

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Budget Setting and Provisional Cash Limits 2019/20
Report From:	Deputy Chief Executive and Director of Corporate Resources

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1. Recommendations

It is recommended that Cabinet:

- 1.1 Notes the forecast financial position outlined in this report.
- 1.2 Approves the allocation of one off funding of £8.1m announced in the Autumn Budget for social care to Children's Services, to be retained in contingencies.
- 1.3 Approves the provisional cash limits for 2019/20 set out in Appendix 1.
- 1.4 Notes the change in methodology for the treatment of assumed additional funding for Children's Services and the resulting impact on the savings required for Transformation to 2021.
- 1.5 Approves the use of up to £3m of existing Tt2019 technology investment funding to enable early work on developing the IT requirements to underpin the Transformation to 2021 Programme.
- 1.6 Delegate authority to the Deputy Chief Executive and Director of Corporate Resources in consultation with the Chief Executive and the Leader of the Council to approve loan funding up to a maximum of £7.5m to cash flow the Enterprise M3 Local Enterprise Partnership in the event of an over spend, to be met from general contingencies.
- 1.7 Approves the capital guideline amounts for the next three years set out in paragraph 11.2.
- 1.8 Approves from contingencies a sum of up to £1.25m in 2018/19 to provide additional funding to deliver the full programme of Strategic Land Development activity planned in the year.
- 1.9 Approves the continuation of Members Devolved Grants at their current level of £8,000 until the end of March 2021 at which point they will reduce to £5,000, with the costs of £468,000 being met from Policy & Resources reserves.

2. Executive Summary

- 2.1 The purpose of this report is to update Cabinet on the financial position in respect of the current financial year and set out the process and framework for the setting of the 2019/20 budget.
- 2.2 The report also takes advantage of the opportunity to seek delegated authority in respect of the Enterprise M3 Local Enterprise Partnership (LEP), to allow the County Council to provide cash flow support.
- 2.3 The budget for the current financial year was set on the basis that a draw from the Grant Equalisation Reserve (GER) would be required to balance the budget. This is in line with the County Council's strategy which works on the basis of a two year cycle of delivering change to release resources and close the anticipated budget gap, providing the time and capacity to properly and safely deliver major transformation programmes every two years, with deficits in the intervening years being met from the GER. Any early delivery of resources are retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures - a model which has served the authority well.
- 2.4 Targets for 2019/20 based on a reduction of approaching 19% in cash limited spend, were approved by the County Council in July 2016 as part of the Medium Term Financial Strategy (MTFS) to 2020. Proposals to meet these targets were approved by Executive Members, Cabinet and County Council in October and November last year and are being implemented through the Transformation to 2019 (Tt2019) Programme. Given this position, no new savings proposals will be presented as part of the 2019/20 budget setting process.
- 2.5 The Tt2019 Programme will look to deliver further savings of £140m, bringing the cumulative total to £480m over a 10 year period. An update on the positive progress being made by departments is provided in the transformation report presented elsewhere on this agenda, although as previously acknowledged delivery will extend beyond two years. The anticipated delay in the delivery of cash savings for some elements of the Tt2019 Programme has been factored into our medium term forecasts to ensure that one-off funding is available both corporately and within departments to meet any potential gap over the period.
- 2.6 Taking up to four years to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy to allow the time to deliver and also to provide resources to invest in the transformation of services. This further emphasises the value of our reserves strategy.
- 2.7 Work has also started on the Transformation to 2021 (Tt2021) Programme, which will look to deliver further savings of £80m, bringing the cumulative total of savings to £560m. These proposals will be consulted on during the summer of 2019 and will include passporting additional funding assumed in our medium term forecasts to Children's Services.
- 2.8 The MTFS approved by the County Council in September 2018 flagged that the expectation was for minimal change to the provisional Local Government Finance Settlement for 2019/20 – the final year of the Comprehensive

Spending Review (CSR), with the Budget in the autumn potentially containing some additional information that could impact our planning assumptions.

- 2.9 The report includes further approvals in respect of increased activity on Strategic Land Development in 2018/19 and the continuation of Members Devolved Grants at their current level. It also sets the framework for developing the detailed revenue budgets and capital programme that will be presented to Executive Members, Cabinet and County Council during January and February next year.

3. Contextual Information

- 3.1 In the past, financial updates around this time of the year have been heavily influenced by the timetable of release of information from the Government either around Comprehensive Spending Review (CSR) figures or specific grant figures for the next financial year.
- 3.2 The current CSR was published on 25 November 2015, covering the period from 2016/17 to 2019/20 and the Medium Term Financial Strategy (MTFS) approved by the County Council in September 2018 reiterated that the expectation was for minimal change to the provisional Local Government Finance Settlement for 2019/20, the final year of the CSR. However, it was acknowledged that the Budget in the autumn could potentially contain some additional information that could impact our planning assumptions.
- 3.3 The Autumn Budget released on 29 October set out the Government's plans for the economy based on the latest forecasts from the Office for Budget Responsibility (OBR). These forecasts included higher tax revenues resulting in borrowing for 2018/19 now expected to be £11.6bn lower than forecast in March, and £2bn a year lower in subsequent years up to 2021/22. The Budget has used most of this windfall to fund new tax and spending commitments.
- 3.4 The Chancellor delivered his last budget speech before Brexit and set out a range of proposals including the following of particular relevance to local government:
- Changes to business rates, notably cutting bills by one-third for retail premises with a rateable value below £51,000 in 2019/20 and 2020/21, for which local authorities will receive a grant to compensate them for the lost income.
 - The National Living Wage will rise by 4.9% from £7.83 per hour to £8.21 from April 2019.
 - £400m extra capital funding this year for schools to spend on equipment and facilities. This is equivalent to about £10,000 for a primary school and £50,000 for a secondary school.
 - £420 million extra for councils in 2018/19 to tackle potholes, repair damaged roads, and maintain bridges. – Hampshire County Council's allocation confirmed as £11.9m.
 - £150 million of funding for local authorities for small road improvement projects such as to roundabouts

- Apprenticeship Levy paying employers will be able to transfer up to 25% of their funds to pay for apprenticeship training in their supply chains.
 - The Government will not set up any new Private Finance Initiative or Private Finance 2 schemes, but other forms of public private partnership will continue.
 - Additional one off funding for adults' social care of £240m in 2019/20, of which Hampshire County Council's share is £4.8m.
 - Additional one off funding of £410m for adults' or children's social care of which Hampshire County Council's share is £8.1m.
- 3.5 The additional funding for social care is welcomed and will be used to offset the pressures we are facing which we have highlighted repeatedly, although this funding falls far short of the amount required and is only one off. It does however signal that some of the pressures on local government are being recognised by the Treasury and the hope is that this will feed through to further changes within next years Spending Review.
- 3.6 The funding for adult's social care will be included within the Improved Better Care Fund (IBCF). The intention is to allocate the funding of £8.1m for social care to Children's Services, given the current financial position which is described in more detail in Section 4, and this one off amount will be held in contingencies.
- 3.7 None of these announcements has an immediate impact on the budget setting process for 2019/20 and any changes contained in the provisional Local Government Settlement, which will be announced in December, will be taken into account when setting the budget in February and will be reported to Cabinet and County Council.
- 3.8 One potential area for change relates to the announcement of the outcome of the application process to become business rates retention pilots in 2019/20.
- 3.9 The Government invited local government to bid for a Business Rates pilot for 2019/20 and a bid was submitted in September to operate across the Hampshire functional economic area. This is based on the Hampshire County Council area and the associated district councils within this, along with the Enterprise M3 Local Enterprise Partnership (LEP) and the Solent LEP.
- 3.10 The pilots are to be based on 75% retention, with growth measured from baselines levels set in 2014 and there is no "no detriment" guarantee (as for 2018/19, although this guarantee was later granted by the Government).
- 3.11 The aim of the pilots is to inform the proposed extension of Business Rate Retention and so bids will need to be different to past pilots to be accepted. In addition, it is anticipated that less pilots will be agreed than in the 2018/19.
- 3.12 The bid from the County Council and 11 Districts submitted in September was based on a top slice of 35% for a Strategic Infrastructure Fund to support accelerated Housing delivery with the balance being shared in the same proportions as the existing business rate distribution model.
- 3.13 Government will be announcing the successful applicants either before or alongside the provisional Local Government Settlement. Financial gains from

the pilot are one off and marginal for the County Council but at £3.5m are not insignificant and the Strategic Infrastructure Fund provides an ideal opportunity to work with the Districts to accelerate housing delivery. Given the uncertainty about the outcome of the bidding process at this stage our financial planning has taken no account of any potential additional funding.

- 3.14 Savings proposals for 2019/20 have already been agreed and the focus now is on implementation and delivery and an update on the progress being made is provided in the transformation report presented elsewhere on this agenda.
- 3.15 Looking ahead to the programme to take us to 2021, the MTFS proposed a similar timeline to that adopted successfully for the Transformation to 2019 (Tt2019) Programme, including a similar approach to consultation, and broad indicative dates. Work has begun to map out in more detail what the Transformation to 2021 (Tt2021) Programme may contain and it is anticipated that the programme will be formally launched, following Cabinet approval next year in order to start developing plans for meeting the expected two year budget gap of £80m in 2021/22.
- 3.16 Given this position, the main focus in setting the budget for 2019/20 is the production of the detailed revenue and capital budgets and this report sets out the framework for the detailed budget preparation process for next year.

4. Quarter 2 Financial Monitoring

- 4.1 The position at the end of September (Month 6) indicates that in year all departments, with the exception of Children's Services, will be able to manage the large scale investment required to deliver their planned transformation activity and meet service pressures through the use of cost of change (and other) reserves, along with agreed corporate funding.
- 4.2 Reported pressures are predominantly (but not solely) in Children's Services, with Adults' Health and Care benefiting from additional funding in the form of the IBCF and the announcement of a further £4.8m of winter pressures money from the Government. Of pressures totalling £25.1m, £22.4m relates to Children's Services, the majority of which relates to forecast growth in CLA numbers during 2018/19 and the knock on impact of the pressures reported at the end of 2017/18
- 4.3 Growing attention nationally is being focused on the pressures facing children's services and local authorities are citing the pressure in children's social care as their greatest immediate financial concern (*Source – [LGiU/MJ State of Local Government Finance Survey 2018](#)*), with rising demand for support leading to over spends in an increasing number of authorities. The key reasons for the increasing numbers relate to:
 - A much better awareness and identification of child abuse and neglect from a range of partners.
 - The better application of consistent thresholds to receive help as a result of government statutory guidance ('Working Together to Safeguard Children').
 - A growing professional aversion to risk from partners driven by national child care scandals.

- The impact of economic and financial hardship on families.
- The discovery of 'new' forms of abuse such as child sexual exploitation, child criminal exploitation and online abuse.
- The creation of a number of new policy initiatives such as 'staying put' which allow teenagers to stay in their foster care placements.
- Children remanded to custody being treated by law as children in care.
- A range of new legal processes such as the 'public law outline' which drive local authorities to put far more case decisions before the family courts.
- A drive by the courts for all application cases to conclude within 26 weeks.
- Policy drivers such as the national redistribution of Unaccompanied Asylum Seeking Children (UASC) arriving from France.

4.4 Within the County Council additional investment in a range of areas within Children's Services has been provided for, including funding to cover costs to grow social worker capacity through increased recruitment and improved retention. These amounts, together with funding for growth in Children Looked After numbers (and in turn the knock on impact for care leavers) already provided for and allocated, alongside continued management focus on the other pressure areas, are ensuring that the Department operates from a firmer financial base as they deliver the required transformation.

4.5 It is currently predicted that even with this funding the Department will be over spent by approaching £0.5m at the end of the year. However, as we move towards the end of the year it is anticipated that this position may improve through a combination of continued positive management action in the pressure areas, under spends elsewhere in Children's Services and the use of corporate contingencies as appropriate.

4.6 The table overleaf summarises the latest overall forecast position for the County Council and strong financial management will continue to be a key focus throughout the year to ensure that all departments stay within their cash limits, that revenue pressures are contained and that they deliver the savings programmes that have been approved.

	Total £'000
Total Investment / Cost of Change Used	45,092
Total Pressures	25,074
Tt2017 Late Delivery	452
Total Additional Cost	70,618
To Be Met From:	
Early Delivery of Tt2019 Savings	(23,850)
Other Savings	(27,691)
Other Reserves	(1,864)
Corporate Support	(26,999)
Contribution to / (from) Cost of Change	10,276
Forecast Outturn	490

- 4.7 Financial pressures on schools are increasing, both at an individual school level and within the overall school budget. The overall school budget is currently in deficit and this deficit will increase again in the current financial year, with the Schools' Forum agreeing for this to be carried forward into the budget for 2019/20. The pressure experienced in Hampshire is reflected across many other authorities and predominantly relates to demand led budgets funding pupils with high levels of additional need, in particular where there are increasing numbers of pupils with Education, Health and Care Plans (EHCP) and as a result of extending this support for young people up to the age of 25.
- 4.8 Options are being considered to reduce this pressure and create efficiencies which will be the subject of wider consultation before a final decision is made. This consultation will include educational settings, parents and wider stakeholder groups as appropriate and where required an equalities impact assessment will be produced to support any reports for decision.
- 4.9 There are an increasing number of schools in, or at risk of falling into deficit. Reasons vary, and tailored support is being provided to individual schools facing financial difficulties along with appropriate challenge and intervention where required.
- 4.10 In September 2017, the Department for Education (DfE) announced the introduction of a National Funding Formula (NFF) for Schools, High Needs and the Central School Services blocks. The Government's intention remains that individual school budgets should ultimately be set on the basis of a single national formula (a 'hard' funding formula) however, no timescales have been set. The DfE have recently announced that the current arrangement, where funding for schools will be calculated on a national basis and then passed to the local authority for allocation, will continue for a further year to include 2020/21.
- 4.11 As we move further through the financial year we will have a clearer picture of the likely outturn position for 2018/19 and each year we prepare a revised budget that is presented to Cabinet in January which reflects the latest

monitoring information as at the end of December. In addition, corporately a more detailed review of non-departmental budgets (including contingencies) and reserves will be undertaken as part of the third quarter monitoring and in considering the 2018/19 revised budget position.

5. 2019/20 Budget Setting

- 5.1 The deliberate strategy that the County Council has followed to date for dealing with grant reductions and the removal of funding that was historically provided to cover inflation, coupled with continued demand pressures over the last decade is well documented. It involves planning ahead of time, through a two-yearly cycle, releasing resources in advance of need and using those resources to help fund transformational change.
- 5.2 Targets for 2019/20 based on a reduction of approaching 19% in cash limited spend, were approved by the County Council in July 2016 as part of the MTFS to 2020. Proposals to meet these targets were approved by Executive Members, Cabinet and County Council over the Autumn last year and are being implemented through the Tt2019 Programme.
- 5.3 A separate report updating the Cabinet on the progress of the Tt2019 Programme is presented elsewhere on this agenda and highlights positive progress on the achievement of savings against the targets set for the next financial year.
- 5.4 Since this programme is already in place, and the financial strategy that the County Council operates is on the basis of a two year cycle of delivering departmental savings, there are no new savings proposals to be considered as part of the 2019/20 budget setting process. However, it is still necessary for the County Council to go through the normal 'technical' process of setting provisional cash limits for departments, asking them to prepare detailed budgets within those cash limits and then securing approval through Executive Members, Cabinet and finally County Council.
- 5.5 The next section of this report sets out the details of provisional cash limits for departments for 2019/20, which take into account any base budget changes and the impact of inflation.
- 5.6 The MTFS approved by the County Council in September 2018 assumed that council tax will increase by the maximum permissible without a referendum in line with government policy. This will mean a council tax increase of 2.99% (subject to the final confirmation of the referendum limit by government) in line with the government's amended approach which is built into their settlement calculations. This will generate around £18m additional income but it is likely that Hampshire will still remain the second lowest county level council tax in the country.
- 5.7 In addition, the financial strategy assumes a significant draw from the Grant Equalisation Reserve (GER) in 2019/20 to provide for the one-off corporate funding that is needed to cash flow the Tt2019 Programme, recognising the scale of the transformation and the lead in times for achieving the savings themselves.

- 5.8 Final details of the settlement for next year, including the outcome of the applications to become a business rates pilot, plus information from district councils on collection fund surpluses and estimates of retained business rates is not currently available and will therefore be taken into account in setting the final budget in February next year.

6 Provisional Cash Limits 2019/20

- 6.1 Provisional cash limits are set to enable departments to prepare their detailed budgets for the next financial year. These take account of changes in the base budget, for example as a result of grant changes or transfers between departments, approved growth and inflation for the year.
- 6.2 Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation. At this stage they do not include an allowance for the second year of the two year pay award agreed earlier this year and covering the 2018/19 and 2019/20 financial years. However, this will be added once the required allocations have been finalised and details will be included in the February budget setting report.
- 6.3 Historically no allowance has been given for step progression and departments have been expected to manage this within their bottom line, securing efficiencies if necessary. In view of the ongoing requirement to find savings to meet targets set to balance the budget, finding further efficiencies to absorb step progression is becoming increasingly challenging.
- 6.4 As a consequence, for 2018/19 a contribution was made towards meeting the cost of step progression as part of the allocation of corporate inflation to cash limited budgets. This has continued in 2019/20 with a general allowance of 1.5% applied to relevant employee budgets (directly employed staff) – the difference between most steps is 3% but some staff will be at the top of the grade and so progression will not apply.
- 6.5 The calculation of the provisional cash limits is shown in detail in Appendix 1. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2018/19 position has been updated taking into account forecast changes, such as increases in respect of the pupil premium and other grant related changes.
- 6.6 The MTFs approved by County Council in September 2018 also highlighted a number of additional pressures totalling £19.7m that would impact on the budget for 2019/20. Given the current difficulties in achieving the Tt2019 Programme over an extended timeframe it was not considered feasible to increase savings targets further and it was therefore recommended that these recurring pressures be funded from housekeeping savings mainly generated through increases in the council tax base. These items have been retained in contingencies and will be allocated as needed with the position monitored throughout the year.
- 6.7 Chief Officers, with Executive Members are asked to develop their detailed budgets within the guidelines that have been set so that the Leader and Cabinet can make the final budget recommendations for 2019/20 at the meeting in February 2018.

7 Transformation to 2021

- 7.1 The Tt2019 Programme has been in place for some time and following approval of the detailed savings proposals in November 2017 departments have been undertaking detailed work to implement the savings.
- 7.2 As in previous years, the County Council has responded positively to the transformation challenge and proposals to meet the £140m target were signed off by County Council in November last year subject to any further Stage 2 consultations that need to take place.
- 7.3 What is different to previous years however is the fact that the profile of delivery for the programme is back loaded, with some changes not being delivered at all until well after 2019/20. It has always been acknowledged that the implementation of some proposals will be more challenging than others and may be subject to separate consultation exercises to fully understand the impacts of the proposals. Taking the time to get this right is very important for service users and the County Council and whilst sufficient resources have been set aside to cover this slower but safer implementation, it does increase the overall risk in the budget going forward as there will be overlapping change programmes.
- 7.4 In line with previous major cost reduction exercises Tt2019 progress will continue to be closely monitored and will be subject to monthly review by CMT and regular reporting to Cabinet throughout the remainder of 2018 and beyond. This will ensure that issues, concerns and risks are dynamically responded to and dealt with. It will also mean that benefits realisation and the timely delivery of savings is consistently in focus, which for this programme, given its later cash flow support demands, is ever more important.
- 7.5 Whilst Tt2019 represents an immense challenge, the County Council does have significant capacity, capability and experience to tackle the task, highlighted by its track record to date. As tough as the forward agenda is, we know that the County Council is as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector and crucially to make the necessary investment required. This is a direct result of our early planning and decision making and the fact that the scale of the County Council provides the necessary resources and capacity to undertake and implement programmes of this size and complexity.
- 7.6 Looking ahead, whilst there are a number of risks, dependencies and external factors that will require on-going management input and attention, success with the Tt2019 Programme, over its extended time period will lay very solid and strong foundations for the inevitable and harder successor transformation programme.
- 7.7 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. Meeting this target on top of the £480m that will have been removed from the budget by 2019/20 clearly represents the greatest financial challenge yet, coming as it does at the end of a decade of funding reductions for local government.
- 7.8 Alongside continued management of the extended Tt2019 Programme, work is underway to map out in more detail what the Tt2021 Programme may

contain and a Budget Peer Review process has been conducted over the summer by Directors, which will help to inform the future savings programme and options.

- 7.9 This is clearly a very challenging prospect given the value of savings 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 savings. This programme will increase the cumulative total of savings to £560m and it is therefore inevitable that some of the changes will involve service reductions in addition to efficiencies and income generation.
- 7.10 The aim is for departments to develop their high level savings proposals for Tt2021 in time for public consultation to take place over the summer 2019. The consultation feedback and the proposals can then be presented for consideration by Executive Members, Cabinet and County Council in autumn next year.
- 7.11 This will once again provide departments with the maximum time to allow the continuation of the robust and well planned approach we have utilised to date to achieve successful implementation and delivery of the required savings by April 2021, albeit that the eventual delivery of those savings may take longer depending on the complexity and nature of the proposals put forward by departments.
- 7.12 A key feature of transformation programmes in the past has been the use of technology to enable savings both at a corporate level (through the Digital Programmes and the Enabling Productivity Programme) and at a departmental level through the implementation of specific technology investment that underpins or enables changes to existing operating models.
- 7.13 Significant investment of over £35m was approved to support the Tt2019 Programme, which continues to be implemented over the extended timeframes for delivery across the County Council. Early work in considering the programme for Tt2021 has identified the need for some initial resources to carry out work in areas such as a new Digital Programme, the next phase of the Sharepoint roll out, chatbots, further work on analytics and Robotic Process Automation (RPA).
- 7.14 At this stage a high level estimate of up to £3m has been forecast to take these items forward up to summer next year and the proposal is to 'borrow' from the resources approved for Tt2019 on a temporary basis, with that funding being repaid at a later date if required in order to complete the balance of the Tt2019 Programme. A summary of requirements for Tt2021 will be reported over the summer next year with a view to securing the necessary investment in technology to underpin the next programme of transformation.
- 7.15 Given the longer timescales for delivery, the County Council must also continue its strategy of topping up the GER to ensure there is sufficient funding to meet the gap in the interim year of 2020/21 and to provide cash flow funding to support the delivery of the Tt2021 Programme. The County Council's continued ability to provide funding of this sort is testament to its sound financial management and planning at a time when many other Councils are struggling with more immediate financial problems.

Government Funding Assumptions

- 7.16 Cabinet will be aware that the target savings of £80m included a softening of the potential impact of reductions in government funding and the assumption that £8.1m of ongoing funding will be received from the Government in respect of children's social care pressures (this is purely an assumption and ongoing funding has not been announced). Within the MTFS this new funding assumption was used to reduce the overall target set for all departments.
- 7.17 This is inconsistent with the previous treatment of additional funding for adult social care pressures that was given by the Government through the BCF initiative. This dedicated funding was passported to the Adults' Health and Care Department and in 2019/20 represents £18.9m of their approved savings (the full value of the BCF grant).
- 7.18 It is proposed that a similar and consistent treatment is applied to the assumed extra funding for children's social care. This would also effectively provide Children's Services with a savings proposal of £8.1m towards their Tt2021 Programme target.
- 7.19 This will require £8.1m to be identified corporately which may be dependent on future increases in council tax base and other factors such as business rate income and Section 31 grant, but it is thought to be achievable as long as there are no increases in the pressures for social care above those currently forecast.
- 7.20 However, it should be noted that the proposed changes to the £8.1m funding further increase the risk in the financial strategy as there is a risk that no government funding is actually forthcoming. The County Council will need to carry this risk until more information about Business Rates Retention and the Fair Funding Review is made available and provisional figures are announced for the forthcoming CSR which will be incorporated in the next update of the MTFS.

8 Enterprise M3 Local Enterprise Partnership

- 8.1 The County Council acts as the Accountable Body to the Enterprise M3 Local Enterprise Partnership (EM3 LEP). One of the main roles of the Accountable Body is to ensure that government funding is distributed appropriately by the LEP and in line with the governance arrangements that have been jointly agreed.
- 8.2 Given the importance of the EM3 LEP and the work that they do to improve economic prosperity and related infrastructure across the majority of the Hampshire geography, the County Council has taken a more active role as Accountable Body, working with the EM3 LEP to ensure that they can operate as effectively as possible within the constraints imposed by government.
- 8.3 A major issue for all LEPs is the fact that funding is only agreed on an annual basis and is subject to a competitive bidding process. This makes it difficult to plan ahead for strategic programmes of work that would make a significant difference in economic impact terms. This also leads to short term decision making in order to utilise grant allocations before year end rather than being able to take a longer term strategic overview of what is trying to be achieved.

- 8.4 In order to facilitate better decision making within the EM3 LEP and to allow for an element of over programming over the next few years it was requested that the County Council provide a cash flow facility that could be used by the EM3 LEP in the event that they exceeded their grant allocation in any one particular year. It is therefore recommended in this report that a loan facility of up to £7.5m be made available to the EM3 LEP if required at an appropriate interest rate equivalent to our average return on all external investments.
- 8.5 This report seeks the delegation of authority to the Deputy Chief Executive and Director of Corporate Resources in consultation with the Chief Executive and the Leader of the Council to approve loan funding up to a maximum of £7.5m to cash flow the EM3 LEP in the event of an over spend against their grant allocation in any one particular year, to be met from general contingencies.

9 Strategic Land Development

- 9.1 The Strategic Land Programme was set up in 2008 to maximise the financial returns on the County Council's land holdings that had the potential for sale and development in the future. By developing the plan and opportunities for a site, usually through to outline planning permission stage, this greatly increases the eventual financial return at the point the land is released for development. Since its inception the Strategic Land Programme has realised and delivered over £21m of capital receipts up to and including the 2016/17 financial year and based upon current local plan allocations, planning approvals and projects it is anticipated that it will generate over £270m of capital receipts for the County Council in the period up to 2029/30.
- 9.2 To realise this, the County Council invests annually in the Strategic Land Programme in order to prepare and bring forward its land. Within the Programme Business Plan overall revenue expenditure is forecast at approximately 10% of total receipts, with a range of between 1% and 11% spend per project depending on the planning / disposal strategy of individual projects and their scale. The spend supports a dedicated team within Property Services and the procurement of specialist advice or consultancy depending on the nature of the site and its complexity.
- 9.3 Total funding of £12.7m since 2008 has previously been approved to take forward a large number of sites (notably Manydown) and this funding was due to run out during the current financial year. A top up of £665,000 was approved as part of the 2018/19 budget to complete the anticipated plan of works through to March 2019, with future allocations to the programme being agreed in February each year as part of the budget setting process.
- 9.4 The phasing of the programme is difficult to predict and is influenced by many factors some of which are outside of the County Council's control. In some respects, higher spend on a site often means that progress has been accelerated and receipts will be achieved earlier. In addition, market interest in a site may bring forward work that was planned in the future.
- 9.5 Due to increasing pressures in some sites and as a result of opportunities to accelerate the Programme in areas such as Uplands Farm and Stanhill

Grange at Whitehill and Bordon, a further sum of up to £1.25m is now required in the current 2018/19 financial year. In particular, this will support:

- **Manydown** – It was originally assumed that the outline planning application for Manydown Phase 1 would be approved in 2017/18, however revisions to the outline planning application and further consultation with the local planning authority and consultees has extended the timescale on this large and complicated project.

The current programme envisages planning committee approval in December 2018 and a signed Section 106 agreement shortly after and subsequently there is already pro-longed in-year activity relating to pre-commencement works / option price negotiation and promotion of the further Manydown Phase 2. These costs can ultimately be deducted from the net receipts of the Manydown Company.

In addition, there has also been an extended procurement to select and negotiate with a joint venture partner and an allowance made for ongoing staff and consultant costs associated with supporting the development company and Manydown Garden Communities LLP. This upfront investment is shared between the County Council and Basingstoke and Deane Borough Council.

- **Uplands Farm** – The original forecast was based upon securing outline planning permission for two related sites, with consultant support. The scope of the project and corporate profile has changed to a detailed application for Deer Park secondary school and primary infrastructure and amendments to the bypass and drainage designs, as well as outline details for large scale housing development, with updated transport and environmental assessments. This has entailed increased in-house and consultant resources to coordinate and deliver two planning applications and will involve very active management to secure planning permissions and meet the project timescales.
- **New Potential Sites** – A number of new potential sites such as Stanford Grange at Whitehill and Bordon, are now emerging in the programme due to local planning reviews and need to be resourced accordingly, in order to secure allocations in local plans and planning permissions. These opportunities will in turn generate additional land receipts for the County Council.

9.6 This additional funding of up to £1.25m will be met from contingencies in the current financial year and it is proposed to bring a more detailed report forward as part of the budget setting process in February next year outlining the forward programme in respect of Strategic Land Development generally and a financial overview of the Manydown site.

10 Members Devolved Grants

10.1 Members devolved budgets have been a relatively small but important part of the County Council's budget for many years. They provide all Members with the opportunity of funding local priorities within their wards or for supporting spend which is felt to be of a wider benefit to the County as a whole.

- 10.2 As part of early budget reductions, the budgets were reduced from £10,000 to £8,000 per Member and then as part of the Transformation to 2017 (Tt2017) Programme a further reduction to £5,000 was approved. However, following recommendations from the Policy and Resources Select Committee, County Council eventually agreed to retain the grant level for a further two years (2017/18 and 2018/19) by drawing from Policy & Resources reserves.
- 10.3 The budget level should therefore drop to £5,000 from 2019/20 onwards. However, given the importance of the grants and the wider services that they support across many communities, it is recommended in this report that they be retained at the same level for a further two years, which also means that any future change to the level of the budget will coincide with the new Council term from 2021/22 onwards.
- 10.4 The additional cost of a further two years is £468,000 and as before it is proposed that this is funded from Policy & Resources reserves.

11 Capital Investment

- 11.1 The County Council's capital programme has been maintained and expanded over recent years, continuing the trend of ensuring that we invest wisely in sustaining our existing assets and delivering a programme of new ones.
- 11.2 The timeframe for capital planning moves on each year and for the 2019/20 budget process, the programme will be extended into 2021/22. The table overleaf shows the provisional capital guidelines that are being allocated to each department:

	2019/20	2020/21	2021/22
	£'000	£'000	£'000
Adults' Health & Care	481	481	481
Children's Services	100	100	100
ETE	11,929	11,929	11,929
P&R	4,692	4,692	4,692
Total	17,202	17,202	17,202

- 11.3 The capital guideline for ETE reflects the additional funding of £10m per annum for Operation Resilience (from 2017/18 for four years) that was added to the programme as part of the MTFs approved by the County Council in July 2016. The forecasts prepared for the latest MTFs also assumed that a recurring amount of £10m would be added to the budget as a revenue contribution to capital to permanently maintain the investment in Operation Resilience. This has been added to the capital guideline for ETE for planning purposes at this stage but is subject to the amount being agreed as part of future revenue budget and council tax setting.
- 11.4 Cabinet is requested to approve these provisional guidelines to allow departments to prepare their detailed capital programmes for approval as part of the budget setting process in January and February next year.

11.5 The figures in the table above represent the ‘locally resourced’ allocations to the capital programme, which supplement other capital resources that fund the overall programme, such as developers’ contributions, capital receipts, Government grant and borrowing. The total programme approved last February is shown in the table overleaf and this will be updated as part of the budget setting process for 2019/20:

	Revised				Total
	2017/18	2018/19	2019/20	2020/21	
	£000	£000	£000	£000	£000
Adult’s Health & Care	55,127	11,175	481	481	67,264
Children’s Services	135,151	80,868	60,174	55,070	331,263
Environment & Transport	76,839	139,670	80,324	44,558	341,391
Policy & Resources	75,478	22,828	22,228	22,228	142,762
Total	342,595	254,541	163,207	122,337	882,680
					
		540,085			

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

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

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
Medium Term Financial Strategy Update and Transformation to 2019 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments	Cabinet - 16 October 2017 County Council – 2 November 2017
Looking Ahead - Medium Term Financial Strategy https://democracy.hants.gov.uk/ielssueDetails.aspx?Ild=10915&PlanId=0&Opt=3#AI8687	Cabinet - 18 June 2018 County Council – 20 September 2018

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>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

1.1 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.

1.2 Equalities Impact Assessment:

Equality objectives are not considered to be adversely impacted by the proposals in this report but the County Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account.

2. Impact on Crime and Disorder:

2.1 The proposals in this report are not considered to have any direct impact on the prevention of crime, but 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.

3. Climate Change:

- a) 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 and changes to services are designed in such a way to also achieve this objective.

- b) 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 and transforming its services will ensure that climate change issues are taken into account.

PROVISIONAL CASH LIMITS – 2019/20

	2018/19 Cash Limit £'000	Base Changes £'000	Inflation & Growth £'000	Tt2019 Savings £'000	2019/20 Cash Limit £'000
Adults' Health and Care	398,955	4,814	34,394	(55,934)	382,229
Children's – Schools	806,885	(4,777)			802,108
Children's – Non Schools	167,041	(1,834)	21,517	(30,132)	156,592
Environment & Transport	112,506	308	5,014	(15,805)	102,023
Policy & Resources	91,521	2,287	5,661	(14,929)	84,540
Total	1,576,908	798	66,586	(116,800)	1,527,492

Notes:**Base Changes**

- Largely relate to changes in grants, movements between services and contributions to / draws from reserves, including cost of change.

Inflation & Growth

- In addition to general price inflation (much of which relates to care provision in Adult's Health and Care) this includes a general allowance of 1.5% of relevant employee budgets (directly employed staff) for step progression.
- Reflects inflation for the waste contract and also agreed allowance for growth in volumes.
- Includes the allocation of funding for growth (within the amounts set out in the MTFs) for both Adults' Health and Care and Children's Services in relation to demography and complexity and investment in social worker capacity.

Tt2019 Savings Targets

- Overall target of £140m with £23.2m delivered through corporate efficiencies and an element of increased council tax income.