphs 4.8 to 4.13 which outlines the next steps that will be taken to fully develop a programme which will see investment concentrated on those initial proposals where technology will deliver direct and significant cashable savings.

#### Balance of Savings

- 3.45 It is proposed that the balance of the net savings of just under £1.5m be added to the GER, in preparation for any future draw required beyond 2020 as set out in the MTFS which was approved by the County Council in September 2018.
- 3.46 This amount will mean that the GER is now anticipated to be able to provide sufficient resources to cover the delivery of the Tt2021 Programme, but further

contributions will be needed to rebuild the provision within the reserve to support the revenue position in future years. Further detail is set out in Section 5 of this report.

#### **4. Transformation to 2021 Programme**

- 4.1 The high level medium term forecast to 2021/22 now requires the County Council to develop a transformation programme that will deliver a further £80m.
- 4.2 It must be emphasised that this forecast is based on a wide range of assumptions and represents a realistic view as opposed to the worst case scenario. There are significant risks around government funding and we are in effect working “blind” at this stage. The scale of the reductions in funding for local government will be unknown until the next Comprehensive Spending Review (CSR) is announced and the impact on the County Council itself will remain unclear until the announcement of the Local Government Finance Settlement towards the end of 2019.
- 4.3 However, in the meantime it is prudent to plan on this basis, not least because although the Chancellor confirmed that the Government’s intention is to provide a three year CSR, the caveat is “if an EU exit deal is agreed”.
- 4.4 A one year settlement is an increasing possibility and will prolong the uncertainty, but a hurried three year CSR would potentially be even less desirable as the changes could be fundamental and would continue to impact local authorities for many years to come.

#### **Meeting the Gap in 2020/21**

- 4.5 The overall position is predicated on the Council’s ability to meet, on a one-off basis, a significant gap in funding in 2020/21 in order to give the longer lead in time for delivery. The draw required to balance the budget in 2020/21 is £28.4m and this can be met from the balance available in the GER, as set out in the Reserves Strategy presented to Cabinet and County Council in February as part of budget setting, and in Section 5 of this report.

#### **Cash Flow Support for Late Delivery**

- 4.6 Even over a two year period, delivering the Tt2021 Programme is clearly a very challenging prospect given the value of resources that have already been taken out of the system and the additional effort and levels of transformation activity that are required to achieve further phases of change. The impact of managing overlapping programmes will create further demands and complexity.
- 4.7 Given this fact, an initial high level estimate was calculated of the likely corporate cash flow support that might be required to ensure that where savings would take more time to implement safely this was factored into our longer term planning. Support to enable this managed approach to be taken was estimated to be £32m. The latest information provided by departments indicates that this envelope will be adequate, with Adults’ Health and Care requiring more than £25m of cash flow support – which is perhaps not

surprising given the fact that the savings they need to deliver account for more than half of the total.

### **Enabling Investment**

- 4.8 Departments have been critically reviewing the enabling investment required to deliver the developing Tt2021 Programme and whilst it is not possible to determine the requirements with any certainty at this stage of the process it is important that high level estimates are provided to facilitate financial planning and resource allocation. The requirements have been considered in two tranches:
- Non-IT enabling investment; and
  - IT enabling investment.
- 4.9 It is anticipated that non-IT enabling investment identified by departments may be met in the main from the anticipated early delivery of Tt2021 savings and therefore will be managed through departmental cost of change (and other) reserves. As more information around the Programme becomes available these estimates can be refined and will reported as part of the decision making cycle later this year.
- 4.10 For Tt2019 a large programme of IT activity was developed to enable change, underpinned by significant one-off investment of £38.6m, to deliver the following:
- Digital 2 and other enabling infrastructure.
  - Corporate Wi-Fi Upgrade.
  - Enabling IT for the Tt2019 Programme.
  - Enabling Productivity Programme.
- 4.11 Digital 2 built upon and enhanced the platforms and tools implemented to support departments with their future transformation as part of Digital 1 (which itself cost circa £10.0m). These investments enabled total recurring savings of around £62m as part of previous transformation programmes. Whilst it is important to acknowledge that the authority's digital journey does not end there, and that Digital by Default should be the continued strategic approach, at this stage there is no business case for Digital 3 and the focus needs to be on fully exploiting the capability provided through the substantial investment already made.
- 4.12 Work is ongoing to confirm the scale and scope of the IT Programme and the costs, but it is sensible at this stage to begin to make provision for the investment which early assessment work suggests will be in the region of £11.0 to £14.0m, with some internal resource also available to help progress the programme. Given the level of funding required to balance the budget in 2021/22 and cash flow the late delivery of Tt2021 savings, on top of the funding already being provided for Tt2019, this investment will be met from one-off savings on non-cash limited budgets available from the outturn position for 2018/19. A sum of £10.0m has been made available and, subject to approval of this allocation from the net under spend, the IT programme will see investment concentrated on delivering cashable savings. Approval has already been granted to utilise up to £3m of Tt2019 programme funding to

cashflow early mobilisation for some of the more developed schemes and this is still considered sufficient at this stage.

- 4.13 A more detailed programme and costings (including payback) together with the identification of all the required funding will be prepared with a view to securing approval for the necessary investment in technology to underpin the Tt2021 Programme as part of the next MTFS. What is clear however is that there are few local authorities in the country that could deliver and fund IT enablement of this scale and complexity which in turn will facilitate the effective and safe delivery of the Tt2021 Programme. It is testament to Hampshire’s planning, professional capacity and good financial management that change of this pace and scale is being continued.

## 5. Grant Equalisation Reserve

- 5.1 The current strategy that the County Council operates works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years with deficits in the intervening years being met from the GER. Building the provision within the GER will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us to 2021/22.
- 5.2 It has been agreed that where possible, the County Council will continue to direct spare one-off funding into the GER to maintain what is part of a successful strategy which has served it very well to date. Consequently, as part of budget setting in February, a number of additions totalling £29.9m were approved (over 2018/19 and 2019/20) to begin to make provision for the period beyond 2020 to support the two year savings cycle and to provide cash flow support to the Tt2021 Programme.
- 5.3 The following table summarises the forecast position for the GER taking into account the requirement to balance the budget in 2020/21 and to provide corporate funding to cash flow the next stage of transformation:

|   | <b>GER</b>    |
|---|---------------|
|   | <b>£'000</b>  |
| Balance at 31/03/2018                     | 74,870        |
| 2018/19 Original Draw Planned             | (26,435)      |
| Additions Approved February 2019          | 15,100        |
| Addition Outturn 2018/19                  | 1,466         |
| <b>Balance at 31/03/2019</b>              | <b>65,001</b> |
| Additions Approved February 2019          | 14,811        |
| Further Budgeted Addition - MRP “Holiday” | 21,000        |
| Planned use:                              |               |
| Cash Flow Tt2019                          | (40,000)      |
| Cash Flow Tt2021                          | (32,000)      |
| Interim Year 2020/21                      | (28,400)      |
| <b>Unallocated Balance</b>                | <b>412</b>    |

5.4 This will largely deplete the GER and therefore, where possible, the County Council must continue to direct spare one-off funding into the reserve as part of its overall longer term risk mitigation strategy.

## **6. General Balances and Earmarked Reserves**

- 6.1 The County Council's reserves strategy, which is set out in the MTFS, is now well rehearsed and continues to be one of the key factors that underpin our ability not only to provide funding for the transformation of services but also to give the time for changes to be properly planned, developed and safely implemented.
- 6.2 We have made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of tight financial control by the Government, although it was always recognised that the eventual planned use of the reserves would mean that a tipping point would come and we would expect to see reserves start to decline as they are put to the use in the way intended as part of the wider MTFS.
- 6.3 General Balances at the 31 March 2019 stand at £21.4m, following the planned draw in 2018/19 which is broadly in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement (currently a sum of circa £20m).
- 6.4 In addition to the general balance, the County Council maintains earmarked reserves for specific purposes and to a large extent the majority of these are committed either to existing revenue or capital programmes or to mitigate risks that the County Council faces through self insurance or funding changes by government.
- 6.5 In overall terms the total value of earmarked revenue reserves has increased as provision is built up in the GER, ahead of planned draws in line with the MTFS.
- 6.6 The net impact of the changes in the revenue account during 2018/19 mean that the GER will stand at £65.0m, which is in line with the financial strategy of supporting the revenue spend position as savings are developed and delivered on a two year cycle. Provision is being made for a draw in 2020/21 in order to give the County Council the time and capacity to implement the Tt2021 Programme and to cash flow the safe delivery of change.
- 6.7 In the period to 2022/23, the unallocated amount remaining in the reserve will be just over £0.4m, as shown in the table at paragraph 5.3. In preparation for any future draw required beyond this point further additions will be required to the GER as set out in the MTFS.
- 6.8 Other earmarked reserves will increase due to the timing of receipt of funds in advance of their planned use for an intended purpose, in particular in funding the Capital Programme. Schools balances, over which the County Council has no direct control, have decreased and are expected to decrease further in the medium term, while reserves held for the Enterprise M3 Local Enterprise Partnership (EM3 LEP) have increased as part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

- 6.9 The Council holds specific reserves to mitigate risks that it faces. The County Council self insures against certain types of risks and the level of the Insurance Reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.
- 6.10 Each year the County Council sets aside an insurance provision to meet claims resulting from incidents that have occurred during the year, along with reserves to cover potential claims arising from incidents in that year but where the claims are received in the future.
- 6.11 Regular actuarial reviews on the overall insurance fund have provided assurance that the County Council has been setting aside appropriate levels of funding against future liabilities to date. However, the conclusions of the most recent review were that there was a need to adopt a long term approach to increasing that fund going forward and the intention was to regularly review the Insurance Reserve and to make year end contributions that move the County Council towards the level outlined in the latest actuarial assessment.
- 6.12 To begin this, last year £6.25m was added to the Insurance Reserve resulting in a net increase of £5m after the provision for 2017/18 totalling £1.25m was set aside. This year the provision has reduced and there has been a net increase in the reserve of almost £10.3m. In light of this, and the fact that an actuarial review has been commissioned, the results of which will be available later in the year, no further additions to the Insurance Reserve will be made at this point.

## **7. Treasury Management and Prudential Indicators**

- 7.1 The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function, details of which are set out in Appendix 2. Under the Treasury Management Code of Practice, the end of year report has to be submitted to the County Council.
- 7.2 The Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy. Appendix 2 summarises the relevant indicators for the 2018/19 outturn which are in accordance with the figures approved by the County Council.

## **8. Capital Spending and Financing 2018/19**

- 8.1 From the 2018/19 Capital Programme, schemes to the value of £253.2m were committed during the year, leaving £122.3m to be carried forward to 2019/20, subject to Cabinet's approval.
- 8.2 During 2018/19 capital expenditure of £194.5m was incurred, which can all be financed within available resources. This includes prudential borrowing of approaching £35.3m. There will also be a further repayment of prudential borrowing from capital receipts and other funding sources of £2.4m. Further details of the outturn position for capital are provided in Appendix 3.

## **9. Brexit Preparations**

- 9.1 Where an urgent financial decision is required that falls outside of the defined process or limits within Financial Regulations or Financial Procedure Rules, but is felt to be in the wider interests of the County Council, the Chief Financial Officer in consultation with the Chief Executive and the Leader can make the decision subject to it being reported back to the appropriate decision making body.
- 9.2 One of the potential impacts of the United Kingdom leaving the European Union (EU) without a clear deal in place is that there could be significant delays at ports due to more stringent rules being applied for travel from the UK to mainland Europe. In Hampshire, the port of Portsmouth has significant ferry traffic that transports large freight vehicles to mainland Europe.
- 9.3 The Local Resilience Forum (LRF) has been considering the potential impact of Brexit for some time and one of the key risks that has been flagged is the potential for traffic chaos in and around Portsmouth if large numbers of freight vehicles are unable to leave the country in the same manner that they do currently. This has implications for the wider road network and public safety and means that Hampshire County Council as a highway authority (working with Portsmouth City Council) is required to put mitigating actions in place.
- 9.4 Options for the management and control of freight vehicles through 'stacking' at appropriate locations were considered by the LRF under advice from HCC and a suitable location was identified on the A31.
- 9.5 Initial capital works to prepare the site for this purpose have already been agreed by the Director of Economy, Transport and Environment under delegated powers and the works have been carried out.
- 9.6 However, at the point that the UK formally leaves the EU (which at the time of taking the decision was expected to be 11 April) the A31 site would need to 'stood up' in order to cope with any potential traffic back logs at the port in the event that a deal was not agreed which would address this potential issue. Assuming a firm date is set for the EU exit, this will be the trigger point if a 'no deal' position is reached, and the facility will need to be prepared in advance so that it is available from the first day. The Government have advised that we should plan to have the facility available at least for an initial six week period. This is being referred to as 'Operation Transmission'.
- 9.7 Discussions have been ongoing with the Department for Transport and the LRF about the need for this facility and the funding arrangements, but the final details and costs involved were not available for the Cabinet meeting that took place on 8 April. An urgent decision was therefore required to approve the spend to ensure that the facility was available on the planned EU exit date of 11 April or as required when a future date has been agreed.
- 9.8 The costs associated with running the facility are significant as it requires 24 hour support for traffic management and marshalling, vehicle rescue and recovery as well as the provision of welfare facilities on the site.
- 9.9 Initial estimates are that the one-off costs of setting up the site are around £328,000 with weekly running costs of just under £86,000, giving a total for the 6 week period of £842,000. However, given the fact that we have never run a

facility of this type 15% contingency was added giving a total request for funding of up to £968,000.

- 9.10 The Government have been approached to help fund these costs but have said that they would only contribute if the County Council can demonstrate financial hardship.
- 9.11 In view of the urgent requirement for Economy, Transport and Environment to stand up the site on the A31 to deal with traffic management issues that are predicted following the UK's exit from the EU, the decision report therefore sought approval for funding up to £968,000 and it can now be confirmed that if required, this will be met from general contingencies in the 2019/20 budget.
- 9.12 The County Council in consultation with the LRF and the DfT will need to consider future developments as part of the planned EU exit and continually assess what the potential impact could be on the ferry port and the need or otherwise to stand up the site.

## **10. Assurance Statement**

- 10.1 The code of Practice on Local Authority Accounting in the UK requires the County Council to publish, together with its Statement of Accounts, an annual governance statement signed by the Leader and Chief Executive. As part of this process, the Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control operating in the County Council as a whole. The Chief Internal Auditor's Annual Report and Opinion is approved by the Audit Committee.
- 10.2 The Chief Internal Auditor has concluded that:

*"In my opinion, Hampshire County Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

## **11. Pension Fund**

- 11.1 The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council's Statement of Accounts. The accounts for 2018/19 record that the value of the fund's assets increased from £6.6bn to £7.2bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund and has concluded that:

*"In my opinion, based on internal audit work completed 'Substantial Assurance' can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

## **12. Statutory Statement of Accounts**

- 12.1 The Accounts and Audit Regulations 2015 introduced changes to the statutory accounting and audit timescales which have had a significant impact on the organisation. The changes came into effect for the preparation of the 2017/18 accounts.
- 12.2 As a result, the statement of accounts must be certified by the Chief Financial Officer (CFO) and submitted for external audit by 31 May, a month earlier than previously. Additionally, the audited accounts must be published by 31 July, two months earlier than the previous timeframe.
- 12.3 Meeting these earlier deadlines has again been achieved through hard work across all departments in liaison with finance and our external auditors. There is an ongoing focus on continuous improvement, and the success this year in meeting the timescale despite reducing resources and demanding transformation programmes remains noteworthy.

**CORPORATE OR LEGAL INFORMATION:****Links to the Strategic Plan**

|   |        |
|---|--------|
| <b>Hampshire maintains strong and sustainable economic growth and prosperity:</b> | Yes/No |
| <b>People in Hampshire live safe, healthy and independent lives:</b>              | Yes/No |
| <b>People in Hampshire enjoy a rich and diverse environment:</b>                  | Yes/No |
| <b>People in Hampshire enjoy being part of strong, inclusive communities:</b>     | Yes/No |

**Section 100 D - Local Government Act 1972 - background documents**

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

| <u>Document</u>   | <u>Location</u>  |
|---|--|
| Revenue Budget and Precept 2019/20 and Capital Programme 2019/20 – 2021/22<br><a href="http://democracy.hants.gov.uk/ielssueDetails.aspx?IId=17179&amp;Opt=3">http://democracy.hants.gov.uk/ielssueDetails.aspx?IId=17179&amp;Opt=3</a>               | Cabinet – 1 February 2019<br>County Council – 14 February 2019 |
| Medium Term Financial Strategy Update and Transformation to 2019 Savings Proposals<br><a href="https://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments">https://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments</a>                         | Cabinet – 16 October 2017<br>County Council – 2 November 2017  |
| Looking Ahead - Medium Term Financial Strategy<br><a href="https://democracy.hants.gov.uk/ielssueDetails.aspx?IId=10915&amp;PlanId=0&amp;Opt=3#A18687">https://democracy.hants.gov.uk/ielssueDetails.aspx?IId=10915&amp;PlanId=0&amp;Opt=3#A18687</a> | Cabinet - 18 June 2018<br>County Council – 20 September 2018   |

## **IMPACT ASSESSMENTS:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

**Due regard in this context involves having due regard in particular to:**

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

**Equalities Impact Assessment:**

- d) Equality objectives are not considered to be adversely impacted by the proposals in this report.

**Impact on Crime and Disorder:**

The proposals in this report are not considered to have any direct impact on the prevention of crime, but the County Council through the services that it provides through the revenue budget and capital programme ensures that prevention of crime and disorder is a key factor in shaping the delivery of a service / project.

**Climate Change:**

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

The revenue budget and capital programme contain measures that will assist in reducing our carbon footprint.

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

The County Council in designing its services will ensure that climate change issues are taken into account

**Adults' Health and Care Department – Revenue Expenditure 2018/19**

**Major variations in cash limited expenditure** – Savings of £10.9m (2.7%) against the adjusted cash limit.

**Main Variations**

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| Service Area                                 | Variance<br>(Under) / Over<br>Budget |        | Reason for Variation   |
|--|--------------------------------------|--------|--|
|  | £'000                                | %      |  |
| Director                                     | (115)                                | (7.3)  | Savings mainly relate to staff budgets due to a delay in recruiting to a vacant Chief Officer grade post.  |
| Strategic Commissioning and Business Support | (2,532)                              | (13.3) | The year end reported savings mainly relates to reduced spend on non-care contracts, grants to voluntary organisations and staff budgets due to difficulty in recruiting to vacant posts. A significant proportion of these in year savings are part of a non recurrent work programme that has slipped into 2019/20.  |
| Transformation                               | (283)                                | (5.3)  | Savings mainly relate to additional income in relation to external courses provided by the workforce development team and staff budgets due to difficulty in recruiting to vacant posts.   |
| Older People and Physical Disabilities       | 157                                  | 0.1    | There were pressures on residential budgets due to higher client numbers and above budgeted weekly costs however, these pressures have been offset by savings in direct payments where client numbers are lower than budgeted for. It should be noted that the budget includes non-recurrent support of £5.65m from the Integrated Better Care Fund and the Winter Pressures Grant |
| Safeguarding, Quality and Governance         | (151)                                | (4.1)  | Savings mainly relate to staff budgets due to difficulty in recruiting to vacant posts.  |

| Service Area                            | Variance<br>(Under) / Over<br>Budget |              | Reason for Variation  |
|---|--------------------------------------|--------------|---|
|   | £'000                                | %            |   |
| Learning Disabilities and Mental Health | 1,333                                | 1.0          | There are significant pressures on residential and other long-term care due to an increase in client number, above budgeted weekly costs and a delay in achieving savings. These pressures were partially offset by savings in direct payments due to client numbers being less than budgeted.  |
| Internal Provision                      | 1,487                                | 2.8          | The main area of pressure is within the Older Person's in-house homes due to the use of agency staff to cover vacant posts whilst permanent recruitment is undertaken. The County Council is required by the Care Quality Commission to have adequate staffing levels to retain its registration. This pressure has been offset by savings on other staffing budgets and reduced volumes of clients being referred to the REACT contract providers. |
| Contingencies                           | (10,831)                             | (151.2)      | This mainly relates to the early achievement of Transformation to 2019 (Tt2019) savings.  |
| Public Health                           | 0                                    | 0.0          |   |
| <b>Total</b>                            | <b>(10,935)</b>                      | <b>(2.7)</b> |   |

**Children’s Services Department – Revenue Expenditure 2018/19**

**Major variations in cash limited expenditure** – No variance against the adjusted cash limit.

**Main variations**

| Service Area                                   | Variance<br>(Under) / Over<br>Budget |         | Reason for Variation   |
|--|--------------------------------------|---------|--|
|  | £'000                                | %       |  |
| <b>Schools Budget</b>                          |                                      |         |  |
| Growth Fund                                    | (1,161)                              | (23.1)  | The position includes savings for infant class size funding, falling rolls, temporary classrooms, new / re-organising schools and growing schools, due to fewer schools being eligible for funding than budgeted.                    |
| Independent and Non-maintained Special Schools | 6,144                                | 36.1    | The pressure is due to a 21% increase in the number of pupils placed in out of county provision (from 389 pupils in March 2018, to 410 pupils in March 2019), as well as an increase in the average cost.                            |
| SEN Support Services                           | (3,000)                              | (100.0) | This relates to the 2018/19 £3m additional revenue funding for the High Needs Block announced by the Department for Education (DfE) in December 2018. This funding was retained to offset arising pressures in the high needs block. |
| Various Other (net)                            | (233)                                | (0.1)   | Various smaller variations to budget across the Department.  |

| Service Area   | Variance<br>(Under) / Over<br>Budget |            | Reason for Variation   |
|--|--------------------------------------|------------|--|
|  | £'000                                | %          |  |
| High Needs Top-Up Funding                              | 7,494                                | 16.4       | <p>The continuation in the growth of the number of high needs pupils in both mainstream schools, special schools and post 16 providers has exceeded budgetary expectations. This includes a significant increase in numbers of pupils with Education Health and Care Plans (EHCPs) and the numbers of high needs students in further education placements. Further pressures on the budget are also from additional placements in Other Local Authority schools and the continuation of the pressure on the service for discretionary payments from the previous financial year. Additional unfunded new burdens in relation to post 19 pupils are also causing a cost pressure.</p> <p>These pressures have been partly offset by a saving in Education Centre top-ups, following the implementation of the strategy to reintegrate more pupils back into mainstream education.</p> |
| Carry Forward of Dedicated Schools Grant (DSG) Deficit | (9,244)                              | (1.1)      | <p>The total 2018/19 overs pend of more than £9.2m has been offset by a charge to the DSG reserve, as allowed by the DfE. This year, the charge will increase the deficit on the DSG Reserve to a total of more than £13.7m. which it has been agreed by Schools Forum will be funded from future years DSG funding. The local authority is required to complete the DfE's Deficit Recovery Plan (for deficits of more than 1%). This plan requires local authorities to demonstrate how they will bring the DSG into balance within a three year timeframe and must be signed off by Schools Forum and the authority's Chief Financial Officer and submitted by 30 June 2019.</p>   |
| <b>Sub-Total Schools Budget</b>                        | <b>0</b>                             | <b>0.0</b> |  |

| Service Area  | Variance (Under) / Over Budget |      | Reason for Variation  |
|---|--------------------------------|------|---|
|   | £'000                          | %    |   |
| <b>Non-Schools Budget</b>   |                                |      |   |
| Children Looked After (CLA placements and associated legal costs) | 1,485                          | 1.9  | <p>Unprecedented activity and cost increases across CLA placements, care leavers and Unaccompanied Asylum Seekers (UASC) have seen an annual increase in expenditure of 14% on the previous year. This has been closely monitored throughout the year, and as a result additional corporate funding of £14.5m has been allocated to offset what would otherwise have been a significant pressure.</p> <p>The underlying pressure has mainly arisen on Non-County Placements (NCPs) and Independent Fostering Placements (IFPs), which required almost 75% of the additional corporate funding due to an 18% increase in spend, as a result of increased activity and above inflation average unit cost rises.</p> |
| Swanwick Lodge  | 817                            | 88.2 | <p>Lower income at Swanwick Lodge Secure Unit mainly resulting from 50% planned bed closures during major improvement works. In addition, the net cost of using specialist agency exceeded savings from staff shortage.</p>   |
| Safeguarding & Young People's Services                            | 4,421                          | 18.2 | <p>The pressure mainly results from the use of social work agency staff to cover for the short supply of qualified social workers and improve the experience mix in teams with trainees under the new graduate entry programme.</p> <p>Corporate support has been agreed to increase the numbers of social workers, leading to a reduced caseload for teams and thereby increasing retention of social workers and reducing the need for agency staff. This investment commenced in 2017/18.</p>  |

| Service Area                        | Variance<br>(Under) / Over<br>Budget |            | Reason for Variation  |
|-------------------------------------|--------------------------------------|------------|---|
|                                     | £'000                                | %          |   |
| Adoption Service                    | 343                                  | 9.1        | Mainly due to historical adoption allowances and the use of agency staff. Interagency fees, where Hampshire is paying for more placements and reduced income from other local authorities is also causing a pressure. However, this pressure has been partially offset by government grant. |
| Special Guardianship (SGO) support  | 232                                  | 5.5        | The pressure is mainly historic. Transfers from In House Fostering exceeded targets, resulting in an expected 16% increase in the number of SGOs, from 442 in March 2018 to 513 in March 2019. Budget has been realigned as part of the transfer strategy.                                  |
| Early Achievement of T2019 Savings  | (4,626)                              | (100.0)    | Planned early achievement of savings in relation to the Transformation to 2019 (Tt2019) Programme, used to offset the Department's other pressures.   |
| Various Other (net)                 | (917)                                | (1.2)      | Various smaller variations to budget across the Department.   |
| Contribution from Cost of Change    | (1,755)                              | (100.0)    |   |
| <b>Sub-Total Non-Schools Budget</b> | <b>0</b>                             | <b>0.0</b> |   |
| <b>Total</b>                        | <b>0</b>                             | <b>0.0</b> |   |

**Economy, Transport & Environment Department – Revenue Expenditure 2018/19**

**Major variations in cash limited expenditure** – Savings of £7.9m (7.0%) against the adjusted cash limit.

**Main Variations**

| Service Area                                     | Variance<br>(Under) / Over<br>Budget |       | Reason for Variation   |
|--|--------------------------------------|-------|--|
|  | £'000                                | %     |  |
| Highways, Traffic & Transport                    | (2,495)                              | (4.4) | <p>In Highways the mild winter weather resulted in savings against the winter maintenance budget of £2.0m, which Cabinet agreed in February 2019 would be reinvested in highways maintenance in 2019/20, providing additional one-off resources to supplement existing planned maintenance programmes. The budget for other revenue maintenance work continues to be under pressure and despite additional one-off resources available in 2018/19 the outturn reflects a pressure of £1.0m.</p> <p>Other pressures across the service including a one-off investment to improve the efficient operation of the winter service were more than offset by higher than forecast staff recharges to capital schemes reflecting the significant scale of the current capital programme for the Department (net saving £0.7m).</p> <p>In Passenger Transport a combination of fewer Concessionary Fares journeys, savings from successful re-procurement of existing Community Transport services and other savings in Local Bus resulted in a net saving of £0.8m against these budgets.</p> |
| Economic Development and Research & Intelligence | (123)                                | (9.1) | <p>The outturn reflects in-year savings as a result of staff vacancies and delays in planned expenditure, which will now take place in 2019/20.</p>  |

| Service Area  | Variance<br>(Under) / Over<br>Budget |              | Reason for Variation  |
|---|--------------------------------------|--------------|---|
|   | £'000                                | %            |   |
| Waste, Planning & Environment                             | (710)                                | (1.5)        | The outturn includes £434,000 savings against the Waste budget, achieved by diverting waste materials for resale or up-cycling at the Household Waste Recycling Centres and renegotiating the wood disposal price, as well as savings from some managed staff vacancies. The balance predominantly relates to additional income generation from the Specialist Environmental Services teams.  |
| Early Delivery of Tt2019 savings and General Departmental | (4,586)                              | (61.7)       | The identification of opportunities for the early delivery of Tt2019 activity has resulted in savings of £6.7m being achieved in 2018/19. Any early delivery of savings enables the Department to fund costs associated with transformation and the delivery of remaining savings targets, and the in-year saving was used to fund expenditure of £2.4m on projects delivered during 2018/19.<br>In addition, further targeted staff and non-pay savings of £262,000 were achieved. |
| <b>Total</b>  | <b>(7,914)</b>                       | <b>(7.0)</b> |   |

**Policy and Resources Department – Revenue Expenditure 2018/19**

**Major variations in cash limited expenditure** – Savings of £8.3m (6.7%) against the adjusted cash limit.

**Main Variations**

| Service Area                             | Variance<br>(Under) / Over<br>Budget |       | Reason for Variation  |
|--|--------------------------------------|-------|---|
|  | £'000                                | %     |   |
| Culture, Community and Business Services | (1,312)                              | (3.7) | <p>Savings in Community and Regulatory Services (including Library Service, Registration and Trading Standards) totalling almost £0.7m resulting from vacancy management and income, together with net savings of £0.3 across Culture and Heritage, Property and Facilities and Transformation and Business services, resulted in 'business as usual' savings of more than £0.9m across the Department.</p> <p>The Department also secured £3.7m of early Tt2019 savings which, together with the 'business as usual' savings enabled one-off investment of more than £3.7m during the year, leaving a net saving of circa £0.9m</p> <p>In addition, a saving of £0.4m against the final year of the old PrintSmart contract was realised, which will be transferred to a separate reserve.</p> |

| Service Area                        | Variance<br>(Under) / Over<br>Budget |              | Reason for Variation  |
|-------------------------------------|--------------------------------------|--------------|---|
|                                     | £'000                                | %            |   |
| Corporate Services                  | (5,335)                              | (8.0)        | Corporate Services continues to implement a strategy of strong budgetary control, managing expenditure and gaining economies of scale through expanded joint working and generating income, for example for legal, internal audit and other services. This has ensured early achievement of Tt2019 savings to contribute to the cost of change reserve to be used for future investment in further transformation work. |
| Non Departmental Policy & Resources | (1,610)                              | (7.9)        | The saving largely reflects lower costs or additional income in a number of budget areas. This includes lower members support costs and lower expenditure for Rural Affairs and grants to voluntary organisations as agreed projects will be progressed in subsequent years and the saving will be carried forward to match the expenditure as it is incurred.  |
| <b>Total</b>                        | <b>(8,257)</b>                       | <b>(6.7)</b> |   |

## **Treasury Management Outturn Report 2018/19**

### **1. Summary**

- 1.1. The County Council adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. These recommendations include approving an annual report on treasury management activity after the end of each financial year.
- 1.2. This report fulfils the County Council's legal obligation to have regard to the CIPFA Code.
- 1.3. The County Council's Treasury Management Strategy (TMS) for 2018/19 was approved at a meeting of full Council in February 2018. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's TMS.
- 1.4. Treasury management in the context of this report is defined as:  
*"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*
- 1.5. This annual report sets out the performance of the treasury management function during 2018/19, to include the effects of the decisions taken and the transactions executed in the past year.
- 1.6. Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the County Council's treasury management objectives.
- 1.7. All treasury activity has complied with the County Council's TMS and Investment Strategy for 2018/19, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose. The County Council has also complied with all of the prudential indicators set in its TMS.
- 1.8. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by full Council on 14 February 2019.

### **2. External Context**

- 2.1. The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2018/19.

### **Economic commentary**

- 2.2. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The three month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.
- 2.3. After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual Gross Domestic Product (GDP) growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
- 2.4. While the domestic focus has been on Brexit's potential impact on the UK economy, which has weighed on sterling and UK markets, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

### **Financial Markets**

- 2.5. Markets for riskier asset classes fell in December 2018, most notably for equities. The FTSE 100 (a good indicator of global corporate sentiment) returned - 8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.
- 2.6. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.8% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

### **Credit background**

- 2.7. Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points (bps) in December 2018, the spread on non-ringfenced bank NatWest Markets PLC fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank PLC, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into

ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

- 2.8. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank PLC) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.
- 2.9. In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
- 2.10. There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

### 3. Local Context

- 3.1. At 31 March 2019 the County Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £781.9m, while usable reserves and working capital (which are the underlying resources available for investment) amounted to 589.5m. These factors are summarised in Table 1 below:

**Table 1: Balance Sheet Summary**

|                                | <b>Balance<br/>31/03/2018<br/>£m</b> | <b>Movement<br/>£m</b> | <b>Balance<br/>31/03/2019<br/>£m</b> |
|--------------------------------|--------------------------------------|------------------------|--------------------------------------|
| CFR                            | (764.0)                              | (16.9)                 | (780.9)                              |
| Less: Other debt liabilities*  | 164.2                                | (7.2)                  | 157.0                                |
| Borrowing CFR                  | (599.8)                              | (24.1)                 | (623.9)                              |
| Less: Resources for investment | 570.7                                | 18.8                   | 589.5                                |
| Net borrowing                  | (29.1)                               | (5.3)                  | (34.4)                               |

\* PFI liabilities that form part of the County Council's debt.

- 3.2. The CFR increased by £24.1m during 2018/19 as a result of the County Council's Capital Programme, however this increase was largely offset by an increase in cash balances of £18.8m, resulting in an increase in net borrowing of £5.3m.
- 3.3. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2019 and change during the year is shown in Table 2 overleaf:

**Table 2: Treasury Management Summary**

|                           | <b>31/03/18<br/>Balance<br/>£m</b> | <b>Movement<br/>£m</b> | <b>31/03/19<br/>Balance<br/>£m</b> | <b>31/03/18<br/>Rate<br/>%</b> |
|---------------------------|------------------------------------|------------------------|------------------------------------|--------------------------------|
| Long-term borrowing       | (280.0)                            | 8.7                    | (271.3)                            | 4.6                            |
| Short-term borrowing      | (7.9)                              | (1.3)                  | (9.1)                              | 4.2                            |
| <b>Total Borrowing</b>    | <b>(287.8)</b>                     | <b>7.4</b>             | <b>(280.4)</b>                     | <b>4.6</b>                     |
| Long-term investments     | 289.3                              | 53.0                   | 342.3                              | 3.3                            |
| Short-term investments    | 240.5                              | (56.5)                 | 184.0                              | 1.2                            |
| Cash and cash equivalents | 32.4                               | 23.9                   | 56.3                               | 0.8                            |
| <b>Total Investments</b>  | <b>562.2</b>                       | <b>20.4</b>            | <b>582.6</b>                       | <b>2.4</b>                     |
| <b>Net Investments</b>    | <b>274.4</b>                       | <b>27.8</b>            | <b>302.2</b>                       |                                |

Note: The figures in the table above are from the balance sheet in the County Council's Statement of Accounts, adjusted to exclude operational cash, accrued interest and other accounting adjustments.

- 3.4. The County Council's internal borrowing policy is the reason for the large variance between the positions shown in Tables 1 and 2. The movement that has taken place during 2018/19 in net borrowing shown in Table 1 has translated into a rise in investment balances as shown in Table 2.

#### 4. Borrowing Activity

- 4.1. At 31 March 2019 the County Council held £280.4m of loans, a decrease of £7.4m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below; which excludes borrowing taken out on behalf of others:

**Table 3: Borrowing Position**

|                         | <b>31/03/18<br/>Balance<br/>£m</b> | <b>Movement<br/>£m</b> | <b>31/03/19<br/>Balance<br/>£m</b> | <b>31/03/19<br/>Rate<br/>%</b> | <b>31/03/19<br/>WAM*<br/>Years</b> |
|-------------------------|------------------------------------|------------------------|------------------------------------|--------------------------------|------------------------------------|
| Public Works Loan Board | 243.4                              | (7.8)                  | 235.6                              | 4.70                           | 11.9                               |
| Banks (LOBO)            | 20.0                               |                        | 20.0                               | 4.76                           | 14.3                               |
| Banks (fixed term)      | 24.4                               | 0.4                    | 24.8                               | 3.46                           | 16.4                               |
| <b>Total Borrowing</b>  | <b>287.8</b>                       | <b>(7.4)</b>           | <b>280.4</b>                       | <b>4.60</b>                    | <b>12.5</b>                        |

\* Weighted Average Maturity

Note: the figures in the table above are from the balance sheet in the County Council's Statement of Accounts but adjusted to exclude borrowing taken out on behalf of others, and accrued interest.

- 4.2. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.
- 4.3. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.
- 4.4. With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.
- 4.5. As a result, new borrowing was kept to a minimum during 2018/19 (£0.4m) and was taken out to fund energy efficiency initiatives. These Salix loans will incur no interest whilst also enabling the County Council to make cost savings in future against energy revenue budgets. £7.8m of existing Public Works Loan Board (PWLB) loans were allowed to mature without replacement. This strategy enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
- 4.6. The County Council continues to hold £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

## **5. Treasury Investment Activity**

- 5.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. During 2018/19 the Council's investment balances have ranged between £562m and £672m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 overleaf:

**Table 4: Investment Position (Treasury Investments)**

| <b>Investments</b>                                    | <b>31/03/18<br/>Balance<br/>£m</b> | <b>Movement<br/>£m</b> | <b>31/03/19<br/>Balance<br/>£m</b> | <b>31/03/19<br/>Rate<br/>%</b> | <b>31/03/19<br/>WAM*<br/>Years</b> |
|---|------------------------------------|------------------------|------------------------------------|--------------------------------|------------------------------------|
| <b>Short term Investments</b>                         |                                    |                        |                                    |                                |                                    |
| - Banks and Building Societies:                       |                                    |                        |                                    |                                |                                    |
| - Unsecured   | 11.7                               | 18.7                   | 30.4                               | 0.93                           | 0.28                               |
| - Secured   | 55.0                               | (40.0)                 | 15.0                               | 1.34                           | 0.31                               |
| - Money Market Funds                                  | 25.7                               | 29.6                   | 55.3                               | 0.79                           | 0.00                               |
| - Local Authorities                                   | 160.5                              | (36.0)                 | 124.5                              | 1.12                           | 0.41                               |
| - Registered Provider                                 | 20.0                               | (15.0)                 | 5.0                                | 3.40                           | 0.08                               |
| - Cash Plus Funds                                     |                                    | 10.0                   | 10.0                               | 1.50                           | N/A                                |
|   | <b>272.9</b>                       | <b>(32.7)</b>          | <b>240.2</b>                       | <b>1.10</b>                    | <b>0.27</b>                        |
| <b>Long term Investments</b>                          |                                    |                        |                                    |                                |                                    |
| - Banks and Building Societies:                       |                                    |                        |                                    |                                |                                    |
| - Secured   | 78.3                               | (5.0)                  | 73.3                               | 1.31                           | 2.16                               |
| - Local Authorities                                   | 61.0                               | 17.0                   | 78.0                               | 1.36                           | 2.23                               |
|   | <b>139.3</b>                       | <b>12.0</b>            | <b>151.3</b>                       | <b>1.33</b>                    | <b>2.20</b>                        |
| <b>Long term Investments – high yielding strategy</b> |                                    |                        |                                    |                                |                                    |
| - Local Authorities                                   |                                    |                        |                                    |                                |                                    |
| - Fixed deposits                                      | 20.0                               |                        | 20.0                               | 3.96                           | 14.97                              |
| - Fixed bonds   | 10.0                               |                        | 10.0                               | 4.20                           | 14.77                              |
| - Pooled Funds  |                                    |                        |                                    |                                |                                    |
| - Pooled property**                                   | 55.0                               | 12.0                   | 67.0                               | 4.35                           | N/A                                |
| - Pooled equity**                                     | 40.0                               | 12.0                   | 52.0                               | 5.78                           | N/A                                |
| - Pooled multi-asset**                                | 20.0                               | 22.0                   | 42.0                               | 5.38                           | N/A                                |
| - Registered Provider                                 | 5.0                                | (5.0)                  | 0.0                                |                                |                                    |
|   | <b>150.0</b>                       | <b>41.0</b>            | <b>191.0</b>                       | <b>4.92</b>                    | <b>14.91</b>                       |
| <b>Total Investments</b>                              | <b>562.2</b>                       | <b>20.3</b>            | <b>582.5</b>                       | <b>2.41</b>                    | <b>2.00</b>                        |

\* Weighted Average Maturity

\*\* The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 31 March 2019.

Note: the figures in the table above are from the balance sheet in the County Council's Statement of Accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

5.2. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring

losses from defaults and the risk of receiving unsuitably low investment income.

- 5.3. Security of capital has remained the County Council's main investment objective. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2018/19.
- 5.4. Counterparty credit quality has been assessed and monitored with reference to credit ratings, for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 5.5. The County Council also makes use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 5.6. To reduce risk, approximately 79% of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers, secured bank bonds, and pooled property, equity and multi-asset funds. The remaining balance is largely held in overnight money market funds and cash plus funds, which are subject to reduced bail in risk. By comparison, only 55% of the cash held by other similar Local Authorities is not subject to bail-in risk.
- 5.7. The County Council maintained a sufficient level of liquidity through the use of call accounts and money market funds. With the uncertainty around Brexit, the Council has also ensured there were enough accounts open at UK domiciled banks and Money Market Funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.
- 5.8. The UK Bank Rate increased marginally by 0.25% in August 2018 to 0.75% and with short-term money market rates also remaining relatively low, there has been an ongoing impact on the Council's ability to generate income on cash investments. The rate of return achieved on the County Council's internally managed funds was 1.35% in the year to 31 March 2019, broadly the same as for the previous year
- 5.9. The progression of credit risk and return metrics for the County Council's investments managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's investment benchmarking in Table 5 overleaf:

**Table 5: Investment Benchmarking (excluding pooled funds)**

|                           | <b>Credit Rating</b> | <b>Bail-in Exposure</b> | <b>WAM** (days)</b> | <b>Rate of Return</b> |
|---------------------------|----------------------|-------------------------|---------------------|-----------------------|
| 31/03/2018                | AA                   | 8%                      | 735                 | 1.36%                 |
| 31/03/2019                | AA                   | 21%                     | 758                 | 1.35%                 |
| Similar Local Authorities | AA-                  | 55%                     | 692                 | 1.02%                 |
| All Local Authorities     | AA-                  | 55%                     | 29                  | 0.85%                 |

\* The lower the score the better the credit rating (AAA = 1, AA+ = 2 etc.)

\*\* Weighted average maturity

- 5.10. As part of the 2017/18 Investment Strategy the total amount targeted towards high yielding investments was increased to £200m and further increased to £235m as part of the Treasury Management Strategy Statement agreed in February 2019. Of the £235m available £191m has been invested as at 31 March 2019 (an increase of £41m since the same date last year).
- 5.11. The £171m portfolio of externally managed funds generated an average total return of 5.92% in the year to 31 March 2019, comprising 4.78% income return used to support services in year, and 1.14% of capital growth
- 5.12. The high yielding strategy overall generated an average total return of 4.92% (£8.0m), giving an average return for the investment portfolio in aggregate of 2.09% at 31 March 2019. By comparison, the average rate of return for all other investments was 1.03% (£4.9m).
- 5.13. £161m of the externally managed portfolio is invested in strategic multi-asset, equity and property funds which are more volatile in the short-term, but which generate regular revenue income alongside providing diversification and the potential for enhanced returns over the longer term.
- 5.14. Although money can usually be redeemed from these pooled funds at short notice, the County Council's intention is to hold them for at least the medium-term. Investments are made in the knowledge that capital values will move both up and down in the short term, but with the confidence that over a three to five year period total returns should exceed cash interest rates. The performance and ongoing suitability of these pooled funds in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

### **Financial Implications**

- 5.15. The outturn for debt interest paid in 2018/19 was £13.6m against a budgeted £13.8m on an average debt portfolio of £284.2m.
- 5.16. The outturn for investment income received in 2018/19 was £12.9m on an average investment portfolio of £618m, giving a yield of 2.09%. By comparison, investment income received in 2017/18 was £11.2m on an average portfolio of £602m with a yield of 1.86%.

## 6. Non-Treasury Investments

- 6.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Ministry for Housing, Communities and Local Government's (MCHLG) Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 6.2. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the TMS. The County Council's existing non-treasury investments are listed in Table 6 below:

**Table 6: Non-Treasury Investments**

|                                   | <b>31/03/19<br/>Asset Value<br/>£m</b> | <b>31/03/19<br/>Rate<br/>%</b> |
|-----------------------------------|--|--------------------------------|
| Loans to Hampshire based business | 4.5                                    | 4.00                           |
| <b>Total</b>                      | <b>4.5</b>                             | <b>4.00</b>                    |

- 6.3. These investments generated £135,000 of investment income for the County Council.

## 7. Compliance Report

- 7.1. The County Council confirms compliance of all treasury management activities undertaken during 2018/19 with the CIPFA Code of Practice and the County Council's approved TMS. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 7 below:

**Table 7: Debt Limits**

|                             | <b>2018/19<br/>Maximum<br/>£m</b> | <b>31/03/19<br/>Actual<br/>£m</b> | <b>2018/19<br/>Operational<br/>Boundary<br/>£m</b> | <b>2018/19<br/>Authorised<br/>Limit<br/>£m</b> | <b>Complied</b> |
|-----------------------------|-----------------------------------|-----------------------------------|--|--|-----------------|
| Borrowing                   | 288                               | 281                               | 650  | 700  | ✓               |
| Other long term liabilities | 164                               | 157                               | 170  | 210  | ✓               |
| <b>Total Debt</b>           | <b>452</b>                        | <b>438</b>                        | <b>820</b>   | <b>910</b>                                     | ✓               |

## 8. Treasury Management Indicators

- 8.1. The County Council measures and manages its exposures to treasury management risks using the following indicators.

### Interest Rate Exposures

- 8.2. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates:

**Table 8 – Interest Rate Exposures**

|   | 31/03/19<br>Actual<br>£m | Impact of + / -<br>1% Interest<br>Rate Change |
|---|--------------------------|---|
| Upper limit on variable interest rate investment exposure | 311                      | + / -£3.1m                                    |
| Upper limit on variable interest rate borrowing exposure  | 23                       | + / -£0.2m                                    |

- 8.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

### Maturity Structure of Borrowing

- 8.4. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement:

**Table 9 – Maturity Structure of Borrowing**

|                                | 31/03/19<br>Actual | Upper<br>Limit | Lower<br>Limit | Complied |
|--------------------------------|--------------------|----------------|----------------|----------|
| Under 12 months                | 3.3%               | 50%            | 0%             | ✓        |
| 12 months and within 24 months | 4.8%               | 50%            | 0%             | ✓        |
| 24 months and within 5 years   | 8.8%               | 50%            | 0%             | ✓        |
| 5 years and within 10 years    | 18.9%              | 75%            | 0%             | ✓        |
| 10 years and within 20 years   | 53.5%              | 75%            | 0%             | ✓        |
| 20 years and within 30 years   | 10.7%              | 75%            | 0%             | ✓        |
| 30 years and above             | 0%                 | 100%           | 0%             | ✓        |

- 8.5. The County Council holds £20m of LOBO loans where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, these loans have an average maturity date of 14 years (minimum 8 years; maximum 26 years)

**Principal Sums Invested for Periods Longer than 364 days**

- 8.6. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end were:

**Table 10 – Principal Sums Invested for Periods Longer than 364 days**

|   | <b>2018/19<br/>£m</b> | <b>2019/20<br/>£m</b> | <b>2020/21<br/>£m</b> |
|---|-----------------------|-----------------------|-----------------------|
| Actual principal invested beyond year end   | 342                   | 264                   | 236                   |
| Limit on principal invested beyond year end | 375                   | 410                   | 350                   |
| Complied                                    | ✓                     | ✓                     | ✓                     |

## **Capital Spending and Financing 2018/19**

### **1 Introduction**

1.1 This Appendix reports that:

- Capital schemes costing £253.2m were started during 2018/19 from the approved capital programme for the year of £375.5m.
- This left £122.3m for named projects not started by 31 March 2019 which will be carried forward to 2019/20, subject to Cabinet's approval.
- Capital payments of £194.5m were incurred in 2018/19 and this can be financed within available resources.
- It is proposed that, under the Prudential Code for Capital Finance, new prudential borrowing of £35.3m is used in 2018/19 to fund previously approved schemes.
- Repayments of prudential borrowing from capital receipts and other sources total £2.4m in 2018/19.
- £16.1m of resources will be drawn down from the capital reserve in 2018/19 for use in funding payments incurred in 2018/19.
- Capital receipts of £10.6m were achieved from the sale of assets in 2018/19.

### **2 Capital Programme for 2018/19**

2.1 Table 1 below shows that 67.4% of the Capital Programme for 2018/19 was started in the year.

**Table 1 - Capital Schemes Committed in 2018/19**

|   | £'000          | %           |
|---|----------------|-------------|
| Approved value of the Capital Programme for 2018/19                     | 375,471        | 100.0       |
| Schemes committed in 2018/19  | 253,220        | 67.4        |
| <b>Balance of Cash Limit at 31 March 2019</b>                           | <b>122,251</b> | <b>32.6</b> |
| Schemes for which approval to carry forward to 2019/20 is now requested | 78,671         | 21.0        |
| Schemes previously approved for carry forward                           | 43,580         | 11.6        |
| <b>Total Cash Limit to be Carried Forward to 2019/20</b>                | <b>122,251</b> | <b>32.6</b> |

2.2 An analysis by service of the figures in Table 1 is included in Annex 1.

### 3. Carry Forward of Schemes not Committed by 31 March 2019

- 3.1 The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2019. The total value of such schemes is £78.7m. This excludes £43.6m of Children's Services schemes for which approval to carry forward to 2019/20 has previously been given during 2018/19. These amounts are largely committed against named projects.
- 3.2 As Table 2 below shows, the value of the 2018/19 programme committed in the year, at £253.2m, is higher than the level achieved in 2017/18 of £221.5m. Good progress is being made given the significant size of the overall Capital Programme.

**Table 2 – Percentage of Capital Programme Committed**

|                        | <b>2017/18</b> | <b>2018/19</b> |
|------------------------|----------------|----------------|
|                        | <b>£m</b>      | <b>£m</b>      |
| Value of Projects      |                |                |
| - Committed            | 221.5          | 253.2          |
| - Carried forward      | 134.4          | 122.3          |
| <b>Total Programme</b> | <b>355.9</b>   | <b>375.5</b>   |
| Percentage Committed   | 62.2%          | 67.4%          |

- 3.3 Individually, most of the schemes and provisions to be carried forward are relatively small amounts. The larger schemes include:
- Adults with Disability – Accommodation Strategy (£7.4m) – A capital grants programme has been approved and is progressing.
  - Extra care housing transformation (£3.1m) – The remaining projects within this programme are being considered.
  - Children's Services contingency provision carried forward to cover future projects and pressures on the capital programme (£7.2m).
  - Structural maintenance of roads and bridges – Future projects planned which are linked to the outcome of funding bids (£11.6m).
  - Infrastructure and utility works (£16.9m) – Project designs are progressing.
  - Investment in Hampshire projects – Projects are planned (£2.7m).

### 4. Capital Expenditure and Financing 2018/19

- 4.1 Total expenditure actually incurred in 2018/19, arising from the Capital Programme for 2018/19 and earlier years, was £194.5m. This is £18.2m or 8.6% lower than the revised estimate for 2018/19. The timing of capital expenditure flows between financial years is often difficult to predict. The

delays in committing a fair proportion of the Capital Programme for 2018/19, as shown in Table 2, will have reduced the level of payments in the year.

- 4.2 An analysis of the expenditure of £194.5m by service and type is included in Annex 2.
- 4.3 The proposed method of financing this expenditure is summarised in Table 3:

**Table 3 – Capital Financing 2018/19**

|  | <b>Adjusted<br/>Revised<br/>Estimate<br/>£'000</b> | <b>Actuals<br/>£'000</b> | <b>Variation<br/>£'000</b> |
|--|--|--------------------------|----------------------------|
| Prudential borrowing                               |  |                          |                            |
| - for capital schemes                              | 49,255   | 35,255                   | (14,000)                   |
| - repayments of specific schemes                   | (3,165)  | (2,394)                  | 771                        |
| Government capital grants                          | 86,579   | 88,907                   | 2,328                      |
| Contributions from developers and outside agencies | 20,682   | 32,361                   | 11,679                     |
| Capital receipts                                   | 3,129  | 10,552                   | 7,423                      |
| Revenue reserves                                   | 0  | 4,137                    | 4,137                      |
| Revenue contributions                              | 11,537   | 9,700                    | (1,837)                    |
| <b>Total Capital Resources</b>                     | <b>168,017</b>                                     | <b>178,518</b>           | <b>10,501</b>              |
| Transfers from / (to) capital reserve              |  |                          |                            |
| - planned use of capital reserve to fund payments  | 44,764   | 16,030                   | (28,734)                   |
| <b>Total funding for payments in 2018/19</b>       | <b>212,781</b>                                     | <b>194,548</b>           | <b>(18,233)</b>            |

- 4.4 In addition to this spend, during 2018/19, the Enterprise M3 Local Enterprise Partnership (EM3 LEP) invested £33.1m in Capital projects within the M3 corridor. This spend is included in the annual accounts, as the Council is the Accountable Body for the LEP.

## **5. Borrowing**

- 5.1 Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from the Government, provided their actions meet the requirements of the Prudential Code for Capital Finance introduced by the Local Government Act 2003. This is known as 'prudential borrowing'. It does not attract any support from the Government towards the

repayment and interest costs, which fall wholly on the County Council's own resources.

- 5.2 Cabinet agreed criteria for the use of prudential borrowing in November 2003, with revisions in February 2006. Since then, its use has been agreed for a number of capital schemes, primarily on an invest-to-save basis. It is proposed that a total of £35.3m is borrowed in 2018/19 for these schemes, in accordance with the approved criteria.
- 5.3 Prudential borrowing of £2.4m has been repaid in 2018/19 from the use of capital receipts, developer and other contributions.
- 5.4 The Prudential Code includes a number of indicators intended to illustrate whether local authorities are acting prudently. The County Council's latest position on these prudential indicators following the 2018/19 outturn is summarised in Appendix 2. It shows that the County Council continues to be in full compliance with the requirements of the Code.

## **6. Capital receipts**

- 6.1 Capital receipts from the sale of land and property in 2018/19 were £10.6m in total. This has been used to fund capital expenditure in the year.
- 6.2 Services' proposed shares of capital receipts in 2018/19 are summarised in Annex 3. The County Council's policy allows services to retain 25% of capital receipts from the sale of their assets, with up to 100% for approved rationalisation schemes.
- 6.3 In line with this policy, services are entitled to £6.4m of the £10.6m received in 2018/19. Cabinet has previously approved the addition of the majority of this amount to services' capital programmes, leaving a total of £0.7m for which approval is now required for allocation to services, as set out in Annex 3.

**Analysis of Capital Programme 2018/19 and Requests by Services to Carry Forward Capital Schemes to 2019/20**

|                                    | (1)                         | (2)                          | (3)  | (4)  |   |
|------------------------------------|-----------------------------|------------------------------|--|--|---|
|                                    | Approved Value of Programme | Schemes Committed in 2018/19 | Schemes for Which Approval to Carry Forward is Requested | Schemes Already Approved for Carry Forward | Total Cash Limit Carried Forward to 2019/20 (Columns 3+4) |
|                                    | £'000                       | £'000                        | £'000  | £'000                                      | £'000   |
| Adults' Services                   | 43,241                      | 31,603                       | 11,638   |  | 11,638  |
| Children's Services                | 92,289                      | 33,441                       | 15,268   | 43,580                                     | 58,848  |
| Economy, Transport and Environment | 200,924                     | 179,329                      | 21,595   |  | 21,595  |
| Policy and Resources               | 39,017                      | 8,847                        | 30,170   |  | 30,170  |
| <b>Total</b>                       | <b>375,471</b>              | <b>253,220</b>               | <b>78,671</b>  | <b>43,580</b>                              | <b>122,251</b>  |
|                                    | 100.0%                      | 67.4%                        | 21.0%  | 11.6%                                      | 32.6%   |

The amounts to be carried forward are largely committed against named projects

**Summary of Capital Expenditure in 2018/19****Analysis by Service**

|                                    | <b>£'000</b>   | <b>%</b>     |
|------------------------------------|----------------|--------------|
| Adults' Services                   | 23,967         | 12.3         |
| Children's Services                | 54,545         | 28.0         |
| Economy, Transport and Environment | 88,255         | 45.4         |
| Policy and Resources               | 27,781         | 14.3         |
|                                    | <b>194,548</b> | <b>100.0</b> |

**Analysis by Type of Expenditure**

|                                   | <b>£'000</b>   | <b>%</b>     |
|-----------------------------------|----------------|--------------|
| Land                              | 7,335          | 3.8          |
| Construction work                 | 139,134        | 71.5         |
| Fees and salaries                 | 25,777         | 13.2         |
| Furniture, equipment and vehicles | 7,035          | 3.6          |
| Grants                            | 15,267         | 7.9          |
|                                   | <b>194,548</b> | <b>100.0</b> |

**Analysis of Capital Receipts 2018/19**

|  | Capital Receipts | Costs of Sales | Shares from in/out and Other Schemes   |   | 25% Share of Qualifying Receipts Now Due to Services |
|--|------------------|----------------|--|---|--|
|  | £'000            | £'000          | Previously Added to Programme<br>£'000 | Now Available to be Added to Programme<br>£'000 | £'000  |
| Adults' Services                                     | 220              | 0              | 220                                    | 0   | 0  |
| Children's Services                                  | 5,920            | 5              | 4,530                                  |   | 0  |
| Economy, Transport and Environment                   | 226              | 0              | 0                                      | 0   | 57   |
| Policy and Resources                                 | 4,186            | 7              | 927                                    | 681   | 0  |
|  | <b>10,552</b>    | <b>12</b>      | <b>5,677</b>                           | <b>681</b>                                      | <b>57</b>  |
| <b>Total Now to be Added to Services' Programmes</b> |                  |                |  | <b>738</b>                                      |  |