

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	16 October 2017
Decision Maker	County Council
Date:	2 November 2017
Title:	Medium Term Financial Strategy and Transformation to 2019 Savings Proposals
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Carolyn Williamson

Tel: 01962 847400

Email: Carolyn.Williamson@hants.gov.uk

1. Executive Summary

- 1.1. The purpose of this report is to present the high level outcomes from the public consultation exercise on balancing the budget and to consider the overall financial strategy for dealing with the budget gap to 2019/20 in light of the various options available to the County Council.
- 1.2. As part of that overall consideration, this report details savings proposals that have been submitted by Executive Members in meeting their initial savings targets as part of the Transformation to 2019 (Tt2019) Programme.
- 1.3. The report also examines the medium term financial prospects for the County Council to 2020/21 and takes the opportunity to update Cabinet on the financial monitoring position for 2017/18.
- 1.4. The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of austerity is well documented. It involves planning ahead of time, making savings in advance of need and using those savings to help fund transformational change to generate the next round of savings.
- 1.5. In line with this strategy, the proposals in this report are being presented at this stage (together with a summary of the results of the *Serving Hampshire – Balancing the Budget* public consultation carried out over the summer) in order to allow more time for delivery of the savings; including the requirement to undertake a second stage of service specific consultations where necessary.
- 1.6. The County Council's approach to making savings has always been to minimise the impact on services, by making efficiencies wherever possible, maximising opportunities for investment and the generation of income or

expanding its traded services with other organisations. This remains the case for the new savings programme which will benefit from the previous approach.

- 1.7. A key element of the discipline that has been applied to this and previous savings programmes is the need to identify alternative savings within the Department should any of the current proposals be rejected. In most cases this would require the consideration of options that are potentially more difficult than those presented in these papers.
- 1.8. The financial position to 2019/20 was heavily impacted by the Local Government Finance Settlement for 2016/17 which changed the methodology for distributing grant and reversed the Government's previous policy on council tax increases. In February 2016 it was reported to Cabinet and County Council that savings in the order of £140m would be required and this has been reflected in all financial updates since that date, leading into the Tt2019 Programme.
- 1.9. The Tt2019 Programme is progressing well, but it is clear that a further £140m of savings will be extremely difficult to achieve, will take significantly longer to deliver to avoid service disruption and must be underpinned by one-off investment in Digital and IT solutions, which are outlined in this report, and which total £38.6m.
- 1.10. The County Council's ability to continue to provide resources to invest in specific priorities, in line with the County Council's focus on service improvement, and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.
- 1.11. In this context the report also considers a number of items that are linked, both directly and indirectly, to additional capital investment and economic growth and also to managing risk, particularly in response to growing demand pressures across children's social services. Overall there remains limited scope to add new schemes to the overall Capital Programme and to fund new revenue pressures. This has required a re-think of the current financial strategy in order to free up the necessary resources.
- 1.12. The report extends the financial planning period to 2020/21, recognising the uncertainty that exists beyond the period covered by the current spending review which runs to 2019/20. No further settlement figures are available after 2019/20 and there remains uncertainty nationally around the Fair Funding Review and the future of 100% Business Rate Retention.
- 1.13. The County Council's gross expenditure continues to be in the region of £1.9 billion (including schools) and the authority remains in a very strong financial position. However, this report outlines that in an environment of continuing austerity, ongoing social care and inflationary pressures, and given the current referendum limits for council tax increases, the financial outlook remains very challenging.
- 1.14. The MTFs update this year contains a number of complex and linked issues and a table of contents has been provided below to aid navigation through the report:

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- Appendix 8 – Reserves Strategy

1.15. The report also considers a number of formal financial approvals and these have been summarised below for clarity:

Capital Approvals

- Additional one-off funding of £6.1m mainly for IT enabling works and the purchase of new devices which will underpin the Enabling Productivity Programme (EPP), and which will help to realise around £62m of recurring departmental savings. (Paragraphs 8.17 to 8.30).
- Approval of £22.5m of one-off spend to complete the IT enabling and EPP programmes, which will underpin the delivery of departmental savings as highlighted above. (Paragraph 8.28).

- High level approval for £35m of capital investment as part of the development of the Manydown site in Basingstoke to provide up to 3,400 new homes and generate long term capital and revenue returns for the County Council. (Paragraphs 10.4 to 10.9).
- A £3m transfer from capital to revenue resources on behalf of the Enterprise M3 LEP, which has no financial impact on the County Council but will enable them to operate more flexibly and effectively in delivering economic growth and prosperity across North Hampshire and Surrey. (Paragraphs 10.10 to 10.14).
- Capital spend of £1.23m to implement specialist equipment for monitoring and data collection associated with managing water bacteria risk across the County Council's large built estate. (Paragraphs 10.20 to 10.25).
- An increase of £1m per annum in the capital provision or vehicle purchases for Hampshire Transport Management which will allow them to provide a greater range of vehicles to more organisations as part of widening their traded services activity. (Paragraph 10.30).
- Approval of £41.695m of capital investment in a secondary school, bypass and other infrastructure in Botley as part of the wider development of that site for housing, in line with the agreement with Eastleigh Borough Council and that district council's local plan. (Paragraphs 11.10 to 11.11).

Revenue Approvals

- Recurring funding from 2018/19 onwards of £6.6m to increase the number of social workers to help deliver a reduction in Children Looked After as part of the Tt2019 Programme, as well as improving the capacity for safeguarding activity, improving the recruitment and retention of social workers and reducing reliance on agency staff. (Paragraphs 4.8 to 4.21).
- Recurring funding from 2018/19 onwards of £2.4m to cover the increased costs of Home to School Transport as a result of increasing costs and demography and the number of children with Special Educational Needs. (Paragraphs 4.28 to 4.21).
- Recurring funding from 2018/19 onwards of £1.25m to increase payments for those families who care for children under a Special Guardianship Order (SGO), which will have longer term benefits both in terms of care received and diversion from higher cost placements. (Paragraphs 4.23 to 4.26).
- One-off funding in the current year of £1.7m and £315,000 to cover the part year costs of increased social worker numbers and increased payments for SGOs outlined above. (Paragraphs 4.8 to 4.26).
- A one-off sum of £100,000 in the current year and a recurring increase of £320,000 to continue to proactively manage and mitigate any risks associated with water bacteria. (Paragraphs 10.20 to 10.25).

- A one-off sum of £250,000 to support further work with Town and Parish Councils and to provide pump priming funding for targeted joint initiatives aimed at improving local services. (Paragraphs 10.15 to 10.19).
- A one-off sum of £1.4m to fund additional resources within the Transformation Team until the end of 2019/20 in order to support the delivery of the Tt2019 Programme. (Paragraphs 8.9 to 8.12).

2. Contextual information

- 2.1 It is normal practice to provide Cabinet with an update on the Medium Term Financial Strategy (MTFS) in July each year in order to inform and direct work on detailed budget setting that will take place over the summer.
- 2.2 The position is somewhat different this year since the main focus is to approve the strategic plan to deliver the savings required up to 2019/20 and to approve detailed savings proposals that will be pursued as part of the Transformation to 2019 (Tt2019) Programme. Further information in respect of the budget setting process for 2018/19 will be provided in December, which will support the setting of the precept in February 2018.
- 2.3 Members will be fully aware that the County Council has been responding to reductions in public spending, designed to close the structural deficit within the economy, since the first reductions to government grants were applied in 2010/11 and then as part of subsequent Comprehensive Spending Reviews (CSRs).
- 2.4 Whilst the County Council understands the wider economic imperative for closing the structural deficit, the prolonged period of austerity has led to significant reductions in government grant for the County Council at a time when it has also had to respond to inflationary and growth driven increases in costs across all services, but in particular adults' and children's social care.
- 2.5 Reductions in government grant together with inflationary and service pressures highlighted above have created an average budget gap of around £50m per annum, meaning that around £100m has needed to be saved every two year cycle since 2011.
- 2.6 This position has been exacerbated following the changes announced in the Local Government Settlement in February 2016 which provided definitive figures for 2016/17 and provisional figures for the following three years to 2019/20. The settlement included a major revision to the methodology for distributing Revenue Support Grant (RSG) which had a major impact on Shire Counties and Shire Districts and also reflected a clear shift by the Government in council tax policy.
- 2.7 The impact on Shire Counties of a significant unexpected reduction in grant at a time of growing demand and cost pressures in the services they provide has affected the short term financial viability of some County Councils, with Surrey previously considering a 15% council tax increase and Northamptonshire writing to the Government about the difficulties of balancing its budget.
- 2.8 Whilst Hampshire's forward planning and successful delivery to date have placed it in a strong position, the impact of the 2016/17 settlement has

significantly increased the challenge for the two years to 2019/20. In response to representations from Shire Counties and Districts, the Government has provided some transitional grant over two financial years to those who lost the most (£18m for the County Council) and there are calls for this to be extended to 2019/20 to give those authorities a longer period to deliver their savings programmes.

- 2.9 In overall terms, even after allowing for council tax increases over the settlement period, an anticipated budget gap of £140m was predicted by 2019/20 and savings targets of £120m, based on a reduction of approaching 19% in cash limited spend, were allocated to departments as part of the Tt2019 Programme. The remaining £20m was to be secured from corporate “housekeeping” resulting from changes in accounting practice in respect of depreciation and minimum revenue provisions (MRP) and also the management of debt, inflation allowances and reserves.
- 2.10 Over the past nine months, early opportunity assessment work in respect of Tt2019 has been progressed by departments alongside the delivery of remaining Transformation to 2017 (Tt2017) changes and savings.
- 2.11 The early opportunity assessment work was summarised in the first Tt2019 report to Cabinet in June 2017 and featured in the *Balancing the Budget* public consultation exercise that was carried out over the summer of this year. The consultation, on high level options for balancing the County Council’s budget, was held to inform and shape the final savings proposals that would be presented to Executive Members, Cabinet and County Council over the autumn. The consultation was scheduled in order to provide sufficient time and capacity to implement the proposals as far as possible before April 2019 following further consultation where necessary.
- 2.12 The anticipated delay in some elements of the delivery of cash savings for the Tt2019 Programme has also had to be factored into the medium term forecasts to ensure that sufficient one off funding exists both corporately and within departments to meet any potential gap over the period. At this stage, there is a high degree of confidence that this can be covered but this change in the profile of the delivery of savings does indicate that we are now beginning to be ‘behind the curve’ rather than in front of it and this will inevitably impact on our ability to respond to further financial pressures after 2019/20.

3. Commercialisation in Local Government

- 3.1 The County Council’s approach to the delivery of successive savings programmes has in the main focussed on maximising efficiencies in service delivery and implementing changes to operating models and technology that mean that services can be provided in a cheaper but more effective way.
- 3.2 Alongside this, the County Council has also examined areas where it can generate more income in order to reduce the direct impact on services, either through charging for services or through the expansion of traded services to other organisations.

- 3.3 In addition, as part of the strategy for making ‘housekeeping’ savings a revised approach was adopted for the investment of surplus cash, that has generated significant returns as part of a balanced portfolio.
- 3.4 This approach has continued into the Tt2019 Programme and as part of the *Serving Hampshire – Balancing the Budget* consultation feedback, generating additional income was the most preferred option for helping to close the budget deficit.
- 3.5 The purpose of this section is to outline, as part of the wider MTFs, the County Council’s approach to commercialisation and explain some of the risks and issues associated with certain options, some of which have received recent national press coverage.
- 3.6 There are four main areas where the County Council can seek to generate additional income to help close the budget deficit:
- Charging users for the direct provision of services.
 - Investing money or using assets to generate a return.
 - Expanding traded services to other organisations.
 - Developing joint ventures that yield additional income or generate a return.
- 3.7 The following paragraphs explore what the County Council has been doing in each of these areas as part of its longer term financial strategy.

Charging users for the direct provision of services

- 3.8 Many of the potential areas for charging for services at a county level are governed by statute and by far the biggest area is charging for the provision of adult social care services which generates around £60m of income that is vital in maintaining services in the face of growing demand.
- 3.9 Income generation through fees and charges in other departments (excluding schools) accounts for a further £38m, much of which sits within Culture, Communities and Business Services, for goods and services that people use more of a matter of choice than out of necessity.
- 3.10 This £98m of fees and charges income is already built into the base budget and it is only any marginal net increases that can be achieved on this figure that would help the County Council close the predicted budget gap. In terms of scale therefore, whilst income generation is of a significant value, against a savings target of £140m it does not represent a significant proportion of the County Council’s budget.
- 3.11 The range of income generating activities that the County Council can enter into is also very different to that of district councils who are able to introduce smaller scale but localised services that may generate a net return. Some examples of areas that have been introduced include:
- Car washing services in council owned car parks.
 - Garden waste collection.
 - Cleaning services.

- Gardening services.
- 3.12 In these instances, it is important to remember that the net marginal return against the costs of providing the services tends to be fairly small. Therefore a significant volume of activity needs to be undertaken to generate anything that will have a material impact in budgetary terms, given the size and scale of the County Council and the scope for the sorts of areas highlighted above is limited. On top of this of course, there is also the potential for the venture to be loss making, given that some ventures are not necessarily in areas where the councils have the right expertise.
- 3.13 The County Council has quite rightly concentrated on areas where it already has experience in providing the services and has built commercial models around these that also improve and enhance the user experience at the same time.
- 3.14 An excellent example of this is the programme around our country parks, where capital investment is being used to improve facilities and options for users and new income generation strategies are being put in place around catering, activities and car parking with the aim of making the country parks financially self sufficient over the longer term.
- 3.15 This approach builds upon our existing service base, is more aligned to the types of services the County Council provides and better reflects the scale at which we work, rather than choosing new or more speculative ventures to launch into.

Investing money or using assets to generate a return

- 3.16 The County Council holds reserves for a number of purposes which are explained in more detail in the Reserves Strategy in Appendix 8. The level of the reserves, together with the normal cash flow patterns throughout the year mean that there are significant opportunities for investing surplus cash to make a financial return.
- 3.17 However, it is important to note that the nature of these investments is very different to those that are undertaken on behalf of the Pension Fund which are very long term investments that focus on return as one of the primary objectives, with a value in excess of £6 billion. For shorter term cash balances, the County Council follows Chartered Institute for Public Finance (CIPFA) and Department for Communities and Local Government (DCLG) guidance, which emphasises prudence and specifies the priorities for investment decisions (in order of importance) as security, liquidity and finally yield.
- 3.18 The County Council is faced with a historically low interest rate environment. Following the UK's referendum decision in June 2016 to leave the EU the Bank of England cut interest rates to 0.25%. Recent news suggests a rise is imminent, albeit it is likely to be a small one and the pace of change of any future increases is likely to be slow and steady, thereby continuing the low interest rate environment for some time to come. Since a large proportion of the surplus cash balances are invested in short term deposits, low interest rates reduce the income the County Council earns on its investments and may worsen the County Council's overall budget position.

- 3.19 As part of the 2014/15 strategy the County Council decided to earmark £90m of its cash balances for investments appropriately targeting a higher yield. This was in addition to the £15m of long term investments that had been made for the Street Lighting PFI scheme. The County Council has now agreed to increase this amount to £200m.
- 3.20 Higher yields can be accessed through investments in assets other than cash, such as equities, bonds and property. The County Council has made investments in property, equities and government bonds, as well as long term investments with other Local Authorities as shown in the following table which also provides an analysis of the remaining portfolio to highlight the differences in return:

	2016/17 Value £m	2016/17 Return %	2017/18 Value £m	2017/18 Return %
Local Authorities	20.0	3.96	20.0	3.96
Government Bonds	10.0	3.78	10.0	3.78
Registered Providers	5.0	3.40	5.0	3.40
Pooled Property Funds	45.0	3.85	55.0	4.10
Pooled Equity Funds	20.0	3.04	20.0	6.45
Pooled Multi-Asset Funds	10.0	0.89	10.0	4.52
Higher Yielding Investments	110.0	3.43	120.0	4.45
Banks and Building Societies	55.7	0.56	110.2	0.57
Money Market Funds	61.7	0.26	23.5	0.22
Local Authorities	116.8	0.68	160.8	1.07
Corporate Bonds	1.3	0.37		
Registered Providers			20.0	1.79
Short Term Investments	235.5	0.54	314.5	0.87
Banks and Building Societies	70.0	0.88	100.8	0.59
Local Authorities	97.5	2.11	51.5	2.15
Long Term Investments	167.5	1.59	152.3	1.12
Total Investments	513.0	1.50	586.8	1.67

- 3.21 The returns shown are those reported for the Treasury Management activity undertaken in 2016/17 and the first five months of the year for 2017/18, more detail about which is set out in Appendix 2. The average yield listed for pooled equity and multi-asset funds in 2016/17 is the total net income return for the partial year that the County Council had been investing in these funds after allowing for initial joining fees. The returns shown in 2017/18 are more typical of those expected for the performance of these funds.
- 3.22 The County Council is targeting a return of around 4% from higher yielding investments, which is significantly above any short or long term cash

investments as highlighted in the above table. It is important to note that the £120m of higher yielding investments is helping to increase the County Council's overall average investment return, which is adding £3.9m to its income based on current average balances and yields for 2017/18. By increasing higher yielding investments to £200m and investing in, for example, pooled property funds, this could yield potentially another £3.6m per annum going forward, taking the total to circa £7.5m on a £200m investment (3.75%).

3.23 However this type of investment would not be appropriate for the County Council's total balances as there are a number of different risks which must be carefully managed:

- Loss of capital – Unlike cash investments other asset classes have a variable value determined by market conditions, therefore there is a risk that the capital value of the investment may be less than the amount originally invested.
- Illiquidity – Most investment vehicles for non-cash assets offer more limited liquidity, from between one and six months. In addition to mitigate the risk of a loss of capital these investments must not be seen as source of liquidity to avoid crystalizing a loss.
- Entry and exit fees – There may be a bid / offer spread for buying and selling non-cash investments which is a means for the investment vehicles to pass on their transaction costs (in particular stamp duty which is significant for property) to new or exiting investors.
- Volatility in returns – But returns can be expected to be much higher than cash investments over at least the medium term.

3.24 The principle mitigation for all of these risks is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long-term investments the amounts invested need to be taken from the County Council's most stable cash balances. Therefore the allocation of £200m has been proposed as half of the Council's forecast future minimum balance.

3.25 The selection of investments to target higher yields is carefully managed with the assistance of Arlingclose, the County Council's treasury management advisor, who recommend that the County Council diversifies its investments targeting a higher return between asset classes. This is in order to mitigate the loss of capital value, so that there is no over exposure to an event that impacts the value of investments in a particular asset class, such as a fall in property prices.

Direct or pooled investments

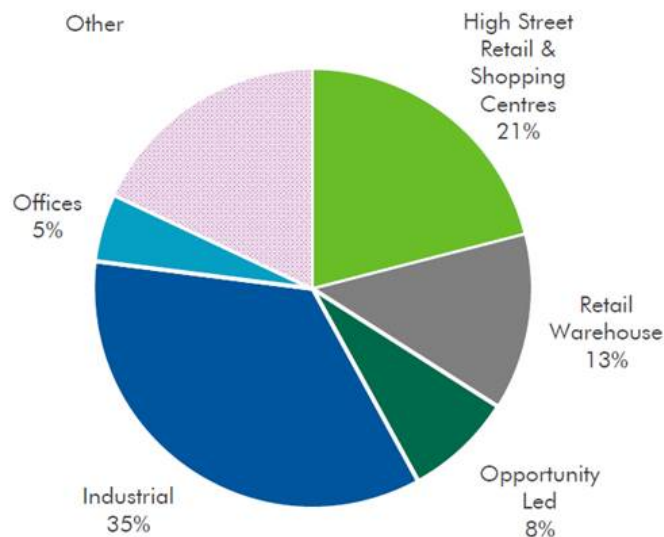
3.26 The County Council utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select the particular investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building.

3.27 The County Council could build its own direct portfolios of these investments, such as property, as the Pension Fund has, however its total allocation of £200m for a diversified portfolio would not enable this to be done efficiently and effectively with the appropriate risk mitigation. The Pension Fund's property investment manager, CBRE, advises that the appropriate size of a direct property portfolio would be at least £400m to £500m and the current pension fund allocation for property investment is £658m. This is to ensure that there a sufficient number of properties to minimise the relative size of any one in the portfolio and achieve a spread across both geographical regions and industry sectors. As an example the following charts compares the Pension Fund's property portfolio with one of the pooled funds that the County Council has invested in.

Comparison of property funds

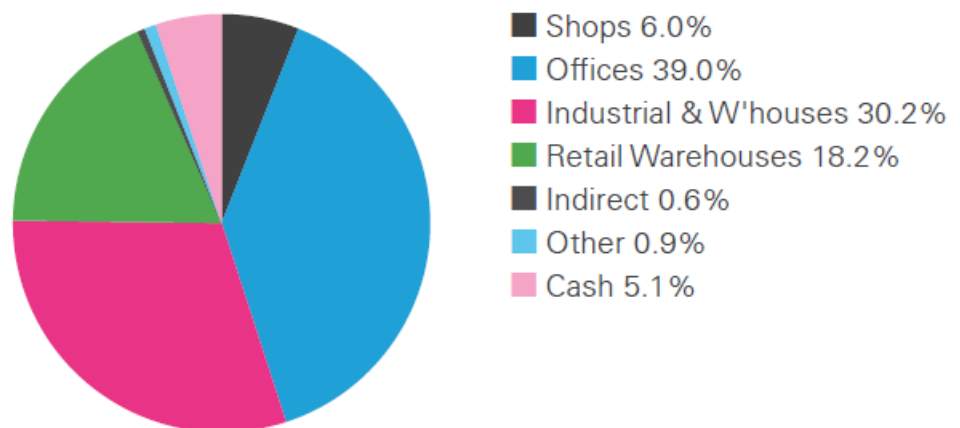
Pension Fund direct portfolio – Investment manager: CBRE

Portfolio size: £413m (31 August 2017) - Number of properties: 50



Pooled Property Fund

Portfolio size: £765m (30 June 2017) - Number of properties: 57



- 3.28 The County Council could attempt to build a sub-scale direct portfolio, but this would add significant risk to the Council which would not align with its investment objectives. Without sufficient diversification the County Council would be exposed to too great an impact from a single property it had invested in. Through its experience with the Pension Fund the County Council has seen a property fall vacant at an inopportune time and remain vacant for a significant period of time. This risk can be mitigated in a large diversified portfolio, such as the Pension Fund's, but this is beyond the reach of the County Council, the majority of whose balances are not available for this sort of investment.
- 3.29 Recent local examples would also suggest that as a pure investment opportunity the returns are limited. Southampton City Council have recently invested £65m to earn a £1m or 1.54% net return. Whilst this might be part of a wider programme either for economic development or future major development opportunities, the reality is that had they invested £65m into a pooled property fund, they could have earned over £2.5m per annum based on the 3.85% earned last year.
- 3.30 Similarly Eastleigh Borough Council has just released details of its property investment strategy, which now has a portfolio of £250m underpinned by prudential borrowing of £120m that yields a net return of £5.5m per annum. This is a net return of 2.2% overall, which does not compare favourably with the near 4% rates that the County Council is achieving through its pooled property funds. A return which is generated without the same level of risk exposure and without having to service any long term debt, which could be a significant burden if investment returns were to reduce during an economic downturn.
- 3.31 At a national level there is much press coverage about the property investment 'bubble' being created by local government on the back of cheap borrowing from the Government and the financial risks that this poses and there is speculation that the Government may move to limit this type of activity in the future. The County Council's approach of investing in pooled property funds is already providing significantly higher returns (4.10% this year) without the need to prudentially borrow, without the risk of owning individual properties itself and with the security of a much larger and diverse portfolio than could be achieved on its own, even with our scale of investments.

Utilising Property Assets

- 3.32 The County Council is utilising its own property to make a return. In areas where we already own buildings we are working with partners to utilise this space more effectively from a joint service provision point of view and at the same time making a return on the space we have provided.
- 3.33 A recent example of this is shared space between Adult's Health and Care and CCG partners within EII Court West that will improve joint working at the same time as providing a contribution to our direct costs and overheads.
- 3.34 Further work is being undertaken to maximise the usage of space in existing buildings with a view to potentially offering whole buildings, such as Athelstan House on the commercial market for lease. Once again this is the County Council using its existing assets to generate income with minimal risk,

compared to buying up property using prudential borrowing purely to try to make a financial return.

Expanding traded services to other organisations

- 3.35 The County Council has an established record of traded services, predominantly with schools and other public sector partners. These include local partners such as Hampshire Constabulary and the Fire and Rescue Service, and out of county organisations such as Oxfordshire County Council. External trading is conducted through a range of different arrangements, from direct trading with business units to subscription models, Service Level Agreements and joint working partnerships.
- 3.36 Trading already makes a significant contribution to the County Council's finances. Income from external trading supports service budgets as well as enabling them to make departmental contributions. Analysis of traded services for last year assessed that the 42 trading areas with the highest income were generating combined revenue of £133.9m.
- 3.37 In net terms, this level of trading activity made a contribution of £13.7m or 11.4% to the cost of direct and indirect overheads, many of which would still be incurred even if the trading activity did not take place. At the end of 2016/17 total departmental trading reserves stood at £12.7m, representing 3.4% of the Council's total earmarked revenue reserves.
- 3.38 It is important, however, that we distinguish between the income generated through trading activity, which is noteworthy, and the surplus that activity generates, which is considerably smaller. Indeed, the benefits the County Council obtains from external trading are largely non financial. Trading enables us to maintain capacity and capability within the workforce; helping us to attract and retain high calibre staff. This shores up the quality of our service provision to Hampshire residents and at the same time, enables us to make a contribution towards our organisational overheads.
- 3.39 Trading also delivers a number of wider benefits within Hampshire. Providing local employment through trading is an economic benefit to the County. The role our services play in moderating the external market and in ensuring that public value is a core principle in service delivery (as opposed to purely profit driven private sector provision) brings quality to the areas in which we trade, providing positive reputational benefits through the value we add.
- 3.40 The County Council's scale and its ability to maintain capacity across a wide range of services during this period of austerity has also opened up new opportunities as other organisations have divested themselves of their technical, professional or back office expertise. Over the last ten years the County Council has:
- Expanded its Property Services function, entering into a partnership with Reading Borough Council and undertaking work on behalf of the Isle of Wight Council and the Education Skills and Funding Agency.
 - Created a shared services partnership with Hampshire Constabulary and Hampshire Fire and Rescue Authority which now provides services to Oxfordshire County Council and will soon 'on-board' the London

Borough of Hammersmith and Fulham, with two other London Boroughs showing interest in the model.

- Provided high quality support and interventions to the Isle of Wight and Torbay Councils in the area of children's safeguarding.
- Successfully run 'pure' trading ventures in the areas of County Supplies, Catering Services and Transport Management that have a combined turnover in excess of £57m.
- Increased income and services offered in specialist areas such as scientific services and trading standards.
- Maintained significant levels of services to our schools across a wide range of functions such as HR, Finance, IT, school improvement, governor and music services.
- Utilised its capacity, expertise and skills in professional and technical areas to offer services such engineering consultancy, strategic transport and travel planning.

3.41 The Tt2019 Programme builds on the trading activities that we already undertake and with which we are familiar, with a view to reducing the net cost of these services, albeit that there is a loss of capacity available to support the activities of the County Council. However, what is clear is that trading does not in itself represent a solution to the budget gap that we face. Even at the current return rate of 13% (which by any commercial standard would be an exceptionally ambitious and therefore unreliable projected profit margin) it would require additional turnover of nearly £1.1 billion to meet the £140m target required to balance the budget by 2019/20, which is over eight times the level of trading activity that we currently undertake.

Developing joint ventures that yield additional income or generate a return.

3.42 There are a number of opportunities that the County Council can pursue either through its land holdings or through the relationship it has with partners or contractors for looking at new and innovative ways of generating a financial return.

3.43 To date the County Council has been helpful in responding to Borough Council Local Planning Authority requests for the potential use of its public land holdings for potential residential development. In the current round of Hampshire Local Plans through to around 2029, approximately 6,000 new homes have been or are expected to be allocated and delivered on County Council land. Currently, this equates to around 7% of all new Hampshire private and affordable housing for this period. In addition, this will continue the stream of substantial capital receipts the County Council has benefitted from over recent decades to enable it to reinvest in existing services and ongoing transformation initiatives.

3.44 However, in addition, an alternative avenue that the County Council is currently actively pursuing in two cases is to become even more active and influential in the market of delivering homes across the county on some of its

key sites. This will have the benefit of not only giving greater influence and certainty in the types and rates of homes, neighbourhoods and infrastructure and facilities being developed on its land but also the potential for greater certainty in the programming of development and receipts through economic cycles. Furthermore, it will also offer the County Council the advantage of considering whether it wishes to benefit from capital or revenue receipts from development and residential assets or combinations of the two depending on individual sites and its own circumstances.

Case 1 – Manydown, Western Basingstoke.

- 3.45 In the case of Manydown, in May 2016 the County Council, along with joint landowner Basingstoke and Deane, secured the allocation of the initial Manydown Phase 1 development for 3,200 homes to be provided in the period up to 2029. Following public consultation that has enabled the finalisation of a development masterplan, this will now form the basis of an outline planning application due to be submitted in 2017 with a view to commencing on-site development in 2018/19.
- 3.46 In addition, following the consideration of alternative methods of delivery, control, risk and finance via the Manydown Business Plan, the Executive Member for Policy and Resources (EMPR) has approved a Private Sector Master Developer Joint Venture approach. This enables the procurement of a major Private Sector Partner (PSP) who will work with both landowners as co-developers of Manydown. This procurement process will be completed later this year and enable the final Detailed Manydown Business Plan to be brought to EMPR for approval.
- 3.47 The Plan proposes the creation of a 50/50% Limited Liability Partnership between the two landowning authorities in the form of 'Top Co.' In turn, 'Top Co.' will enter into a 50/50% Limited Liability Partnership Development Company ('Dev Co.') with the procured PSP. 'Dev Co.' will bring together the land, staff expertise and capital investment of the two authorities with the Master Developer expertise and finance of the PSP to enable the commencement of homes and infrastructure on site in 2018/19. In addition, this arrangement will also look to attract appropriate government and Enterprise M3 (EM3) LEP infrastructure grant funding and planning obligation funding into the development.
- 3.48 As part of the above, the County Council will actively participate in the provision of private housing for sale or rent and also affordable house building for sale and rent within its 'Dev Co.' role. As a result of this, it will be in a position to decide if it wishes to receive either capital or revenue benefits from its involvement. In addition, this model, without the involvement of Basingstoke and Deane, might be further considered for its wider Strategic Land Programme across the county.
- 3.49 In addition to 'Dev Co.', a further arrangement would be put in place by the two landowning authorities to hold any retained private or affordable homes for rent which at this stage is termed 'Invest Co.'. This could also be used to retain and hold potential commercial assets that also were being held for the purposes of revenue income. In turn, 'Invest Co.' would be supported by another creation of the two authorities, 'Manage Co.' This would provide the

day to day running, management and maintenance etc of any retained assets. Both 'Invest Co.' and 'Manage Co.' would be able to utilise the existing officer and consultant partner skills and expertise that the two authorities already make use of in their day to day business as usual.

Case 2 – Swing Swang Lane, Basingstoke.

- 3.50 In this second case, as of May 2016 the County Council has again secured an allocation of this site for 100 new homes in the Basingstoke and Deane Local Plan to 2029. On this basis the site was in a position to secure an outline planning approval and bring it to the house building market for disposal for capital receipts in the usual manner.
- 3.51 However, whilst this remains an option, the opportunity has recently been taken to consider and compare an alternative approach. This proposes that instead of the County Council receiving a capital receipt for the site, it keeps an interest in a number of the completed homes that are provided by the development partner that is eventually secured for the site. These would be private homes for rent and be managed by the development partner in order to generate a revenue income, from which the County Council will benefit.
- 3.52 The model being explored is that the homes would be retained for an initial ten year period to coincide with the benefits of any house builder guarantees and then probably disposed of to a housing association or other interested party. Thus, a financial comparison can be made between the taking of a capital receipt and its investment over a ten year period or the retaining of residential assets, their net revenue income over this period and their eventual capital realisation at the end of the ten year period.
- 3.53 This model has recently been taken to the development and house building market via an "Expression of Interest" exercise and the outcomes are currently being analysed for a report to EMPR in the new year. This has generated a high amount of interest and responses. However, an interesting issue that has emerged is that by not being required to raise finance to undertake an initial up-front purchase of land from the County Council, the eventual asset value of housing that could be transferred to the County Council appears to be greater than a potential straight forward capital receipt. In addition, this approach has generated a strong response from housing associations who are looking to build more private homes for sale and rent. Such partners could also offer the management role that the County Council would be looking for. Again, this approach could be considered in whole or part or in combinations across the Strategic Land Programme.

Relationships with Contractors and Partners

- 3.54 Another area that the County Council can look to exploit is the relationships it has with its partners and contractors. There is already a long standing relationship with our waste disposal contractors Veolia that includes innovative ways of generating income for both parties. The long term contract allows the use of surplus capacity at our waste facilities for commercial purposes for which the County Council receives an income share.

- 3.55 Similarly, provisions are in place for working with our new highways maintenance contractor Skanska to develop joint ventures linked to the existing contract that will yield additional income for both parties.

Commercialisation in Local Government – Conclusions

- 3.56 This section has demonstrated that by building on its existing strengths, at the same time as looking for innovative (but low risk and sustainable) options for investment and utilisation of assets, the County Council has radically shifted its approach to income generation and the pursuit of commercial opportunities during the period of austerity.
- 3.57 The success of the County Council's approach now means that we:
- Will be generating fees and charges income of around £100m by 2019/20.
 - Will increase gross trading services as part of Tt2019 to £150m, generating a potential net contribution in the order of £19.5m.
 - Have increased investment returns on cash balances from £3.5m per annum in 2011/12 to over £9m in the current year.
 - Will start to generate longer term savings through property development and joint ventures with partners that will contribute to future savings programmes.
- 3.58 Total commercial based activity will contribute around £130m net to supporting the County Council's bottom line and to helping maintain high quality services, staff capacity and the retention of skills and technical expertise.
- 3.59 This has all been achieved through the pursuit of a range of initiatives targeting increased income generation but without over exposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.
- 3.60 While the organisation should and will continue to explore all further opportunities to extend these net incomes and identify new ones, it would be a grave error to reduce our planned savings for Tt2019 on the back of over ambitious or unsustainable income targets that would build significant risk into future financial plans.

4. 2017/18 Financial Monitoring

- 4.1 The County Council's success in delivering its savings plans to date has been consistently demonstrated by the fact that it has been able to contain expenditure within budget and has achieved under spends in each of the years since 2010/11, despite taking significant sums of money out of the budget. These under spends have been proportionate given the scale of the Council's finances, and have not been to the detriment of services, but they have provided invaluable investment to fund our successful change programmes.

- 4.2 2017/18 represents a further milestone in this journey, given that a further £98m has been removed from budgets, taking the total to £340m since the grant reductions began.
- 4.3 This further level of reduction obviously increases the risk within the budget, and strong financial management is critical to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that approved savings programmes are delivered.
- 4.4 In recognition of this risk 'financial resilience' reporting presented to the Corporate Management Team (CMT) has evolved to look not only at the regular financial reporting carried out in previous years but also to focus on potential pressures in the system and the continued monitoring of the implementation and delivery of the Tt2017 Programme; primarily within Adults' Health and Care where slipped delivery was agreed by Cabinet.
- 4.5 The table below summarises the latest forecast position for each department as at the end of August (Month 5), and shows that overall there is good delivery of savings and management within the budget and that where there are issues, these have mostly been anticipated and can be accommodated on a one-off basis from departmental cost of change (and other) reserves alongside approved corporate support:

	Adults' Health and Care	Children's Services	ETE, CCBS & Corporate Services
	£'000	£'000	£'000
Investment / Cost of Change Used	6,176	5,954	18,231
Pressures	4,112	19,870	301
Tt2017 Late Delivery	9,392	989	2,170
Subtotal	19,680	26,813	20,702
<i>To Be Met From:</i>			
Tt2019 Early Delivery	(716)	(405)	(3,551)
Other Savings	(1,785)	(1,214)	(4,930)
Other Departmental Reserves	(2,350)		(1,378)
Planned Corporate Support	(2,327)	(13,865)	(1,150)
Departmental Cost of Change	(12,502)	(5,356)	(9,693)
Total (Under) / Over Spend	0	5,973	0

- 4.6 It is worth reiterating that at this point in the year the forecasts themselves tend to concentrate on the more significant negative items without considering in depth other areas of potential under spend that could be used to offset them. Monitoring in the first half of the year therefore tends to the side of prudence.
- 4.7 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.

- 4.8 The pressures within Children's Services and the exhaustion of the Department's cost of change reserves was anticipated in the medium term through the monitoring completed in 2016/17.
- 4.9 Nationally there is growing attention being focused on the pressures facing children's services and analysis by the Local Government Association (LGA) published in the summer highlighted that growing demand for support is leading to over spends in an increasing number of authorities.
- 4.10 The LGA is warning that the pressures facing children's services are rapidly becoming unsustainable, with a £2 billion funding gap expected by 2020. Unless urgent action is taken to reduce the number of families relying on the children's social care system for support, the LGA have warned that this gap will continue to grow.
- 4.11 The huge financial pressures councils are under, coupled with the spike in demand for child protection support, mean that the limited money councils have available is increasingly being taken up with the provision of urgent help for children and families already at crisis point, leaving very little to invest in early intervention.
- 4.12 Last year work was undertaken within the County Council by Finance staff and Children's Services colleagues to critically review the forward projections for Children's, in particular the relationship between Children Looked After (CLA) numbers (and in turn the knock on impact for care leavers) and the financial impact of any increase, or decrease, which is a complex picture.
- 4.13 These projections indicated that there was growing financial pressure which in 2017/18 was anticipated to reach £9.5m then increasing by circa £3m per annum. Funding has been set aside within contingencies to meet these forecast pressures but it was recognised that the forecast was based on a wide range of assumptions and predictions and given the volatile nature of these areas, a requirement to continue to monitor activity and spend closely was recognised.
- 4.14 The additional £9.5m was based on forecasts that were produced in December 2016. It is very difficult to accurately predict the future change and cost of CLA and care leavers due to the complex mix and number of variables. Recent trends indicate that the total additional cost in 2017/18 may be higher than anticipated but recent months have also seen a reduction in base line numbers after adjusting for Unaccompanied Asylum Seeking Children (UASC), who attract some Government funding and children placed at home (which register as a CLA but have no direct cost attached). At this stage of the year therefore it is not felt necessary to alter the previous medium term forecasts.
- 4.15 It was recognised that the pressures within Children's Services also extended to other service areas, in particular Home to School Transport (HtST) and the costs of agency social workers, and further work has been completed as planned to understand some of the reasons for the underlying pressures.
- 4.16 HtST has been the subject of specific further analysis to consider how best to respond to and plan financially for recent and anticipated future growth in demand due to increased pupil numbers, particularly relating to children with special educational needs and growth in secondary school pupil numbers.

- 4.17 Similarly, a review of social worker resources has been carried out to examine the potential links between case load levels, staff turnover and the knock on impacts on the number and cost of agency workers. This will also feed into the Tt2019 Programme which is looking at creating extra social work capacity to move children out of care and back into their family homes.
- 4.18 More detail of the work undertaken and the findings of these pieces of analysis is set out in Appendix 1.
- 4.19 The current position for HtST indicates that over the last three years, there has been demographic growth and increases in the cost base which gives a cumulative financial pressure in 2017/18 of £2.4m. Projecting this forward, the demographic impact is expected to increase costs by around £0.9m per annum from 2018/19 onwards.
- 4.20 In terms of the investment in social workers, it is considered essential at this stage to inject significant resources into this area in order to reduce overall caseloads, with the service and staff retention benefits this will have and importantly to provide the capacity to achieve the significant reduction in CLA numbers required as part of the Tt2019 Programme.
- 4.21 It is proposed that a sum of £6.6m per annum (with a part year impact of circa £1.7m in 2017/18) is provided to grow social worker numbers during the Partners in Practice period and the position will be reviewed after three years in light of the circumstances at this time. It is anticipated that this investment will help to reduce the cost of agency spend that is currently showing as a pressure within the Children's Services budget.
- 4.22 In addition to these pressure areas, the financial resilience meetings held between the Director of Children's Services and the Director of Corporate Resources have been reviewing other areas that impact on costs and social worker activity.
- 4.23 These meetings highlighted that our current financial policy around Special Guardianship Orders (SGOs) should be reviewed. SGOs are granted where a family member agrees to look after a child who has been taken into care. SGOs tend to be very effective, since the child is placed in a family setting with which they are already familiar. Payments for SGOs are currently made to the family below the rate that is received by foster carers, making this a less attractive option.
- 4.24 Children who are covered by an SGO do not have the same level of social worker intervention as those who are with non-family member foster carers, however some families choose not to apply for an SGO as they then receive the higher value of foster care payments. In these cases the families still receive the same social worker interventions as with other foster carers.
- 4.25 The policy review in this area has highlighted a number of potential items that it is felt will be beneficial in the longer term if the County Council were to decide to increase the payments to families with SGOs to the full foster carer rates, namely :
- Existing families with SGOs will be better recompensed for the care that they provide.

- Existing foster carers are likely to convert to SGOs, since they will receive the same level of payments without having the social worker interventions. This will help to release further social worker capacity to reduce caseloads and to concentrate on getting other children out of care and back with their families in line with the proposals for Tt2019.
 - Other children who are already in a care setting or may come into care in the future could be placed with existing family members under an SGO rather than going into a much more expensive care setting.
- 4.26 The long term service and financial benefits of this change in policy could be significant, but initially, there will be an additional cost of increasing the payments to those families with existing SGOs. The full year impact for 2018/19 has been forecast at £1.25m and, on the assumption that the increase in allowances starts on 1 January 2018, there will be a cost of around £315,000 in the current financial year.
- 4.27 These amounts, together with funding for growth in CLA numbers (and in turn the knock on impact for care leavers) already provided for alongside continued management focus on the other pressure areas, will ensure that the Department operates from a firm financial base as attention turns to the next transformation programme.
- 4.28 The ongoing provision for HtST can be accommodated within the current allowances for growth and inflation in future years. However, the base adjustment of £2.4m in this area together with a further £6.6m for social workers and £1.25m for SGOs gives a pressure of £10.25m that was not factored into the previous MTFS.
- 4.29 It has therefore been necessary to re-look at the strategy to 2019/20 to examine ways in which this additional funding can be accommodated. As part of the strategy, a recurring provision of £15m was factored in to meet the costs of prudential borrowing for the balance of funding for additional secondary school places totalling £155m.
- 4.30 At the time, it was recognised that this funding was front loaded, given that the capital spend was spread over ten years and that it represented the maximum that the County Council would contribute. To minimise the contribution, it was agreed that the County Council would:
- Pursue free schools where appropriate as an alternative to more traditional routes.
 - Seek to maximise developers' contributions wherever possible.
 - Lobby the government for additional funding to meet the growth in places.
 - Adopt a different approach to the design and build of new schools.
- 4.31 Over the last two years the County Council has been pursuing this strategy and furthermore, recent projections have also indicated that the speed and cost of growth in required school places is not as great as anticipated.
- 4.32 A major review of the Children's Services capital programme was undertaken over the summer and it is currently projected that by 2021/22 there will be an overall shortage of funding in the total programme (mainly related to the

provision of school places) of £55m, albeit that further steps will be taken to minimise this wherever possible.

- 4.33 It is therefore proposed that of the original £15m a sum of £5m is set aside to meet the potential borrowing costs of the £55m shortfall and that the balance of £10m is used to meet the additional recurring costs highlighted in paragraph 4.28 above. The shortfall of recurring funding of £250,000 can be accommodated from existing contingencies
- 4.34 This change in strategy reflects the need to respond to revenue pressures and policy changes over the medium term and takes advantage of a longer delivery time of secondary school places. However, this will mean that the financial strategy from 2021/22 onwards will need to provide for the slipped delivery of the school places although the impact of continuing to pursue the measures outlined in paragraph 4.30 will mean that the total required will be less than originally anticipated.

Non-Departmental Spending

- 4.35 As part of the budget monitoring process, a review has been carried out of the non-departmental areas within the revenue budget, in particular, the provisions for contingencies and the estimates for treasury management activity.
- 4.36 It has been concluded that at this stage of the year it is too early to release any significant level of contingencies associated with adults' and children's social care (other than that mentioned for SGOs in paragraph 4.33) or centrally held provisions for items such as waste disposal, price inflation and other sums set aside for income risk and general risk.
- 4.37 However, within Treasury Management, the change in policy on MRP (see paragraphs 7.14 to 7.17) means that it is possible to release resources totalling £10.5m in 2017/18.
- 4.38 This therefore gives a one off sum that can be used to fund transformation activity, revenue pressures and investment requirements outlined in this report, including the requirement for funding the part year impact of investment in social workers and payments for SGOs in 2017/18 of £2.015m (as set out in paragraphs 4.21 and 4.26).

Treasury Management Mid-Year Report

- 4.39 The CIPFA Code of Practice on Treasury Management recommends that treasury management activity should be reported on at least twice a year against the strategy that has been approved.
- 4.40 Attached at Appendix 2 is the mid-year monitoring report for 2017/18 that sets out the borrowing and investment activity that has been undertaken to date and how this compares to the prudential indicators that were set for the year.
- 4.41 Cabinet is asked to approve the report and recommend approval to full County Council, in line with the requirements of the Code of Practice.
- 4.42 The European Union, through its Market in Financial Instruments Directive (MiFID II), is aiming to improve the functioning of financial markets in light of

the financial crisis and to strengthen investor protection. This changing of rules will impact how local authorities can access regulated financial services and although the UK has voted to leave the EU, MiFID II will still be implemented in the UK on 3 January 2018.

- 4.43 Local authorities are currently treated by financial services firms as “professional clients”, the middle of three categories, and the same as similar-sized companies. However, from January 2018, the default position will be that local authorities are to be treated as “retail clients”, the same as individuals and small and medium-sized enterprises, which will entail some increased protection, but at the expense of higher fees, increased paperwork and reduced market access.
- 4.44 The County Council should be able to opt up to professional client status to maintain the most favourable investment position possible and to enable the opt-up process a number of recommendations have been included. More detail about MiFID II is set out in Section 6 of Appendix 2

5. **‘Serving Hampshire – Balancing the Budget’ Consultation – Feedback**

- 5.1 The public consultation, which was similar in nature to an exercise completed two years ago ahead of Tt2017, sought residents’ and stakeholders’ views on options for managing the anticipated budget shortfall. The options necessarily extended beyond cost reduction and income raising possibilities to areas such as council tax increases, possible legislative changes and the organisation (structure) of local government in Hampshire.
- 5.2 These additional options could help to inform the approach the County Council takes to delivering savings beyond 2019/20. With the squeeze on public finances anticipated to extend into the next decade and the general uncertainties that surround BREXIT, it is almost certain that further savings, beyond those required for Tt2019, will be needed in the future.
- 5.3 The headline findings of the consultation were provided to Executive Members and Directors during September, to inform departmental savings proposals which are shown at Appendix 3. Equality Impact Assessments (EIAs), in the attached appendices, set out where Stage 2 consultations are required on specific proposals.
- 5.4 Headline findings from the consultation are set out below and the full findings [report](#) is also available:

Headline Findings

- The majority of respondents (**65%**) **agreed** that the County Council should continue with its **financial strategy**.
- Responses were relatively evenly split between those who tended to support **changes to local services** and those who did not (50% agreed, 45% disagreed and 5% had no view either way). Of all the options, this was respondents’ **least preferred**.

- Two thirds of respondents (**67%**) **agreed** that the County Council should raise existing **charges** or introduce new charges to help cover the costs of running some local services.
- Over half of respondents (**57%**) **agreed** that the County Council should **lobby the Government** to vary the way some services are provided, and enable charging where the County Council cannot levy a fee due to statutory restrictions.
- Of all the options presented, **generating additional income** was the **most preferred option**.
- On balance, the majority of respondents (**56%**) **agreed** that the County Council should retain its current position **not to use reserves** to plug the budget gap. Of all the options, this was respondents' **second least preferred**.
- Respondents would prefer the County Council to continue with its plans to **raise council tax** in line with Government policy (**50%** ranked this as their preferred approach to increasing council tax). Of all the options, increasing Council Tax was respondents' **second most preferred**.
- More than half of those who responded (**64%**) **agreed** that the County Council should explore further the possibility of **changing local government structures** in Hampshire.

5.5 An important element of the consultation was seeking residents and stakeholders views on the strategy for closing the County Council's budget deficit to 2019/20. The consultation outlined seven options for making anticipated savings and asked respondents to rank these in order of preference. Based on how many times each option was chosen by a respondent as one of their **top three** preferred options, the options were ranked as follows:

1. Generating additional income (73%)
2. Increasing council tax (47%)
3. Introducing and increasing charges for some services (45%)
4. Lobbying central government for legislative change (44%)
5. Changing local government arrangements in Hampshire (43%)
6. Using the County Council's reserves (28%)
7. Reducing and changing services (22%)

5.6 It is important that the Cabinet and County Council take the results of the consultation into account in determining the overall approach to balancing the budget by 2019/20. Consideration also needs to be given to the wider implications of pursuing any of the savings options.

5.7 The following sections discuss the County Council's approach to the options consulted upon and set out how departments have taken headline findings into account when putting proposals forward for savings.

5.8 **Generating additional income** – The departmental savings proposals set out in Appendix 3 include options for generating additional income. In some

areas such as country parks, the long term aim is to make these self sustaining by increasing charges to service users. For professional and back office services (such as property services, scientific services and corporate services) new business is actively being pursued to increase income to meet the savings targets that have been set.

- 5.9 One of the largest current income areas is the charges for adult social care services. This area is heavily regulated in terms of who and what can be charged and whilst some changes to the contributions policy are proposed the total amount generated is not significant in overall terms.
- 5.10 Opportunities for generating additional income already form part of the savings proposals being put forward by departments to meet the £140m gap and are not therefore an alternative to the savings proposals but rather an integral part of them.
- 5.11 **Increasing council tax** – Around half of respondents supported the County Council's planned strategy to continue with council tax increases in line with current government policy. Using council tax to bridge the overall budget deficit was respondents' second most preferred option overall.
- 5.12 In 2016/17 the Government implemented a clear shift in council tax policy and assumed that local authorities would put up their council tax by the maximum allowed each year in the period to 2019/20. For Hampshire County Council this was 3.99% per annum, which included an extra 2% flexibility to pay for the increasing costs of adults' social care. Further flexibilities were announced subsequently to give authorities the flexibility to bring forward some of this increase and to raise the precept by 3% in 2017/18 and 2018/19 within the cap of 6% over the next three years to 2020.
- 5.13 The County Council increased council tax by 3.99% in 2017/18, and took up the further flexibility granted by the Government of an additional 1% increase in recognition of the pressures facing local authorities due to the growing cost of adult social care.
- 5.14 Although consultation responses indicated some support for increasing council tax further to help balance the budget, any council tax rise above the limit set by central government would require a public referendum. For every 1% increase in council tax, the County Council would receive approximately £5.7m per annum and to close the predicted budget gap of £140m through council tax alone would require an increase of approaching 30% in total; including the planned 4.99% increase for 2018/19.
- 5.15 The County Council, has along with other councils, lobbied the Government to provide more flexibility for increasing council tax in the future, either by increasing or removing the referendum limit. This would require regulatory change and in light of the BREXIT negotiations, is unlikely to gain much traction in the very near future. In the absence of this change, the County Council would need to undertake a public referendum, which could cost up to £1.5m. Only one referendum has been held to date, by the Police and Crime Commissioner for Bedfordshire and only 30.5% of voters supported the 15.8% increase proposed. Given this position, and taking into account the result of the Consultation it is considered that a referendum seeking a council tax increase above the maximum currently allowed is unlikely to be successful.

- 5.16 In any event, the County Council must also take into account the wider financial and non-financial issues and the impact on council tax payers of any increase. Other factors which would argue against a referendum at this stage are:
- Committing to a high council tax increase through a referendum at this stage for all intents and purposes reduces the ability to consider this at a later date should the financial position worsen; for example due to adverse impacts from future funding arrangements.
 - The economy is still recovering and there is heightened uncertainty as a consequence of BREXIT. An increase in council tax tends to disproportionately hit the low paid at a time when the Government continues to reduce spending on welfare services, impacting on those same people.
 - Billing authorities continue to change their Council Tax Support Schemes (which replaced council tax benefit) in a way that impacts on the lower paid / those on welfare benefits.
- 5.17 Decisions on council tax increases are made by full County Council in February each year but at this stage, given the points set out above, it is recommended that the County Council works on the assumption that the planned approach for council tax increases (broadly supported by the consultation results) will continue in 2018/19 (4.99%) and 2019/20 (1.99%) with the County Council increasing council tax by the maximum permissible without a referendum in line with government policy.
- 5.18 This position will be reviewed following the Budget in the autumn and in light of any other national or regulatory changes, before the formal council tax setting process in the new year. However, the current position and associated timescales, mean that predicating delivering a balanced budget for 2019/20 on further council tax increases above those currently planned is not considered to be a viable option.
- 5.19 **Introducing and increasing charges for some services** – The range of services that County Councils are able to charge for are in the main governed by legislation. However, in most cases there is local discretion as to how those charges are applied and the level of charge set.
- 5.20 Whilst the County Council could look to introduce and increase charges for some services it has to take into account the potential impact on service users and the fact that the majority of users already pay for many council services through their council tax. The savings proposals already include some recommendations for increasing charges, but in order to extend charging to some of the new areas identified by departments, legislative change would be needed.
- 5.21 The County Council is currently lobbying the Government to allow greater freedoms and flexibilities to levy charges in the areas of:
- Home to School Transport – The legislation and criteria for local authorities, which dates back to the 1940's, does not take account of modern living and is not means tested in any way.

- Household Waste Recycling Centres (HWRCs) – The Government legislated to stop councils from charging for the general use of HWRCs, albeit that some charges can be levied for certain waste such as building materials. However, previous consultation with residents suggested that they would be prepared to pay a nominal charge if this helped to maintain the number of centres across the county.
 - Concessionary Travel – The ability to charge a nominal sum to service users would enable the County Council to increase access to public transport at the same time as making financial savings.
- 5.22 The potential additional income that could be generated from being able to charge in these areas is significant, but this is not currently possible without changes in legislation which may be difficult to achieve during BREXIT even if the Government supported the proposals.
- 5.23 While the County Council will continue to pursue these options, at this stage, other than those proposals already contained in Appendix 3, this option does not provide an alternative solution for closing the budget gap.
- 5.24 **Lobbying central government for legislative change** – The County Council is already actively pursuing this option and some of the key items are outlined in paragraph 5.21 above.
- 5.25 In addition to these proposed areas for new charges, the County Council is also lobbying for changes to the regulatory framework around the way certain services must be provided. This includes:
- A more flexible, risk based approach to children’s social work activity.
 - Changing some of the mandatory elements of the Public Health service which could also include charging for some services previously provided by the NHS.
- 5.26 As outlined above, these only offer a viable alternative option to the current plans for meeting the budget deficit if and when the changes in regulation take place, at which point the financial strategy can be reviewed.
- 5.27 **Changing local government arrangements in Hampshire** – In 2016, following devolution discussions across the county, the County Council commissioned an independent piece of work to look at the potential options for unitary local government across the whole of Hampshire and the Isle of Wight. This would in effect remove the district and county tiers of local government and replace them with a single unitary authority, or multiple unitary authorities, (like Southampton and Portsmouth) responsible for all local government services across Hampshire.
- 5.28 A number of options were considered ranging from having five separate unitary authorities to a single county unitary that would cover the whole of Hampshire and the Isle of Wight including the existing unitary councils.
- 5.29 The report outlined the benefits and dis-benefits of the different options but concluded based on a range of criteria that a county unitary covering the existing administrative boundary of Hampshire County Council and the 11 Districts was the best option in governance, service and financial terms. Clearly the implications of such a change would be significant both for the

County Council and District Councils, since both would be replaced by a County Unitary Authority.

- 5.30 In summer 2016, the County Council asked residents for their views on options for possible local government reorganisation in Hampshire. Responses to the consultation, detailed in the final report, indicated that views were divided on the principle of replacing the current council structure in Hampshire with a model of unitary government. Marginally, a greater number of respondents wanted to retain the status quo (51%) than move to one of the unitary options presented (42%), slightly more stated a preference for a single unitary (25%) than a multiple unitary option (17%).
- 5.31 In view of this feedback the County Council decided not to actively pursue local government reorganisation at the time. Moreover, devolution and reorganisation proposals across the country were either stalling or failing and there did not seem to be a clear policy direction from the Government in this area. More recently other areas have submitted formal proposals for County Unitaries (such as Buckinghamshire and Oxfordshire) and the Government has also promised additional guidance in this area (which is yet to be released).
- 5.32 As part of the *Balancing the Budget* consultation, the County Council stated that its preferred position was to continue to avoid re-organisation, if possible. However, recognising that the County Council could be subject to external factors, and that restructuring local government remains a means of saving money in the longer term, residents were asked their views on this option as part of the *Balancing the Budget* consultation. More than half of those who responded (64%) agreed that the County Council should explore this option further – although it was ranked the fifth most preferred option overall.
- 5.33 In view of this feedback the County Council could still pursue this option. However, it has become increasingly clear in recent times that the Government is not prepared to support any reorganisation proposals that do not have significant local support. As there is currently no consensus in Hampshire on the best way forward for local government reorganisation it is considered that a bid to the Government at this stage proposing structural change in Hampshire would be unlikely to be successful.
- 5.34 In addition, the scale of the changes required to implement such a reorganisation means that it would be very unlikely that any significant savings would be generated by 2019/20. In fact, the costs of reorganisation would place an additional burden on resources in the interim period.
- 5.35 The County Council would also need to prepare and submit an application to the Government, which it could only do after further consultation with the public on the detailed proposals for reorganisation. The current legislation that allows for expedited local government reorganisation proposals across a locality is time limited to 31 March 2019. Given the lack of consensus in Hampshire the County Council is unlikely to be able to submit a formal application within a timescale that would enable it to be acted upon by government in advance of the 31 March 2019 deadline.
- 5.36 At this stage therefore, given the limitations outlined above, local government re-organisation in Hampshire is not considered to be a viable option for

closing the budget gap to 2019/20, but does remain as an option for longer term savings and the County Council will continue to engage with other local authorities in Hampshire to seek the best outcome for Hampshire residents.

- 5.37 **Using the County Council's reserves** – The majority of respondents (56%) agreed that the County Council should not use reserves to plug the budget gap. Respondents ranked this as their second least favoured option. This feedback reflects the County Council's current financial strategy which is not to use reserves as a means of closing the budget gap.
- 5.38 Such an approach would not be sustainable as recurring savings are required to bridge the budget gap over the long term. Instead, the County Council is using its reserves prudently to invest in transformation and service change and to give sufficient time to implement savings in a planned and sensible way as outlined in Section 12 of this report and the reserves strategy contained at Appendix 8.
- 5.39 **Reducing and changing services** – Respondents were relatively evenly split between those who tended to support changes to local services and those who did not. Overall, however, this was respondents' least preferred option, which reflects the fact that most residents value the services they receive from the County Council and do not wish to see them reduced or changed.
- 5.40 As the other options for saving money at this level, outlined above, do not provide viable options that would enable the County Council to plan with certainty to meet the projected deficit, further funding reductions on the scale required within the Tt2019 Programme inevitably have to lead to reductions and changes to services. This is because local services represent the totality of spend within the County Council.
- 5.41 Reductions in services are a last resort and, wherever possible, the County Council seeks to limit the impact of any reductions on service users, although in some areas this can be difficult to achieve. Changes to services, even where they save money, can often be beneficial to service users through, for example, improvements in technology, new ways of accessing services and more efficient processes or systems which mean that more can be done but for less money.

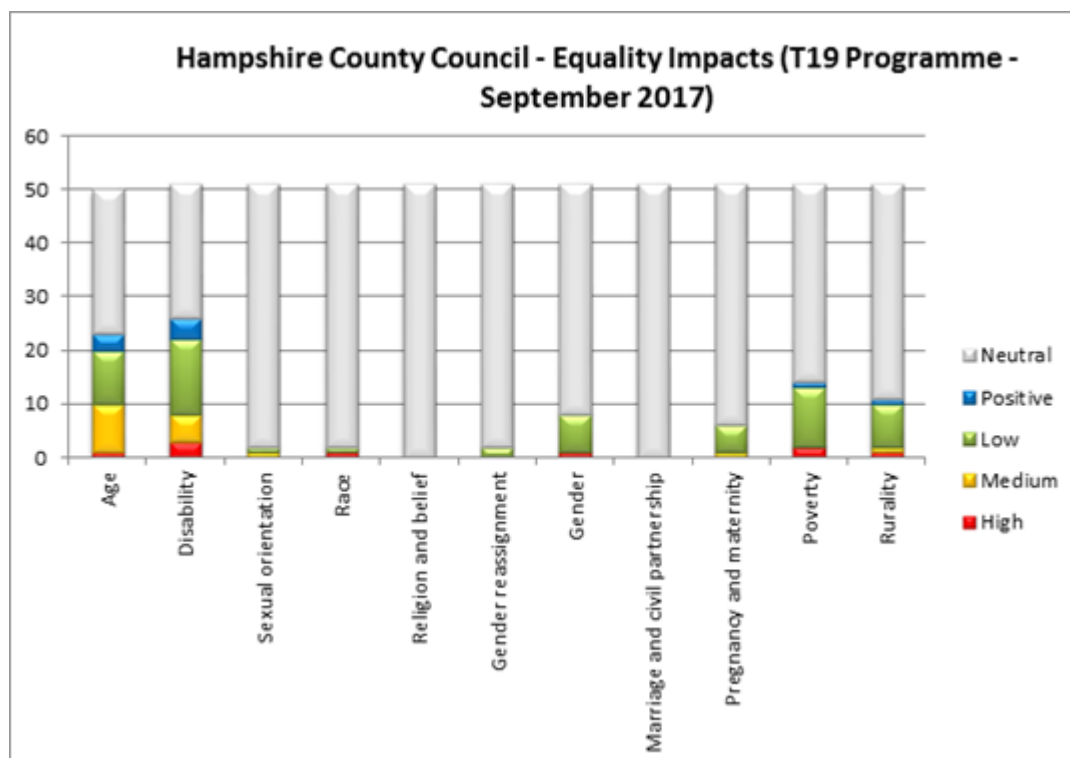
Summary

- 5.42 As discussed above it is therefore recommended that the County Council's strategy for dealing with the £140m deficit should be to:
- Continue to develop income generating opportunities to mitigate against service change and reductions.
 - Maintain planned council tax increases to the maximum allowed by government (reviewing as necessary).
 - Introduce sensible and proportionate charges for County Council services where possible.
 - Lobby the Government for legislative change in the areas identified.

- Continue to engage with other local authorities in Hampshire on the issue of local government reorganisation in the context of the lack of consensus that currently exists.
 - Reduce and change services in the ways set out in Appendix 3.
- 5.43 The savings proposals put forward by departments are therefore submitted for consideration by Cabinet who are asked to make final recommendations to full County Council on these and the overall MTFs outlined in this report.
- 5.44 Authority is also requested to undertake any Stage 2 consultations where necessary prior to final decisions being made by Executive Members on these proposals.

6. Equality Impact Assessments

- 6.1 In addition to the public consultation process outlined above, a separate key part of the Tt2019 Programme is ensuring that the County Council understands and gives due regard to the impact of the Tt2019 savings proposals on people with protected characteristics.
- 6.2 The County Council has produced EIAs on all proposals for change that it is considering implementing, which are taken into account as part of the decision making process. This year, to aid transparency, the EIAs for all of the savings proposals were again published as part of the Executive Member reports and are also repeated in this report for completeness. Due to the number of pages involved these have been added in separate appendices as follows:
- Appendix 4 – Adults’ Health and Care
 - Appendix 5 – Children’s Services
 - Appendix 6 – Economy, Transport and Environment (ETE)
 - Appendix 7 – Policy and Resources (P&R)
- 6.3 By the very nature of the services that the County Council provides, there are inevitably things that impact on those people with protected characteristics. Whilst this does not mean that a proposal cannot be implemented, it does mean that the County Council needs to have an understanding, both individually and collectively, of the impact on those groups of people and look at ways of mitigating that impact.
- 6.4 For proposals where a Stage 2 consultation is required the EIAs are preliminary and will be updated and developed following this further consultation when the impact of the proposals can be better understood. Due regard will be given to the equality impacts identified as part of the Executive decision making process to decide whether or not to implement the detailed proposals.
- 6.5 An analysis of the current impacts contained within the individual EIAs is shown in the following chart:



6.6 Across the different areas, it has been assessed that there are 9 high, 17 medium and 54 low impacts. The chart shows that the protected characteristic for which the greatest number of high impacts were identified was disability. Further work will be undertaken to understand the nature of these impacts and the possible mitigations, following specific Stage 2 consultations in these areas.

7. Savings Proposals

Departmental Savings

- 7.1 The savings proposals that have been put forward by departments as part of the Tt2019 Programme and have been recommended for submission to Cabinet and County Council by Executive Members are contained in Appendix 3 and reflect the feedback from the consultation and content of the EIAs where applicable.
- 7.2 Cabinet will be aware that the target for the departmental savings is £120m with the balance of £20m coming from 'housekeeping' savings, outlined in the next section. The total savings targets for each department, compared to the proposals that are expected to be delivered (in cash terms) in 2018/19, 2019/20 and the full year impact, are as follows:

	Tt2019 Target £'000	2018/19 £'000	2019/20 £'000	Full Year £'000
Adults' Health & Care	55,934	16,959	48,927	55,934
Children's – Non-Schools	30,132	2,991	13,506	30,132
ETE	19,005	5,180	16,130	19,005
P&R	14,929	4,271	14,304	14,929
Departmental Total	120,000	29,401	92,867	120,000
Housekeeping	20,000	20,000	20,000	20,000
Total	140,000	49,401	112,867	140,000

- 7.3 Where there is a shortfall in savings proposals against the target in 2019/20 this has been explained in more detail in each of the individual Executive Member reports, and represents for the most part a time delay in achieving the full amount of the saving. Where this is the case any shortfall will be met from departmental cost of change reserves, which have been built up in part to cover this eventuality, apart from Children's Services, the position for which is discussed in more detail in the next section.
- 7.4 Members will note that all departments are predicting full year savings equivalent to their savings targets, but the timing of delivery varies from department to department, with savings for some proposals not expected to be fully delivered in Children's Services until 2022/23 for example due to the longer term nature of the changes being implemented.
- 7.5 The estimated cash flow position of savings in each of the years is outlined in the table below. It shows that the shortfall against the £120m target in 2019/20 and 2020/21 is already significant and experience would indicate that this programme may slip further as difficulties arise during implementation. This emerging position will need close monitoring by CMT to ensure that the delivery of savings remains on track as far as possible.

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Adults' Health & Care	16,959	48,927	55,634	55,934
Children's – Non-Schools	2,991	13,506	19,428	27,704
ETE	5,180	16,130	19,005	19,005
P&R	4,271	14,304	14,929	14,929
Departmental Total	29,401	92,867	108,996	117,572
Early Achievement / (Shortfall)	29,401	(27,133)	(11,004)	(2,428)

- 7.6 In most cases, it is currently anticipated that the early achievement of savings by departments will provide sufficient funding to cash flow the slipped delivery of savings in future years, with the exception of Children's Services where

corporate support to meet the later delivery of savings has been factored into this MTFS.

- 7.7 Delivery of the savings will also impact the County Council's workforce, and where applicable the proposals in Appendix 3 indicate the estimated number of staff that may be affected by the change in service. In Children's Services the impact is less clear, so individual figures have not been provided, however, the overall impact on the Department is forecast to be between 80 and 140.
- 7.8 In total, this would mean that the Tt2019 Programme could impact on between 445 and 684 full time equivalent roles across the County Council. Whilst this is a significant number it needs to be considered against the total savings programme of £140m, which even at an average salary plus on-costs of £45,000 would require the loss of over 3,100 jobs to meet the full target.
- 7.9 The County Council has an excellent track record for handling reductions in staffing numbers in a sensitive and planned way, through voluntary redundancy schemes, which have helped maintain staff morale and natural turnover (which for Hampshire averages between 12% to 15% per annum) and this will continue as part of the Tt2019 Programme. The County Council has also been successful in looking at options for re-deployment of staff as it grows its businesses in other areas and increases in the workforce are required.
- 7.10 In the past, any voluntary redundancy costs have been met by departments, up to the value of compulsory redundancy costs, with any enhancement being met from the Organisational Change Reserve (OCR). The OCR currently stands at £2.9m and at this stage it is not possible to determine whether this will be sufficient to cover any additional costs arising from the revised voluntary redundancy scheme. This will be reviewed at the end of the financial year when more information is known and can be topped up at this stage if required.
- 7.11 Cabinet is requested to consider and approve the savings proposals detailed in Appendix 3 for submission to the County Council, having given due regard to the consultation feedback and the EIAs.

Housekeeping Savings

- 7.12 Members will be aware that as part of the overall Tt2019 Programme a target of £20m was set for corporate 'housekeeping' savings targeted mainly at inflation and treasury management savings. This reflected the fact that it is possible to make savings in these areas, given the scale of the numbers involved and importantly any contribution reduces the impact on services provided by departments.
- 7.13 In the main this will result from changes in accounting practice in respect of depreciation and MRP but this will also cover management of debt, inflation allowances and reserves.
- 7.14 In December 2015 Cabinet approved a change in MRP policy and as a result of this the amount which must be set aside for repaying external loans and meeting other credit liabilities has reduced.

- 7.15 Prior to 2015/16 the County Council calculated MRP for supported borrowing on a 4% reducing balance basis (which technically means it is never paid off). It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a 50 year straight line basis. To be more prudent the 50 years has been started from 2008 and the actual calculation is 1/43's. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £68m less in MRP payments by 31 March 2016.
- 7.16 This 'overpayment' means that technically, the County Council can take a 'holiday' from MRP payments, and therefore, starting in 2016/17, the County Council paused making MRP payments on supported borrowing until it has realigned the total amount of MRP payments with the new policy, which will be during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis.
- 7.17 The introduction of these changes will generate net savings of £10.5m per annum in advance of April 2019 which can be utilised to provide vital investment for a range of key initiatives that will support Children's Services and underpin the Tt2019 Programme and also to contribute to the Grant Equalisation Reserve (GER) to begin to make provision for the future.

8. Transformation to 2019 Programme

- 8.1 One of the key features of the County Council's well documented financial strategy and previous savings programmes has been the ability to plan well in advance, take decisions early and provide the time and capacity to properly implement savings so that a full year impact is derived in the financial year that they are needed.
- 8.2 This approach has also meant that savings have often been implemented in advance of need and this has provided resources both corporately and to individual departments to fund investment in capital assets and to fund further change and transformation programmes to deliver the next wave of savings.
- 8.3 Whilst this has been a key feature of previous cost reduction programmes it was recognised without doubt that the Tt2019 Programme, the fourth major cost reduction exercise for the County Council since 2010, would be significantly more challenging than any previous transformation and efficiency programme against the backdrop of a generally more challenging financial environment and burgeoning service demands.
- 8.4 Departments have looked closely at potential opportunities to achieve the required savings and unsurprisingly the exercise has been extremely challenging because savings of £340m have already been driven out over the past seven years. The sheer size of the 19% target requires a complete "re-look"; with previously discounted options and more radical changes having to be considered. It has been a significant challenge for all departments to develop a set of proposals that, together, can enable their share of the Tt2019 Programme target to be delivered.
- 8.5 The opportunity assessment and planning work has confirmed the sheer complexity and challenge behind some of the proposals as a consequence of

which, in a number of areas, significantly more than two years will be required to develop plans and implement the specific service changes.

- 8.6 The cashflow support required to manage the extended delivery timetable will in the most part be met from departmental cost of change reserves, which will be boosted by some early delivery in 2018/19. Further contingency will be held corporately to cover any remaining shortfall, which is currently forecast to be required only by Children's Services, but given the unprecedented challenge presented by Tt2019 it would be prudent to allow a contingency sum of 20% in 2019/20 and 10% in 2020/21 to manage this potential risk (£24m and £12m).
- 8.7 The scale of the challenge for Tt2019, increases the risk to the timely delivery of the savings and given this position, CMT will carry out a peer review and challenge process on the higher risk elements of the programme, the results of which will be reported to Cabinet in December 2017 at which point the contingency amounts mentioned above can be reviewed as appropriate.
- 8.8 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, some of which is discussed further below.

Transformation Team

- 8.9 The County Council has previously made use of external technical and professional expertise to help deliver its transformation and IT programmes and will continue to do so where the appropriate internal skills are not available. Part of the long term aim was also to ensure that internal resources learned from the private sector in supporting the achievement of savings. Building on this learning, the County Council's in-house Transformation Team is now well established, and the team are fully deployed mostly against Adults' and Children's priority transformational projects.
- 8.10 The T2019 Programme planning phase has identified additional requirements for specialist support from the Team through the delivery phase, especially earlier on where there is more certainty and clarity needed regarding the work ahead. These additional requirements mean that demand on the Team is now much greater than the ability to supply the required levels of support and there is a risk that without action, early traction in the savings programme will be compromised.
- 8.11 The one-off investment required to fund this expansion up to the end of 2019/20 over and above that already agreed is £1.4m and it is requested that this amount, to be met from the Invest to Save Reserve, is approved by Cabinet. Whilst this is a significant sum it compares very favourably to the costs of bringing in external expertise to support the programme.
- 8.12 It is currently anticipated that by the end of 2019/20 the Team will be able to reduce in size to match the ongoing funding available, as the majority of the Tt2019 Programme will be delivered. It is recognised that much will depend

upon progress and any unforeseen demands, but this will be closely monitored and reported to CMT on a monthly basis.

IT Investment

- 8.13 There will be a significant IT enabling requirement before many of the different opportunities can be delivered. This will provide real service redesign opportunities to be pursued and will result in different types of public interaction and greater levels of self service. These enhancements to the way business is currently conducted will mean, after an initial one-off outlay, that the Council will be able to operate at lower cost in the future and will help to optimise the Council's already substantial investment in new digital capabilities. The programme of work will be extensive, initially costly and not without risk.
- 8.14 It was anticipated that a key theme running through the programme would be the exploitation of digital capability and the investment required was highlighted and funding identified in the 2016/17 End of Year Financial Report presented to Cabinet in June 2017.
- 8.15 At that stage it was estimated that up to £23m of investment in resourcing would be required for enabling IT for the Tt2019 Programme and an initial sum of £7.5m was approved by County Council in July 2017 to plan, scope, design and deliver projects; subject to business cases being approved by the Director of Corporate Resources. Funding was also approved for the Digital 2 Programme and a Corporate Wi-Fi Refresh. The programmes of work associated with Tt2019 are now more developed and an updated position is provided later in this report.
- 8.16 Over the summer, initial work was also being undertaken to scope the potential costs associated with the Enabling Productivity Programme (EPP) with a view to giving an update on the overall IT programme supporting the delivery of Tt2019.

Enabling Productivity Programme

- 8.17 The Tt2019 Programme will challenge our leaders, senior managers and operational staff. Optimising productivity, partly through agile and mobile working will be a necessity and making the best use of technology will be critically important for our staff so that we can redesign services and processes for the benefit of residents. By strategically combining these two important cost reduction enabling themes the Council will operate at lower cost with less staff, from fewer fixed points, thus requiring less office space.
- 8.18 Changes to accommodation and devices and applications used by staff are in some respects the easier parts of the programme to achieve, what is more fundamental is the business and process change that must be implemented at the same time in order to maximise productivity. For field workers, this may include mobile access to line of business systems, logistics planning to minimise wasted time travelling between visits, new software to capture information or evidence and writing up notes on the device; including the ability to record signatures electronically.

- 8.19 New mobile devices have just been rolled out to social workers and other staff as part of an early pilot within Children's Services which will help the teams work smarter, leaving more time for client contact and working with families to ultimately reduce the number of children in care.
- 8.20 Many of these change programmes already form part of existing departmental Tt2019 savings proposals and the purpose of the EPP is to enable the changes to be underpinned by supporting technological or other enablers. The main cost therefore is the cost of devices and the resources required to ensure the relevant systems and software are fit for purpose for the new working arrangements and technology.
- 8.21 A detailed exercise was undertaken across the County Council to determine the extent to which staff under future operating models would be:
- **Fixed – high degree of time and location dependence:** Staff tend to work at a single location with little or no requirement to work away from their base.
 - **Flexible – varying mobility requirements:** Staff work at a single base (desk) for less than 50% of their working time, perhaps working at multiple (council) locations or flexing between meetings. These staff might not have a requirement for a fixed base and could work from home, or remotely.
 - **Field – staff with high degree of time and location mobility:** Staff spend more than 50% of their time away from the office (home-based; client-facing) and will not have a fixed location.
- 8.22 The results of this analysis have been shared with our current equipment provider for them to provide an indication of the likely cost of moving to this type of IT estate compared to the current desktop estate which is Citrix client based and is therefore relatively cheap to maintain and refresh, but is fixed and immobile and not flexible enough for today's modern working practices. Mobile equipment by its very nature does not last as long as fixed terminals and is more expensive, therefore it is expected that the one off and future costs of refresh will be much greater than the current £0.7m per annum that is built into the IT Services budget. However the service and efficiency benefits they underpin are so significant and fundamental to the future operating models across the County Council it is felt that this investment is critical.
- 8.23 Initial figures back from the provider are still being analysed and further negotiation will continue to take place, but based on those figures it is estimated that a one off up-front cost in the order of £7.0m will be required, which is £1m higher than the initial provision allowed for in the estimates in June, albeit that no details of the programme existed at that point.
- 8.24 In addition, given the change in the type of equipment being purchased, the annual refresh budget will need to increase from 2018/19 from its current level of £0.7m per annum. Further work is currently being undertaken to assess the annual amount that will be required, but this will be subject to further negotiations with the equipment provider and the model of deployment that the County Council chooses (for example we could consider a managed

service option which will have a different cost profile). More detail on this will be provided as part of the budget setting process for 2018/19.

- 8.25 At this stage the resource implications for implementing the new systems and software associated with the EPP is less clear, but initial indications are that this may be able to be contained within the upper end of the existing resourcing estimates provided for the Tt2019 Programme.
- 8.26 As the programme develops and we gain a better idea of the scale and complexity of the individual departmental requirements, this position will be reviewed and it may be necessary to consider providing additional resources, although this may depend to a large extent on the timing of the roll out of the entire IT programme.
- 8.27 The table below sets out the total IT programme and funding position that was presented in June and compares it to the current estimates:

	June Estimated Cost £m	Current Estimated Cost £m
Digital 2 and other enabling infrastructure	7.1	7.1
Corporate Wi-Fi Upgrade	1.5	1.5
Enabling IT for the Tt2019 Programme	20 – 23	23.0
Enabling Productivity Programme	4 – 6	7.0
Total	32.6 – 37.6	38.6
Less existing funding	10.5	10.5
Less approved in June	22.0	22.0
Balance of Funding Required	0.1 – 5.1	6.1

- 8.28 Cabinet is requested to approve the balance of funding of £6.1m, to be met from the savings in non-departmental budgets in the current year as identified in Section 4. Cabinet is also requested to recommend that County Council approve the remainder of the spending required (totalling £22.5m) to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year.
- 8.29 Although this expenditure does represent a significant one-off investment, it should be borne in mind that this underpins the delivery of around £62m of the Tt2019 Programme and reflects the increasing difficulty and complexity of delivering successive transformation programmes.
- 8.30 It is clear that there are few local authorities in the country that could deliver and fund IT enablement of this scale and complexity and it is testament to Hampshire's planning, professional capacity and good financial management that change of this pace and scale is being considered.

9. 2018/19 Budget Setting

- 9.1 The CSR for the period to 2019/20 was announced in November 2015 and, as part of the Local Government Finance Settlement that followed, the

Government set out that they would offer a four-year settlement to authorities who could 'demonstrate efficiency savings' over the CSR period. To apply for this offer local authorities were required to confirm acceptance by 5pm on Friday 14 October 2016 and provide a link to their published efficiency plan.

- 9.2 Following acceptance by the DCLG of the County Council's Efficiency Plan for the period to 2019/20, the expectation is for minimal change for 2018/19.
- 9.3 This along with the fact that the financial strategy that the County Council operates is on the basis of a two year cycle of delivering departmental savings means that there is limited activity at this stage associated with the development of the 2018/19 budget.
- 9.4 The process will follow the normal budget setting pattern as in previous years, in that a further technical report on the 2018/19 budget will be presented in December this year that will provide departments with provisional cash limits against which they can prepare their detailed budgets that will be reported through to Executive Members, Cabinet and County Council.
- 9.5 Members will recall that the financial strategy assumes a significant draw from the GER in 2018/19 in order to give the County Council the time and capacity to properly deliver the Tt2019 Programme.
- 9.6 It is anticipated that the current cycle of decision making concludes the savings planning aspect of the MTFS including the working assumption within this report that council tax will increase by the maximum permissible in line with government policy. This therefore moves the Tt2019 Programme from planning into implementation.

10. Capital Investment and Economic Growth Priorities

- 10.1 In past years it has been possible to add significant additional schemes to the Capital Programme using surplus revenue funding generated by the early achievement of savings. As the financial strategy has evolved and savings have been required to meet successive budget deficits, there is less ability to do this above and beyond the use of specific capital resources that come from government or developers.
- 10.2 However, the County Council's ability to continue to provide resources to invest in specific priorities in line with the County Council's focus on service improvement and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.
- 10.3 In this context there are a number of specific opportunities that it is timely to address as follows.

Manydown

- 10.4 As outlined in Section 3, Hampshire County Council, together with Basingstoke & Deane Borough Council, jointly owns a long lease with the option to purchase a site west of Basingstoke - Manydown. The site is included in the Local Plan for a development allocation of around 3,200

dwellings, three primary schools, a secondary school site, local and district centres and open space as well as a new country park.

- 10.5 Earlier in the year additional funding was approved to support the achievement of ongoing capital receipts and this funding was in part to support the submission of an Outline Planning Application at Manydown. At that time it was flagged that a further separate case for Manydown revenue resource funding would be brought forward later in 2017 on the back of a detailed business case which could lead to capital and revenue financial returns from the intended joint venture delivery 'vehicle' (as opposed to traditional capital receipts) of up to £50m over an extended period.
- 10.6 A joint venture with a private sector partner to develop and deliver the site, has been agreed as the best option on the basis that this provided the opportunity to make the best long-term returns whilst maintaining strategic control of the site. It is recommended that the Council earmarks up to £35m of capital funding to invest in the development of the Manydown site.
- 10.7 The joint venture structure is complex as are the proposals from the potential development partners. The dialogue stage of the procurement process is due to close imminently prior to the submission of the best and final offers from the prospective development partners. A more detailed report will be submitted to EMPR when the outcome of the procurement process is known, but for now high level approval must be given for the capital spend contained within the overall deal which commits the County Council for up to £35m of spend in order to acquire the land for development.
- 10.8 Should the land cost less than this then the County Council could choose to invest the balance of funding in other infrastructure works on the site, which will attract a financial return in line with the finally agreed proposal. Options for further investment can also be considered but all of this will be subject to later decisions.
- 10.9 Given the long term nature of the project, it is recommended that the £35m is funded through prudential borrowing to avoid tying up other capital resources in the meantime.

Enterprise M3 Local Enterprise Partnership (LEP) Funding

- 10.10 The County Council works closely with both its LEP partners to ensure that the use of resources are maximised in pursuing LEP and County Council priorities. For the EM3 LEP, the County Council also acts as the "Accountable Body", providing strategic advice and assurance both to the LEP and back to government on the use of public funding.
- 10.11 LEPs for the most part only receive capital funding, together with a small revenue allowance for running costs and other specific revenue projects (for example Growth Hubs). Since LEPs are governed by the same accounting rules as local authorities, capital spend is very tightly defined and Hampshire as the Accountable Body must verify that capital spend meets this definition.
- 10.12 In the normal course of LEP business however, there are many costs that cannot be treated as capital, such as due diligence work carried out to assess bids from third parties and other specialist advice. Feasibility studies

depending on their nature cannot always be charged to capital and the availability of revenue funding is now a major issue in supporting the smooth and effective running of LEP business.

- 10.13 Other LEPs across the country have agreed with their accountable bodies to do a capital to revenue transfer. This involves the accountable body using LEP capital grant to meet its own capital expenditure (for example for a highway scheme) and giving back revenue resources to the LEP which have previously been allocated to funding the capital programme.
- 10.14 This report recommends that an initial sum of £3m is transferred in this way and also recommends that delegated authority be given to the Director of Corporate Resources to agree further transfers if required. There are no financial implications for the County Council in pursuing this course of action.

Town and Parish Council Fund

- 10.15 The county of Hampshire is served by 263 parish and town councils (PTCs) which operate across much of Hampshire and fulfil an important function in addition to those of the county and district / borough councils.
- 10.16 The County Council has supported PTCs over many years through an annual grant to Hampshire Association of Local Councils (HALC); currently £63,000 for the year 2017/18, to support its running costs. This core funding is complemented by a series of wider project and activity specific grant opportunities, linked to the delivery of County Council services or priorities, and which are made available to local communities and organisations across the county.
- 10.17 A report to Cabinet in June entitled 'Working Better Together'- Next Steps In Developing Hampshire County Council's Relationships with Parish and Town Councils set out:
- An overview of the engagement Hampshire County Council had undertaken with parish and town councils (PTCs); building upon the key themes that emerged from workshops held.
 - Proposed joint initiatives, working with HALC and PTCs, to address some of the key feedback from the workshops and further discussions.
 - Opportunities to provide support for the development and capacity building of PTCs who wish to contribute actively to a locality focused approach
- 10.18 It was acknowledged at that time that following further scoping work the level of potential support and investment required from the County Council would be considered. At this stage, discussions are still being held across the sector, but it is proposed to provide one off funding of £250,000 as part of this report to allow any policy development and initiatives to progress once they are finalised. This approval will also provide pump priming funding for targeted, joint initiatives aimed at improving local services.
- 10.19 Approval of specific initiatives will be taken through the EMPR with the funding being met from the Corporate Policy Reserve. If necessary this can be topped up with further funding if the programme requires it in the future.

Water Quality Monitoring

- 10.20 Given the size of the County Council's built estate, particularly within schools, water bacteria represents a small risk in terms of likelihood, but with significant implications should a water bacteria related incident occur. It should be pointed out that there has not been an issue relating to water bacteria levels within a County Council property in at least the last 20 years.
- 10.21 Property Services in liaison with the Corporate Health and Safety Officer carried out a review of our arrangements for managing water bacteria risk and remedial works associated with the initial findings have already been completed.
- 10.22 However, it is proposed to enhance the current arrangements for collecting data for the management of water bacteria risk. At the moment, responsibility for collecting and returning data rests with staff based at the locality (for example caretakers). This is often not a straightforward task and the accuracy of information can vary depending on the understanding and methodology applied by the individual (even though training is provided to them).
- 10.23 It is therefore proposed to implement improvements whereby specialist equipment will be installed at each site, which simply require the staff to take a reading and return the information to Property Services. The readings will be more accurate and the process much simpler to complete, meaning that the quantity and quality of data will be much improved.
- 10.24 In addition, it is proposed to create a small ongoing revenue budget that will be used to pay for staff to analyse the data collected effectively and for any remedial actions to be undertaken. At the present time remedial works are paid for by the general repairs and maintenance budget and it is felt that dedicated resources would be more appropriate for managing this risk.
- 10.25 In total therefore a one off capital sum of £1.23m is requested together with a £100,000 revenue budget for 2017/18 and a recurring increase in the revenue budget of £320,000 from 2018/19 onwards. It is considered that this capital and revenue spend is commensurate with any potential risk that the County Council faces in the ongoing management of water quality.

Skanska Contract and Fleet Management

- 10.26 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.
- 10.27 The new Hampshire Highways Services Contract (HHSC) for the supply and maintenance of fleet, plant and equipment has recently been awarded by the County Council to Skanska UK - the contract started on 1 August 2017. It was not appropriate to include this in the capital programme before this point as the HHSC was still in tender stage, no decision had been made on the preferred contractor, none of the bidders were in a position to make a firm

commitment to Hampshire Transport Management (HTM) and it was considered to be commercially confidential information relating to all bidders due to the tender process.

- 10.28 It was also not possible to include the £9.5m capital allocation in the Capital Programme report to the meeting of the County Council on 16 February 2017 because the 'standstill period' for the award of the HHSC did not end until 9 February 2017 and no assumptions could be made in advance of this date on who the successful contractor would be. Furthermore, no further discussions on the types of services required from HTM could be held with the successful contractor until after the end of the 'standstill period' at the earliest. In fact, in order to mitigate the risks to the County Council, HTM would not enter into any firm supply commitments with the successful contractor until the HHSC was formally signed by both parties and this took place on 28 February 2017.
- 10.29 After this point it was necessary to progress and so an urgent officer decision was made by the Director of Corporate Resources (as Chief Financial Officer), in consultation with the Chief Executive and the Leader of the County Council to add £9.5m to the 2017/18 Capital Programme to enable the supply of approximately 160 vehicles and 61 items of plant and equipment to be purchased and in accordance with Financial Regulations this is now being reported to the County Council.
- 10.30 In addition, within the Capital Programme there is ongoing provision for up to £2m per annum to allow for the general replacement of and additions to the fleet managed by HTM and approval to increase this to £3m from 2017/18 is requested. This is to enable HTM to respond to growing business especially with schools and colleges looking for an environmentally friendly fleet alongside an upsurge in customers reviewing their fleets again considering environmental credentials alongside potential efficiencies. All of this capital expenditure is funded through prudential borrowing the cost of which is included in the regular charges to customers for the use of the vehicles.

11. Capital Strategy

- 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 maintaining and enhancing our existing assets and delivering a programme of new ones.
- 11.2 The Capital Programme is reviewed and agreed annually. This sets out the levels of capital expenditure for each service and the main expectations of where the money will be spent, a large proportion of which is in relation to schools, including the provision of school places.
- 11.3 The County Council's capital aspirations are dependent upon finance being available and the sources of finance to support the capital programme are as follows:
- Government capital grants – The Government has issued all of its support for local authorities' capital expenditure from 2011/12 onwards in the form of capital grants and not as borrowing allocations.

- Prudential borrowing – Loans that the County Council may decide to raise in the knowledge that it will have to meet the principal repayment and interest charges from its own resources without any additional support from the Government. The County Council has to consider the impact of such loans on the revenue budget and prudential indicators.
 - Contributions from other bodies, which can include developers, the health service, other local authorities and the national lottery.
 - Capital receipts from the sale of land, buildings and other assets.
 - Contributions from the revenue budget including those held in the capital reserve.
- 11.4 There is an interrelationship between capital and revenue both directly and indirectly. Capital expenditure may be funded directly from revenue however the general pressures on the Council's revenue budget and council tax levels limit the extent to which this may be exercised as a source of capital funding.
- 11.5 Prudential borrowing does provide an option for funding additional capital development but one which then results in costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.
- 11.6 Given the pressure on the Council's revenue budget in future years, prudent use has been made of this discretion to progress schemes in cases where there was a clear financial benefit. Such schemes focus on clear priorities, and those that generate revenue benefits in future financial years, in the form of clear and measurable revenue savings or longer term income generation either directly or through council tax or business rate yield.
- 11.7 Service improvement is at the heart of everything the County Council does and it is also important in the current financial climate that key services are able to continue and prosper. Therefore, whilst it is recognised that prudential borrowing and the resultant impact on revenue must be a key consideration, where there are specific priorities in line with the County Council's focus on service improvement then the programme will continue to be expanded where it is affordable to do so and delivers measurable revenue savings.
- 11.8 Given the link with revenue, as part of the Tt2019 Programme a review of the capital programme (and associated funding) will explore any avenues that would result in a positive impact on the revenue position and any net benefit could be applied as a justified and logical way to reduce the remaining savings required from departments. The review will also include consideration of the wider capital requirements facing the County Council.
- 11.9 The review is being conducted by an existing cross departmental officer group called the Corporate Infrastructure Group (CIG) chaired by the Director of Economy, Transport and Environment. A summary of the review together with a revised capital strategy will be reported as part of the budget setting process for 2018/19.
- 11.10 In the meantime however, the CIG have been co-ordinating the necessary infrastructure associated with the development of land to the West of Woodhouse Lane in Botley, which was outlined in a separate report to

Cabinet in September 2017 and is being progressed in line with support and the agreement of Eastleigh Borough Council. This report seeks formal approval to add the following schemes to the Capital Programme:

- A new secondary school costing £20m which will be funded in full by the Education Skills and Funding Agency.
- Phase 1 of the Botley By-pass costing £6m which will be funded from capital receipts on the sale of County Council owned land within the overall development area.
- Other infrastructure and utility works (including provision for a foul sewer) to provide servicing to the new school and the wider housing sites totalling £15.695m which will also be funded from the capital receipt.

11.11 These works are required to enable the initial developments on the site to proceed, but longer term a further phase of the Botley by-pass will be required which is expected to cost up to £20m. At this stage the funding is not in place for this and the County Council will look to Developers Contributions and other potential sources of funding to enable this scheme to proceed.

12. Reserves Strategy

12.1 The County Council's reserves strategy, which is set out in Appendix 8, is now well rehearsed and continues to be one of the key factors that underpin our ability not only to provide funding for transformation of services but also to give time for the changes to be properly planned, developed and implemented.

12.2 Reserves are available to support:

- Funding of the Capital Programme.
- Investment in transformation.
- Supporting departmental budgets in the face of timing delays in the delivery of savings.
- Supporting the overall revenue budget through the GER.

12.3 The County Council has made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of austerity, 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 that they were intended as part of the wider MTFs.

12.4 Given the protracted period of austerity that is to continue until at least the end of the decade this tipping point has not yet arrived but in view of the large scale investment required to deliver the Tt2019 Programme and the level of cash flow support that will be required in 2018/19 and 2019/20 we currently expect to see reserves begin to dip at as we move towards the end of the decade.

13. Medium Term Forecasts - Beyond 2019/20

- 13.1 The current financial 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. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the GER and early achievement of savings proposals retained by departments to use for cost of change purposes or to offset service pressures.
- 13.2 The County Council's early action in tackling its forecast budget deficit over the prolonged period of austerity and providing funding in anticipation of further reductions, has placed it in a very strong position to produce a 'steady state' budget for 2018/19, giving itself the time and capacity to develop and implement the Tt2019 Programme to deliver the next phase of savings totalling £140m.
- 13.3 Following acceptance by the DCLG of the County Council's Efficiency Plan for the period to 2019/20 the expectation is for minimal change for 2018/19 and 2019/20. No figures have been published beyond this date.
- 13.4 Whilst, following the Queen's speech to Parliament in June this year, the planned changes to implement 100% Business Rate Retention by 2019/20 are effectively suspended with no indication of when this might be resumed, work to carry out a Fair Funding Review, is set to continue as it does not require legislation but it increasingly unlikely that this will be in place for 2019/20.
- 13.5 Although the wider 100% Business Rate Retention work has stalled, the Government have just sought applications for 100% business rate pilots for 2019/20 that must be submitted by 27 October this year. Further information through seminar sessions was provided during September and initial discussions about the potential for a pilot within Hampshire were held at the September HIOWLGA meeting and will be taken forward by the Chief Executives.
- 13.6 The Budget in November may contain some additional information that could impact our planning assumptions, for example around public sector pay and council tax referendum limits, and the County Council will have to wait until that point to revisit the assumptions built into the MTFs.
- 13.7 The financial pressures facing the County Council, to date, notably in relation to adults' social care have been clearly described and the current strategy allows for ongoing growth in adult social care funding of £10m per annum, and also for price inflation. However, whilst there is still some uncertainty over the next couple of years, the period beyond 2019/20 is significantly more uncertain. Some of the major issues that may impact on the County Council are outlined below.

Adults' Social Care

- 13.8 The pressures facing the County Council are not unique to Hampshire. They are representative of the position nationally. To help address this, the

Government have recently announced changes to the funding that local authorities receive for adults' social care. The changes include:

- Additional flexibility with the adult social care precept.
 - An additional one off grant in 2017/18.
 - An additional non-recurrent Improved Better Care Fund (IBCF) allocation to be received over three years commencing in 2017/18 as announced in the Chancellor's Spring Budget.
- 13.9 Taking up the council tax flexibility will yield, on a one off basis, additional income of £16.6m for the County Council in the current and next financial year to put towards meeting the pressures facing adults' social care whilst not fundamentally changing the underlying longer term council tax position. There is no stated position at this point about the Government's intention beyond the current parliament in respect of council tax increases.
- 13.10 Additional funding in the form of the increased IBCF together with previously announced BCF allocations makes provision in the period to 2019/20 for adults' social care.
- 13.11 These measures represent the Government's response to growing calls for additional resources to meet the increasing cost pressure facing local authorities who provide adults' social care, in advance of the previously planned funding which was weighted towards the end of the decade.
- 13.12 Whilst welcome, the measures described above do not address the long term increase in demand as they are all only one off increases in funding. Combined, they do provide the opportunity to invest in transformational programmes to reduce costs in the long term to provide some mitigation. This is still unlikely to be sufficient, on its own, to off-set both the increase in demand and support the achievement of the Department's savings necessary as part of the Tt2019 Programme. For this reason the adults' social care budget, in the medium term, remains reliant on corporate support which has been provided for within the MTFS.
- 13.13 The Adults' Health and Care Department face, in addition to the Tt2019 budget reduction of £55.9m, a further £4m recurring of Public Health savings which need to be achieved by 2019/20. By 2019/20 the County Councils' Public Health grant will be £49.5m after total cash reductions of £8.3m since 2015/16. These budget reductions are being taken forward on a different timescale from Tt2019 and will report to the Executive Member for Public Health.
- 13.14 Beyond 2019/20, in the absence of any government grant figures or a long term solution to the funding of adults' social care, there is the potential for a funding 'cliff edge' in this area that could have a very significant impact on the County Council's finances.

Children's Services

- 13.15 Within Children's Services, the pressure of increasing CLA is well documented and additional resources have been provided in this year's budget and future years to tackle these and the increasing costs of care

leavers, although the volatility in this service area makes accurate predictions difficult.

- 13.16 More recently we have also seen other pressures in the areas of HtST and agency spend and the measures in this report seek to address the majority of these issues, albeit that Children's Services nationally are facing major pressures across many of these areas and the ability to predict what may happen beyond 2019/20 and what government support may be available will be a key factor in future financial forecasts.

National Living Wage and Pay

- 13.17 Whilst the major impact of the implementation of the National Living Wage (NLW) is contained within the additional cost of purchasing external social care provision (which has been factored into the current MTFs) there is also an impact on pay for County Council staff.
- 13.18 An original provision of £5m was included in the MTFs for this, but recent national modelling work on the assimilation of the NLW into existing pay scales and the development of a new pay framework indicates a potential 4% to 6% cost increase over two years, based on the current public sector pay restraint assumptions. For the County Council this could mean that an additional cost of up to £5m will be incurred. More detailed work on the potential impact for the County Council is currently being modelled however, the outcome of any national decision remains at this stage unclear and uncertain.
- 13.19 Another major factor that could affect forecasts to 2019/20 and beyond is the recent announcement from the Government that a more flexible approach to public sector pay will be adopted from 2018/19. This follows growing speculation that the public sector pay cap would be lifted given increasing pressure to remove (or at least relax) the current public sector pay restraint.
- 13.20 During the period of austerity, pay has been frozen or limited to increases of 1% within local government and it had previously been announced that this would continue at least until 2019/20. On 12 September 2017 the Government confirmed police and prison officers pay awards for 2017/18 that exceed 1% and that these will need to be funded within existing budgets and signalled that the approach to other sectors of the workforce will be considered in the coming months.
- 13.21 Whilst a proper pay and reward strategy is key to attracting and retaining the right calibre of staff, any public sector pay awards above the 1% allowed for would put further pressure on our forecasts (each 1% adds about £2.5m to the pay bill based on 2017/18 figures).

The Planning Horizon

- 13.22 Good forward financial planning is a key factor in ensuring that the County Council retains its strong grip of financial management and can respond to the future pressures that it faces. However, in the absence of any government grant figures beyond 2019/20 and the need to keep a relentless focus on the

delivery of the Tt2019 Programme, it is not proposed to provide any definitive future forecasts at this stage.

- 13.23 In general terms, reductions in government grant together with inflationary and service pressures, notably within social care areas, have created an average budget gap of around £50m per annum during the period of austerity, meaning that circa £100m has needed to be saved every two year cycle. Council tax at 1.99% reduces this to £39m per annum.
- 13.24 It is likely therefore that any position beyond 2019/20 will not see a return to stability and we will therefore continue to review our assumptions on an ongoing basis in light of information that is made available.
- 13.25 It is critical that during the next two years the County Council is not distracted from delivering the Tt2019 Programme, irrespective of the financial outlook in the years beyond 2017/18. Any failure to deliver recurring sustainable savings for 2019/20 will only serve to worsen the position. The intention is therefore to continue the well tested strategy of meeting any anticipated gap in 2020/21 from one-off resources which will be built up in the GER in the intervening period.
- 13.26 The time to consider the wider strategy for tackling the next phase of savings beyond 2019/20 will be when we consider there is sufficient traction and delivery on the Tt2019 Programme, since achievement of that programme is crucial to the financial position of the County Council.
- 13.27 Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.
- 13.28 In the current environment in which local authorities are operating, achieving financial resilience is a challenge for all and CIPFA have called on councils to watch out for signs of financial stress. In its report entitled "Building Financial Resilience" CIPFA identified five key 'symptoms' of financial stress as follows:
- Running down reserves / a rapid decline in reserves. By definition, using up reserves to avoid cuts can only provide temporary relief.
 - A failure to plan and deliver savings in service provision to ensure the council lives within its resources.
 - Shortening medium term financial planning horizons, perhaps from three or four years to two or even one. A failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions.
 - A lack of firm objectives for savings - greater 'still to be found' gaps in saving plans. Now, not only are planning horizons shortening, but some authorities have only specified how savings will be achieved for the next financial year and even then there may be some with targets rather than firm plans.
 - A growing tendency for departments to have unplanned over spends and / or carry forward undelivered saving into the following year. As well as creating a need for greater cuts in subsequent years, unplanned

over spends are a sign that an authority is struggling to translate its policy decisions into actions.

- 13.29 CIPFA have highlighted key areas of focus to support financial resilience and these echo the approach taken to date by the County Council and continued in the plans to take us to 2020/21. These include getting routine financial management right, having clear and realistic plans for the delivery of savings which are monitored and underpinned by adequate investment and managing reserves sensibly to 'cushion' the delivery of a transformation programme over the medium term.
- 13.30 In addition, the report highlights the danger, in the relentless search for savings, of focusing on the "gap" still to be found while failing to take the actions necessary to ensure all the agreed savings have been delivered. The County Council is alert to this potential danger and for Tt2017, and to an even greater extent Tt2019, has taken a very measured approach to the timing of moving focus from one transformation programme to the next.
- 13.31 Despite the relentless financial pressure and need to deliver savings, the County Council has shown year after year its ability to not only follow through on its agreed strategy but also to respond to unforeseen pressures and invest in service improvements and capital spending where it is felt necessary (this report being a prime example of all of these things).
- 13.32 At the same time the County Council must not become complacent and must maintain its financial discipline both within the current year and in developing and delivering savings for the future.

14. Recommendation(s)

It is recommended that Cabinet:

- 14.1 Notes and endorses the County Council's current approach to commercialisation as outlined in Section 3.
- 14.2 Notes the current position in respect of the financial resilience monitoring for the current financial year.
- 14.3 Confirms that in the absence of further information, which may be contained in the Budget in the autumn, the current planning assumption that council tax will increase by the maximum permissible without a referendum, in line with Government policy, will continue.
- 14.4 Approves the recommended approach to dealing with the anticipated £140m budget deficit.
- 14.5 Approves, subject to further consultation and executive decision making where necessary, the savings proposals in Appendix 3 after taking due regard of the consultation feedback and Equality Impact Assessments.
- 14.6 Approves further service specific consultations, where necessary, on the savings proposals set out in Appendix 3 prior to final decisions being made by Executive Members.

- 14.7 Endorses the principle that should any savings proposal be rejected that alternative options to the same value will need to be developed by the appropriate department.
- 14.8 Approves an additional £6.1m of one-off funding to meet the balance of funding for the overall IT Programme supporting the delivery of Tt2019, to be met from the savings in non-departmental budgets in the current year as identified in Section 4.
- 14.9 Approves one-off amounts of £1.7m and £315,000 in 2017/18 to fund the part year costs of increased social workers and payments for Special Guardianship Orders, respectively, to be met from the savings in MRP.
- 14.10 Approves an initial sum of £100,000 in 2017/18 and a recurring increase of £320,000 from 2018/19 onwards to provide dedicated resources to analyse data and undertake remedial actions associated with water bacteria risk management.
- 14.11 Approves an initial one off sum of £250,000 to support joint initiatives with Town and Parish Councils, the details of which will be subject to approval by the Executive Member for Policy and Resources.
- 14.12 **Recommends to County Council that:**
- a) The mid-year report on treasury management activity at Appendix 2 be approved.
 - b) The potential impact on the investment strategy of defaulting to a retail client with effect from 3 January 2018 be noted.
 - c) The immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the County Council can continue to implement an effective investment strategy be agreed.
 - d) In electing for professional client status the County Council acknowledges and agrees to forgo the protections available to retail clients attached at Annex 1 of Appendix 2.
 - e) Responsibility be delegated to the Section 151 Officer (the Director of Corporate Resources) for the purposes of completing the applications.
 - f) The savings proposals in Appendix 3 be approved, subject to further consultation and executive decision making where necessary.
 - g) The remainder of the spending required, totalling £22.5m, be approved to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year.
 - h) Recurring funding from 2018/19 onwards of £10.25m is approved to cover the increased costs of social workers, Home to School Transport and payments for Special Guardianship Orders.
 - i) A one-off sum of £1.4m is approved from the Invest to Save Reserve to fund additional resource within the in-house Transformation Team until the end of 2019/20.

- j) High level approval be given for up to £35m of capital spend (funded through prudential borrowing) to invest in the purchase of land and development of the Manydown site.
- k) An initial sum of £3m is transferred from capital to revenue between the County Council and Enterprise M3 LEP as outlined in this report and that delegated authority be given to the Director of Corporate Resources to agree further transfers if required.
- l) Capital spend of £1.23m be approved to implement improvements whereby specialist equipment will be installed to improve the quantity and quality of data collection and monitoring in relation to water bacteria risk management. To be funded from the savings in non-departmental budgets in the current year as identified in Section 4.
- m) An increase in the capital programme of £1m per annum from 2017/18 onwards to raise the provision for the general replacement of and additions to the fleet managed by HTM to £3m per annum, to be funded through prudential borrowing be approved.
- n) Schemes associated with the development of land at Woodhouse Lane to the value of £41.695m are added to the capital programme as outlined in paragraph 11.10.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

- a) The mid-year report on treasury management activity at Appendix 2 and note potential impact on the investment strategy of defaulting to a retail client with effect from 3 January 2018.
- b) The immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the County Council can continue to implement an effective investment and acknowledge that in electing for professional client status the County Council are agreeing to forgo the protections available to retail clients attached at Annex 1 of Appendix 2.
- c) That responsibility be delegated to the Section 151 Officer (the Director of Corporate Resources) for the purposes of completing the applications.
- d) The savings proposals in Appendix 3, subject to further consultation and executive decision making where necessary.
- e) The remainder of the spending required, totalling £22.5m, to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year
- f) Recurring funding from 2018/19 onwards of £10.25m to cover the increased costs of social workers, Home to School Transport and payments for Special Guardianship Orders.
- g) A one-off sum of £1.4m from the Invest to Save Reserve to fund additional resource within the in-house Transformation Team until the end of 2019/20.

- h) Up to £35m of capital spend (funded through prudential borrowing) to invest in the purchase of land and development of the Manydown site.
- i) An initial sum of £3m is transferred from capital to revenue between the County Council and Enterprise M3 LEP as outlined in this report and that delegated authority be given to the Director of Corporate Resources to agree further transfers if required.
- j) Capital spend of £1.23m to implement improvements whereby specialist equipment will be installed to improve the quantity and quality of data collection and monitoring in relation to water bacteria risk management. To be funded from the savings in non-departmental budgets in the current year as identified in Section 4.
- k) An increase in the capital programme of £1m per annum from 2017/18 to raise the provision for the general replacement of and additions to the fleet managed by HTM to £3m per annum, to be funded through prudential borrowing.
- l) The addition of schemes associated with the development of land at Woodhouse Lane to the value of £41.695m to the capital programme as outlined in paragraph 11.10.

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>
Transformation to 2019 – Revenue Savings Proposals (Executive Member for Culture, Recreation and Countryside) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=169&MId=287	18 September 2017
Transformation to 2019 – Revenue Savings Proposals (Executive Member for Economic Development) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=172&MId=312	19 September 2017
Transformation to 2019 – Revenue Savings Proposals (Executive Member for Environment and Transport) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=170&MId=438	19 September 2017
Transformation to 2019 – Revenue Savings Proposals (Executive Lead Member for Children’s Services) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=162&MId=696	20 September 2017
Transformation to 2019 – Revenue Savings Proposals (Executive Member for Adult Social Care and Health) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=595&MId=3138	21 September 2017
Transformation to 2019 – Revenue Savings Proposals (Executive Member for Policy and Resources) http://democracy.hants.gov.uk/ieListDocuments.aspx?CId=173&MId=339	22 September 2017
Transformation to 2019: Report No. 1 (Cabinet) http://democracy.hants.gov.uk/documents/s3424/2017-06-19%20Transformation%20to%202019.pdf	19 June 2017

Direct links to specific legislation or Government Directives

<u>Title</u>	<u>Date</u>

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.)

DocumentLocation

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:

Given that this report deals with a large number of options and proposals for savings as part of the Transformation to 2019 Programme, the individual EIAs have been appended to this report to aid the decision making process.

2. Impact on Crime and Disorder:

2.1 Some of the proposals may have an indirect impact on crime and disorder and where this is the case it will be taken into account as part of the implementation of the proposal.

3. Climate Change:

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

Not applicable

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

Not applicable