



NOTICE OF MEETING

Meeting	Cabinet
Date and Time	Friday, 3rd February, 2017 at 10.30 am
Place	Wellington Room, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION

This meeting may be recorded and broadcast live on the County Council's website. The meeting may also be recorded and broadcast by the press and members of the public – please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence received.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Non-Pecuniary interest in a matter being considered at the meeting should consider whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. MINUTES OF PREVIOUS MEETING (Pages 1 - 18)

To confirm the minutes of the previous meeting

4. DEPUTATIONS

To receive any deputations notified under Standing Order 12.

5. CHAIRMAN'S ANNOUNCEMENTS

To receive any announcements the Chairman may wish to make.

6. REVENUE BUDGET AND PRECEPT 2017/18 (Pages 19 - 106)

To consider a report of the Director of Corporate Resources setting out the County Council's proposals for the revenue budget and precept for 2017/18.

7. CAPITAL PROGRAMME 2017/18 TO 2019/20 (Pages 107 - 146)

To consider a report of the Director of Corporate Resources setting out for approval the proposed capital programme for 2017/18 to 2019/20 of £520 million

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

Agenda Item 3

AT A MEETING of the Cabinet of HAMPSHIRE COUNTY COUNCIL held at the Castle on 12 DECEMBER 2016:

Chairman:
p Councillor Roy Perry

Councillors:

p	Peter Edgar	p	Mel Kendal
p	Liz Fairhurst	p	Keith Mans
p	Andrew Gibson	p	Stephen Reid
p	Rob Humby	p	Patricia Stallard
p	Andrew Joy		

Also present with the agreement of the Chairman: Councillors Bennison, Bolton, Carter, England and Huxstep.

252. **BROADCASTING ANNOUNCEMENT**

The Chairman announced that the meeting was being recorded for broadcast on the County Council's website and would be available for repeated viewing. The press and members of the public were also permitted to film and broadcast this meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

253. **APOLOGIES FOR ABSENCE**

All Cabinet Members were in attendance, apologies were received from Councillors Wheale and McNair-Scott.

254. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest and, having regard to Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal Interest in a matter being considered at the meeting they considered, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, considered whether it was appropriate to leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with the Code.

255. **CONFIRMATION OF MINUTES**

The minutes of the meeting held on 14 November 2016 were confirmed as a correct record and signed by the Chairman.

256. DEPUTATIONS

No deputation requests had been received.

257. CHAIRMAN'S ANNOUNCEMENTS

The Chairman noted that this was the final Cabinet meeting of 2016 and wished everyone a Merry Christmas and a Happy New Year. He highlighted news reports suggesting that the social care crisis would force the Prime Minister to increase Council Tax and expressed frustration that two weeks from the end of the year the local government finance settlement was not known.

A recent meeting with the Secretary of State was reported and the Chairman confirmed that he had received assurance that local government reorganisation would only proceed with the support of all concerned.

258. BUDGET SETTING AND PROVISIONAL CASH LIMITS 2017/18

The Cabinet considered the report of the Director of Corporate Resources setting out the process and framework for the setting of the 2017/18 budget (Item 6 in the Minute Book).

The report was outlined and it was highlighted that the Council was reaching the culmination of a two year programme of which savings were on track and no additional savings were anticipated for the 2017/18 budget. The local government finance settlement was expected shortly and it was hoped that there would be some additional provision to fund social care. The efficiency plan agreed to by the County Council had been on the basis of a four year settlement from government and therefore it was possible to broadly anticipate the contents of the forthcoming announcements.

The budget monitoring elements of the report were brought to the attention of Cabinet, in particular the impact of pay and price inflation, the living wage and pension contributions. The position of the capital programme was also highlighted, with regards to the provision of school places and the proposal to allocate resources to support and facilitate applications for Free Schools. It was noted that Free Schools were funded from central government resources and therefore success in this would reduce the overall pressure on the County Council to meet the demand for school places.

Cabinet welcomed the report, noting in particular the success of the County Council's traded services and of planning for school places. It was also recognised that savings had been achieved and budget targets met, not as a result of being a particularly wealthy area or having a high Council Tax precept, but through thorough and early financial planning. This had furthermore enabled capital investment in areas such as school places and highways.

The recommendations within the report were proposed and agreed. The decision record is attached to these minutes as Appendix 1.

259. TRANSFORMATION TO 2017: REPORT NO. 9

The Cabinet considered the report of the Chief Executive regarding the Transformation to 2017 programme. (Item 7 in the Minute Book).

The level of cumulative savings by the County Council throughout the Transformation programmes was noted and the challenge of meeting the Transformation to 2017 targets was recognised. Cabinet heard that £10 million of savings had been secured since the previous report and it was expected that target savings for the end of 2016 would be achieved. £16 million of savings were needed in the final quarter, which was as expected. In consideration of departmental positions, it was noted that positive progress had been made in Adults Services and Children's Services to eliminate previously red (risk) areas.

The recommendations within the report were proposed and agreed. The decision record is attached to these minutes as Appendix 2.

260. SHAPING HAMPSHIRE –Q2 2016/17 ANNUAL PERFORMANCE REPORT

The Cabinet considered the report of the Chief Executive regarding the performance of the County Council against the Shaping Hampshire strategic plan for 2013-17. (Item 8 in the Minute Book).

Hampshire's consistently high performance as detailed in the report was noted by Cabinet, with particular recognition for the success of Hampshire athletes at the Olympic and Paralympic Games in 2016. Other performance highlights as well as key risks were referenced and future changes for performance management were outlined.

Cabinet agreed that this was a good point to refresh the system of performance management and self assessment to be able to take into account the organisational changes of recent years. Whilst recognising that some areas would not fully be in the control of the County Council, such as health related targets reliant on the NHS, it was agreed that performance was high and the direction of travel was a good one.

The recommendations within the report were proposed and agreed. The decision record is attached to these minutes as Appendix 3.

261. PROPOSALS FOR A SUB-NATIONAL TRANSPORT BODY (TRANSPORT FOR THE SOUTH EAST)

The Cabinet considered the report of the Director of Economy, Transport and Environment to seek Cabinet's approval for the County Council to join a shadow Sub National Transport Body for the South East. (Item 9 in the Minute Book).

The likely role of the proposed Body, including the potential for it taking on a statutory role were set out and benefits of membership were highlighted. It was heard that the proposed membership consisted of the "South East 7" authorities,

with the addition of the cities of Portsmouth and Southampton and the Isle of Wight, with the potential to include the unitary authorities in the Thames Valley to cover a strategically significant area for transport.

Cabinet welcomed the proposals as an opportunity to work with partners and to give the South East region its own voice on key strategic infrastructure. It was proposed and agreed that Councillor Humby should be the County Council's representative on the Body.

With an amendment to reflect Councillor Humby's appointment, the recommendations within the report were proposed and agreed. The decision record is attached to these minutes as Appendix 4.

262. FUTURE APPROACH TO ECONOMIC DEVELOPMENT AND BUSINESS ENGAGEMENT

The Cabinet considered the report of the Director of Economy, Transport and Environment regarding economic development and Business engagement. (Item 10 in the Minute Book).

The poor rate of economic development in the Solent area was highlighted by Cabinet as an increasing cause for concern. It was noted that this was now below the national average, having been above average at the turn of the century. The important role of the County Council and the LEP in facilitating economic development was recognised by Members and it was confirmed that feedback from the business community had indicated a desire to work more closely with the County Council. The breadth of factors influencing economic development were highlighted and the role for the proposed Cabinet sub-committee was set out.

The proposals were welcomed and it was noted that the County Council had sufficient scale to engage with significant business projects and achieve results. It was felt that the sub-committee would provide an opportunity for two way engagement with the business forum and would demonstrate the Council's positive relationship with business.

The recommendations within the report were proposed and agreed. The decision record is attached to these minutes as Appendix 5.

263. SUSTAINABILITY & TRANSFORMATION PLANS

[In relation to this item, Councillor Reid declared a non-pecuniary interest as the County Council's representative on the Hampshire Hospitals Foundation Trust. Councillor Gibson similarly declared a non-pecuniary interest as the County Council's representative on the Southampton University Hospital Trust.]

The Cabinet considered the report of the Chief Executive regarding work to progress NHS Sustainability and Transformation Plans (STP) for Hampshire. (Item 11 in the Minute Book).

The report was introduced and the context and status of STPs as a means for efficiency planning in the health sector set out. It was confirmed that, as stated in the previous update, the report only set out the ongoing process and position of the STPs and future decisions relating to them would require and be subject to appropriate democratic input and scrutiny.

Cabinet acknowledged the update and expressed concern about the STPs in their current state, suggesting that there was no account being taken for population growth and that the measures identified amounted to a wish list, not an action plan.

With an addition to reflect the concerns of Cabinet at this stage, the recommendations within the report were proposed and agreed. The decision record is attached to these minutes as Appendix 6.

Chairman, 3 February 2017

This page is intentionally left blank

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Budget Setting and Provisional Cash Limits 2017/18
Reference:	7886
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Rob Carr

Tel: 01962 847508

Email: Rob.Carr@hants.gov.uk

1. The decision:

That Cabinet:

- 1.1. Approves from contingencies a sum of up to £580,000 in 2016/17 to provide funding for the up front fees associated with developing a number of free school bids and up to £116,000 per annum for five years from 2016/17 to 2020/21 to support continuing secondary school feasibility work.
- 1.2. Approves the provisional cash limits for 2017/18 set out in Appendix 1 of the report.
- 1.3. Approves the capital guideline amounts for the next three years set out in paragraph 7.2 of the report.

2. Reasons for the decision:

- 2.1. The report and decisions of Cabinet set the framework for developing the detailed revenue budgets and capital programme that will be presented to Executive Members, Cabinet and County Council during January and February 2017.

3. Other options considered and rejected:

- 3.1. None.

4. Conflicts of interest:

- 4.1. Conflicts of interest declared by the decision-maker:
- 4.2. Conflicts of interest declared by other Executive Members consulted:

5. Dispensation granted by the Conduct Advisory Panel: none.

6. Reason(s) for the matter being dealt with if urgent: not applicable.

7. Statement from the Decision Maker:

Approved by:

Date:

12 December 2016

Chairman of the Cabinet
Councillor Roy Perry

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Transformation to 2017: Report No. 9
Reference:	8000
Report From:	Chief Executive

Contact name: John Coughlan

Tel: 01962 846400

Email: john.coughlan@hants.gov.uk

1. The decision:

That Cabinet:

- 1.1. Notes the progress on the Tt2017 Programme in line with the decisions taken by the County Council in October 2015;
- 1.2. Notes the achievement (to the end of October 2016) of a significant contribution (£65m) to the £99 million target;
- 1.3. Notes the status for Tt2017 of the Adults Health and Care programme as set out in section 5 of this report;
- 1.4. Notes the Tt2019 update.

2. Reasons for the decision:

- 2.1. To provide an update on progress with Transformation to 2017, including the early achievement of savings.

3. Other options considered and rejected:

- 3.1. None.

4. Conflicts of interest:

- 4.1. Conflicts of interest declared by the decision-maker:
- 4.2. Conflicts of interest declared by other Executive Members consulted:

5. Dispensation granted by the Conduct Advisory Panel: none.

6. Reason(s) for the matter being dealt with if urgent: not applicable.

7. Statement from the Decision Maker:

Approved by:

Date:

12 December 2016

**Chairman of the Cabinet
Councillor Roy Perry**

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Shaping Hampshire –Q2 2016/17 Annual Performance Report
Reference:	7836
Report From:	Chief Executive

Contact name: Deborah Harkin, Assistant Chief Executive / Philippa Mellish,
Head of Insight and Engagement

Tel: 01962 846699/

847482

Email: deborah.harkin@hants.gov.uk

philippa.mellish@hants.gov.uk

1. The decision:

That Cabinet note:

- 1.1. the County Council's performance for the first two quarters of 2016/17
- 1.2. the revised approach to performance assessment set out in section 2 of the report

2. Reasons for the decision:

- 2.1. The report and its supporting appendices demonstrate to Cabinet that the County Council performed well in the delivery of core public services during the first two quarters of 2016/17.

3. Other options considered and rejected:

- 3.1. None.

4. Conflicts of interest:

- 4.1. Conflicts of interest declared by the decision-maker:
- 4.2. Conflicts of interest declared by other Executive Members consulted:

5. Dispensation granted by the Conduct Advisory Panel: none.

6. Reason(s) for the matter being dealt with if urgent: not applicable.

7. Statement from the Decision Maker:

Approved by:

Date:

12 December 2016

**Chairman of the Cabinet
Councillor Roy Perry**

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Proposals for a Sub-National Transport Body (Transport for the South East)
Reference:	7908
Report From:	Director of Economy, Transport and Environment

Contact name: Keith Willcox

Tel: 01962 846997

Email: keith.willcox@hants.gov.uk

1. The decision:

That Cabinet:

- 1.1. Endorse the establishment of a shadow Sub National Transport Body (STB) for the South East and agree to the County Council becoming a member of that body;
- 1.2. Express strong support for an invitation to be extended to the Berkshire authorities and for the shadow STB to seek full engagement with the South East LEPs at the earliest opportunity;
- 1.3. Appoint Councillor Rob Humby to represent the County Council on the shadow STB;
- 1.4. Approve the investment of £20,000 to support the shadow STB, including the development of the constitutional arrangements, the draft Transport Strategy and for officer support;
- 1.5. Delegate authority to the Chief Executive in consultation with the Leader to agree the shadow arrangements, including the shadow terms of reference, membership and constitution;

2. Reasons for the decision:

- 2.1. A Sub National Transport Body for the South East, especially if it included the Berkshire authorities, would provide a strong mechanism by which the South East could promote its strategic transport objectives, particularly in terms of influencing funding decisions by Highways England and Network Rail that could aid major schemes both within and beyond the area's boundary. This would assist in the strategic transport ambitions and priorities of the County Council and support the county's economy.

2.2. By engaging with partners at this initial stage and agreeing to join the proposed shadow STB, the County Council will be well positioned to help shape the development of both the draft Transport Strategy and proposed governance arrangements for TfSE and help ensure the South East does not lose from strategic transport developments taking place elsewhere in the country.

3. Other options considered and rejected:

3.1. To decline the invitation to join the shadow body but this was rejected on grounds that it would be detrimental to Hampshire's economic prosperity and to securing necessary transport investment and improvements.

4. Conflicts of interest:

4.1. Conflicts of interest declared by the decision-maker:

4.2. Conflicts of interest declared by other Executive Members consulted:

5. Dispensation granted by the Conduct Advisory Panel: none.

6. Reason(s) for the matter being dealt with if urgent: not applicable.

7. Statement from the Decision Maker:

Approved by: ----- Chairman of the Cabinet Councillor Roy Perry	Date: 12 December 2016
---	---

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Future Approach to Economic Development and Business Engagement
Reference:	7931
Report From:	Director of Economy, Transport and Environment

Contact name: David Fletcher

Tel: 01962 846125

Email: david.fletcher@hants.gov.uk

1. The decision:

- 1.1. To note the key findings of the recent business consultation exercise on the organisation of local government in the Hampshire and Isle of Wight area, and the possibility of further devolution to local government.
- 1.2. To approve the establishment of an advisory Cabinet Sub Committee for Economic Development to be chaired by the Leader;
- 1.3. To endorse the plans for a Business Engagement Forum linked to the Cabinet Sub Committee;
- 1.4. To delegate authority to the Director of Economy, Transport & Environment, in consultation with the Leader, to develop detailed terms of reference for the Economic Development Sub Committee and terms of engagement for the Business Engagement Forum.
- 1.5. To endorse the approach to future delivery arrangements and to delegate authority to the Director of Economy, Transport & Environment to progress, in consultation with the Executive Member for Economic Development, those plans, including the associated governance and funding mechanisms, and involving, where appropriate, external public and private sector partners.

2. Reasons for the decision:

- 2.1. To ensure that Hampshire County Council's future approach to economic development best supports economic prosperity in Hampshire.
- 2.2. To ensure that any future economic development operating model that is developed will be both fit for purpose and financially sustainable.

3. Other options considered and rejected:

3.1. To make no changes to the current arrangements – rejected on grounds that that would be a missed opportunity to further strengthen the relationship between the County Council and Hampshire businesses at an important time in the development of the Hampshire economy.

4. Conflicts of interest:

4.1. Conflicts of interest declared by the decision-maker: None.

4.2. Conflicts of interest declared by other Executive Members consulted: None.

5. Dispensation granted by the Conduct Advisory Panel: None.

6. Reason(s) for the matter being dealt with if urgent: Not applicable.

7. Statement from the Decision Maker:

Approved by:

Date:

12 December 2016

**Chairman of the Cabinet
Councillor Roy Perry**

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Sustainability & Transformation Plans
Reference:	8002
Report From:	Chief Executive

Contact name: Graham Allen

Tel: 01962 847200

Email: graham.allen@hants.gov.uk

1. The decision:

That Cabinet:

- 1.1. notes the progress to date to develop STPs for Hampshire and the Isle of Wight;
- 1.2. notes the next steps for establishing robust, effective arrangements for governance and leadership, as detailed in paragraphs 3.2–3.9 and recognises the vital role of the County Council’s Health and Wellbeing Board and Health and Adult Social Care Select Committee in establishing an effective and robust governance framework;
- 1.3. notes that further development of the STPs by the NHS should include: addressing projected population growth and demographic change, the conversion of aspirations into an action plan and meaningful consultation with the public.

2. Reasons for the decision:

- 2.1. The STP emanates from the Five Year Forward View and associated plans produced by NHS England. There are 44 STP footprints across England, varying in size and covering populations ranging from 700,000 people up to larger areas such as Hampshire and the Isle of Wight at 2 million+ population. The STP is designed to set out a clear plan for the way in which sustainable and appropriate health and associated public services can be delivered in the period 2016/17 – 2020/21.

3. Other options considered and rejected:

- 3.1. None

4. Conflicts of interest:

- 4.1. Conflicts of interest declared by the decision-maker:
- 4.2. Conflicts of interest declared by other Executive Members consulted:

- 5. **Dispensation granted by the Conduct Advisory Panel: none.**

- 6. **Reason(s) for the matter being dealt with if urgent: not applicable.**

- 7. **Statement from the Decision Maker:**

Approved by:

Date:

12 December 2016

**Chairman of the Cabinet
Councillor Roy Perry**

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	3 February 2017
Decision Maker:	County Council
Date:	16 February 2017
Title:	Revenue Budget and Precept 2017/18
Report From:	Director of Corporate Resources

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 set out the County Council's proposals for the revenue budget and precept for 2017/18.
- 1.2. The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of austerity, which 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, is well documented.
- 1.3. In line with this financial strategy savings targets for 2017/18 were approved as part of the 2015/16 budget setting process and detailed savings proposals were developed through the Transformation to 2017 (Tt2017) Programme and approved by Executive Members, Cabinet and County Council in September and October 2015. Given this position, no new savings proposals will be presented as part of the 2017/18 budget setting process and the Tt2017 Programme will achieve savings of £98m which have been incorporated into the budgets detailed in this report.
- 1.4. Financial performance in the current year remains strong, but the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users means that pressures are being felt in all departments. The pressures within social care departments are well known and the sustained pressure on social care spending means that these services continue to be the highest risk and most volatile area of the County Council's budget. Both departments have action plans in place to contain this pressure in the current year and as in previous years further funding has been set aside within contingencies to manage this potential risk in 2017/18.

- 1.5. The provisional Local Government Finance Settlement was announced on 15 December 2016 but it should be noted that the settlement last year covered four years from 2016/17 to 2019/20 and, following the acceptance by the DCLG of the County Council's Efficiency Plan for the period, the expectation was for minimal change to the figures published last year.
- 1.6. 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 2020. 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 in the provisional settlement 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.
- 1.7. The report recommends that the County Council increases council tax by 3.99% in 2017/18, in line with the assumption built into the Medium Term Financial Strategy (MTFS) and recommends that the County Council takes 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.
- 1.8. Each 1% increase in Council Tax yields around £5.3m additional income but this needs to be considered in the context of social care growth pressures which total nearly £20m in 2017/18 alone before considering the impact of inflationary pressures.
- 1.9. During January individual Executive Members have been considering their revenue budget proposals with the Leader and Cabinet and this report consolidates these proposals together with other items that make up the total revenue budget for the County Council in order to recommend a budget, precept and council tax to the meeting of full County Council on 16 February 2017.
- 1.10. This report also considers a number of items that are linked, both directly and indirectly, to additional capital investment and economic growth, although there remains limited scope to add new schemes to the overall Capital Programme.
- 1.11. It should be noted that the figures in this report in respect of government grant levels and figures notified to the County Council by District Councils are provisional at this stage and will be subject to change. Revised figures will therefore be presented to full County Council and this report seeks delegated authority for the Director of Corporate Resources in consultation with the Leader and Chief Executive to make these changes as appropriate.

2. Contextual Information

- 2.1. Members will be fully aware that the County Council has been responding to cuts in government grant since the first reductions were applied in 2010/11 and since that time the County Council has successfully implemented a series of cost reduction exercises.
- 2.2. 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 Grant Equalisation Reserve (GER) and early achievement of savings proposals retained by departments to use for cost of change purposes or to offset service pressures.

- 2.3. 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, placed it in a very strong position to produce a 'steady state' budget for 2016/17, giving itself the time and capacity to develop and implement the Transformation to 2017 (Tt2017) Programme to deliver the next phase of savings totalling £98m.
- 2.4. The budget setting process for 2017/18 will therefore be different in that the majority of the decisions in respect of major changes to the budget were taken early. However other factors will still affect the budget, such as council tax decisions and pressures as outlined later in this report, but these will not be as significant as the savings programme that has already been put in place.
- 2.5. Last year the Final Local Government Finance Settlement provided definitive figures for 2016/17 and provisional figures for local authorities for the following three financial years to aid financial planning. The figures for 2017/18, 2018/19 and 2019/20 set out in the settlement resulted in an increase in the County Council's revenue gap to be bridged in each of these years. In 2017/18 the bottom line impact was that a further £15m was required, on top of the £98m of savings to be delivered from the Tt2017 Programme to produce a balanced budget.
- 2.6. The July 2016 Medium Term Financial Strategy (MTFS) updated the overall position in respect of the 2017/18 budget gap and the allocation of transitional funding as a result of the final settlement announcement of £9.4m in 2016/17 and £9.3m in 2017/18 enabled the gap in 2017/18 to be closed; managed through the GER.
- 2.7. This position is underpinned by the delivery of Tt2017 savings and regular updates on the Programme have been provided to Cabinet during 2016. Whilst there are acknowledged timing issues, the current assessment remains that the shortfall can be made up from departmental cost of change reserves on a one-off basis as savings come on line throughout 2017/18, leading to full implementation of the programme by 2018/19.
- 2.8. The provisional Local Government Finance Settlement was announced on 15 December 2016 and following the acceptance by the DCLG of the County Council's Efficiency Plan for the period, the expectation was for minimal change to the figures published last year. More detail about the provisional settlement, which confirmed that the County Council will have a further reduction in grant of £37m, is set out in Section 5 of this report
- 2.9. The final grant settlement for 2017/18 is not due out until this report has been dispatched, however it is not anticipated that there will be any major changes to the figures that were released in December last year.
- 2.10. In December last year Cabinet received a budget update report that set provisional cash limit guidelines for departments, taking into account inflation,

savings and base changes. This report confirms the cash limits that will be applied to departments next year and the individual reports approved by Executive Members during January all show that the proposed budgets are within the cash limit guidelines that have been set.

3. Third Quarter Budget Monitoring

- 3.1. Strong financial management has remained a key focus during the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that they deliver the savings programmes that have been approved. Enhanced financial resilience monitoring, which looks not only at the regular financial reporting carried out in previous years but also at potential pressures in the system and the early achievement of savings being delivered through transformation, has continued through monthly reports to the Corporate Management Team (CMT) and periodic reports to Cabinet.
- 3.2. The third quarter monitoring position indicates that most departments are expecting under spends resulting from early delivery of savings during the year. However, the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users means that pressures are now being felt in all departments.
- 3.3. All departments and their staff deserve credit for the quality of their financial stewardship in the face of these ongoing pressures and changes. Key issues across each of the departments are highlighted in the paragraphs below and whilst pressures within social care departments are well documented, the impact of successive savings programmes along with other service pressures means that all departments are facing financial pressure at the present time:

Adults' Health and Care

- 3.4. The Department has continued to experience growth pressures as a result of demographic increases in the numbers of people requiring care and rising costs due to the increased complexity of clients needs.
- 3.5. Last year as part of the review of the Adults' Services operating model within the Tt2017 Programme, work was undertaken to project forward likely numbers and average package costs of clients to 2020/21. This informed a strategy to cover forecast costs and pressures, prior to considering the Transformation to 2019 (Tt2019) savings, albeit this does require an expected recurring base budget adjustment in 2018/19, anticipated to be in the order of £21m followed by annual increases of around £10m a year thereafter.
- 3.6. For 2017/18 the updated MTFs also included the potential for £10m of the Adult's 2018/19 'base adjustment' to be bought forward into 2017/18 (with provision for this funding held in contingencies) to help cash flow the late delivery of savings.
- 3.7. Enhanced financial resilience monitoring has been in place throughout the year and the pressure has been managed by the Department through the early achievement of savings and utilisation of its cost of change reserves. The early delivery of savings means that the Department is expecting to increase its cost of

change reserve in 2016/17, but this is required in full to help cash flow the slipped delivery of savings in 2017/18.

Children's Services

- 3.8. Growth in the numbers of Children Looked After (CLA) has had a profound impact on the Children's Services budget position over the last few years, with a base budget increase of £12.5m added in 2015/16. The early part of 2016/17 saw a small but steady decline in the numbers of CLA in line with the Tt2017 savings but numbers started to increase again over the Summer. Other pressures around care leavers, home to school transport and the cost of agency staff have also continued to put pressure on the budget during the year.
- 3.9. Children's Services have action plans in place to contain this pressure in the current year and as in previous years further funding has been set aside within contingencies to manage the potential risk in 2017/18. The Department is expected to be at a break even position by year end through pro-active management of the services together with the use of departmental reserves and agreed corporate support.
- 3.10. Further work has now been undertaken by Finance staff and Children's Services colleagues to critically review the forward projections for Children's, in particular the relationship between CLA numbers (and in turn the knock on impact for care leavers) and the financial impact of any increase, or decrease, which is complex. More detail of the work undertaken and the findings are set out in Appendix 1.
- 3.11. As part of the MTFS no additional funding for growth and demand has currently been allocated to children's social care during the period to 2019/20 although there is ongoing provision in contingencies of £2m in recognition of the risk associated with this volatile area of spend. The projections indicate that there will be growing financial pressure which in 2017/18 is anticipated to reach £9.5m and will then increase by circa £3m per annum. This indicates additional provision of £7.5m could be required in 2017/18 and a minimum of £3m each year thereafter to balance the budgets, prior to considering the Tt2019 savings.
- 3.12. This additional provision can be met in part from existing contingencies, although it should be noted that this will reduce flexibility in 2017/18, and an injection of additional funding will be required. This forecast is based on a wide range of assumptions and predictions and given the volatile nature of these areas of spend it is proposed to retain these sums in contingencies and to continue to monitor activity and spend closely during the year, releasing funding only as required.

Economy, Transport and Environment

- 3.13. This Department has two major demand led services which create pressures during the year, albeit these are effectively managed through corporate allocations, early delivery of savings and use of cost of change reserves.
- 3.14. Highways revenue maintenance, particularly in the area of reactive maintenance, is a constant pressure with the number of calls received by the service doubling in the last ten years to over 100,000 per year. The weather is obviously a key

factor that impacts both on the condition of the roads and levels of activity around winter maintenance.

- 3.15. The highways maintenance budget in 2016/17 has benefitted from £1.8m of additional one-off resources following Cabinet's decision to incorporate the savings from the 2015/16 winter maintenance budget which arose from the relatively mild winter last year. This allowed a much needed additional programme of highway works to proceed during the year. Third quarter forecasts indicate a potential saving on the 2016/17 winter maintenance budget, though the current prolonged very cold period could reduce or even eliminate this sum. However, in the light of the current outturn forecast, approval in principle is sought to add any saving from the 2016/17 winter maintenance budget to the 2017/18 highways maintenance budget.
- 3.16. After a period of relative stability, the levels of waste collected for disposal has increased by 5.3% over the last three years and impacts not only on the direct costs of waste disposal but also adversely affects the income that is received by the County Council from Veolia for utilising spare capacity in our plants.
- 3.17. The waste disposal budget is affected by falling recycling rates (reflecting national trends) and is also sensitive to changes in statutory waste definitions and fluctuations in markets or currencies which affect the value of recycled materials such as metal or paper or the treatment costs of materials like wood. These pressures are currently effectively managed through corporate allocations
- 3.18. ETE will achieve over £5m of its Tt2017 savings early as planned to provide both cash flow funding to cover known timing shortfalls (e.g. phase 2 of the savings from the waste disposal contract extension) and capacity to develop future savings proposals. This has been an effective strategy to date although the increased requirement for investment in assets and resources to generate the next phase of savings places further pressure on the Department during the lead into 2017/18.
- 3.19. Experience during the year where the Department has implemented savings early, particularly in 'universal' service areas like Highways or HWRC operations, shows an increase in contact from members of the public and also from MPs and others who expect previous service levels to continue and challenge responses that indicate that service levels have been reduced or withdrawn. Looking to 2017/18 and beyond the combination of reduced staffing levels (since 2010 the Department has reduced its core permanent staff numbers by around 25%) and the lower operational budget provision mean it will be challenging to respond to these demands.

Culture, Communities and Business Services

- 3.20. CCBS have been very successful in delivering major transformation programmes across Libraries, Outdoor Centres, Hillier Gardens and the Countryside service which have produced savings in excess of the required targets and implemented them earlier than required.
- 3.21. For 2016/17 this has placed the Department in a strong position and a contribution of £4.8 is expected to be made to cost of change reserves in the year. Unlike other departments CCBS encourages use of it's services in order to

generate income, but this does increase the risk in the budget moving forward as the reliance on income becomes ever greater.

- 3.22. Successive budget reductions also means there is less scope to generate savings across the services and high levels of investment and resources are required to generate further savings as is the case with most departments.

Corporate Services

- 3.23. Over the last eight years or so, Corporate Services have been required to deal with increasing work pressures at a time that staffing resources and other budgets are reducing significantly. Furthermore, as savings become harder and more complex to deliver (linked for example to IT system changes) the cost and timeframes to deliver savings increase, placing additional strain on the resources available to deliver business as usual activity.
- 3.24. Corporate Services have also been using their cost of change reserves to fund additional capacity in their transformation teams and the corporate Transformation Practice team and recent monitoring reports have suggested that some of these reserves may be required to support Children's Services and Adults' Health and Care in the short term. The potential longer timeframes for delivering the Tt2019 Programme will also mean that these teams will be in place for longer placing an additional burden on available resources.
- 3.25. Early delivery of savings in the current year will help as part of the overall strategy for delivering savings in the longer term, but the continued need for additional resources against a backdrop of reducing budgets should not be underestimated.
- 3.26. The next section outlines the expected outturn position for the current year in more detail.

4. Revised Budget 2016/17

- 4.1. During the current financial year there have been a number of changes to the original budget that need to be taken into account, some of which have already been reported to Cabinet. In addition, it is also timely to review some of the high-level numbers contained within the revenue budget in order to assess the likely impact on the outturn position for the end of this year.
- 4.2. Appendix 2 provides a summary of the original budget that was set for 2016/17 together with adjustments that have been made during the year. The proposed Revised Budget for 2016/17 is then set out for information. The variance between the adjusted and revised budget gives an indication of any one off resources that may be available at the end of the year that could be used to fund one-off investment.
- 4.3. The paragraphs below explain the main adjustments that have been made to the budget during the year:

Adjusted Budget 2016/17

- 4.4. **Departmental Spending** – Budgeted departmental spending has increased by approaching £36.7m and the reasons for this are highlighted in the table below:

	£M
Technical accounting change for Waste Contract	4.3
Waste Management uplift for volumes and price	3.1
Impact of pay award	2.8
Changes to Revenue Contributions to Capital Outlay (RCCO)	3.1
Net increase in grants	8.5
Use of cost of change reserves	12.5
Other Net Changes	<u>2.4</u>
Total	<u>36.7</u>

- 4.5. The increases in budgeted departmental spending are mainly as a result of increased government grants or the one off use of cost of change reserves. The true value of recurring increases is only £5.9m relating to the pay award and volume and price uplifts for Waste Management, but both of these represent transfers from contingencies rather than new spend.
- 4.6. The paragraphs below outline changes to the other items that make up the overall revenue account.
- 4.7. **Capital Financing Costs** – The decrease reflects the amended financing of the extended waste contract. This technical accounting adjustment sees budget being transferred to Economy, Transport and Environment from a budget previously held corporately. In addition, Cabinet approved a change in Minimum Revenue Provision (MRP) policy in December 2015 and as a result of this the amount which must be set aside for repaying external loans and meeting other credit liabilities has reduced.
- 4.8. **Revenue Contributions to Capital Outlay (RCCO)** – The increase in RCCO reflects changes made to the capital programme and financing during the year but this is entirely offset by other funding changes in budgets or to earmarked reserves so that there is no bottom line impact in 2016/17.
- 4.9. **Contingencies** – The reduction in contingencies is mainly the result of transfers made to departmental budgets during the year.
- 4.10. **DSG and Specific Grants** – The decrease in DSG reflects amendments that have been made to the final grant during the year. The increase in specific grants is mainly due to the confirmation of funding for the Independent Living Fund, the receipt of a number of new grants, for example funding for Partners in Practice and High Needs Strategic Planning, and some changes in known grants, including the Unaccompanied Asylum Seeking Children Grant.
- 4.11. All of these changes have had no overall impact on the bottom line of the revenue account as they mainly represent transfers between different areas of the budget or represent matching changes to expenditure and income as is the case with specific grants.

Revised Budget 2016/17

- 4.12. The fourth column of figures shown in Appendix 2 outlines the proposals for the revised revenue budget for the County Council for 2016/17. At this stage the revised budget for departments matches the adjusted cash limits that they have been given for the year and therefore no variances are shown for the end of the year.
- 4.13. As set out in Section 3 it is anticipated that there will be under spends in the majority of departmental budgets by the end of the year due to the early delivery of savings. However, in line with current policy this can be transferred to departmental earmarked reserves to be used to fund the cost of change in future years and will therefore have no impact on the bottom-line position of the revenue account.
- 4.14. The forecast position has been presented as break even against the revised cash limits reflecting this policy and the fact that departments are managing their bottom line positions to contain spending pressures and are using any surplus to meet the cost of change in the year to minimise the draw from their reserves.
- 4.15. **Interest on Balances** – The County Council adopts a prudent approach to estimating for interest on balances given the number of different variables involved. For 2016/17 current forecasts anticipate that performance in the year will exceed this figure and an additional return of £0.5m is therefore assumed in the revised budget.
- 4.16. As part of change in the investment strategy it was recognised that investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the principal instead. As a consequence, the 2015/16 Investment Strategy recommended that returns from a pooled property fund be used to create a reserve in the County Council's accounts as protection against the irrecoverable fall in value of any investments. It is recommended that £0.5m is added to this reserve to further protect the County Council's funds. This is prudent given the additional risk that is being taken in targeting investments with higher returns and will bring the total amount in the reserve to £1.5m.
- 4.17. **Capital Financing Costs** – As in previous years, the estimates for this heading are prepared on the basis of taking out new planned borrowing during the year. However, since the County Council has sufficient cash reserves there is no need to actually take out this long term borrowing at this stage, particularly since this would attract a high 'cost of carry' when comparing short term to longer term interest rate levels.
- 4.18. The estimates for 2016/17 have therefore been revised taking this into account and show a saving of £1m in the overall capital financing costs for the year.
- 4.19. **Contingencies** – The key items within this budget relate to risk contingencies set aside to reflect the pressures in social care, the major change and savings programmes that were being embarked on during the year, allowance for waste disposal inflation and disposal costs, together with some other centrally held contingencies in respect of pay and price increases.

- 4.20. In considering the revised estimates position, it is timely to review these contingencies in light of the current financial position highlighted in monitoring reports. At this stage of the year, it is considered prudent to release contingency items in respect of pay and price inflation that have not been used, together with other sums set aside for income risk and the general risk contingency. In total, these items amount to £12.75m which can be declared as savings against the revised budget.
- 4.21. It is important to note that whilst these do represent significant available resources, they must be set in the context of the size and complexity of the County Council's gross budget and the efficiency and change programmes that have been implemented in recent years. Contingency sums are set aside for a variety of purposes and it is only now at this later stage in the year that these resources can be deployed for other purposes with greater certainty.
- 4.22. Taking this £12.75m, together with the £1.5m available from capital financing and interest on balances gives a grand total of £14.25m that can be used on a one-off basis.
- 4.23. It is proposed that this total of £14.25m is used as follows:
- Provision of funding for a number of priorities linked, both directly and indirectly, to additional capital investment and economic growth (described in more detail in the next section) which total £13.75m.
 - The addition of £0.5m to the Investment Risk Reserve as explained in paragraph 4.16.

Capital Investment and Economic Growth Priorities

- 4.24. 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 the government or developers.
- 4.25. However, as detailed above, it has been possible to release £13.75m to fund a small number of priorities linked, both directly and indirectly, to additional capital investment and economic growth. These are shown in the following table:

	£M
Strategic Land Development	5.00
Gosport Community Hub	0.75
Flood Defence Schemes	6.00
Market Town Fund	2.00
Total	13.75

- 4.26. **Strategic Land Development** – Additional funding of £5m to support the achievement of ongoing capital receipts of between £90 to £110m, excluding

anticipated financial returns from Manydown, from the Strategic Land Programme as recognised in the Strategic Land Update report to the Executive Member for Policy and Resources in March 2016. This update identified the need for additional funding associated with the planning and development strategy to enable the delivery of the Strategic Land Strategy, although the additional funding requested will also include supporting the submission of an Outline Planning Application at Manydown. It is anticipated that a further separate case for Manydown revenue resource funding will be brought forward later in 2017 on the back of a detailed business case which could lead to financial returns from the intended joint venture delivery 'vehicle' (as opposed to traditional capital receipts) of up to £50m.

- 4.27. **Gosport Community Hub** – Funding of £750,000 to enable the refurbishment and reconfiguration of the Gosport Discovery Centre to become a Community Hub, as approved by the Executive Member for Policy and Resources in November 2016. This investment will bring a range of public health and adults' services together under one roof, close to public transport links, making it easier and quicker for residents to access the services they need, whilst retaining the unique value offered by the library itself. Alongside an enhanced customer experience for a range of County Council service users and the achievement of positive outcomes in an area of particular need in the county this project will also deliver service efficiencies for 2017 and 2019.
- 4.28. **Flood Defence Schemes** – In March 2014, following extensive flooding in Hampshire in 2013/14 the County Council submitted 33 initial outline funding bids for schemes in over 50 locations to the Department for Food and Rural Affairs (Defra) for inclusion in their prospective six year and longer term Flood and Coastal Erosion Risk Management (FCERM) programmes. Indicative Flood Defence Grant in Aid (FDGiA) or local levy funding based on these bids was announced in March 2015 but in all cases the funding support was subject to further scheme development and an approved business case for each scheme before any grant funding could be confirmed.
- 4.29. Based on the schemes for which indicative funding was announced by Defra in March 2015 the proportion of overall total project costs to be funded by FDGiA and local levy was 60%. The County Council's programme and resourcing was based on the assumption that this would continue. However, our more recent experience indicates that this proportion has fallen by almost half to between 30-40%; with a proportionally higher balance therefore falling to the County Council and other funding partners.
- 4.30. This has been highlighted with regards to the proposals for key priority works at Romsey and Buckskin in Basingstoke which, in addition to any further funding from partners locally, could potentially now require all of the remaining County Council funding to proceed, particularly as detailed scheme designs have also shown higher costs compared to the quickly assembled estimates generated to meet tight FDGiA bid submission deadlines. This would leave little if any further capacity for match funding to lever in FDGiA for other schemes planned for later in our programme. Additional capital of £3m is therefore requested to allow the County Council to maintain a leading role in progressing delivery of further existing priority schemes.

- 4.31. In addition other schemes have come forward since the original bid (such as the A32 at Farringdon and proposed works at Wallington) and in order to be able to progress these schemes under the funding arrangement described above a further £3m is sought to provide match funding to support bids and continue to engage other potential funding partners, bringing the overall additional investment to £6m. Any new schemes will be approved by the Executive Member for Policy and Resources.
- 4.32. **Market Town Fund** – The Hampshire economic area is large, diverse and complex and market towns have a crucial role to play in the overall strategy for driving economic growth. The establishment of a fund of £2m against which bids can be submitted with the aim of developing the economic potential and sustainability of these towns will support the County Council's overarching priority of supporting the Hampshire economy. Bids submitted against this funding will be considered by the Executive Member for Policy and Resources in a similar way to *Investing in Hampshire* schemes.
- 4.33. **Material Recycling Facilities** – These facilities are currently operated by Veolia under the current contract. Within the contract there is the option to invest further in the facilities to increase the range of materials that can be recycled, which would require capital funding from the County Council but reduce our ongoing revenue liabilities, whilst at the same time increase recycling. Any investment would be on the basis that it was able to also repay any initial capital funding injection.
- 4.34. Due to the timing of the contract options, delegated authority is being sought in this paper to enable the Director of Economy, Transport and Environment to progress investment discussions with Veolia and if favourable, to commit in principle funding to the scheme in consultation with the Executive Member for Environment and Transport, the Leader and Director of Corporate Resources.

5. Local Government Finance Settlement

- 5.1. It should be noted that the settlement last year covered four years from 2016/17 to 2019/20 and, following the acceptance by the DCLG of the County Council's Efficiency Plan for the period, the expectation was for minimal change to the figures published last year and the implications of the four year settlement were incorporated into the MTFS in July 2016.
- 5.2. The final Local Government Finance Settlement for 2017/18 is still awaited at the time of the publication of this report, however, it is not anticipated that there will be any major changes to the figures that were released in December last year, which confirmed that the County Council will have a further reduction in grant of £37m.
- 5.3. The Government has now published its response to the consultation on cuts to the New Homes Bonus (NHB). The main changes reduce the number of years for which legacy payments are made and introduce a baseline for housing growth set at an initial level of 0.4% of the council tax base for 2017/18. From 2018/19 the government will also consider withholding payments from local authorities that are not planning effectively.

- 5.4. Details of the provisional allocation of the NHB for 2017/18 were also published and the County Council will receive approaching £1.5m less NHB than predicted. As previously agreed this funding is added to the Revenue Grants Unapplied Reserve each year and is largely but not wholly allocated to fund highways works under the Operation Resilience Programme, which has been extended. The changes in funding announced do not impact on this previously agreed investment.
- 5.5. The provisional settlement also announced that the County Council will receive transitional Education Services Grant (ESG) of just over £4m in 2016/17 for the period from April to August 2017 which relieves some pressure in 2017/18 before ESG ceases as previously announced.

Adult Social Care Funding and Precept

- 5.6. In 2016/17 the government implemented a clear shift in council tax policy following five years of freezing council tax, supported by the allocation of council tax freeze grant. The government ended this support and assumed that local authorities would put up their council tax by the maximum they are allowed each year in the period to 2020. 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.
- 5.7. This year they have granted local authorities the flexibility to bring forward some of this increase and to raise the precept by up to 3% next year and the year after within the cap of 6% over the next three years to 2019/20.
- 5.8. In addition a new dedicated adult social care grant will be paid in 2017/18 and for the County Council this will total around £4.8m. There is no indication that this is anything other than a one off grant.
- 5.9. These measures represent the government's response to growing calls for additional resources to meet the increasing cost pressure facing local authorities who provide adult social care in advance of the introduction of the improved Better Care Fund in 2018/19.
- 5.10. Taking up the council tax flexibility would yield, on a one off basis, additional income of £16.6m for the County Council in the next two years to put towards meeting the pressures facing adult 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.
- 5.11. The financial pressures facing the County Council have been clearly set out in the MTFs and the current strategy allows for ongoing growth in adult social care funding of £10m per annum, and also for price inflation and the impact of the National Living Wage (NLW). Additional corporate funding currently forecast to be required by Adults', some of which will be held in contingencies, is summarised below:

2017/18 2018/19

	£M	£M
Allocated inflation (*)	11.1	15.0
Growth	10.0	11.5
Additional Funding Required	21.1	26.5
Less Value of 2% Precept	(10.8)	(11.3)
Gap in Year	10.3	15.2
Gap brought forward		0.2
Less Adult Social Care Grant	(4.8)	
Less value of one-off additional flexibility	(5.3)	(11.3)
Remaining Gap to be Met Corporately	0.2	4.1

(*Inflation for 2018/19 not yet known with any certainty due to impact of the NLW so a notional estimate has been included of £15m)

- 5.12. This table shows that over the two year period there is still a cumulative net gap of £4.1m between the additional funding required by Adults' and the revenue available from the Adult Social Care Grant and the revenue generated from the social care precept; including the one-off additional flexibility.
- 5.13. Furthermore, it is acknowledged that Adults' Health and Care remains the Council's biggest risk area in relation to delivery of savings for the Tt2017 Programme and there is no doubt that the successor programme will be significantly more challenging, requiring the delivery of a further £140m of savings.
- 5.14. At the December 2015 Cabinet meeting it was agreed that some £13m of the Adults' Tt2017 Programme would be delivered during 2017/18, in order to better achieve effective and sustainable service transformation with minimum disruption. This reflects the latest risk assessment but in recognition of the significant scale of transformation required alongside the continuing business as usual challenges this is subject to the highest ongoing scrutiny.
- 5.15. This is a timing issue and the shortfall can be made up from cost of change reserves as savings come on line throughout 2017/18, leading to full implementation of the savings programme by the start of the year 2018/19.
- 5.16. Given the acknowledgement that the Tt2019 Programme will involve complex transformational, policy and service change across all services over the next few years alongside slipped delivery of part of the Tt2017 Programme and an unrelenting business as usual agenda, it is likely that there will be similar cash flow issues to address.
- 5.17. Additional funding gained from bringing forward some of the increase in council tax, albeit one-off, would allow corporate resources to be diverted to the GER (which is currently fully utilised) to begin to make provision for this eventuality and enable the County Council to better ensure the financial resilience of the authority to 2020.

- 5.18. Given the continued pressures within Adults' Services and the challenges presented by the Tt2019 Programme this report recommends that the County Council increases council tax by 4.99% in 2017/18 an increase of £53.82. This increase includes 3% or £32.37 for the adult social care precept, in line with government policy (including the further flexibilities granted in the provisional settlement) in recognition of the pressures facing local authorities due to the growing cost of adult social care.
- 5.19. This proposed increase which will see the Council Tax for a Band D property increase by £53.82 per annum to £1,133.10 will still mean that council tax is at a far lower level than it might have been. If Council tax had gone up by RPI every year since 2010/11 it would now be £1,236.79, £103.69 more than the amount being proposed. The table below shows the level of council tax being proposed for a band D property and compares this to the level which council tax would have been across a range of scenarios, demonstrating the relative position for 2017/18:

Scenario	Band D Council Tax 2017/18 £	Variance to Proposed Council Tax 2017/18 £
Proposed council tax for 2017/18	1,133.10	
Increase by RPI per annum since 2010/11	1,236.79	+ 103.69
Increase by the referendum threshold each year since 2010/11 (inc. 4.99% in 2017/18)	1,275.81	+ 142.71

6. Service Cash Limits 2017/18

- 6.1. In December 2016 Cabinet considered a budget update report which set provisional cash limit guidelines for departments for 2017/18. It is worth reiterating at this stage that cash limits have been cut significantly since the period of austerity began as demonstrated in the following table:

2012/13	2 year target	-16.0%
2013/14	efficiency target	-2.0%
2015/16	2 year target	-12.0%
2017/18	2 year target	-14.5%
		-44.5%

- 6.2. The above reductions have been applied on a straight line basis in accordance with the County Council's financial strategy as it maintains a strong corporate approach and discipline to delivering the required savings. There has always

been a strong distinction made between savings targets and growth allocations which are made in recognition of growing demand and service pressures on a revenue or capital basis (for example social care, highways maintenance and waste disposal) and over the period highlighted above additional growth resources of more than £80m have been provided for social care departments alone. As a result, overall the County Council's gross expenditure remains in the region of £1.9bn.

- 6.3. Appendix 3 sets out the cash limits agreed for 2017/18 in December and provides information on adjustments that have been made since this time, which are mainly the result of changes to grants within the local government finance regime. Overall, cash limits have increased by £29.1m, some of the reasons for which have been outlined in the individual budget reports to Executive Members. The reasons for the increase are summarised in the following table and explained in more detail in Appendix 3:

	£M
Increase in Dedicated Schools Grant	26.2
Changes in other non-schools grants	(1.9)
Addition of Adult Social Care Grant	4.8
Total	29.1

- 6.4. In a similar way to the changes for 2016/17 these amendments have not had a bottom-line impact on the revenue budget as they are all the result of changes in grants.

Savings Proposals

- 6.5. The County Council has been working for some time now on the Tt2017 Programme, to deliver £98m of savings. Given the size of the task, the lead in time required and the transformational nature of some of the proposals, the detailed savings to meet this target were approved by Executive Members, Cabinet and County Council in September and October 2015.
- 6.6. There are therefore no new savings proposals to consider as part of the formal budget setting for 2017/18, but the impact of the agreed savings has been reflected in the detailed budgets approved by Executive Members and presented in this report.

7. Service Budgets 2017/18

- 7.1. As explained in Section 6 departments have been set cash limit guidelines for 2017/18 which include allowances for inflation, pressures, approved savings and other agreed changes.
- 7.2. Appendix 4 provides a summary for each department of the main services under their control and shows the original budget for 2016/17, the revised budget for

2016/17 and the proposed budget for 2017/18. All departments are proposing budgets that are within their cash limits.

8. Workforce Implications

- 8.1. The County Council has from the outset been managing the reduction in the workforce in response to the reductions in government grant in a planned and controlled way by the use of managed recruitment, redeployment of staff where possible and voluntary redundancy, which has been used to effectively and sensitively achieve staff reductions at what is a very difficult time.
- 8.2. The table below provides a summary of the workforce changes that are expected to happen by the end of 2017/18 and take account not only of the anticipated reduction in posts as a result of the ongoing implementation of savings proposals but also other changes and transfers that have or will impact on departments during the year:

	FTE
Estimate as at 31 March 2017	10,090.3
Changes Relating to Savings	(126.6)
Transfers and Other Changes	74.0
Estimate as at 31 March 2018	<u>10,037.7</u>

- 8.3. The net change in posts is a decrease of 52.6 FTE. This reflects the fact that in some areas the number of roles is reducing and changing whilst in others we are reconfiguring services and the workforce to deliver the required outcomes in a different way. In addition, business is being expanded either through partnership working or through the extension of trading activities and departments are providing resources to drive change and transformation. This accords with the County Council's continued innovative and diverse approach to tackling the financial challenges that it faces and its ability to provide sufficient capacity and resources to ensure that the savings needed to balance the budget are delivered.

9. 2017/18 Overall Budget Proposals

- 9.1. Whilst service budgets make up the vast majority of the total budget there are several other items that need to be taken into account before the overall budget and council tax can be set for the year.
- 9.2. Appendix 5 sets out a summary of the overall revenue account starting with the cash limited expenditure for departments that have been discussed above. The following paragraphs outline the other items that make up the overall revenue account and provide explanations for any significant variances compared to the 2016/17 budget.
- 9.3. **Interest on Balances and Capital Financing Costs** – The reduction of £13m in capital financing costs primarily reflects the ongoing impact of the revised MRP

Policy and the technical accounting adjustment required as a consequence of the amended financing of the extended waste contract.

- 9.4. **Revenue Contributions to Capital Outlay (RCCO)** – Each year, revenue contributions are made to help fund the capital programme. The increase of approaching £8.1m is due to the change in the amount of RCCO drawn down from reserves and the net impact of the new phase of Operation Resilience which are both offset by amounts in the reserves section of the revenue account and therefore have no impact on the overall budget.
- 9.5. **Contingencies** – The budget for contingencies has decreased by almost £3.5m compared to the 2016/17 original budget. This mainly reflects the transfer of funding to departmental cash limits in respect of inflationary pressures (including the 2017/18 pay award) and other items in line with the approved MTFs, offset in part by the additional provision for children’s social care described in paragraph 3.11.
- 9.6. Existing contingency provisions in respect of key risk items such as inflationary pressures; including the NLW, and demand pressures (notably for social care) have been retained in the base budget. These provisions represent the recommendation by the Director of Corporate Resources of a prudent approach to budgeting given the potential pressures the County Council faces. In addition to these contingencies, the County Council has access to sufficient reserves as part of an on-going strategy for the management of the County Council’s financial resources over the medium term.
- 9.7. **Dedicated Schools Grant** –The increase in the DSG reflects growth in pupil numbers and the inclusion of funding for new items such as additional hours of childcare and education for 3 & 4 year olds, maintained nursery funding and the transfer of funding for retained statutory duties from the ESG.
- 9.8. **Specific Grants** – This income budget has been updated following grant notifications for 2017/18.
- 9.9. **Pension Costs** – Pension costs for past deficit payments are now accounted for centrally. The increase of £1.9m reflects the agreed recovery plan for the current actuarial valuation of the fund which will continue to increase by 8% per annum until 2019/20.
- 9.10. **Coroners Service** – Although the Coroners Service is reported as part of the Policy and Resources budget, it does not form part of the cash limit, as the County Council has no control over the level of spending within this service. It is therefore shown as part of the overall revenue account. In 2016/17 the revised budget has been increased to reflect activity levels and based on recent years spending patterns it is anticipated that this higher level of funding will be required in 2017/18, although actual spending is of course dependent on the number of cases arising during the year.
- 9.11. **Business Units** – The net trading position of business units has been updated and whilst overall the current estimate is a net trading deficit any losses at the end of the year will be met from earmarked reserves that the trading units hold.
- 9.12. **Earmarked Reserves** – Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account. However, the significant

reduction in the draw from earmarked reserves in 2017/18 reflects the fall out of the use of the GER to balance the budget in 2016/17, as explained briefly in the paragraphs below.

- 9.13. The County Council holds reserves for many different reasons, but not all of these are available for general usage. Schools balances are for schools exclusive use and other reserves such as the insurance reserve are set aside as part of the Council's overall risk management strategy or are already planned to be used as is the case with the GER which was utilised in 2016/17.
- 9.14. 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, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the GER. Hence the use of the GER is cyclical and aids the County Council to dampen the impact of significant and unexpected grant reductions and allow a planned approach to the delivery of savings.
- 9.15. The comprehensive Reserves Strategy, updated to include the figures at the end of March 2016, was presented to Council as part of the MTFs in July 2016 and is set out in Appendix 6.
- 9.16. This highlights the point that only in the region of 20% of reserves are truly available to be used to support revenue spending and to help fund the cost of the change programmes across the County Council. In addition, the GER which comprises the majority of these 'Available Reserves', standing at £75.2m at the end of 2015/16 is in reality fully committed to balance the budget in 2016/17 with the remainder planned to be utilised in 2017/18 and 2018/19.
- 9.17. **Use of General Balances** –The 2016/17 original budget assumed a net contribution to general balances of £0.9m and this prudent annual amount has been continued for 2017/18.
- 9.18. Appendix 7 represents the Director of Corporate Resources view of the overall budget and the adequacy of reserves which must be reported on as part of the main budget proposals in accordance with Section 25 of the Local Government Act 2003. In particular, it considers risks within the budget and in the MTFs going forward, updated to reflect the impact of the settlement, and places this in the context of the recommended contingencies and balances set out in this report.
- 9.19. Appendix 7 also highlights that the government have responded to growing calls for additional resources to meet the increasing cost pressure facing local authorities who provide adult social care in advance of the introduction of the improved Better Care Fund in 2018/19. Part of this response has been to grant local authorities the flexibility to bring forward some of the social care precept and to raise the precept by up to 3% in 2017/18 which will help to offset in part the rising cost of adult social care

10. Budget and Council Tax Requirement 2017/18

- 10.1. The report recommends that council tax is increased by 3.99% in 2017/18, in line with the assumption built into the MTFs and recommends that the County

Council takes 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.

- 10.2. In addition to the agreed increase for council tax, there are other changes within the council tax calculation that also have an impact on the budget. The County Council is notified by Hampshire Districts, of the estimated level of collection fund surplus or deficits that needs to be taken into account in setting the council tax for 2017/18. In addition to the figures for council tax, Districts are required to provide estimates of their surplus or deficit on the Business Rates collection fund, following the introduction of Business Rates Retention in April 2014.
- 10.3. For 2016/17 a net council tax collection fund surplus of just over £6.7m is anticipated of which only £1.5m was assumed in the original forecast. This has mainly arisen due to general increases in the council tax base during the year.
- 10.4. The current prediction for business rate collection funds is a deficit of approaching £0.8m across all Districts, although there are varying levels of surpluses and deficits that make this up. This reflects the fact that there remain risks around appeals and volatility and uncertainty continues such that this position could still be subject to change after this report has been dispatched.
- 10.5. Similarly, Districts have provided estimates of what Business Rate income they expect to receive for 2017/18 based on their experience during the current financial year. These estimates have yet to be finalised and, given recent experience about the risk and volatility surrounding this income, at this stage have not been built into the budget position. We will await confirmation of final figures and any adjustment will be reported at County Council.
- 10.6. Final details of the compensation grant that Hampshire is due to receive following the caps and reliefs granted by government in past budgets have yet to be notified and will therefore change the anticipated income from this source in the final budget so again we will await confirmation and any adjustment will be reported at County Council.
- 10.7. The financial update report presented to Cabinet in December 2016 maintained the position set out in the MTFs and assumed a council tax increase of 3.99%, of which 2% will contribute towards the increased costs of adults' social care, in line with the government's amended approach (that is built into their settlement calculations). In addition, it set out that a draw from the GER was anticipated in order to balance the budget based on the higher than anticipated grant reductions announced as part of the four year settlement.
- 10.8. Taking account of all the budget changes outlined in the previous sections, the County Council is able to set a balanced 2017/18 budget that makes provision for further funding within contingencies for children's social care and that addresses the rising cost of adults' social care, as well as providing one off resources that will help the County Council to face its inevitable future financial pressures
- 10.9. Local authorities are required to report a formal council tax requirement as part of the budget setting process and the recommendations to Council later in this report show that the Council Tax Requirement for the year is £566,827,145.

11. Treasury Management Strategy and Investment Strategy for 2017/18

- 11.1. The County Council is required to adopt a treasury management strategy and an annual investment strategy for 2017/18 and these are set out in Appendix 8 for approval. The strategy has been reviewed in light of current and forecast economic indicators and remains broadly unchanged from last year when the adoption of a more active approach to managing the portfolio of existing borrowing was included.
- 11.2. The revised approach of placing a part of the portfolio into longer term investments with other Local Authorities, or equity, bond or property investments is expected to yield additional return as planned.
- 11.3. As part of this decision it was recognised that investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the principal instead. As a consequence, the 2015/16 Investment Strategy recommended that the returns from a pooled property fund be used to contribute £0.5m each year to a reserve in the County Council's accounts as protection against the irrecoverable fall in value of any investments. It is recommended that a further £0.5m is added to this reserve in 2016/17 as set out in Section 4 in line with this strategy to further protect the County Council's funds. This is prudent given the additional risk that is being taken in targeting investments with higher returns.

12. Prudential Indicators

- 12.1. The prudential code that applies to local authorities ensures that:
 - Capital programmes are affordable in revenue terms
 - External borrowing and other long-term liabilities are within prudent and sustainable levels
 - Treasury management decisions are taken in line with professional good practice
- 12.2. Some of the limits have been altered to reflect the revised treasury management and investment strategy although this does not expose the County Council to any greater levels of risk.
- 12.3. Appendix 8 also contains the prudential indicators required by the code for the County Council which will now be submitted for approval by the full County Council in setting the budget for 2017/18.

13. Consultation

- 13.1. A consultation was undertaken in order to inform the County Council's ongoing transformation and efficiencies programme in accordance with legal best-practice. The *Shaping Hampshire* - Spending Review Consultation that was carried out by Ipsos MORI on behalf of the County Council, between 26 May and 6 July 2015 aimed to seek residents' and stakeholders' views on a range of options for finding further budget savings by April 2017, including setting Council Tax, using reserves and making changes to the way in which services are delivered.

- 13.2. A detailed report on the results of the consultation was presented to Cabinet in September 2015 and a summary is contained in Appendix 9.
- 13.3. Following the Shaping Hampshire - Spending Review Consultation, a series of more detailed consultations have been undertaken, in accordance with best legal practice, on some of the savings proposals included within the Tt2017 Programme. This second round of consultation helped to inform further detailed Executive decisions during 2016.
- 13.4. Specific statutory consultation was carried out with the business community on the budget proposals for 2017/18 and a summary of the key issues arising from this can also be found at Appendix 9 to this report.

14. Recommendations

RECOMMENDATIONS TO CABINET

- 14.1. The council tax increase for 2017/18 of 4.99% in line with the details set out in paragraph 5.18 be approved.
- 14.2. The revised budget for 2016/17 contained in Appendix 2 be approved.
- 14.3. That in principle approval be given to transfer any one off under spend on the 2016/17 winter maintenance budget to the highways maintenance budget for 2017/18.
- 14.4. The updated cash limits for departments for 2017/18 as set out in Appendix 3 are approved.
- 14.5. The proposed service budgets for 2017/18 (which include the implications of the annual review of charges) as set out in Appendix 4 are approved.
- 14.6. The overall budget for the County Council for 2017/18 as set out in Appendix 5 be approved.
- 14.7. Delegated authority be given to the Director of Corporate Resources, following consultation with the Leader and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by District Council's or any late changes in the final Local Government Finance Settlement.
- 14.8. **It be a Cabinet recommendation to Council that:**
 - a) The Treasurer's report under Section 25 of the Local Government Act 2003 be taken into account when the Council determines the budget and precept for 2017/18 (Appendix 7).
 - b) The Revised Budget for 2016/17 set out in Appendix 2 be approved.
 - c) The Revenue Budget for 2017/18 (as set out in appendices 4 and 5) be approved.
 - d) Funding for one off priorities linked, both directly and indirectly, to additional capital investment and economic growth totalling £13.75m as set out in paragraphs 4.24 to 4.32 be approved.
 - e) Delegated authority be given to the Director of Economy, Transport and Environment to explore investment options with Veolia for Material

Recovery Facilities as set out in paragraphs 4.33 to 4.34 and if favourable, to commit in principle funding to the scheme in consultation with the Executive Member for Environment and Transport, the Leader and Director of Corporate Resources.

- f) The total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2017, be £730,934,758.
- g) The **council tax requirement** for the County Council for the year beginning 1 April 2017, be £566,827,145.
- h) The County Council's band D council tax for the year beginning 1 April 2017 be £1,133.10, an increase of 4.99% of which 3% is specifically for adults' social care.
- i) The County Council's council tax for the year beginning 1 April 2017 for properties in each tax band be:

	£
Band A	755.40
Band B	881.30
Band C	1,007.20
Band D	1,133.10
Band E	1,384.90
Band F	1,636.70
Band G	1,888.50
Band H	2,266.20

- j) Precepts be issued totalling £566,827,145 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out overleaf:

Basingstoke and Deane	63,376.90
East Hampshire	48,900.79
Eastleigh	44,118.34
Fareham	42,371.60
Gosport	26,409.70
Hart	39,441.51
Havant	39,937.00
New Forest	70,155.20
Rushmoor	30,424.24
Test Valley	47,315.00
Winchester	47,794.31

- k) The treasury management and annual investment strategies, prudential and financial health indicators for 2017/18 be approved, in accordance with the recommendations in Appendix 8.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

- a) The Treasurer's report under Section 25 of the Local Government Act 2003 and take this into account when determining the budget and precept for 2017/18 (Appendix 7).
- b) The Revised Budget for 2016/17 set out in Appendix 2.
- c) The Revenue Budget for 2017/18 (as set out in appendices 4 and 5).
- d) Funding for one off priorities linked, both directly and indirectly, to additional capital investment and economic growth totalling £13.75m as set out in paragraphs 4.24 to 4.32 be approved.
- e) Delegated authority to the Director of Economy, Transport and Environment to explore investment options with Veolia for Material Recovery Facilities as set out in paragraphs 4.33 to 4.34 and if favourable, to commit in principle funding to the scheme in consultation with the Executive Member for Environment and Transport, the Leader and Director of Corporate Resources.
- f) That the total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2017, be £730,934,758.
- g) That the **council tax requirement** for the County Council for the year beginning 1 April 2017, be £566,827,145.
- h) That the County Council's band D council tax for the year beginning 1 April 2017 be £1,133.10, an increase of 4.99% of which 3% is specifically for adults' social care.

- i) The County Council's council tax for the year beginning 1 April 2017 for properties in each tax band be:

	£
Band A	755.40
Band B	881.30
Band C	1,007.20
Band D	1,133.10
Band E	1,384.90
Band F	1,636.70
Band G	1,888.50
Band H	2,266.20

- j) Precepts be issued totalling £566,827,145 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	63,376.90
East Hampshire	48,900.79
Eastleigh	44,118.34
Fareham	42,371.60
Gosport	26,409.70
Hart	39,441.51
Havant	39,937.00
New Forest	70,155.20
Rushmoor	30,424.24
Test Valley	47,315.00
Winchester	47,794.31

- k) The treasury management and annual investment strategies, prudential and financial health indicators for 2017/18, in accordance with the recommendations in Appendix 8.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	Yes
Maximising well-being:	Yes
Enhancing our quality of place:	Yes

Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	<u>Location</u>
Transformation to 2017: Consultation Outcomes	Cabinet – 21 September 2015
Medium Term Financial Strategy Update and Transformation to 2017 Savings Proposals	Cabinet – 5 October 2015
Medium Term Financial Strategy to 2020	Cabinet – 20 June 2016
Budget setting and provisional cash limits 2017/18	Cabinet – 12 December 2016

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:

The budget setting process for 2017/18 does not contain any new proposals for major service changes which may have an equalities impact. Proposals for budget and service changes which are part of the Transformation to 2017 Programme were considered in detail as part of the approval process carried out in September and October 2015 and full details of the Equalities Impact Assessments relating to those changes can be found in Appendices 3 to 6 in the October Cabinet report linked below:

http://www.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemdocuments.htm?sta=&pref=Y&item_ID=6920&tab=2&co=&confidential

In some cases further stage 2 consultations were required and this was reflected in the Equality Impact Assessments that were published at the time.

2. Impact on Crime and Disorder:

2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime.

2.2. The proposals in this report are not considered to adversely affect the prevention of crime.

3. Climate Change:

3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

There are no specific proposals which impact on the County Council's carbon footprint or energy consumption.

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

There are no specific proposals which directly relate to climate change issues

REVENUE BUDGET – LIST OF APPENDICES

1. Children’s Services Demand Projections and Financial Resilience to 2020/21(*page 30*)
2. Revised Budget 2016/17 (*page 37*)
3. Final Cash Limit Calculation 2017/18 (*page 39*)
4. Proposed Departmental Service Budgets 2017/18 (*page 40*)
5. Proposed General Fund Revenue Budget 2017/18 (*page 48*)
6. Reserves Strategy (*page 50*)
7. Section 25 Report from Chief Financial Officer (*page 57*)
8. Treasury Management Strategy and Investment Strategy 2017/18 to 2019/20 (*page 63*)
9. Consultation (*page 86*)

Children's Services Demand Projections and Financial Resilience to 2020/21

Introduction

1. Both nationally and locally pressures relating to the costs (and numbers) of children looked after continue to grow.
2. After a period of relative stability in the 1990s, the number of children that need to be looked after by the state because of neglect and abuse has risen since the mid 2000s. In the period from 2008/9 onwards this has been nationally at around the rate of 5% per year. The Association of Directors of Children's Services (ADCS) has been tracking this increase and the correlating increase in child protection and safeguarding :

http://adcs.org.uk/assets/documentation/ADCS_Safeguarding_Pressures_P5_R EPORT_Web_FINAL.pdf].

Trends and Performance

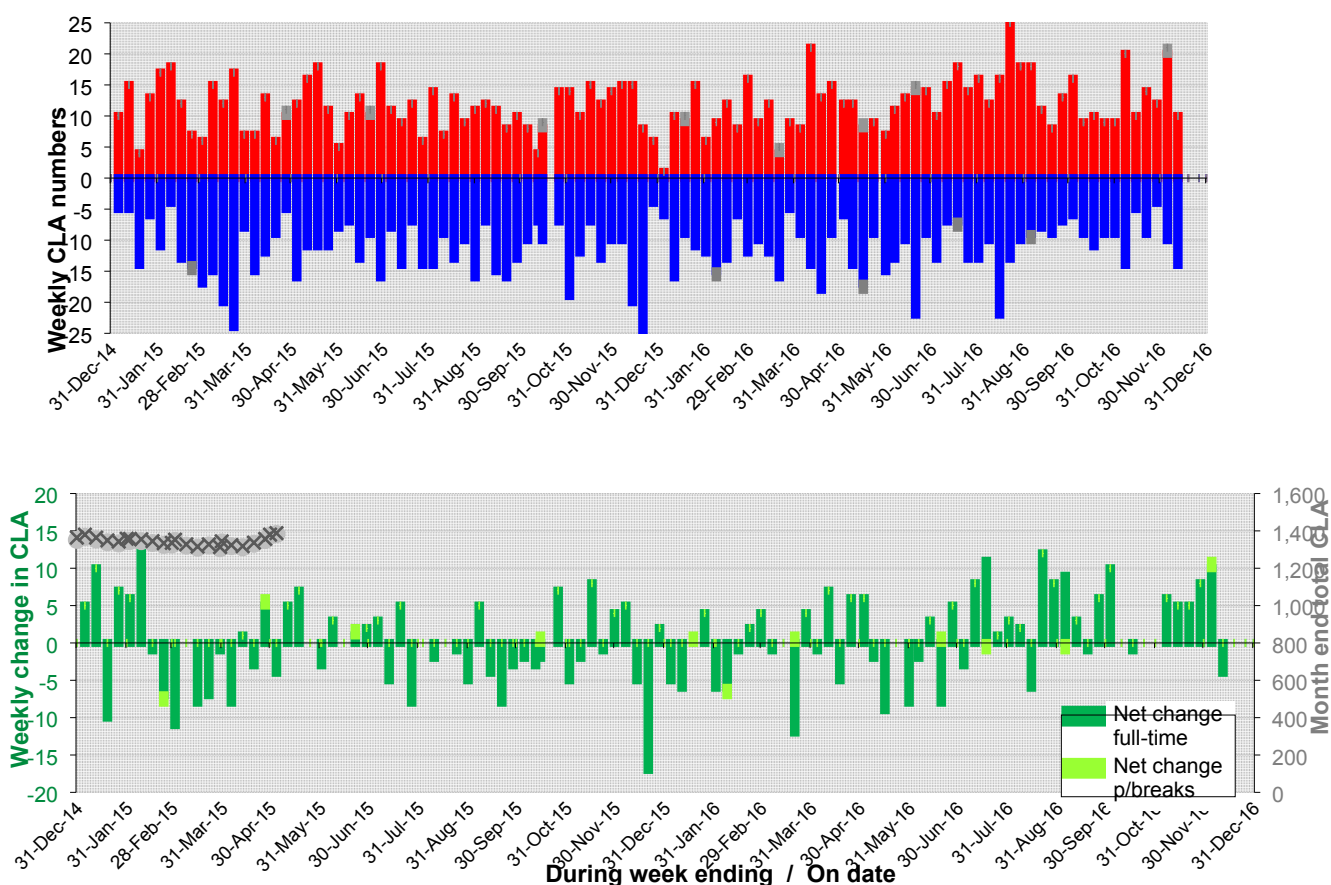
3. Whilst rates of increase have varied across the range of local authorities there is no obvious pattern to be discerned, only that relative rates of increase are often determined by historical rates of children in care (historically too low/too high) and in particular exposure to either a high profile child death (leading to less risk in decision making) or an inadequate Ofsted judgement (ditto). In both cases local authorities have had to pay a significant premium for the cost of failure although it should be noted that for most of these authorities, they then have a significant 'cushion' when it comes to making savings.
4. Authorities that have maintained an Ofsted rating of 'Good' over the period 2008-2016 such as Hampshire are few and far between and their costs tend to be lower given that there has been no premium to pay for failure. Finance officers are currently working on budget comparisons with a range of authorities.
5. The national increase in the number of children in care has been driven by a number of factors about which there is a broad consensus:
 - a much better awareness and identification of child abuse and neglect from a range of partners;
 - the better application of consistent thresholds to receive help as a result of government statutory guidance ('Working Together to Safeguard Children');
 - a growing professional aversion to risk from partners driven by national child care scandals ('I don't want it to be me...');
 - some evidence of the impact of recession and austerity on families;
 - the discovery of 'new' forms of abuse such as child sexual exploitation;
 - the creation of a number of new policy initiatives such as 'staying put' which allow teenagers to stay in their foster care placements;
 - children remanded to custody being treated by law as children in care;
 - a range of new legal processes such as the 'public law outline' which drive local authorities to put more case decisions before the family courts;
 - a drive by the courts for all cases to conclude within 26 weeks;

- and finally policy drivers such as the national redistribution of unaccompanied asylum seeking children arriving from France.
6. All of these policy initiatives and changes are arguably good things but they have, it is argued, led to higher rates of awareness and activity across a wider range of risk factors leading to higher numbers of children in care both nationally and in Hampshire.

Placement Turnover

7. It should also be explained that the number of children in the care of the local authority is never a static figure. Every week, indeed most days, children are coming into our care but equally as important, children leave our care. Every decision to take a child in to care is carefully considered and there is a 'triple lock' of accountable decision making.
8. Initially, the social worker may have concerns about neglect or abuse of a child based on a risk assessment. If the social worker is sufficiently concerned then they will request that their team manager review the case and, if there are no viable family alternatives, that the child is placed in the care of the local authority in order to protect them. If the team manager agrees then this decision is reviewed by the District Manager to ensure that the decision is sound, the right one for the child and that all alternatives have been exhausted. At which point there are only two options that can effectively be pursued: either the child can be placed within local authority care with the agreement of parents (under s20 of the Children Act) or the local authority must apply immediately to the court for an interim Care Order in order to safeguard and place the child.
9. In the court arena the local authority's decision making is further scrutinised. Around 70% of placements are now made via the courts, a reversal of the situation of a few years ago, due to several practice rulings by the higher courts: supremecourt.uk/cases/2016-0013-judgment
10. It should be noted that children's social care are also piloting a gatekeeping panel to agree the non-emergency admission of children into care. This panel will include partner agencies and will look to time limit periods of accommodation with all agencies contributing to the plan to support the child returning home. If successful, this will be rolled out across the county.
11. Children also leave care most days. Often this is because they have become 18 and are classified as 'care leavers' and will be entitled to ongoing financial and practical support from the local authority. This point about ongoing financial support for care leavers is another area where an undoubtedly positive policy development has led to significant additional costs for the local authority which has now become an ongoing financial pressure. Other children are adopted and some, particularly teenagers, return home or go to live with a family member under an arrangement such as a special guardianship order (which still has a cost associated with it).
12. Thus the number of children in care at any one time is always a net figure reflecting new entrants and leavers. Over time the figure can be better understood as the charts below show:

Weekly New and Ended CLA - Month End Totals

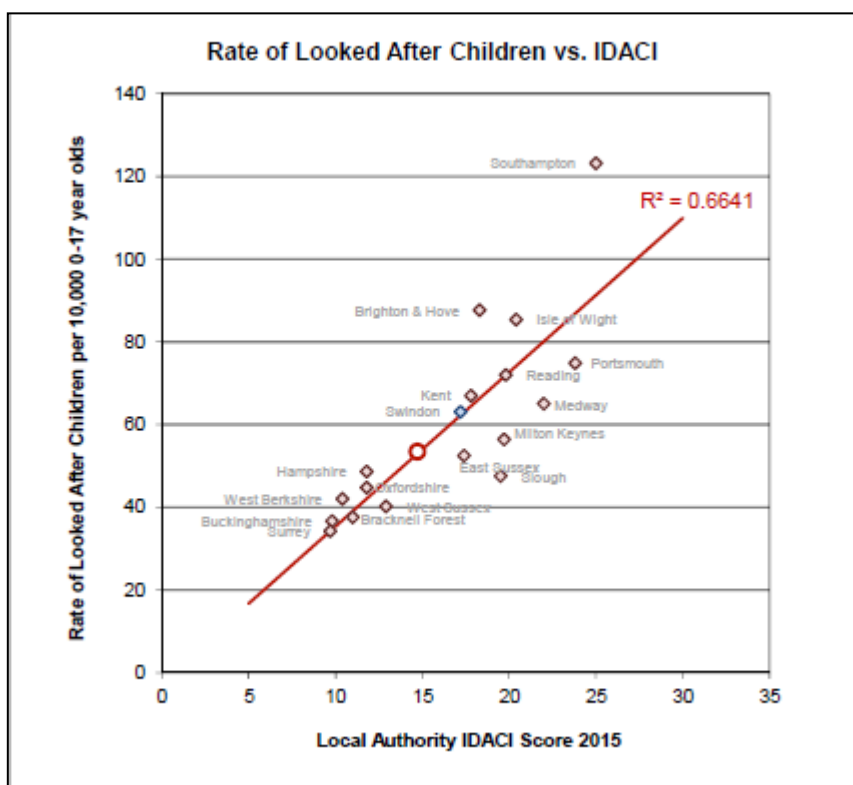


Translating Numbers of Placements into Costs

13. Historically, officers have always tracked the number of children in care as a proxy measure for total spend. There has been a long established approximation that the 'cost' of a child in care is approximately £50k per year. Previous detailed trend analysis work undertaken during a period of significant increases in the number of CLA led to a Children's Services base budget increase of £12.5m as part of the 2015/16 budget setting process.
14. The costs in these estimations are an average of the direct costs of care (i.e. they do not include the costs of social workers, administration etc.). There are a number of types of care placement, the most common of which is a placement with a local authority recruited and trained foster carer. This tends to be the cheapest option at an average of £449.82 per week. A mixed market applies in fostering and there are numerous independent fostering agencies (IFAs) that supply placements, sometimes specialist or niche placements, usually at a higher average cost of £805.96 per week.
15. Similarly, there are in house residential placements and independent residential placements – this latter category being the most expensive with placement packages significantly more expensive than IFAs. There are also a variety of other arrangements, in particular children in care who are placed at home with a parent or family member as part of a rehabilitation plan; this arrangement is becoming more frequent (see below). The vast majority of children in care are in foster care (over 75%) with the smallest proportion in residential care (around

9%). However, it is this latter category that is the most expensive. Almost all of the children in these placements (that are not disabled children) will be teenagers – the ‘troubled and troublesome’ category.

16. Given that the national number of children in care has increased incrementally and significantly over the last nine years, it should not be a surprise that nationally, demand has outstripped supply and that prices in the independent sector have risen. Significant effort and intelligence has been applied to reducing the costs of contracts with the independent sector as part of t17 and further work will follow as part of t19, however there is undoubtedly an element of swimming against the tide on this issue.
17. The net number of Children in Care has been a useful indicator in the past with regards to costs of placements to the County Council and has been used to forecast future costs with some reliability. Alongside this forecasting, considerable efforts have been made to safely reduce the number of children in care although it should be noted that in the thorough Ofsted inspection of 2014, the regulator noted that ‘the right children are in care’. This is supported by last year’s annual benchmarking data which showed that the rate of children in care per 10,000 of the child population in Hampshire is at 46.3, significantly below the England average and very close to the ‘expected rate’ when adjusted for IDACI (see graph below).



18. A key measure taken to safely reduce the number of children in care has been through Hampshire's involvement in the DfE's innovation programme, which underpinned the Department's Transformation to 2017 savings in CLA costs of £3.85m. This involved focused interventions for children, especially teenagers, 'on the edge of care' alongside a more family oriented set of interventions focused on parenting deficits and the presence of the 'toxic trio' (domestic abuse, parental substance misuse and parental mental health) whilst increasing capacity through the use of volunteers.
19. Funding for this programme was received in February 2015 and interventions were put in place from April/May 2015. At that stage (31/3/15) the number of children in care was 1349. Tracking the number of children in care from this period through to June 2016 shows a decrease of 31 children in care to 1318. This is against a projected increase of 81 children (6%) from the baseline position, giving an expected total of 1430. Based on this analysis, there were 112 fewer children in care against the expected number giving a calculated saving of £5.5m.
20. Whilst there is clear evidence that the Department has been able to meet its Transformation to 2017 Programme savings for this item, the overall position and future projections are somewhat more complex, particularly as from July 2016 the positive trajectory broke down.

Future Projections

21. In the period July to September there was a net increase of 67 children in care. In October the net increase was 15 and in November the net increase was 10 giving a total of an additional 92 children over the period 1/7 to 30/11/16. However, there are two main reasons for this. Firstly the government's national redistribution of unaccompanied asylum seeking children from France and Kent, which commenced on 1st July, saw Hampshire accepting 44 additional children from 1/7/16 to 30/11/16. The government has offered additional funding for these children but data from ADCS ('Safeguarding Pressures Phase 5 – Special Thematic Report on Unaccompanied Asylum Seeking and Refugee Children', November 2016) indicates that this meets only around 50% of the actual costs.
22. The second reason is the increase (driven by changes in case law) in the number of children subject to interim Care Orders but who are placed with parents under the supervision of the courts. There have been 40 such cases since the first of July, the rate prior to that being negligible. In fact the costs for these children are much less than those in other forms of care as there are effectively no placement costs. Therefore these two factors account for 84 of the increase of 92. The key point here is that although the numbers have increased significantly the relationship between the net number and the overall cost projection is fractured when compared to past predictive models.
23. The model is further fractured when the types of placement available are taken into account. The flow of UASCs into the looked after system has strained placement resources nationally, and increasingly fewer IFA placements are available, forcing other placements to be made in higher cost residential settings. Of note is the fact that IFAs are increasingly wanting to receive UASCs, as in the main they present less challenges for their foster carers given the children want to be in care. This then drives a number of local children into higher cost provision, such as NCPs, simply because of the diminishing level of fostering resource that is available.

24. Two obvious conclusions can be drawn from this. Firstly, that a more sophisticated cost prediction model for children in care is needed that takes account of these developing issues. Secondly, that significant resource and capability is applied to reshape the way in which social work with children is carried out to achieve more resilience within families in order that fewer children, especially teenagers who now constitute around 40% of the cohort of children in care, need to enter the care system; and to bear down on the costs of care placements. The first aspect of this change programme – the development of a new social work operating model – is the subject of our innovation work as part of the government’s Partners in Practice programme, whilst the latter point is the focus of Children’s Services transformation to 2019 programme.
25. Following the unfavourable movements in CLA numbers that started in the Summer of 2016, significant work has been undertaken to develop a more sophisticated costing model in order to inform the budget for 2017/18. Children’s Services staff have worked with the Finance team to model scenarios that take into account the changing landscape and the impact that this has on the overall number and mix of placements. Key to this is understanding the supply market for the different types of placements and how these align to the types of care placements needed.
26. Clearly with so many variables and unknown factors it is impossible to ever predict future trends with any certainty, but the most recent activity and cost predictions provided by Children’s Services on a ‘central case’ basis indicate that CLA costs could exceed the available budget by £7.3m in 2017/18, with an ongoing increase of at least £3m per annum thereafter.
27. At this stage central contingencies have been allocated within the budget to cover this amount, but inevitably this reduces the County Council’s ability to deal with any further financial shocks during the year. Close monitoring of the position will continue throughout the year and any required funding will be released in line with the actual increases experienced.

Care Leavers

28. Finally, attention needs to be drawn to the budget for care leavers. It is an obvious point that if we have had more children in care since 2008 then we will have more young people entitled to care leaver support.
29. An analysis of the Local Authority’s financial responsibilities towards care leavers highlights a wide set of statutory responsibilities covered by the relevant Legislation and Guidance. There is a requirement to :
 - Provide and maintain suitable accommodation
 - Provide a bursary to care leavers going to higher education
 - To give a personal allowance, whilst a benefit claim is being processed
 - To support Education, Employment & Training expenses including travel
 - To give a Setting-up Home allowance, up to £2000 per Care Leaver
 - Specific requirements for Care Leavers whilst in custody
 - Responsibilities towards UASC care leavers who have “All Rights Exhausted”

30. There also are varying degrees of expectation and guidance that add to the financial burden regarding payments that could be described as discretionary. Many of these payments can be categorised as best practice in terms of corporate parenting.
31. There are 591 care leavers aged 18 and over currently receiving a service from Hampshire Childrens Services. This number continues to rise year on year as a natural consequence of continuing increases in the numbers of children in care. This group of young people receive support from a dedicated Care Leavers service, with every young person having an allocated Personal Adviser whose responsibility is to keep in touch, to ensure that the young person is supported to access and maintain suitable accommodation and is engaged in meaningful employment, education or training, including support to access apprenticeships, and higher and further education
32. A particular challenge in Hampshire currently is to identify and support young people in accessing suitable accommodation, particularly where young people need additional support to live independently. This strategy is now in the process of being refreshed to ensure there is a sufficiency of accommodation that both meets care leavers needs and is cost effective.
33. In overall terms, the impact of these changes is already affecting the budget for Children's Services and whilst further detailed work needs to be undertaken to model potential costs for next year, it is anticipated that a cost pressure of at least £2.2m will need to be taken into account within contingencies, whilst longer term solutions are developed.

Revised Budget 2016/17

	Original Budget 2016/17	Adjustment	Adjusted Budget 2016/17	Revised Budget 2016/17	Variance
	£'000	£'000	£'000	£'000	£'000
<u>Departmental Expenditure</u>					
Adults' Health and Care	380,117	14,736	394,853	394,853	0
Children's - Schools	759,457	(1,542)	757,915	757,915	0
Children's - Non schools	167,116	4,708	171,824	171,824	0
Economy, Transport and Environment	111,479	12,055	123,534	123,534	0
Policy and Resources	94,352	6,701	101,053	101,053	0
TOTAL	1,512,521	36,658	1,549,179	1,549,179	0
<u>Capital Financing Costs</u>					
Committee Capital Charges	116,719	18,545	135,264	135,264	0
Capital Charge Reversal	(117,122)	(19,367)	(136,489)	(136,489)	0
Interest on Balances	(7,334)	(561)	(7,895)	(8,395)	(500)
Capital Financing Costs	62,896	(11,766)	51,130	50,130	(1,000)
	55,159	(13,149)	42,010	40,510	(1,500)
<u>RCCO</u>					
Main Contribution	12,510	(3,118)	9,392	9,392	0
RCCO From Reserves	1,994	8,093	10,087	10,087	0
	14,504	4,975	19,479	19,479	0
<u>Other Revenue Costs</u>					
Contingency	40,477	(7,690)	32,787	20,037	(12,750)
Dedicated Schools Grant	(708,099)	2,224	(705,875)	(705,875)	0
Specific Grants	(159,192)	(10,765)	(169,957)	(169,957)	0
Pensions - Non Distributed Costs	16,632	394	17,026	17,026	0
Flood Protection Levy	603	20	623	623	0
Coroners Expenditure	1,367	283	1,650	1,650	0
Business Units (Net Trading Position)	(570)	711	141	141	0
	(808,782)	(14,823)	(823,605)	(836,355)	(12,750)
Net Revenue Budget	773,402	13,661	787,063	772,813	(14,250)
<u>Contributions to / (from) Earmarked Reserves</u>					
Transfer to / (from) Earmarked Reserves	(37,688)	(4,911)	(42,599)	(28,349)	14,250
Trading Units Transfer to / (from) Reserves	679	(663)	16	16	0
Business Strategy Opportunities	(1,500)	0	(1,500)	(1,500)	0
RCCO from Reserves	(1,994)	(8,093)	(10,087)	(10,087)	0
	(40,503)	(13,667)	(54,170)	(39,920)	14,250
Contribution to / (from) Balances	900	0	900	900	0
BUDGET REQUIREMENT	733,799	(6)	733,793	733,793	0

	Original Budget 2016/17	Adjustment	Adjusted Budget 2016/17	Revised Budget 2016/17	Variance
	£'000	£'000	£'000	£'000	£'000
BUDGET REQUIREMENT	733,799	(6)	733,793	733,793	0
Funded by:					
Business Rates and Grant	(192,724)		(192,724)	(192,724)	0
Business Rates Collection Fund Deficit / (Surplus)	1,226	6	1,232	1,232	0
Council Tax Collection Fund Deficit / (Surplus)	(9,642)		(9,642)	(9,642)	0
COUNCIL TAX REQUIREMENT	532,659	0	532,659	532,659	0

Final Cash Limit Calculation 2017/18

	December Cash Limit Guideline £'000	Other Changes £'000	Final Cash Limit 2017/18 £'000
Adults' Health and Care	350,811	4,776	355,587
Children's – Schools	760,665	26,227	786,892
Children's – Non Schools	151,926	(1,859)	150,067
ETE	108,014		108,014
CCBS	32,199		32,199
Corporate Services	41,957		41,957
P&R Other	13,408		13,408
	1,458,980	29,144	1,488,124

Notes:**Other Changes**

- The increase for Adults' Health and Care is due to the announcement in the provisional settlement of a new dedicated social care grant. There is no indication that this is anything other than a one off grant.
- The increase for Children's - Schools is due to an increase in DSG as announced in the schools revenue funding settlement on 20 December 2016. In 2017/18 the increase reflects growth in pupil numbers and the inclusion of funding new items such as additional hours of childcare and education for 3 & 4 year olds, maintained nursery funding and the transfer of funding for retained statutory duties from the Education Services Grant.
- The reduction for Children's - Non-Schools reflects the 'passporting' of an element of the reduction in the Education Services Grant; as outlined in the MTFs, offset in part by announcements of grant increases in relation to the Schools Improvement Monitoring and Brokering (£505,000) and the SEND Implementation Grant (£89,000).

Adults' Health and Care Budget Summary 2017/18

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Director:			
Director	1,124	1,628	1,535
Strategic Commissioning and Business Support:			
Strategic Commissioning	16,346	17,018	14,065
Policy and Business Intelligence	1,159	1,317	1,425
Transformation	2,676	3,553	2,384
Older People and Physical Disabilities:			
Older People and Physical Disabilities Community Services	133,848	129,572	130,497
Learning Disabilities and Mental Health Services:			
Learning Disabilities Community Services	109,931	105,997	102,877
Mental Health Community Services	13,758	15,374	18,767
Continuing Healthcare	199	291	301
Internal Provision and Front Door:			
Internal Provision	30,590	30,817	33,289
Front Door	848	1,125	1,139
Reablement	11,125	11,258	10,910
Governance, Safeguarding and Quality:			
Safeguarding	2,700	3,971	4,320
Centrally Held:			
Centrally Held	685	17,694	(19,362)
Total Adults' Services	324,989	339,615	302,147
Public Health:			
Central (*)	2,497	2,644	2,595
Children 5-19	4,036	4,036	4,036
Children Under 5 (*)	17,438	17,438	16,566
Dental	116	180	180
Drugs & Alcohol	9,621	9,460	9,357
Health Checks (*)	1,477	1,477	1,447
Health Protection (*)	29	29	29

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Information & Intelligence	18	32	32
Miscellaneous Health Improvement & Wellbeing (**)	5,923	5,923	5,801
Nutrition, Obesity and Physical Activity	1,158	1,177	1,188
Sexual Health (*)	10,377	10,294	10,100
Tobacco	2,438	2,438	2,109
Transitional Costs	0	110	0
Public Health	55,128	55,238	53,440
Adults' Health and Care Cash Limited Budget	380,117	394,853	355,587

* Includes mandated services

** Specific services include

- Domestic abuse services
- Mental Health promotion
- Some Children's and Youth PH services

Children's Services Budget Summary 2017/18

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Early Years	61,672	59,815	73,378
Individual Schools Budgets	538,070	537,904	543,050
Schools De-delegated Items	4,124	4,124	2,114
Schools Central Provisions	10,594	10,594	10,181
Schools Block	552,788	552,622	555,345
High Needs Block ISB	33,179	33,415	31,667
High Needs Top-Up Funding	51,007	50,646	57,718
SEN Support Services	4,500	4,524	5,937
High Needs Support for Inclusion	1,808	1,708	3,361
Hospital Education Service	289	289	589
High Needs	90,783	90,582	99,272
Central Block	0	0	4,107
Other Schools Grants	54,214	54,896	54,790
Total Schools Budget	759,457	757,915	786,892
Young Peoples Learning & Development	716	589	578
Adult & Community Learning	374	584	532
Asset Management	689	568	557
Central Support Services	(15)	44	52
Education Welfare Service	1,490	1,009	0
Educational Psychology Service	2,364	1,956	1,388
Home to School Transport	27,963	27,799	28,186
Insurance	43	38	38
Monitoring of National Curriculum Assessment	161	142	142
Parent Partnership, Guidance and Information	195	218	199
Pension Costs (includes existing provisions)	3,258	3,258	3,204
School Improvement	2,366	2,322	2,718
SEN Admin, Assessment, Co-ord & Monitoring	2,848	3,328	2,337
Statutory/Regulatory Duties	1,203	1,369	1,328
Service Strategy & Other Ed Functions	42,565	42,051	40,149
Management & Support Services	7,142	9,129	457
Other Education & Community	50,797	52,353	41,716

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Services for Young Children	8,205	6,394	1,721
Adoption Services	3,577	3,460	3,475
Asylum Seekers	500	1,500	2,000
Children Placed with Family & Friends	836	836	853
Education of Children Looked After	302	305	311
Fostering Services	28,960	29,869	27,554
Leaving Care Support Services	2,954	3,083	3,135
Other Children Looked After Services	1,159	1,158	1,177
Residential Care	22,529	22,881	20,827
Special Guardianship Support	1,948	1,948	1,987
Children Looked After	62,765	65,040	61,319
Other Children & Families Services	2,574	2,574	2,029
Direct Payments	1,038	1,038	1,059
Other Support for Disabled Children	211	211	216
Short Breaks (Respite) for Disabled Children	5,066	5,024	4,935
Targeted Family Support	6,010	6,304	5,568
Universal Family Support	151	108	109
Family Support Services	12,476	12,685	11,887
Youth Justice	1,312	1,621	1,300
Safeguarding & Young Peoples Services	19,936	20,318	19,443
Services for Young People	1,020	1,091	1,090
Management & Support Services	7,897	9,614	9,440
Non-Distributed Costs	134	134	122
Children's Social Care	116,319	119,471	108,351
Total Non-Schools Budget	167,116	171,824	150,067
Total Children's Services Budget Cash Limited Budget	926,573	929,739	936,959

ETE Budget Summary 2017/18

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Highways Maintenance	15,931	17,963	12,346
Street Lighting	9,823	9,581	9,741
Winter Maintenance	6,011	5,851	5,996
Concessionary Fares	13,625	13,625	13,886
Other Public Transport	5,145	5,145	5,117
Road Safety	1,952	1,944	1,737
Other Highways, Traffic & Transport Services	(60)	(49)	(43)
Staffing & Operational Support	8,464	9,868	8,889
Highways, Traffic and Transport	60,891	63,928	57,699
Waste Disposal Contract	40,189	48,308	44,187
Environment & Other Waste Management	643	817	680
Strategic Planning	1,017	1,004	865
Chichester Harbour Conservancy	191	189	193
Waste, Planning and Environment	42,040	50,318	45,925
Departmental and Corporate Support	2,847	3,151	3,356
³⁵⁶ Early achievement of savings	4,757	5,096	289
Total Environment and Transport Services	110,535	122,493	107,269
Economic Development	754	819	716
Early achievement of savings	190	222	29
Total Economic Development	944	1,041	745
Total ETE Cash Limited Budget	111,479	123,534	108,014

Policy & Resources Budget Summary 2017/18

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Legal	2,399	2,557	2,267
Transformation	480	874	893
Governance	2,469	2,500	2,449
Transformation and Governance	5,348	5,931	5,609
Finance	3,707	3,963	3,645
HR	3,624	3,940	4,106
IT	17,183	18,720	18,777
Audit	709	724	660
Customer Business Services	4,030	4,001	3,512
Corporate Resources Management	2,365	2,381	904
Corporate Resources	31,618	33,729	31,604
Communication	1,320	758	459
Marketing and Advertising	0	69	76
Corporate Customer Services and Web Team	3,115	3,064	2,766
Insight and Engagement	663	790	651
Chief Executives Office	594	722	728
Leadership Support	0	131	64
Customer Engagement Service	5,692	5,534	4,744
Total Corporate Services	42,658	45,194	41,957
Corporate Management & Democratic Management	66	66	66
Grants to Voluntary Organisations (Leader Grants)	218	218	222
Grants to Local Organisations	907	787	787
Southern Sea Fisheries	301	301	307
Members Devolved Budgets	624	624	390
Rural Affairs	200	0	200
Other Direct and Corporate Services	312	492	221
P&R Non-Departmental Budgets (Direct)	2,628	2,488	2,193

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Members Support Costs	1,726	1,712	1,721
Corporate Contribution to Trading Units	5766	175	105
Repair and Maintenance	10,166	13,226	7,565
Strategic Asset Management	1	1,502	1,501
Other Central Support Services	265	320	323
P&R Non-Departmental Budgets (Central)	12,734	16,935	11,215
Total Other Policy and Resources	15,362	19,423	13,408
Transformation	337	368	57
Rural Broadband	97	240	243
Transformation and Business Management	434	608	300
Regulatory Services	1,345	1,410	1,432
Community Grants & Policy Fund	1,226	799	977
Sport	214	582	179
Community	228	158	160
Library Services	11,695	11,727	11,886
Business Support	741	873	774
Scientific Services	(13)	(11)	8
Asbestos	(12)	(50)	(1)
Community and Regulatory Services:	15,424	15,488	15,415
Countryside	2,682	2,829	2,821
Outdoor Centres	332	372	234
Arts & Museums	2,967	2,958	2,960
Archives	799	786	802
Risk, Health & Safety	190	191	193
Sir Harold Hillier Gardens	412	412	312
Culture & Heritage:	7,382	7,548	7,322
Corporate Estate	(148)	(156)	(189)
Country Farm	(502)	(503)	(501)
Development Account	(391)	(411)	(417)

Service Activity	Original Budget 2016/17 £'000	Revised Budget 2016/17 £'000	Proposed Budget 2017/18 £'000
Sites for Gypsies and Travellers	34	48	54
Property Services	2,144	1,498	1,691
Office Accommodation / Workstyle	5,560	5,535	5,139
Facilities Management	2,824	3,116	3,037
Print Sign Workshop	0	9	9
Property Services and Facilities:	9,521	9,136	8,823
CCBS Planned Contribution to Cost of Change	3,740	3,656	339
Total CCBS	36,501	36,436	32,199
Total Policy and Resources Cash Limited Budget	94,521	101,053	87,564

Revenue Budget 2017/18

	Original Budget 2016/17 £'000	Adjustment £'000	Budget 2017/18 £'000
<u>Departmental Expenditure</u>			
Adults' Health and Care	380,117	(24,530)	355,587
Children's - Schools	759,457	27,435	786,892
Children's - Non schools	167,116	(17,049)	150,067
Economy, Transport and Environment Policy and Resources	111,479	(3,465)	108,014
	94,352	(6,788)	87,564
	1,512,521	(24,397)	1,488,124
<u>Capital Financing Costs</u>			
Committee Capital Charges	116,719	18,545	135,264
Capital Charge Reversal	(117,122)	(19,367)	(136,489)
Interest on Balances	(7,334)	(1,061)	(8,395)
Capital Financing Costs	62,896	(11,121)	51,775
	55,159	(13,004)	42,155
<u>RCCO</u>			
Main Contribution	12,510	1,524	14,034
RCCO from Reserves	1,994	6,535	8,529
	14,504	8,059	22,563
<u>Other Revenue Costs</u>			
Contingency	40,477	(3,497)	36,980
Dedicated Schools Grant	(708,099)	(24,003)	(732,102)
Specific Grants	(159,152)	(205)	(159,397)
Pensions - Non Distributed Costs	16,632	1,894	18,526
Flood Protection Levy	603	20	623
Coroners Expenditure	1,367	283	1,650
Business Units (Net Trading Position)	(570)	734	164
	(808,782)	(24,774)	(833,556)
Net Revenue Budget	773,402	(54,116)	719,286
<u>Contributions to / (from) Earmarked Reserves</u>			
Transfer to / (from) Earmarked Reserves	(37,688)	57,208	19,520
Trading Units Transfer to / (from) Reserves	679	(921)	(242)
Business Strategy Opportunities	(1,500)	1,500	0
RCCO from Reserves	(1,994)	(6,535)	(8,529)
	(40,503)	51,252	10,749
Use of General Balances	900	0	900
BUDGET REQUIREMENT	733,799	(2,864)	730,935

	Original Budget 2016/17 £'000	Adjustment £'000	Budget 2017/18 £'000
BUDGET REQUIREMENT	733,799	(2,864)	730,935
Funded by			
Business Rates and Government Grant	(192,724)	34,603	(158,121)
Business Rates Collection Fund Deficit / (Surplus)	1,226	(465)	761
Council Tax Collection Fund Deficit / (Surplus)	(9,642)	2,894	(6,748)
COUNCIL TAX REQUIREMENT	532,659		566,827

Reserves Strategy

Introduction

The level and use of local authority reserves continues to be a regular media topic often fuelled by comments from government that these reserves should be used to significantly lessen the impact of the austerity measures that have seen a greater impact on local government than any other sector.

The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long term recurring savings through the use of reserves only serves to use up those reserves very quickly (and means that they are not available for any other purposes) and merely delays the point at which the recurring savings are required.

At the end of the 2015/16 financial year the County Council's earmarked reserves together with the general fund balance stood at more than £497m an increase of circa £35m on the previous year. This was in line with the Medium Term Financial Strategy (MTFS) as provision was built up in departmental cost of change reserves to enable support of transformation and of revenue spend whilst savings programmes are put in place, and in the Grant Equalisation Reserve (GER) ahead of a large draw in 2016/17. This Appendix sets out in more detail what those reserves are for and outlines the strategy that the County Council has adopted.

Reserves Position 31 March 2016

Current earmarked reserves together with the General Fund balance totalled £497.3m at the end of the 2015/16 financial year. The table below summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2014/15.

The narrative beneath the table explains in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

	Balance 31/03/2015 £'000	Balance 31/03/2016 £'000	% of Total %
<u>Fully Committed to Existing Spend Programmes</u>			
Capital Grants Unapplied	48,368	52,844	10.6
Revenue Grants Unapplied	36,161	35,530	7.1
General Capital Reserve	133,926	124,137	25.0
Street Lighting Reserve	6,263	9,237	1.9
Community Transport Reserve / Other	1,795	2,091	0.4
	226,513	223,839	45.0
<u>Departmental / Trading Reserves</u>			
Trading Accounts	15,725	15,671	3.2
Departmental - Cost of Change Reserve	42,651	53,926	10.8
	58,376	69,597	14.0

	Balance 31/03/2015 £'000	Balance 31/03/2016 £'000	% of Total %
<u>Risk Reserves</u>			
Insurance Reserve	26,808	25,423	5.1
Investment Risk Reserve	500	1,000	0.2
	27,308	26,423	5.3
<u>'Available' Reserves</u>			
Corporate Policy Reserve	3,976	5,109	1.0
Invest to Save	9,461	9,077	1.8
Corporate Efficiency Reserve	8,981	7,902	1.6
Organisational Change Reserve	3,593	3,593	0.7
Grant Equalisation Reserve	50,881	75,206	15.2
	76,892	100,887	20.3
<u>HCC Earmarked Reserves</u>			
Schools Reserves	52,462	55,950	11.3
	441,551	476,696	95.9
<u>Total Earmarked Reserves</u>			
General Fund Balance	20,598	20,598	4.1
	462,149	497,294	100.0
<u>Total Reserves and Balances</u>			

Fully Committed to Existing Spend Programmes

These reserves, which account for almost half of total reserves are already fully committed in the main to existing revenue or capital programmes. They really represent the extent to which resources, in the form of government grants or revenue contributions to capital, are received or generated in advance of the actual spend on the project.

Specifically, the street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments in future years.

These reserves increased significantly in recent years following a change to International Financial Reporting Standards which required unapplied government grants to be shown as earmarked reserves and due to the fact that significant revenue contributions were made to fund future capital investment using the surplus funds generated from the early achievement in savings (a deliberate strategy that is explained in more detail later in this appendix).

These reserves do not therefore represent 'spare' resources in any way and are now being utilised as planned, falling by approaching £2.7m in 2015/16.

Departmental / Trading Reserves

Trading services within the County Council operate as semi-commercial organisations and as such they do not receive specific support from the County

Council in respect of capital investment or annual pressures arising from spending or income fluctuations.

Given this position, any surpluses generated by the trading services are earmarked for their use to apply for example to equipment renewal, service expansion, service improvement, innovation and marketing. They are also used to smooth cash flows between years if deficits are made due to the loss of the customer base and provide the time and flexibility to generate new revenues to balance the bottom line in future years.

Departmental reserves are generated through under spends in annual revenue expenditure and Council policy was changed in 2010 to allow departments to retain all of their under spends in order to provide resources to:

- Meet any potential over spends in future years without the need to call on corporate resources
- Manage cash flow funding issues between years where specific projects may have been started but not fully completed within one financial year.
- Meet the cost of standard redundancy and pension payments arising from the down sizing of the work force
- Invest in new technology and other service improvements, for example the new Children's Services integrated system
- Undertake capital repairs or improvements to assets that are not funded through the existing capital programme where this is essential to maintain service provision or maximise income generation.
- Meet the cost of significant change programmes and restructures such as the Corporate Services Review implementation, which was fully funded from planned savings within the Corporate Services Department.

By utilising reserves in this way, and allowing departments and trading areas to retain under spends or surpluses it encourages prudent financial management as managers are able to ensure that money can be re-invested in service provision without the need to look to the corporate centre to provide funding. This fosters strong financial management across the County Council and is evidenced by the strong financial position that the County Council has maintained to date.

However, in 2016/17 the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users means that pressures are now being felt in all departments. This is of more immediate concern for social care departments who need to use their cost of change reserves to support their bottom line budget position and where it takes longer to generate cash savings; meaning there is less scope to add additional resources to the cost of change reserves. In response to this the potential for a cross departmental underwriting of the budget position going forward was agreed in principle as a last resort. This additional flexibility could provide resources should they be needed to help balance the budget at the end of the year or provide social care departments with the transformation funding to support the achievement of their savings programmes in the period to April 2019.

Risk Reserves

The Council holds specific reserves to mitigate risks that it faces. The County Council self insures against certain types of risks and the level of the insurance

reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.

The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns.

'Available' Reserves

The above paragraphs have explained that the majority of reserves are set aside for specific purposes and are not available in general terms to support the revenue budget or for other purposes.

This leaves other available earmarked reserves that are under the control of the County Council and total nearly £100.9m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of government grant reductions, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and residents of Hampshire. They are broken down into four main areas:

Corporate Policy Reserve – This small reserve is available to fund new budget initiatives that are agreed as part of the overall budget. It offers the opportunity to introduce specific service initiatives that might not have otherwise gained funding and are designed to have a high impact on service users or locations where they are applied.

Invest to Save / Corporate Efficiency Reserve – These reserves are earmarked to provide funding to help transform services in order to make further revenue savings in the future. Rather than just prop up the budget on a short term basis, the County Council feels it is a far more sensible policy to use available reserves to generate savings and improve services over the longer term, by re-designing services and investing in technology and other solutions that make services more modern and efficient. It is planned to merge these two reserves from April 2017 as they are used for the intrinsically the same purpose.

Organisational Change Reserve – The County Council is one of the largest employers in Hampshire and inevitably, large reductions in government grant leading to reduced budgets means that there is a significant impact on the numbers of staff employed in the future.

The County Council, as a good employer, has attempted to manage the reduction in staff numbers as sensitively and openly as possible and introduced an enhanced voluntary redundancy scheme back in 2011. The scheme offered an enhanced redundancy rate for people who elected to take voluntary redundancy. This has been a highly successful way of managing the reductions in staff numbers, whilst maintaining morale within the rest of the workforce who are not required to go through the stress and uncertainty of facing compulsory redundancy.

In fact, since the scheme was introduced, voluntary redundancies account for around 98% of the total number of staff that have left the organisation as a result of specific restructures and service re-design.

Whilst this scheme has now closed an alternative approach has been approved to enable the continued reduction and transformation of the workforce required to

deliver the significant savings needed in the medium term with the aim of minimising compulsory redundancies

Departments are still responsible for meeting the 'standard' element of any redundancy package, but the Organisational Change Reserve was put in place to meet the 'enhanced' element of the payment. The reserve has been reviewed in the context of the new scheme and the requirement for future organisational change and this will be revisited in line with the development of the Tt2019 Programme and the consequent requirement for future organisational change.

Grant Equalisation Reserve – This reserve was set up many years ago to deal with changes in government grant that often came about due to changes in distribution methodology that had an adverse impact on Hampshire compared to other parts of the country.

In 2010/11, the County Council recognised that significant reductions in local government spending were expected and built in contributions as part of the MTFs over the CSR 2010 period from the GER in order to smooth the impact of the grant reductions.

Over the last few years, it has become clear that the period of austerity will continue at least until the end of the decade and the County Council has taken the opportunity to increase the reserve in order to be able to continue the sensible policy of smoothing the impact of grant reductions without the need to make 'knee jerk' reactions to offset large decreases in grant.

It should be highlighted that the total 'Available Reserves' outlined above account for approximately 20% of total reserves and balances that the County Council holds and these have largely been set aside as part of a longer term strategy for dealing with the significant financial challenges that have been imposed on the County Council. In addition, the GER which comprises the majority of these 'Available Reserves', standing at £75.2m at the end of 2015/16, is in reality fully committed as the MTFs included a planned net draw of £44m required to balance the budget in 2016/17 with the remainder to be utilised in 2018/19 before any changes approved as part of budget setting for 2017/18.

The reserves detailed above represent the total earmarked reserves of the County Council and amount to £420.7m (before the planned material draw from the GER) as shown in the table on first page of this Appendix. In addition, the County Council is required to show schools reserves as part of its accounts and it must hold a minimum level of general balances, both of which are outlined below.

Schools Reserves

Schools reserves account for nearly £56m or 11.3% of total reserves and balances. These reserves must be reported as part of the County Council's accounts, but since funds are delegated to schools any surplus is retained by them for future use by the individual school concerned. Similarly, schools are responsible for any deficits in their budgets and they maintain reserves in a similar way to the County Council in order to smooth fluctuations in cash flow over several years.

The County Council has no control at all over the level or use of school reserves.

General Fund Balance

The General Fund Balance is the only reserve that is in effect not earmarked for a specific purpose. It is set at a level recommended by the Chief Financial Officer at around 2.5% of the budget requirement and in effect it represents a working balance of resources that could be used at very short notice in the event of a major financial issue.

The current balance unchanged from 2014/15, stands at £20.6m, which is close to the recommended minimum of around 2.5% of the budget requirement (circa £18.4m in 2016/17).

Reserves Strategy

The County Council's approach to reserves has been applauded in the past by the government and the External Auditors as a sensible, prudent approach as part of a wider MTFS. This has enabled the County Council to make savings and changes in service delivery in a planned and controlled way rather than having to make urgent unplanned decisions in order to reduce expenditure.

This approach is well recognised across local government and an article in the Municipal Journal by the Director of Local Government at the Chartered Institute of Public Finance and Accountancy stated

“What reserves do allow authorities to do is to take a more medium term view of savings and expenditure and make decisions that give the best value for money. This is better than having to make unnecessary cost reductions in the short term because they do not have the money or funding cushion to allow for real transformation in the way they provide services.”

We are now in an extended period of austerity which will last longer than anyone had previously predicted and the medium term view highlights a continued need for reserves to smooth the impact of reductions in funding and enable time for the planning and implementation of change to deliver savings.

The County Council's strategy for reserves was well established and operated effectively based on a cyclical pattern as follows:

- Planning ahead of time and implementing efficiencies and savings in advance of need
- Generating surplus funds in the early part of the programme
- Using these resources to fund investment and transformation in order to achieve the next phase of savings.

This cycle was clearly evident during the last four financial years, with surplus funds generated in advance of need as part of budget setting and then supplemented by further savings in the year. Savings in advance of need within departments and savings in contingency amounts due to the successful implementation of the full early savings programme meant that the Council was able to provide:

- Departmental reserves to pay for the cost of change associated with their own transformation programmes.
- Top up funding to the Organisational Change Reserve to provide resources to continue the very successful voluntary redundancy programme as a

means of releasing staff in a sensitive and controlled manner that has helped maintain morale across the Council.

- Funding within the Invest to Save Reserve to help with the Tt2017 Programme that will deliver the next phase of savings to 2017/18.
- Additional funds for the GER to help smooth the impact of grant reductions, including significant funding to bridge the unexpected budget gap in 2018/19, and give the County Council maximum flexibility in future budget setting processes.

The financial landscape has significantly shifted and looking ahead the indications are that the next four years will be the most challenging period of the prolonged austerity measures which increases the potential necessity to use reserves to alleviate the initial and ongoing financial shocks over the period to 2020

We will continue to review all reserves on an ongoing basis to ensure that there is sufficient financial capacity to cope with the challenges ahead.

Section 25 Report from Chief Financial Officer

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (the Director of Corporate Resources) to report to the County Council when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The County Council is required to have regard to this report in approving the budget and council tax. It is appropriate for this report to go first to Cabinet and then be made available to the County Council in making its final decision.

Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. Given the significance of the Revenue Support Grant reductions announced to the end of the decade, this report considers not only the short term position but also the position to 2019/20 in the context of the County Council's current Medium Term Financial Strategy (MTFS).

Robustness of Estimates in the Budget

The budget setting process within the County Council has been operating effectively for many years and is based on setting cash limits for departments each year allowing for pay and price inflation and other marginal base changes in levels of service whether these be the increasing cost of social care or the requirement to make savings to balance the budget.

Individual departments are then required to produce detailed estimates for services that come within the cash limits that have been set. More recently, the requirement to make savings has dominated the budget setting process and major transformation programmes have been put in place to effectively and corporately manage the delivery of savings within the required timescales.

Appropriate provisions for pay and price inflation are assessed centrally with departmental input and are allocated to departmental cash limits. Specific inflationary pressures within the financial year are expected to be managed within a department's bottom line budget but contingencies are still held centrally in the event that inflationary pressures have a severe impact in any one area (e.g. energy costs).

Separate work is also undertaken to assess the demand led areas of service provision, which mainly relate to:

- Adults' Social Care
- Children's Social Care
- Waste Disposal

Any requirement to increase budgets in these areas is considered corporately and may require additional savings to be made across the board to meet the increased demand. This is seen as a more effective way of managing cost pressures and enables strategic decisions to be made about allocation of resources and the impact on service provision rather than all of those decisions potentially being made in isolation by each department.

Budget management within the County Council remains strong as demonstrated by the outturn position each year since austerity began and as reflected in the annual opinion of the External Auditors who has given an unqualified opinion on the annual accounts and in securing value for money / financial resilience.

Budget 2017/18

The budget for 2017/18 has been produced in line with the process outlined in the section above and therefore I am content that a robust, Council wide process has been properly followed and driven through our Finance Business Partners working with the Operational Finance Team. Further oversight is then provided by the Head of Finance and myself in presenting the final budget and council tax setting report to Cabinet and County Council.

Once again, the robustness of the budget is underpinned by adequate contingencies for volatile areas such as social care as well as by the existence of departmental cost of change reserves, which can be used to meet unforeseen costs during the year as well as providing funding for investment to achieve transformational savings.

Risks in the Budget 2017/18

In some respects the significant changes to local government finance since 2010 have changed the profile of risk faced by most Authorities. In reality the biggest financial risks now relate purely to reductions in government funding, changes in government policy and social care demand and cost pressures. These items together with other traditional risks are outlined below:

- a) **Government Funding and Policy** – The MTFs has made projections about the likely reductions in government grant over the next four years and plans are in place to deliver a balanced budget by 2019/20 based on the developing Transformation to 2019 (Tt2019) Programme. The settlement announced last year had a massive impact on those projections, but these have been incorporated in the MTFs and the Tt2019 Programme takes this into account.

Other significant changes to funding or policy during the year would have to be covered by contingencies or general balances, but generally once grant levels have been set in the final settlement due in January they do not change, although there have been in year changes implemented previously, most recently reductions to the Public Health grant.

- b) **Social Care Demand Pressures** – Up to the end of 2014 there was a significant and sustained increase in the number of Children Looked After (CLA) across the County, mainly as a result of increases in referrals from other agencies. This was reflected in a £12.5m base budget increase for Children's Services in the 2015/16 budget. Since January 2015 positive management action underpinned by innovation grant monies from the DfE has changed the trajectory and generated a reduction in the numbers of children in care.

This has enabled the Department to meet its Transformation to 2017 (Tt2017) Programme savings target in respect of reduced placement costs, however over the Summer 2016, numbers began to rise again, partly due to Unaccompanied Asylum Seeking Children (UASC) and partly due to the courts placing more children at home (which still counts as a CLA). Inevitably with the overall increase in numbers of CLA cases, we are also dealing with higher

numbers of care leavers who have greater expectations following legislative changes.

The overall detailed impact of the change in the trend of CLA and care leavers is still being examined but the budget contains a recurring provision of £9.5m to allow for the impact of continued pressures during 2017/18, which is considered prudent until we can start to assess and address the upward trend that we are once again experiencing. In a similar process to Adults' Services, regular monthly meetings are now held with the Chief Financial Officer to consider pressures and financial planning for the Department.

Adults' social care is traditionally a far more volatile picture given the significant numbers involved and the significant ongoing changes to the client base. A major piece of work was undertaken as part of the 2016/17 budget setting process using detailed activity data to predict future activity and average costs. A long term strategy for managing social care finances alongside the delivery of savings and changes to the operating model was also approved at this time.

Additional funding has been made available to Adults' Services to reflect the increasing costs of care and adequate contingency provision has been provided centrally to cope with unexpected fluctuations in demand during the year. However past experience has shown that Adults' Services have been effective in managing demand against budget to achieve a balanced position by year end and enhanced monitoring in this area will continue to inform that process and highlight any early warning signs that may then need to be corrected.

This will include potential risks associated with the delivery of Tt2017 savings, which are already reflected in the 2017/18 budget but do still represent a financial risk. Due to the nature of adult's social care in particular, it is not always possible to distinguish whether or not cost pressures arise due to further increased demand or the potential failure to have delivered a savings proposals and therefore it is necessary to manage the total budget against total activity and demand within the system, which is already in place and should highlight issues irrespective of how they have arisen.

- c) **Council Tax** – The government have granted additional flexibilities in relation to council tax that allow local authorities with responsibility for adult social care to raise the social care precept by up to 3% on top of the 1.99% general increase in 2017/18 and 2018/19 without the need to hold a referendum. The Cabinet is recommended to take up the offer of the extra flexibility for the social care precept and as a result a one-off sum of £16.6m would be generated that would contribute to the ongoing financial resilience and stability of the County Council.
- d) **Pay and Price Risk** – Pay inflation has been capped for some time now in line with government policy, which is expected to continue at least until 2019/20. Provision has been made in 2017/18 for the costs of the agreed pay award which includes some changes in the lower scales to deal with the impact of the National Living Wage (NLW). However, it should be borne in mind that an additional 1% on the pay bill equates to around only £2.5m, which when set in the context of loss of grant in 2017/18 of £37m and risks within social care, is no longer as great a risk as it once was.

Increases in employer pension rates is also a factor that can impact on the budget and the preliminary results of the 2016 pension fund valuation indicate that rates may need to increase by 1% per annum for the next four years as part of the long term funding strategy. This increase has now been built into the financial forecasts moving forward.

Similarly the impact of price inflation has been taken into account in setting the budget and it would take a major departure from the Council's assumptions to create a financial problem that we could not deal with. One exception to this is the impact of the NLW on the costs of social care services in the private sector. It is difficult to predict at this stage what the eventual impact will be given the number of different variables involved and whilst some additional provision has been made for this in the budget this may be an area that affects the price of social care services in the market place during the year and would need to be managed alongside other social care pressures outlined above.

- e) **Treasury Risk** – The County Council has limited exposure to interest rate risk as most long term borrowing is undertaken on a fixed rate. At the present time we are not undertaking any new or replacement long term borrowing due to the significant 'cost of carry' involved and our ability to internally borrow given our high level of reserves and cash balances. However, we do need to be mindful of the fact that we do not want to store up a large value of external borrowing that needs to be taken out in less favourable circumstances as our reserves reduce. Given current predictions on base rate levels and the fact that long term borrowing rates are based on the price of gilts rather than the underlying base rate, this is still considered low risk at this stage.

On the investments side, the absolute value of estimated income is circa £8m per annum, which is minimal against the County Council's overall budget, however, the change in investment strategy which moved part of the portfolio to medium term investments has increased the risk in the portfolio overall. This has been mitigated by the creation of an Investment Risk Reserve which will deal with any changes in valuations of investment and provide a buffer against any significant drop in returns.

The Adequacy of Reserves

The County Council's policy on general balances is to hold a minimum prudent level which on the basis of the previous risk assessment is around 2.5% of net expenditure. The projected level of general fund balances will be 3.0% of net expenditure at the beginning of 2017/18. This in part reflects the declining level of spend, rather than an increase in the level of balances held. However, the level of general fund balances has been reviewed as part of the wider strategy to manage the budget in the medium term whilst the Tt2019 Programme is implemented. After this, general fund balances will be 2.5% of net expenditure at the beginning of 2019/20.

Overall the level of earmarked reserves that the County Council holds stood at £476.7m (including schools) at the end of March 2016 and these underpin its overall MTFs and capital programme and the majority of reserves are held for specific purposes as set out in the Reserves Strategy in Appendix 6.

Those reserves that are available to support the revenue position are used sensibly to manage change and provide the time and capacity to properly implement savings plans that seek to minimise the impact on service users.

The Grant Equalisation Reserve (GER) currently stands at over £75m, but this reflects the fact that a contribution of £44m is required to balance the budget in 2016/17 and the fact that a further significant contribution will be required in 2018/19 as part of the County Council's strategy of delivering savings over a two year cycle. Where possible, the County Council will continue to direct spare one off funding into this reserve as part of its overall longer term risk mitigation strategy, which has served it very well to date.

Budget 2017/18 – Conclusion

Given the details outlined above, provided that the County Council considers the above factors and accepts the budget recommendations, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2017/18.

The Position to 2019/20

Looking ahead to both 2018/19 and 2019/20, the financial landscape will be significantly different and the County Council will no doubt face the biggest ever challenge to its overall financial sustainability.

The County Council needs to address a budget gap of £140m by 2019/20 after assuming:

- A 3.99% council tax increase for each of the four years to 2019/20 (current options around the social care precept do not affect this position)
- Successful implementation on a recurring basis of all the savings in the Tt2017 Programme.
- Costs of social care demand do not rise by more than we are predicting
- The impact of the NLW on social care provision does not exceed current predictions.
- No further financial shocks during the period.

Bridging a gap of £140m after already removing £340m of expenditure is a massive undertaking particularly as each successive savings programme is becoming harder to deliver and many areas cannot be re-visited due to the nature of the revised service models or contractual arrangements that will have been put in place.

The Tt2017 Programme has already highlighted the longer timescales needed to make service changes in some areas, most notably adults' social care and given the national focus on the problems in this area, we must consider the extent to which significant further savings will be achievable in this area or from social care costs for children.

Within ETE the major contract areas of highways and waste disposal will have already been renegotiated or re-tendered and the scope for further significant savings is therefore limited.

However placing a dis-proportionate burden on the remaining services to make the majority of the savings would mean the decimation of those services, many of which contribute to making Hampshire a great place to live and work or provide core essential central services to the County Council and a range of significant partners.

Last year the government implemented a clear shift in council tax policy and assumed that local authorities would put up their council tax by the maximum they are allowed each year in the period to 2020. 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. This effectively took away the idea of using council tax increases as a potential solution to some of the financial pressure, leaving very few other options for dealing with the biggest two year gap that we have yet faced.

This year the government have responded to growing calls for additional resources to meet the increasing cost pressure facing local authorities who provide adult social care in advance of the introduction of the improved Better Care Fund in 2018/19. Part of this response has been to grant local authorities the flexibility to bring forward some of the council tax increase and to raise the precept by up to 3% next year and the year after within the cap of 6% over the next three years to 2019/20.

The budget report recommends that the County Council increases council tax by 3.99% in 2017/18, in line with the assumption built into the MTFS, and that the County Council takes up the further flexibility granted by the government of an additional 1% increase to reduce the acknowledged financial risk and pressure that is inherent in the MTFS and aim to partially address the rising cost of adult social care.

Although there are acknowledged timing issues with the delivery of the Tt2017 Programme, the current assessment remains that the shortfall can be made up from departmental cost of change reserves on a one-off basis as savings come on line throughout 2017/18, leading to full implementation of the programme by 2018/19. In addition, early planning for the Tt2019 Programme has produced some options for efficiencies within departments, together with cross cutting opportunities in areas such as digital and mobile working. Some planning has also taken place that looks at the potential need to extend the time period for some departments to be able to deliver their programmes and this will be factored into future updates of the MTFS.

At this stage therefore, I am content that the County Council is responding positively and appropriately to the longer term financial challenge that it faces.

Carolyn Williamson
Director of Corporate Resources
17 January 2017

Treasury Management Strategy and Investment Strategy 2017/18 to 2019/20

1. Summary

- 1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA Code) and the Prudential Code require authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Department for Communities and Local Government's (DCLG) Investment Guidance.
- 1.2. As per the requirements of the Prudential Code, Hampshire County Council adopted the CIPFA Treasury Management Code at its meeting in February 2012. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance.
- 1.3. The purpose of this TMSS is, therefore, to approve:
 - Treasury Management Strategy for 2017/18
 - Annual Investment Strategy for 2017/18
 - Prudential Indicators for 2017/18, 2018/19 and 2019/20 shown in Annex C
 - Minimum Revenue Provision (MRP) Statement shown in Annex D
- 1.4. The County Council has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.
- 1.5. **This Report recommends the following be approved:**
 - **Treasury Management Strategy and Annual Investment Strategy for 2017/18 (and the remainder of 2016/17) including:**
 - **Prudential Indicators for 2017/18, 2018/19 and 2019/20 - Annex C**
 - **Minimum Revenue Provision (MRP) Statement - Annex D**
 - **That authority is delegated to the Director of Corporate resources to manage the Council's investments according to the risk assessment process in the Investment Strategy as appropriate to most effectively manage the Council's investments.**
 - **The addition of a further £0.5m to the Investment Risk Reserve created in the County Council's accounts in the Treasury Management Strategy and Annual Investment Strategy for 2015/16 as protection against the irrecoverable fall in value of any investments.**

2. Introduction

- 2.1. In February 2012 the County Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy (TMS) before the start of each financial year.
- 2.2. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the County Council to approve an investment strategy before the start of each financial year.
- 2.3. This report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 2.4. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's TMS.

3. External Context

- 3.1. The following paragraphs explain the economic and financial background against which the TMS is being set.

Economic background

- 3.2. The major external influence on the County Council's TMS for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets wrong-footed by the referendum outcome have, since the result, been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.
- 3.3. The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank is expected to look through inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.
- 3.4. Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to lower GDP growth. However, the prospect of a leaving the single market has dented business confidence and resulted in a delay in new business investment and, unless counteracted by higher public spending or retail sales, will weaken economic growth in 2017/18.

Credit outlook

- 3.5. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the County Council; returns from cash deposits however continue to fall.

Interest rate forecast

- 3.6. The County Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18. The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook further falls in the Bank Rate look less likely. A negative Bank Rate is currently perceived by some policymakers to be counterproductive and, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.
- 3.7. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

4. Balance Sheet Summary and Forecast

- 4.1. On 30 November 2016, the County Council held £336m of borrowing and £517m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31/03/16	31/03/17	31/03/18	31/03/19	31/03/20
	Actual	Estimate	Forecast	Forecast	Forecast
	£M	£M	£M	£M	£M
Capital Financing Requirement	757	763	788	795	788
Less: Other long-term liabilities					
- Street Lighting PFI	(115)	(112)	(109)	(105)	(101)
- Waste Management Contract	(63)	(59)	(56)	(53)	(50)
Borrowing CFR	578	592	623	637	637
Less: External borrowing					
- Public Works Loan Board	(270)	(257)	(243)	(236)	(227)
- Market Loans (incl. LOBOs)	(73)	(73)	(73)	(73)	(73)
Internal (over) borrowing	235	262	307	328	337
Less: Reserves and balances	(497)	(442)	(427)	(350)	(358)
Less: Allowance for working capital	(193)	(190)	(190)	(190)	(190)
Resources for investment	(690)	(632)	(617)	(540)	(548)
New Borrowing or (Investments)	(455)	(370)	(310)	(212)	(211)

- 4.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.
- 4.3. It is forecast that the County Council will take advantage of internal borrowing over the period forecast in Table 1, whilst paying off PWLB debt as maturities arise. Reserves and balances are due to reduce over the forecast period due to the anticipated funding of the capital programme and use of the Grant Equalisation Reserve as part of the County Council's financial strategy. These factors result in a reducing investment balance year on year over the forecast period, as shown in Table 1.
- 4.4. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2017/18.

5. Borrowing Strategy

- 5.1. The County Council currently holds £336 million of loans, a decrease of £14 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the County Council does not expect to need to borrow in 2017/18. The County

Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £750 million.

Objectives

- 5.2. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.

Strategy

- 5.3. Given the significant cuts to public expenditure and in particular to local government funding, the County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the County Council does need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 5.4. By internally borrowing, the County Council would be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. If borrowing is required, the benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the County Council with this 'cost of carry' and breakeven analysis.
- 5.5. In addition, the County Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources

- 5.6. The approved sources of long-term and short-term borrowing are:
- Public Works Loan Board (PWLB) and any successor body
 - UK local authorities
 - any institution approved for investments (see below)
 - any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except Hampshire Pension Fund)
 - capital market bond investors
 - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 5.7. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- operating and finance leases
 - hire purchase
 - Private Finance Initiative
 - sale and leaseback

- 5.8. The County Council has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

LOBOs

- 5.9. The County Council holds £60m of LOBO (Lender's Option Borrower's Option) loans (down from £73m due to the conversion of Barclays LOBO loans to fixed rate loans in June 2016) where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. In the current low interest rate environment the County Council understands that lenders are unlikely to exercise their options, but there remains an element of refinancing risk. The County Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and Variable Rate loans

- 5.10. These loans leave the County Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators at Section 7 of this strategy.

Debt Rescheduling

- 5.11. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The County Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

6. Investment Strategy

- 6.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council's investment balance has ranged between £490 and £645 million, and slightly lower levels are expected in the forthcoming year, as shown in Table 1.

Objectives

- 6.2. Both the CIPFA Code and the CLG Guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Negative Interest Rates

- 6.3. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to

feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

- 6.4. Given the increasing risk and falling returns from short-term unsecured bank investments, the County Council aims to further diversify into more secure and/or higher yielding asset classes during 2017/18. This is especially the case for the estimated £375m that is available for longer-term investment.
- 6.5. Approximately 90% (increased from 70% last year) of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, supranational banks, corporate bonds, pooled property and equity funds, and secured bank bonds. Whilst the remaining cash subject to bail-in risk, 55% is held in short-term notice accounts which produce a significant return commensurate with the bail-in risk, 24% is held in overnight money market funds which are subject to a reduced risk of bail-in, 20% is held in certificates of deposit which can be sold on the secondary market, and the remaining 1% of cash subject to bail-in risk is held in overnight bank call accounts for liquidity purposes. Further detail is provided at Annex B. This diversification will represent a continuation of the new strategy adopted in 2015/16.

Investments Targeting Higher Returns

- 6.6. Given the stability of the County Council's cash balances there was the opportunity during 2016/17 to increase the allocation for investments targeting higher returns, which will allow further diversification, increase the overall rate of return and the income contributed to the revenue budget. It was approved that the allocation targeting higher yields increase to £200m from £105m. This amount represents half of the County Council's forecast minimum cash balance and is therefore an amount that can be managed appropriately as a long-term investment.
- 6.7. Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in other assets than cash, such as pooled property, equities and bonds. Non-cash pooled investments must be viewed as long-term investments in order that monies are not withdrawn in the event of a fall in capital values to avoid crystallising a capital loss.
- 6.8. As shown in Annex B the County Council has invested £90m of the £200m allocation. In addition, the County Council has committed a further £30m to investments in pooled funds. The County Council is continuing to work with its advisors, Arlingclose, to identify additional opportunities for this allocation. Without this allocation the weighted average return of the Council's cash investments would have been 1.04%; the allocation to higher yielding investments has added 0.46% (£2.4m based on the cash balance at 30 November 2016) to the average interest rate earned by the remainder of the portfolio.

- 6.9. The 2015/16 Investment Strategy recommended that the returns from a pooled property fund be used to contribute £0.5m each year to a reserve in the County Council's accounts as protection against the irrecoverable fall in value of any investments. It is recommended that £0.5m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional risk that is being taken in targeting investments with higher returns and will bring the total amount in the reserve to £1.5m.

Investment Limits

- 6.10. Given the impact of the Bank Reform Act, Bank Recovery and Resolution Directive, and the recast Deposit Guarantee Schemes Directive, which have increased the credit risk that unsecured bank investments could be 'bailed-in', the following investment limits are proposed to mitigate the risk whilst allowing sufficient flexibility to manage the Fire & Rescue Authority's investment balances.

Table 2: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£70m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£70m per group
Any group of pooled funds under the same management	£70m per manager
Registered Providers	£70m in total
Money Market Funds	50% in total

Approved Counterparties

- 6.11. The County Council may invest its surplus funds with any of the counterparty types in Table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers Unsecured	Registered Providers Secured
UK Govt	n/a	n/a	£ Unlimited 30 years	n/a	n/a	n/a
AAA	£35m 5 years	£70m 20 years	£70m 30 years	£35m 20 years	£35m 20 years	£35m 20 years
AA+	£35m 5 years	£70m 10 years	£70m 25 years	£35m 10 years	£35m 10 years	£35m 10 years
AA	£35m 4 years	£70m 5 years	£70m 15 years	£35m 5 years	£35m 10 years	£35m 10 years
AA-	£35m 3 years	£70m 4 years	£70m 10 years	£35m 4 years	£35m 10 years	£35m 10 years
A+	£35m 2 years	£70m 3 years	£35m 5 years	£35m 3 years	£35m 5 years	£35m 5 years
A	£35m 13 months	£70m 2 years	£35m 5 years	£35m 2 years	£35m 5 years	£35m 5 years
A-	£35m 6 months	£70m 13 months	£35m 5 years	£35m 13 months	£35m 5 years	£35m 5 years
BBB+	£20m 100 days	£35m 6 months	£20m 2 years	£20m 6 months	£20m 2 years	£35m 2 years
None	£35m 6 months	n/a	£35m 25 years	n/a	£35m 5 years	£35m 25 years
Pooled funds	£70m per fund					

This table must be read in conjunction with the notes below

Credit Rating

- 6.12. Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured

- 6.13. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Secured

- 6.14. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit

rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

- 6.15. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 30 years.

Corporates

- 6.16. Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Registered Providers Secured and Unsecured

- 6.17. Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

- 6.18. Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.
- 6.19. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classified as capital expenditure. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly. Much of the allocation for investments targeting higher returns will be invested in pooled funds.

Risk Assessment and Credit Ratings

- 6.20. Credit ratings are obtained and monitored by the County Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 6.21. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

- 6.22. The County Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 6.23. Based on the available information and the advice of the County Council’s advisers, Arlingclose, the Director of Corporate Resources may reduce the investment limits shown in Tables 2 and 3, and suspend investing with certain counterparties as necessary.
- 6.24. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

- 6.25. The CLG Guidance defines specified investments as those:
- denominated in pound sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of “high credit quality”.
- 6.26. The County Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market

funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

Non-specified Investments

- 6.27. Any investment not meeting the definition of a specified investment is classed as non-specified. The County Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, (i.e. those that are due to mature 12 months or longer from the date of arrangement), pooled funds that the County Council intends to hold as long-term investments (for more than one year) and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 4 below.

Table 4: Non-Specified Investment Limits

	Cash limit
Total long-term investments	£375m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£200m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£375m*

* Total non-specified investments is a limit in its own right, and is not meant to equal the aggregate of the limits for long-term investments, and investments without credit ratings or rated below A-.

- 6.28. Although the total long-term investments limit is greater than the expected investment balance at 31 March 2018, as shown in Table 1, this limit has been set to allow for current long-term investments to mature, as well as to allow flexibility if capital expenditure is experienced to be slower than forecast.

Liquidity Management

- 6.29. The County Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the County Council’s medium term financial position (summarised in Table 1) and forecast short-term balances.

7. Treasury Management Indicators

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

Interest Rate Exposures

7.2. This indicator is set to control the County Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of principal borrowed or invested will be:

Table 5: Interest Rate Exposures

	2017/18	2018/19	2019/20
Upper limit - fixed int. rate investment exposure	£375m	£300m	£300m
Upper limit - variable int. rate inv. exposure	£700m	£700m	£700m
Upper limit - fixed int. rate inv. exposure rate borrowing exposure	£960m	£970m	£960m
Upper limit - variable int. rate borrowing exposure	£960m	£970m	£960m

7.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing

7.4. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 6: Maturity Structure of Borrowing

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and above	100%	0%

Principal Sums Invested for Periods Longer than 364 days

7.5. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 7: Principal Sums Invested for Periods Longer than 364 days

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£375m	£300m	£300m

8. Other Items

- 8.1. There are a number of additional items that the County Council is obliged by CIPFA or CLG to include in its TMS.

Policy on Use of Financial Derivatives

- 8.2. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).
- 8.3. The County Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the County Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 8.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. The use of financial derivatives is not planned as part of the implementation of the TMS and any changes to this would be reported to members in the first instance.

Investment Training

- 8.5. The needs of the County Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 8.6. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

- 8.7. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All members were invited to a workshop presented by Arlingclose on 29 November 2016, which gave an update of treasury matters. A further Arlingclose workshop has been planned for 29 November 2017.

Investment Advisers

- 8.8. The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Resources, her staff and Arlingclose.

Investment of Money Borrowed in Advance of Need

- 8.9. The County Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the County Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the County Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £750 million.

Annex A - Arlingclose Economic & Interest Rate Forecast November 2016

Underlying assumptions:

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.
- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Ave
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.12
Arlingclose Central Case	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.40
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.18
Arlingclose Central Case	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.29
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.34
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.23
Arlingclose Central Case	0.60	0.50	0.50	0.50	0.50	0.50	0.50	0.60	0.70	0.85	0.90	0.90	0.90	0.65
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.24
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	0.50	0.40	0.35	0.35	0.35	0.40	0.40	0.40	0.45	0.50	0.55	0.60	0.65	0.45
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.15	0.95	0.85	0.85	0.85	0.85	0.85	0.90	0.95	1.00	1.05	1.10	1.15	0.96
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.47
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.70	1.50	1.40	1.40	1.40	1.40	1.40	1.45	1.50	1.55	1.60	1.65	1.70	1.75
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.39
Arlingclose Central Case	1.60	1.40	1.30	1.30	1.30	1.30	1.30	1.35	1.40	1.45	1.50	1.55	1.60	1.41
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.57

Annex B - Existing Investment & Debt Portfolio Position at 30 November 2016

Duration to maturity	Overnight	<1 year	>1 year	Total	Average rate/yield	Average life
	£M	£M	£M	£M	%	(years)
<i>Subject to bail-in risk</i>						
Bank call accounts	1	0	0	1	0.20	0.00
Bank notice accounts	0	28	0	28	0.78	0.18
Certificates of deposit ¹	0	10	0	10	0.33	0.25
Money market funds ²	12	0	0	12	0.32	0.00
	13	38	0	51	0.57	0.15
<i>Exempt from bail-in risk</i>						
Covered floating rate notes	0	63	50	113	0.68	1.19
Covered fixed bonds	0	0	15	15	1.30	1.36
Supranational bonds	0	9	0	9	0.60	0.02
Government bonds	0	27	0	27	0.68	0.03
Corporate floating rate notes	0	10	0	10	0.67	0.19
Corporate fixed bonds	0	1	0	1	0.37	0.52
Local authorities	0	83	118	201	1.40	1.24
	0	193	183	376	1.09	1.08
<i>Targeting higher yields</i>						
Government fixed bonds	0	0	10	10	3.78	17.11
Local authorities	0	0	20	20	3.96	17.30
Pooled property funds ³	0	0	35	35	4.56	n/a
Pooled equity funds ⁴	0	0	20	20	2.19	n/a
Registered provider	0	0	5	5	3.40	2.41
	0	0	90	90	3.75	15.12
Total	13	231	273	517	1.50	2.04

¹ Certificates of deposit are financial instruments that have the ability of being sold on the secondary market.

² Money market funds have a reduced risk of bail-in due to the portfolio of investments each fund is invested in.

³ The average rate/yield provided for the pooled property funds is the average return per annum.

⁴ The County Council invested in the pooled equity funds part-way through the year, therefore the average rate/yield is the return for the investment period, annualised.

	£M	%
External Borrowing:		
PWLB Fixed Rate	(263)	(4.83)
Other Loans	(73)	(4.45)
Total External Borrowing	(336)	(4.75)
Other Long-Term Liabilities:		
Street Lighting PFI	(114)	
Waste Management Contract	(60)	
Total Other Long-Term Liabilities	(174)	
Total Gross External Debt	(510)	
Investments	517	1.50
Net (Debt) / Investments	7	

Annex C - Prudential Indicators 2017/18

The Local Government Act 2003 requires the County Council to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the County Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The County Council's planned capital expenditure and financing may be summarised as follows. Further detail is provided in the capital programme.

Capital Expenditure and Financing	2016/17 Revised £M	2017/18 Estimate £M	2018/19 Estimate £M	2019/20 Estimate £M
Total Expenditure	209	283	228	158
Capital receipts	8	8	6	4
Grants and other income	102	209	187	164
Revenue contributions	69	18	33	(21)
Contributions from/(to) reserves	10	9	2	0
Total Financing	189	244	228	147
Prudential borrowing	25	49	34	20
Less: repayments from capital receipts etc.	(5)	(10)	(12)	(9)
Total Funding	20	39	22	11
Total Financing and Funding	209	283	228	158

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the County Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/17 Revised £M	31/03/18 Estimate £M	31/03/19 Estimate £M	31/03/20 Estimate £M
General Fund	763	788	795	788
Total CFR	763	788	795	788

The CFR is forecast to rise by £32m over the next two years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Debt	31/03/17 Revised £M	31/03/18 Estimate £M	31/0/19 Estimate £M	31/03/20 Estimate £M
Borrowing	330	316	309	300
PFI liabilities	172	166	159	152
Total Debt	502	482	468	452

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

The operational boundary is based on the County Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the County Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the County Council's debt.

Operational Boundary	2016/17 Revised £M	2017/18 Estimate £M	2018/19 Estimate £M	2019/20 Estimate £M
Borrowing	660	690	700	700
Other long-term liabilities	180	170	160	160
Total Debt	840	860	860	860

Authorised Limit for External Debt

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the County Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2016/17 Revised £M	2017/18 Limit £M	2018/19 Limit £M	2019/20 Limit £M
Borrowing	720	750	770	770
Other long-term liabilities	220	210	200	190
Total Debt	940	960	970	960

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Revised	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%
General Fund	4.22	3.99	4.01	4.03

Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	£	£	£
General Fund - increase in annual band D Council Tax	1.86	8.63	4.05

Adoption of the CIPFA Treasury Management Code

The County Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition in February 2012.

Annex D - Annual Minimum Revenue Provision Statement 2017/18

Where the County Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the County Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance) most recently issued in 2012.

The broad aim of the CLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The CLG Guidance requires the County Council to approve an Annual MRP Statement each year, and whilst it provides a range of options for the calculation of MRP the guidance also notes that other options are permissible provided that they are fully consistent with the statutory duty to make prudent revenue provision.

MRP in 2017/18

Prior to 2015/16 the County Council calculated MRP for supported borrowing on a 4% reducing balance basis. 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 £67m less in MRP payments by 31 March 2016.

Starting in 2016/17 the County Council will pause in 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.

The County Council will continue to apply the Asset Life or Depreciation Method (which are Options 3 and 4 from the range provided by the CLG) in respect of unsupported capital expenditure funded from borrowing. Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section 106 Developers Contributions, MRP will not be applied.

MRP in respect of leases and Private Finance Initiative schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

Capital expenditure incurred during 2017/18 will not be subject to a MRP charge until 2018/19.

Consultation

Summary of *Shaping Hampshire* - Spending Review Consultation

A report was presented to Cabinet on 21 September 2015 which provided a summary of the headline findings from the *Shaping Hampshire* - Spending Review Consultation that was carried out by Ipsos MORI on behalf of the County Council, between 26 May and 6 July 2015.

The Consultation was undertaken against the background of the next stage of the County Council's transformation and efficiencies programme, *Transformation to 2017* in order to inform the County Council's ongoing transformation and efficiencies programme, and in accordance with legal best-practice.

The Spending Review Consultation aimed to seek residents' and stakeholders' views on three main options for managing the shortfall in funding, and achieving anticipated savings of £98 million by April 2017, namely by:

- Raising the rate of Council Tax
- Using the County Council's reserves differently
- Reducing spending on specific services.

The Spending Review Consultation also included questions on which services respondents considered to be 'most important' for the County Council to continue to deliver; usage of a range of services; and an opportunity to add views or suggestions on further options.

A total of 2,774 responses were received using two methods of consultation:

- An open consultation - available online and via a paper copy (available to any stakeholder or member of the public)
- A telephone survey - targeted at a representative sample of 1,500 residents.

Overall there was clear support for the County Council's current financial strategy with 79% of respondents supporting the approach to dealing with reductions in government grant.

Respondents also favoured savings being found through a combination of the three key options namely increasing Council Tax, using more of the County Council's reserves and reducing spending on some services. There was less support for using more of the County Council's reserves (in combination with service spending reductions), and very limited support for finding the anticipated savings through reductions in funding for services alone.

A key issue arising from the consultation feedback was respondent's views on council tax increases. 55% of respondents supported an increase in council tax of between 1% and 1.99% and 20% supported an increase of 3%, whilst 21% did not want any increase at all.

Most residents and stakeholders were opposed to reducing spending on services for children, older people and vulnerable people, ranking these as the 'most important' services for the County Council to continue to support and deliver. As part of the telephone survey, those respondents that supported a council tax increase generally wanted the additional resources that this generated to protect services for vulnerable adults and children.

The findings from the Consultation were used to inform the departmental Executive Lead Member budget reports in September, in order for recommendations to be made to Cabinet and the full County Council in October 2015 on the Medium Term Financial Strategy 2016/17 and were also be taken into consideration in the planning of the Transformation to 2017 (Tt2017) Programme.

In some cases further stage 2 consultations were required and this was reflected in the Equality Impact Assessments that were published at the time.

The full Cabinet report and the full report by Ipsos MORI is are linked below:

http://www3.hants.gov.uk/councilmeetings/advsearchmeetings/meetingsitemdocuments.htm?sta=&pref=Y&item_ID=6942&tab=2&co=&confidential=

<http://documents.hants.gov.uk/corporate/shapinghampshire-spendingreviewconsultation-report.pdf>

Business Consultation

A consultation paper on the County Council's budget proposals for 2017/18 was produced and submitted to the Hampshire Chamber of Commerce, Business South and Hampshire Enterprise Circle in January 2017.

The paper acknowledged the status of the 2017/18 budget in that key decisions in respect of savings proposals had already been taken as part of the 2015/16 budget setting process which were agreed by Cabinet and Full Council during October 2015 in order to provide the time and capacity for the savings to be implemented as part of the Tt2017 Programme.

An update on any responses received will be provided at the meeting.

This page is intentionally left blank

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	3 February 2017
Decision Maker:	County Council
Date:	16 February 2017
Title:	Capital programme 2017/18 to 2019/20
Reference:	7884
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. This report sets out for approval the proposed capital programme for 2017/18 to 2019/20 of £520 million.
- 1.2. Overall, the proposals in this report are in line with the medium term financial strategy which ensures that we continue to invest wisely in our existing assets and deliver a programme of new ones in line with overall priorities and need.
- 1.3. The report collates the service capital programmes prepared by Executive Members based on the existing cash limit guidelines for the locally resourced programme, together with schemes funded by Government grants and other external sources.
- 1.4. The programme delivers schemes totalling £520 million over the three years from 2017/18 to 2019/20. This follows a revised programme of £319 million for 2016/17, providing a total capital programme of £839 million over the four years. This is a very significant investment in the economy and infrastructure of Hampshire. It will provide:
 - £179 million of investment in new and extended school buildings in Hampshire in 2017/18 to 2019/20 to ensure there is a school place for every child in Hampshire, providing a big boost for the local economy through jobs and construction materials
 - £109 million for structural maintenance of roads and bridges in Hampshire over the next three years

- £100 million for integrated transport schemes including seven major infrastructure schemes, totalling £85 million, of which six are expected to start in 2018/19
- £122 million for major improvements of school and other County Council buildings over the next three years.

1.5. The detailed capital programmes are included in Appendix 3. A summary of the programme is shown in the table below.

Table 1 – Proposed capital programme

	Revised 2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Adult Services	69,937	481	481	481	71,380
Children’s Services	92,960	106,737	44,079	82,145	325,921
Environment and Transport	106,900	52,546	118,818	38,086	316,350
Policy & Resources	48,796	33,312	21,664	21,664	125,436
Total	318,593	193,076	185,042	142,376	839,087

520,494

- 1.6. The report shows that the projected payments arising from the capital programme can be financed within the resources available to the County Council including the planned use of prudential borrowing.
- 1.7. The proposals take account of the County Council’s capital strategy and the Prudential Code for Capital Finance in Local Authorities including the capital financing position, the level of debt outstanding and the consequences for the revenue budget and council tax. The prudential indicators are included in Appendix 8 of the report on this Agenda on the Revenue Budget.
- 1.8. The capital programme is supported by Government grants for schools, highways and transport. The Secretary of State announced details of individual local authority basic need capital allocations on 17 March 2016 for the three years 2016/17 to 2018/19. The Department for Education (DfE) also confirmed the School Condition Allocation (formerly Capital Maintenance) for 2016/17 and indicated that 2017/18 would be equal to the 2016/17 allocation. Devolved Formula Capital (DFC) has also been confirmed for 2016/17 and that 2017/18 will be allocated on the same formula basis as the 2016/17 allocation.
- 1.9. The Department for Transport (DfT) has confirmed the Integrated Transport Block (ITB) and Structural Maintenance allocations for 2017/18. The 2016 Autumn Statement increased the national allocation for an ongoing Pothole

Fund. The Hampshire element is formula funded and the County Council receives approximately 3% of the total (£2.1 million). In addition, the County Council has had a great deal of success in securing Local Growth Funding (LGF) from both the EM3 and Solent Local Enterprise Partnerships (LEPs).

- 1.10. The other main technical points of this report are:
- the capital programmes proposed by Executive Members are in line with the guidelines for the locally resourced capital programme
 - prudential borrowing will total £280 million by 2020/21. The repayment of the 'bridging loans' included in this total will depend in part on the continued recovery of the property market. The current assumptions are that the bridging loans will be fully repaid by 2022/23.
 - the prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance
 - the capital receipts assumed for this report are primarily for the sale of sites already earmarked to rationalisation schemes or to repay previously approved prudential borrowing.
- 1.11. This report also highlights a number of items that are linked, both directly and indirectly, to additional capital investment and economic growth, which are outlined in more detail in the Revenue Budget report presented elsewhere on this agenda.

2. Background

- 2.1. The cash limit guidelines for the new capital programme for 2017/18 to 2019/20 have been set at the same level as the current capital programme.
- 2.2. Executive members have now prepared proposals for:
- a locally resourced capital programme for the three-year period from 2017/18 to 2019/20 within the guidelines set and other resources available to services
 - a programme of schemes supported by Government capital grants.
- 2.3. 'Locally resourced' schemes are those financed from the County Council's own resources such as capital receipts, contributions from the revenue budget, prudential borrowing, reserves and other funds. They do not include schemes supported by capital grant from the Government.
- 2.4. In general, the programmes proposed by Executive Members have been developed in accordance with the priorities and timescales identified by the capital review.

3. Capital Financing

- 3.1. The size of the capital programme takes account of forecast financing resources and the forecast level of capital expenditure (or 'payment') flows to be financed each year.
- 3.2. The sources of finance to support the capital programme are:
 - 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 would need 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.
- 3.3. Appendix 2 includes details of the planned sources of funding to meet the forecast capital payments in each year. The forecasts are likely to change as schemes within the programme progress and the position will be reassessed at the next review of the capital programme.
- 3.4. Progress during the remainder of 2016/17 and throughout 2017/18 on all capital payments and resources will be closely monitored and reported to the Leader during the year. Executive members will also review progress on their capital programmes at regular intervals during the year.
- 3.5. Appendix 2 also includes details of the longer term implications of the proposed programmes for the revenue budget from increased running costs and capital charges.

4. Prudential borrowing

- 4.1. Prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance.
- 4.2. The planned prudential borrowing will total £208 million, after deducting repayments to 31 March 2016. Of this, £206 million is being repaid from savings in the revenue budget, including the schemes from earlier years for the Enhance nursing care homes project, waste management infrastructure and the structural maintenance of highways, together with the prudential borrowing necessary to support the additions to the capital programme from 2012/13 onwards agreed in February 2012.

- 4.3. Further details of the current level of prudential borrowing are included in Appendix 2.

5. Capital programmes proposed by Executive Members

- 5.1. The following sections of the report deal with the proposals from Executive Members for the capital programme, in line with the guideline cash limits and allocations of capital grant announced by the Government.

6. Guideline cash limits for the capital programme

- 6.1. The guidelines for the locally resourced programme used to prepare this programme have been maintained at existing levels. They had been reduced by one-third in February 2009 in response to the lower forecasts of capital receipts likely to be available to support the capital programme. This followed the sharp decline in the demand for development land as a result of the financial crisis in 2008. That reduced level has been maintained, with no uplift for inflation. This leaves revenue contributions as the primary source of funding for the locally resourced programme.
- 6.2. The guidelines set for each service are shown in Table 2. Subsequent transfers to or from revenue proposed by Executive Members and other adjustments are shown in the table overleaf.

Table 2 – Guidelines for locally resourced capital programmes

	2017/18	2018/19	2019/20	Total
	£'000	£'000	£'000	£'000
Adult Services original guideline	481	481	481	1,443
Adult Services total	481	481	481	1,443
Children's Services original guideline	100	100	100	
Developers' and other contributions	43,495	16,679	29,692	
Capital receipts	6,100	3,570	1,000	
Carry forward from earlier years	19,210	-8,000	33,000	
Children's Services total	68,905	12,349	63,792	145,046
Environment and Transport Prudential borrowing subject to conditions agreed by Cabinet Sept 2016	11,929	11,929	11,929	
		8,500		
Developers' and other contributions	3,194	15,435	650	
Environment and Transport total	15,123	35,864	12,579	63,566
Policy and Resources original guideline	3,852	3,852	3,852	
Revenue contribution	250			
Carry forward from earlier years	1,040			
Policy and Resources total	5,142	3,852	3,852	12,846
TOTAL	89,651	52,546	80,704	222,901

Government supported programme

- 6.3. The present Government has so far issued all its support for local authorities' capital expenditure in the form of capital grants and not as borrowing allocations. It is expected to continue that arrangement for 2017/18 onwards.
- 6.4. As mentioned earlier, the Government has announced details of individual local authority capital allocations for 2017/18 and 2018/19 for Basic Need and for 2017/18 indicative allocations for the School Condition Allowance (formerly Capital Maintenance) and the formula allocation for Devolved Formula Capital (DFC). In addition, following the submission for funding to the Education Funding Agency (EFA) under the Priority Schools Building Programme (PSBP2) initiative, four Hampshire LA schools and one Academy have been advised that they have been successful for significant maintenance investment by the EFA. The proposed capital programme, which assumes funding for 2019/20, is thus based on £152 million Government grant for schools over the three years.

- 6.5. The Department for Transport (DfT) has confirmed the Integrated Transport Block (ITB) and Structural Maintenance allocations for 2017/18 and for planning purposes, these grants are assumed to continue at a similar level in the two subsequent years of this programme. Together with the increased Pothole funding, Local Growth Funding (LGF) and the Highways England Housing and Growth Funding, the proposed programme is based on £149 million Government grant for highways and transport over the three years.
- 6.6. Further funding has been announced nationally for improvements in road safety, congestion and highways maintenance, for which details of the bidding process are awaited.

7. The programmes submitted

- 7.1. The total starts value of the three-year programme submitted by Executive Members is £520 million, as shown in Table 3. It includes £298 million of schemes supported by Government grants.

Table 3 – Starts programmes submitted 2017/18 to 2019/20

	Land £000	Works, Fees, Furniture and Equipment			Total programme including Land £000
		Locally resourced programmes £000	Schemes supported by Government allocations £000	Total Works, Fees etc £000	
2017/18	646	89,005	103,425	192,430	193,076
2018/19	646	51,900	132,496	184,396	185,042
2019/20	646	80,058	61,672	141,730	142,376
Total	1,938	220,963	297,593	518,556	520,494

- 7.2. The proposed programmes are in line with the cash limit guidelines for the capital programme. A reconciliation between the guidelines and the proposed programme is included in Appendix 1.

The capital expenditure flows from these programmes and from the works currently in progress are summarised in Appendix 2, together with the resources available to finance those expenditure flows. The programmes themselves are set out in detail in Appendix 3.

8. Children's Services

- 8.1. During the period 2013 to 2016 the County Council will have delivered over 7,360 new school places. The proposed Children's Services capital programme for the next three years includes investment of £179 million to provide a further 10,915 primary and secondary school places.
- 8.2. The current presumption (by the DfE) is that every new school will be an academy/free school. Detailed work is being undertaken with the DfE to explore the potential of opening a number of new free schools in Hampshire and approval has recently been granted by the DfE for a new 4-16 free school to serve Hedge End and Horton Heath. Early indications from the DfE are that capital funding will be available for new free schools to cover the shortfall between the DfE estimated cost of construction and income sources such as developer contributions. There is a disparity between DfE estimated costs and the current local authority detailed costs for these projects which are currently being reviewed.
- 8.3. The proposed programme includes other improvement and modernisation projects relating to access to schools, special educational needs accommodation, relocation and replacement of children's homes, adaptations to properties of foster carers and disabled children and schools' devolved formula capital totalling £54 million over three years.
- 8.4. To manage the demand for schemes and the resources available, the Executive Lead Member for Children's Services proposes to carry forward resources between the years of the capital programme.
- 8.5. There are sufficient resources available to fund all the schemes which need to be started in 2017/18. The position for future years will be dependent on the pressure of significant inflation and capacity shortages in the construction market and on future resources. The on-going pressure to provide primary and secondary school places indicates a deficit of resources over the next five year period, although if funding is received from the DfE for the new free schools, this will help to reduce the forecast shortfall across the future years programme.
- 8.6. Further work is being undertaken with potential funders, including the Government, Local Planning Authorities, Developers and LEPs to maximise contributions from sources other than the County Council.

9. Environment and Transport

- 9.1. Proposals of the Executive Member for Environment and Transport amount to just over £209 million over the next three years. The programme includes £109 million of new investment in structural maintenance and £100 million in the Integrated Transport programme.
- 9.2. Government grants make up the bulk of the funding, with formula settlements and project specific grants, e.g. Local Growth Funding (LGF) through the Local Enterprise Partnerships (LEPs) (£145.9million). The remainder is funded from a mix of local resources, (£44.3million), developer contributions (£18.4million), and other local authority contributions (£0.8million).

- 9.3. The Flood Risk and Coastal Defence Programme is still very much a work in progress. The main programme, which was agreed by the Executive Member for Environment and Transport in September 2016, totals £17million over the next few years and is not yet in a position to be formally presented into delivery years. While business cases are being prepared for unlocking potential grants and external funding, the programme remains at the level of confirmed local resources only. Any Flood Grant in Aid or other contributions will come forward for individual schemes in due course once funding is secured.
- 9.4. The 2016/17 programme includes the A30/A340 Winchester Road Roundabout scheme. Following the award of tender, and after discussion with the EM3 LEP who are part-funding this project, an agreement has been made to lower the budget on this project in-line with latest estimates. The Executive Member therefore proposes to reduce the budget from £4.0million to £3.410 million. The balance between the old and new budget (£0.59 million) is to be reinvested in an adjacent scheme within the agreed corridor.

10. Policy and Resources

- 10.1. The proposed capital programme for Policy and Resources totalling £76.6 million, is largely based on the priorities for capital investment established in previous years, relating to the County Council's built estate, IT infrastructure and community buildings and village halls.
- 10.2. As agreed by Cabinet in December 2015, a number of maintenance programmes have been moved to the Policy and Resources revenue budget, as much of the work carried out does not meet the accounting definition of capital expenditure. The original source of funding for these schemes was revenue and so they can be realigned with the revenue repairs and maintenance budgets. In 2016/17, repairs and maintenance of £3.1 million requires a further one-off transfer from capital to revenue in order to meet the accounting definition of this expenditure.
- 10.3. The School Condition Allocation (formerly Capital Maintenance) was previously split between the Children's Services and Policy and Resources programmes to reflect a split between suitability and condition work. From 2016/17, the full grant is included in the Policy and Resources programme to allow the funding to be managed flexibly between condition and suitability works. Officers from Children's Services and Property Services will continue to work closely together to identify the highest priority strategic building condition issues along with the need for modernisation improvements.
- 10.4. The Executive Member for Policy and Resources proposes to supplement the 2017/18 locally resourced guideline set by Cabinet to incorporate investment of £0.25 million to progress upgrades in IT infrastructure and equipment. This will be funded by transfers from earmarked IT reserves which have been built up for this purpose.

11. Adult services

- 11.1. Following investment of £45 million in Extra-Care Housing as part of the capital review in 2014, the proposed programme for Adults Services now returns to a level of £0.481 million per year. This will be used for priority works on residential and nursing care premises to meet the needs of residents and service users and satisfy the requirements of regulators including the Care Quality Commission, The Fire Service and the Health and Safety Executive.
- 11.2. In addition, projects within the revised capital programme for 2016/17 will continue to support the transformation of the Adult Learning Disability Service and also the housing programme for Adults with a disability which aims to transition around 600 service users with a learning and/or physical disability from an existing care home setting to a shared house or individual groups of flats.
- 11.3. From 2016/17, the Government has discontinued the Social Care capital grant and increased the Disabled Facilities Grant. This funding forms part of the Better Care Fund – Pooled budget which is overseen by the Hampshire Health and Wellbeing Board.
- 11.4. The Disabled facilities grant (DFG) of £9.748 million is capital money made available to local authorities as part of their allocations to award grants for changes to a person’s home. There is a statutory duty for local housing authorities to provide grants to those who qualify. This part of the fund will be governed by the disabilities facilities grant conditions of grant usage as made by the Department for Communities and Local Government (DCLG) under section 31 of the Local Government Act 2003. Therefore, although officially part of the fund, the money cannot be used for other things and will be paid back out of the fund to the relevant district councils.

12. Capital Investment and Economic Growth Priorities

- 12.1. 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 the government or developers.
- 12.2. However, as outlined in the Revenue Budget report, it has been possible to release £13.75m to fund a small number of priorities linked, both directly and indirectly, to additional capital investment and economic growth. These are shown in the following table:

	£M
Strategic Land Development	5.00
Gosport Community Hub	0.75
Flood Defence Schemes	6.00
Market Town Fund	2.00
Total	<u>13.75</u>

-
- 12.3. An explanation of the individual items is contained in Section 4 of the Revenue Budget report presented elsewhere on the agenda. At this stage, given the nature of some of the schemes and the lack of detail behind the type of spend, the individual items have yet to be added to the detailed Capital Programme presented in this report.
- 12.4. Once further information becomes available the detailed schemes can be added and any movements between capital and revenue can be dealt with in future updates of the Programme.

13. Conclusions

- 13.1. Executive Members have proposed capital programmes for the next three years in line with the Corporate Strategy and County Council priorities. The locally resourced guidelines set by Cabinet in December 2016 have been adjusted by transfers to revenue, transfers between portfolios and between programme years and supplemented by Government grants of £298 million, giving a total programme for the next three years of £520 million.
- 13.2. Regular monitoring will take place during the year on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2017/18 and the progress on obtaining the capital receipts necessary to finance the capital programme.

14. Recommendations

- 14.1. The following decisions are sought, based on the recommendations of the Leader and Cabinet to the County Council, for the capital programme for 2017/18 to 2019/20 and the revised capital programme for 2016/17 that:
- 1 Within the 2016/17 programme for Environment and Transport, the budget for A30/A340 Winchester Road Roundabout scheme be reduced from £4.0million to £3.410 million in line with latest estimates and the balance (£0.59 million) be reinvested in an adjacent scheme within the agreed corridor
 - 2 It be a recommendation by Cabinet to Council that:
 - a) the capital programme for 2017/18 and the provisional programmes for 2018/19 and 2019/20 as set out in Appendix 3 be approved.
- 14.2. Council is recommended to:
- a) approve the capital programme for 2017/18 and the provisional programmes for 2018/19 and 2019/20 as set out in Appendix 3.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Business plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	<u>Location</u>
Executive Member for Adult Social Care Capital programme for 2017/18 to 2019/20	Ref 8006
Executive Lead Member for Children's Services and Deputy Leader Capital programme for 2017/18 to 2019/20	Ref 7917
Executive Member for Environment and Transport Capital programme for 2017/18 to 2019/20	Ref 8047
Executive Member for Policy and Resources Capital programme for 2017/18 to 2019/20	Ref 7881

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. The proposals in this report have been developed with due regard to the requirements of the Equality Act 2010, including the Public Sector Equality Duty and the Council's equality objectives. Equalities Impact Assessments outcomes will be carried out on the schemes within the capital programme in order to comply with the requirements of the Act.

2. Impact on Crime and Disorder:

2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1988 to consider the impact of all decisions it makes on the prevention of crime. Crime prevention issues will be considered when individual project appraisals are developed.

3. Climate Change:

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

When the County Council invests in new build, replacement or refurbishment works, an assessment of reductions in energy consumption (carbon use) is made in the design. In all new buildings and in the majority of refurbishment type investments, the latest technologies and materials are specified in order to maximise the impact on reducing carbon consumption. Many projects are also able to employ passive design approaches including natural ventilation and improved insulation to actively reduce consumption in summer and winter conditions.

Capital projects will be planned and delivered in accordance with the County Council's Energy Strategy which aims to achieve carbon neutrality by 2050.

The Council's climate change programme is delivered through working in partnership and building relationships between the public, private and voluntary sectors.

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

Where appropriate, capital schemes are planned with adaptation to climate change in mind. Any new build or extensions will meet current building regulations standards for thermal performance. Where possible, appropriate sustainable materials will be employed together with the inclusion of passive cooling through building design, rain water and grey water harvesting, drought resistant planting etc to reduce the environmental impact of the proposals.

The programme includes schemes for flood risk and coastal defence management, and adaptation of the County Council's coastal sites to future sea level rise.

Capital Programmes 2017/18 to 2019/20 proposed by Executive Members

1 Summary of the proposed programmes

- 1.1 The proposed three-year programme of £520 million can be reconciled with the cash limit guidelines, as Table 4 shows.

Table 4 – Capital programme 2017/18 to 2019/20 – funding sources

	£000
Guideline for the three-year locally resourced programme	49,086
Prudential borrowing	8,500
	<hr/>
Adjusted locally resourced guidelines	57,586
Use of capital receipts, developers' contributions, reserves, etc	
- Children's Services	100,536
- Environment and Transport	19,279
- Policy and Resources	250
	<hr/>
Total funding from local resources	177,651
Resources carried forward from previous years	
- Children's Services	44,210
- Policy and Resources	1,040
Government support	
- Capital grants	297,593
	<hr/>
Total programme 2017/18 to 2019/20	<hr/> 520,494 <hr/>

Capital Expenditure Flows and Financing Resources 2016/17 to 2019/20

1 Capital expenditure flows

- 1.1 The level of capital expenditure (or 'payment') flows is one of the factors taken into account in determining the size of the capital starts programme, together with forecasts of financing resources.
- 1.2 Expenditure flows in 2016/17 and the following three years will result from works in progress (schemes started in 2016/17 and earlier years) plus those arising from the proposed programme for 2017/18 to 2019/20, as Table 5 below shows.

Table 5 – Capital expenditure flows

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Works in progress at 31 March 2016 and schemes starting in 2016/17	206,008	153,470	65,204	22,920
Programmes starting in 2016/17 2017/18 and 2018/19	0	128,530	184,478	134,080
Land acquisition	3,184	646	646	646
Total expenditure flows	209,192	282,646	250,328	157,626

- 1.3 In practice, expenditure flows in the years after 2016/17 may vary from those shown in Table 5 if further developer and other external contributions become available to fund additional capital schemes, or if the levels of Government support differ from those currently assumed.

2 Resources available for capital financing

- 2.1 The following table shows the latest estimate of the resources available to finance capital expenditure.

Table 6 - Resources to fund capital expenditure

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Prudential borrowing	24,894	48,747	33,750	19,550
less repayments from capital	-4,737	-9,948	-11,481	-8,944
Finance lease for street lighting PFI scheme	0	0	0	0
Capital grants	67,276	150,451	128,424	156,807
Contributions from other bodies including developers	34,381	58,892	58,667	6,494
Capital receipts	7,672	8,320	5,980	4,410
Contributions from reserves	10,087	8,529	1,561	0
Revenue contributions to capital *	11,535	14,034	10,634	8,267
New resources in the year	151,108	279,025	227,535	186,584
Use of the capital reserve: added to the reserve (-), or taken from the reserve (+)	58,084	3,621	22,793	-28,959
Total resources available	209,192	282,646	250,328	157,625

* Including additions agreed by Executive Members in January 2017

- 2.2 Most of the capital receipts forecast in Table 6 are required to repay prudential borrowing for school and other rationalisation schemes started in advance of the site disposals.

3 Capital reserve

- 3.1 Resources previously identified in 2012/13 to fund the additions to the capital programme agreed in February 2012 have been added to the Capital Reserve until they are required to fund capital payments in 2013/14 onwards, as shown in Table 7.

Table 7 – Capital reserve

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Opening balance	124,137	66,053	62,432	39,639	68,598
Used in year	-58,084	-3,621	-22,793		-42,562
Added in year				28,959	
Closing balance	66,053	62,432	39,639	68,598	26,036

4 Revenue implications

4.1 The revenue implications of the new programme are shown in the following table.

Table 8 – Revenue effects

	Running costs £000	Capital charges £000	Total £000
2017/18 starts	205	4,547	4,752
2018/19 starts	1,165	4,373	5,538
2019/20 starts	34	3,410	3,444
Total	1,404	12,330	13,734

4.2 The capital charges represent depreciation over the estimated life of the asset for most schemes. The capital charges do not affect the County Council's overall expenditure as the charges to services will be counter-balanced by a corresponding credit to the centrally managed capital adjustment account.

4.3 Although the capital charges in Table 8 do not affect the County Council's overall expenditure, it will be increased by the capital financing costs on the loans raised to finance the programme. The full year revenue impact of the additional prudential borrowing over the proposed three-year programme will be £1.8 million.

5 Debt outstanding

5.1 Table 9 below shows the estimated debt to be financed by the County Council including the new borrowings necessary to finance the proposed three-year programme.

Table 9 – Debt outstanding

	2016/17 £m	2018/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Debt outstanding at the beginning of the year	755.7	763.1	788.2	794.8	788.5
New borrowings	24.8	48.7	33.7	19.5	26.5
Repayments from:					
- the revenue account	-12.7	-13.8	-15.6	-16.9	-18.3
- capital receipts and developers' contributions	-4.7	-9.8	-11.5	-8.9	-8.1
Debt outstanding at the end of the year	763.1	788.2	794.8	788.5	788.6

5.2 As the table shows, the amount of debt outstanding will increase by 2018/19 and then decrease..

6 Prudential borrowing

6.1 In November 2003, Cabinet agreed a framework for the use of prudential borrowing from 2004/05 onwards under the Prudential Code for Capital Finance introduced by the Local Government Act 2003. 'Prudential borrowing' does not attract Government revenue grants towards the loan charges. Instead, the loan repayments and interest charges have to be financed by the County Council from its own resources. Because of the potential impact on the County Council's overall financial position, it is important that the use of prudential borrowing is very closely controlled and monitored.

6.2 The framework, as updated by Cabinet in February 2006, includes:

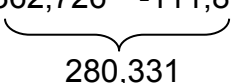
- borrowing for which loan charges are financed by virement from the Executive member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income
- 'bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred
- capital investment by business units
- temporary borrowing to accommodate shortfalls in general capital resources.

6.3 The overall level of the County Council's prudential borrowing since 2004/05, including the proposals in this report, is summarised in the following table.

Table 10 – Prudential borrowing

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
2004/05 actuals to 2009/10	132,643	-29,648	-	102,995
2010/11 actuals	22,294	-7,851	-	14,443
2011/12 actuals	15,628	-27,558	-	-11,930
2012/13 actuals	13,078	-35,548	-	-22,470
2013/14 actuals	18,981	-1,730	-	17,251
2014/15 actuals	14,124	-5,147	-	8,977
2015/16 actuals	22,014	-4,328	-	17,686
2016/17 estimate	24,832	-	-4,737	20,095
2017/18 estimate	48,747	-	-9,948	38,799

Table 10 – Prudential borrowing

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
2018/19 estimate	33,750	-	-11,481	22,269
2019/20 estimate	19,550		-8,944	10,606
2020/21 estimate	26,500		-8,063	18,437
Total	362,726	-111,810	43,173	237,158
	 280,331			

6.4 The schemes funded by these advances are summarised in Table 11.

Table 11 – Summary of outstanding and planned prudential borrowing advances

	£000
Financed from savings in the revenue budget	206,333
'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions	54,216
Capital investment to be financed from future charges to services	19,782
Total	<u>280,331</u>

6.5 The 'bridging loans' in advance of capital receipts or developers' contributions are expected to be fully repaid by 2022/23. In addition to these lump sum repayments, £206.3 million of the prudential borrowing will be repaid from savings in the revenue budget, including the Enhance nursing care homes, waste management infrastructure and structural maintenance of highways.

6.6 The prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance. The prudential indicators used as part of the process of assessing compliance are included in Appendix 8 of the report on this Agenda on the Revenue Budget.

Adult Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
2017/18 Schemes							
Schemes Supported from Local Resources							
1	Maintaining Operational Buildings including Residential and Nursing Care	173	28		201	-	4
2	Locks Heath Day Services	240	40		280	-	6
Total Programme		413	68	-	481	-	10

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			All schemes support the Corporate Priority of maximising wellbeing	
N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	1
N/A	1	12	Extension to Locks Heath Day Services Dining Area	2
+ Projects to be partly funded from external contributions.				

Adult Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2018/19 Schemes						
	Schemes Supported from Local Resources						
3	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26
	Total Programme	241	40	200	481	-	26

Capital Programme - 2018/19

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
N/A	1	12	<p>All schemes support the Corporate Priority of maximising wellbeing</p> <p>Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.</p> <p>+ Projects to be partly funded from external contributions.</p>	3

Adult Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2019/20 Schemes						
	Schemes Supported from Local Resources						
4	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26
	Total Programme	241	40	200	481	-	26

Capital Programme - 2019/20

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			All schemes support the Corporate Priority of maximising wellbeing	
N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	4
			+ Projects to be partly funded from external contributions.	

Children's Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2017/18 Schemes						
	Children's Social Care						
1	Children's Homes	1,067	176	-	1,243	-	25
2	Foster Carers	86	14	-	100	-	2
3	Adaptation Equipment	250	-	-	250	-	5
	Primary School Improvements						
4	Bishops's Waltham Infant & Junior, Winchester	2,898	478	-	3,376	-	68
5	The Butts Primary, Alton	3,433	567	-	4,000	-	80
6	Emsworth Primary, Havant	1,589	262	-	1,851	-	37
7	North Baddesley Infant & Junior	3,571	589	-	4,160	-	83
8	Oakridge Infant & Junior, Basingstoke	3,333	550	-	3,883	-	78
9	Romsey Primary	2,403	396	-	2,799	-	56
10	Rownham St Johns CE Primary	473	78	-	551	-	11
11	Trosnant Infant & Junior, Havant	3,872	639	-	4,511	-	90
	New Primary School Provision						
12	AUE Western Primary, Aldershot	8,899	1,468	-	10,367	-	207
13	Barton Farm Primary, Winchester	8,150	1,345	-	9,495	-	190
	Secondary School Improvements						
14	Calthorpe Park, Fleet	1,609	266	-	1,875	-	38
15	Kings School, Winchester	2,403	397	-	2,800	-	56
16	Mill Chase Academy, Bordon	25,313	4,177	-	29,490	-	590
17	Robert Mays Secondary, Odiham	6,524	1,076	-	7,600	-	152

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan	
Owned	Various	Various	Improvements to Children's Homes.	1
N/A	Various	Various	Improvements to foster carers' homes where necessary.	2
N/A	Various	Various	Access improvement equipment for homes.	3
Owned	2	12	Expansion to three form entry.	4
Owned	2	6	Expansion to two form entry.	5
Owned	2	12	Expansion to two form entry.	6
Owned	2	10	Expansion to three form entry.	7
Owned	2	10	Expansion to three form entry.	8
Owned	2	10	Expansion to two form entry.	9
Owned	2	10	Expansion to one and a half form entry.	10
Owned	2	10	Expansion to three form entry.	11
Neg	2	12	New two form entry primary provision to meet housing demand.	12
Neg	2	12	New two form entry primary school to meet housing demand.	13
Neg	2	12	New Sports hall.	14
Neg	2	12	Various projects to meet identified needs.	15
Neg	2	12	Replacement six form entry secondary school.	16
Neg	2	12	Expansion to nine form entry.	17
			# controlled on an accrued expenditure basis	

Children's Services

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2017/18 Schemes (continued)						
	New Secondary School Provision						
18	Horton Heath - 4-16 proposed free school	-	-	-	-	-	-
19	Special School Improvements	858	142	-	1,000	-	20
20	Other Improvement Projects	1,717	283	-	2,000	-	40
21	Purchase of modular classrooms	1,852	148	-	2,000	-	67
22	Health and Safety	343	57	-	400	-	8
23	Schools Devolved Capital	3,353	-	-	3,353	-	67
24	Access Improvements in Schools #	429	71	-	500	-	10
25	Furniture and Equipment #	-	-	750	750	-	75
26	Contingency	7,196	1,187	-	8,383	-	168
	Total Programme	91,621	14,366	750	106,737	-	2,223

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan	
Owned	2	24	New nine form entry secondary and three form entry primary school.	18
Owned	Various	Various	Rebuild and refurbishment of special schools.	19
Owned	Various	Various	Various projects to meet identified needs.	20
N/A	Various	Various	Various projects to be identified.	21
Owned	Various	Various	Improvements to address health and safety issues.	22
N/A	Various	Various	Allocations to schools through devolved formula capital.	23
N/A	Various	Various	Improvements to school's buildings to improve accessibility.	24
N/A	Various	Various	Provision of furniture and equipment for capital schemes.	25
N/A	Various	Various	Provision for cost of increases arising from inflation.	26

controlled on an accrued expenditure basis

Children's Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2018/19 Schemes						
	Children's Social Care						
27	Foster Carers	86	14	-	100	-	2
28	Adaptation Equipment	250	-	-	250	-	5
	Primary School Improvements						
29	Bordon Infant & Junior, East Hants	3,076	507	-	3,583	-	72
30	Castle Hill Primary, Basingstoke	3,084	509	-	3,593	-	72
31	Church Crookham Junior, Fleet	1,494	246	-	1,740	-	35
32	Kings Copse Primary, Hedge End	1,737	287	-	2,024	-	40
33	Northern Junior, Portchester	343	57	-	400	-	8
34	Pilgrim's Cross CE (VA) Primary, Andover	1,142	189	-	1,331	-	27
35	Whitchurch CE Primary, Basingstoke	1,717	283	-	2,000	-	40
	New Primary School Provision						
36	Boorley Green Primary, Fair Oak	-	-	-	-	-	-
37	Cornerstone CE (Aided) Primary, Whiteley	10,472	1,728	-	12,200	-	244
38	Horton Heath Primary, Eastleigh	-	-	-	-	-	-
39	Special School Improvements	858	142	-	1,000	-	20
40	Other Improvement Projects	1,717	283	-	2,000	-	40
41	Purchase of modular classrooms	1,852	148	-	2,000	-	67
42	Health and Safety	343	57	-	400	-	8
43	Schools Devolved Capital	3,353	-	-	3,353	-	67
44	Access Improvements in Schools #	429	71	-	500	-	10
45	Furniture and Equipment #	-	-	750	750	-	75

Capital Programme - 2018/19

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan	
N/A	Various	Various	Improvements to foster carers' homes where necessary.	27
N/A	Various	Various	Access improvement equipment for homes.	28
Owned	2	12	Expansion to three form entry.	29
Owned	2	12	Expansion to two form entry.	30
Owned	2	12	Expansion to six form entry.	31
Owned	2	12	Expansion to one and a half form entry.	32
Owned	2	12	Two classroom extension.	33
Owned	2	12	Expansion to two form entry.	34
Owned	2	6	Expansion to two and a half form entry.	35
Neg	2	12	New two form entry primary school to meet housing demand.	36
Neg	2	12	New three form entry primary school to meet housing demand.	37
Neg	2	12	New two form entry primary school to meet housing demand.	38
Owned	Various	Various	Rebuild and refurbishment of special schools.	39
Owned	Various	Various	Various improvements to meet identified needs.	40
N/A	Various	Various	Various projects to be identified.	41
Owned	Various	Various	Improvements to address health and safety issues.	42
N/A	Various	Various	Allocations to schools through devolved formula capital.	43
N/A	Various	Various	Improvements to school's buildings to improve accessibility.	44
N/A	Various	Various	Provision for furniture and equipment for capital schemes.	45
			# controlled on an accrued expenditure basis	

Children's Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2018/19 Schemes (continued)						
46	Contingency	5,885	970	-	6,855	-	137
	Total Programme	37,838	5,491	750	44,079	-	969

Capital Programme - 2018/19

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	<i>Qtr</i>	<i>Months</i>		
N/A	Various	Various	<p>All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan</p> <p>Provision for cost of increases arising from inflation.</p>	46
			# controlled on an accrued expenditure basis	

Children's Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2019/20 Schemes						
	Children's Social Care						
47	Foster Carers	86	14	-	100	-	2
48	Adaptation Equipment	250	-	-	250	-	5
	Primary School Improvements						
49	Bursledon Infant & Junior, West End	3,431	566	-	3,997	-	80
50	Colden Common Primary, Winchester	1,633	269	-	1,902	-	38
51	Fleet Primary Places, Hart	3,431	566	-	3,997	-	80
52	Four Marks CE Primary, Alton	1,633	269	-	1,902	-	38
53	Overton Primary, Basingstoke	1,633	269	-	1,902	-	38
54	Petersgate Infant, Clanfield	1,471	243	-	1,714	-	34
55	Sun Hill Infant & Junior, Winchester	3,431	566	-	3,997	-	80
	New Primary School Provision						
56	Eastleigh Town (Chesnut Avenue)	5,882	970	-	6,852	-	137
57	Hounsome Fields, Basingstoke	4,656	768	-	5,424	-	108
58	Manydown Primary, Basingstoke	4,656	768	-	5,424	-	108
	Secondary School Improvements						
59	Calthorpe Park, Fleet	8,231	1,358	-	9,589	-	192
60	Henry Beaufort, Winchester	3,262	538	-	3,800	-	76
	New Secondary School Provision						
61	Whiteley Secondary, Fareham	7,725	1,275	-	9,000	-	180
62	Special School Improvements	858	142	-	1,000	-	20

Capital Programme - 2019/20

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan	
N/A	Various	Various	Improvements to foster carers' homes where necessary.	47
N/A	Various	Various	Access improvement equipment for homes.	48
Owned	2	12	Expansion to four form entry.	49
Owned	2	12	Expansion to two form entry.	50
Owned	2	12	One form entry expansion.	51
Owned	2	12	Expansion to two form entry.	52
Owned	2	12	Expansion to two and a half form entry.	53
Owned	2	10	Expansion to three form entry.	54
Owned	2	12	Expansion to three form entry.	55
Owned	2	12	New one and a half form entry primary school to meet housing demand.	56
Owned	2	12	New one form entry primary school to meet housing demand.	57
Owned	2	12	New one form entry primary school to meet housing demand.	58
Owned	2	12	Up to three form entry expansion to meet pupil growth.	59
Owned	2	12	Expansion to seven form entry.	60
Owned	2	24	New seven form entry secondary school to meet housing demand.	61
Owned	Various	Various	Rebuild and refurbishment of special schools. # controlled on an accrued expenditure basis	62

Children's Services

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year	
						Running Costs	Capital Charges
	2019/20 Schemes (continued)	£'000	£'000	£'000	£'000	£'000	£'000
63	Other Improvement Projects	1,717	283	-	2,000	-	40
64	Purchase of modular classrooms	1,852	148	-	2,000	-	67
65	Health and Safety	343	57	-	400	-	8
66	Schools Devolved Capital	3,353	-	-	3,353	-	67
67	Access Improvements in Schools #	429	71	-	500	-	10
68	Furniture and Equipment #	-	-	750	750	-	75
69	Contingency	10,549	1,743	-	12,292	-	246
	Total Programme	70,512	10,883	750	82,145	-	1,729

Capital Programme - 2019/20

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months	All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan	
Owned	Various	Various	Various projects to meet identified needs.	63
N/A	Various	Various	Various projects to be identified.	64
Owned	Various	Various	Improvements to address health and safety issues.	65
N/A	Various	Various	Allocations to schools through devolved formula capital.	66
N/A	Various	Various	Improvements to school buildings to improve accessibility.	67
N/A	Various	Various	Provision of furniture and equipment for capital schemes.	68
N/A	Various	Various	Provision for cost of increases arising from inflation.	69

controlled on an accrued
expenditure basis

Economy, Transport and Environment

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
2017/18 Schemes							
Schemes Supported from Local Resources							
1	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	236
2	Flood and Coastal Defence Management	88	18	-	106	-	2
Total Programme Supported by Local Resources		10,729	1,200	-	11,929	-	238
Schemes Supported by the Government and Other External Bodies							
3	Newgate Lane, Southern Section, Fareham +	7,136	2,379	-	9,515	-	190
4	Popley Area Improvements, Basingstoke *	195	65	-	260	-	10
5	A3090 Winchester Road/ Halterworth Lane, Romsey *	431	143	-	574	-	29
6	Access to Aldershot Railway Station *	74	24	-	98	-	4
7	Bridge Street/Town Mills, Aldershot *	240	80	-	320	-	13
8	Safety Schemes #	1,125	375	-	1,500	-	83
9	Minor Improvements (part #) +	814	271	-	1,085	-	58
10	Accessibility Schemes (costing less than £250k) *	971	324	-	1,295	-	61

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
The following schemes all reflect the Corporate Priorities				
N/A	1	12	Structural maintenance to improve road conditions.	1
N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies.	2
N/A	1	12	New road to the east of the existing southern section of Newgate Lane.	3
N/A	4	3	Improvements around Abbey Road and Shakespeare Road.	4
N/A	2	4	Junction Improvements	5
N/A	2	2	Accessibility improvements.	6
N/A	3	3	Accessibility and environmental improvements	7
N/A	1	12	Casualty reduction programme.	8
N/A	1	12	Improvement schemes costing less than £50,000 each.	9
N/A	1	13	Transport Improvements in residential areas.	10
# Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded				

Economy, Transport and Environment

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2017/18 Schemes (continued)						
11	Structural Maintenance of Roads and Bridges #	23,373	2,597	-	25,970	-	792
	Total Programme Supported by the Government and other bodies	34,359	6,258	-	40,617	205	1,240
	Total Programme				52,546	205	1,478

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
N/A	1	12	<p>The following schemes all reflect the Corporate Priorities</p> <p>Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.</p>	11
			<p># Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded</p>	

Economy, Transport and Environment

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
2018/19 Schemes							
Schemes Supported from Local Resources							
12	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	236
13	Flood and Coastal Defence Management	88	18	-	106	-	2
Total Programme Supported by Local Resources		10,729	1,200	-	11,929	-	238
Schemes Supported by the Government and Other External Bodies							
14	A30 Thornycroft Roundabout Improvements, Basingstoke +	5,700	1,900	-	7,600	-	152
15	Stubbington Bypass +	25,500	8,500	-	34,000	-	680
16	M27 Junction 9, Whiteley, Fareham +	14,700	4,900	-	19,600	-	392
17	Redbridge Lane, Nursling +	1,875	625	-	2,500	-	50
18	Farnborough Corridor Improvements +	6,000	2,000	-	8,000	-	160
19	Whitehill Bordon, A325 Integration +	3,000	1,000	-	4,000	-	80
20	A33/Thornhill Way Junction Improvements, Basingstoke +	750	250	-	1,000	-	20
21	Safety Schemes #	1,125	375	-	1,500	-	83
22	Minor Improvements (part #) +	608	202	-	810	-	30
23	Junction Improvement Schemes (costing less than £250k) +	75	25	-	100	-	5
24	Accessibility schemes (costing less than £250k) +	621	206	-	827	-	41

Capital Programme - 2018/19

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
The following schemes all reflect the Corporate Priorities				
N/A	1	12	Structural maintenance to improve road conditions.	12
N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with	13
N/A	2	8	Full signalisation and widening of roundabout to improve capacity and accessibility.	14
N/A	4	24	New Road construction.	15
N/A	2	15	Junction Improvements. Capacity Improvements.	16
N/A	3	6	Junction Improvements.	17
N/A	4	12	Junction and capacity Improvements along the whole corridor.	18
N/A	2	8	Improvement of connectivity between the east and west of the town.	19
N/A	1	4	Junction improvements and capacity enhancements.	20
N/A	1	12	Casualty reduction programme.	21
N/A	1	12	Improvement schemes costing less than £50,000 each.	22
N/A	2	2	Junction improvements.	23
N/A	1	6	Accessibility improvements.	24
# Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded				

Economy, Transport and Environment

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2018/19 Schemes (continued)						
25	Roman Way/Viking Way/Smanell Road Traffic Calming, Andover *	225	75	-	300	-	15
26	Chilbolton Avenue / Sarum Road, Junction and Cycle Links, Kings School, Winchester	225	75	-	300	-	15
27	Norn Hill Cycle Route, Basingstoke	188	62	-	250	-	13
28	Romsey Town Centre Improvements Phase 3 - Market Place	458	153	-	610	-	24
29	Hayling Island (South Side) Accessibility Improvements	345	115	-	460	-	23
30	Andover Railway Station	244	81	-	325	-	13
31	A27 Barnes Lane Junction, Fareham	300	100	-	400	-	16
32	Jermyns Lane to Braishfield, Romsey	263	88	-	350	-	18
33	A33 Taylors Farm Roundabout, Basingstoke	188	62	-	250	-	10
34	Structural Maintenance of Roads and Bridges #	21,336	2,371	-	23,707	-	723
	Total Programme Supported by the Government and other bodies	83,725	23,164	-	106,889	1,165	2,563
	Total Programme				118,818	1,165	2,801

Capital Programme - 2018/19

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
			The following schemes all reflect the Corporate Priorities	
N/A	1	3	Traffic management scheme.	25
N/A	1	3	Accessibility improvements.	26
N/A	2	3	Cycle and pedestrian infrastructure improvements.	27
N/A	2	4	Improvements to the public realm.	28
N/A	1	4	Cycle and pedestrian infrastructure improvements.	29
N/A	3	3	Accessibility improvements.	30
N/A	2	3	Junction Improvements	31
N/A	1	3	Pedestrian infrastructure improvements.	32
N/A	2	3	Provision of additional entry lanes north and south bound onto the roundabout.	33
N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	34

Projects controlled on an accrued expenditure basis
+ Projects partly funded from external contributions
* Projects externally funded

Economy, Transport and Environment

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
2019/20 Schemes							
Schemes Supported from Local Resources							
35	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	236
36	Flood and Coastal Defence Management	88	18	-	106	-	2
Total Programme Supported by Local Resources		10,729	1,200	-	11,929	-	238
Schemes Supported by the Government and Other External Bodies							
37	Safety Schemes #	1,125	375	-	1,500	-	83
38	Minor Improvements (part #) +	563	187	-	750	-	24
39	Accessibility schemes (costing less than £250k) +	150	50	-	200	-	10
40	Structural Maintenance of Roads and Bridges (part #)	21,337	2,370	-	23,707	-	723
Total Programme Supported by the Government and other bodies		23,175	2,982	-	26,157	34	840
Total Programme					38,086	34	1,078

Capital Programme - 2019/20

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
The following schemes all reflect the Corporate Priorities				
N/A	1	12	Structural maintenance to improve road conditions.	35
N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with	36
N/A	1	12	Casualty reduction programme.	37
N/A	1	12	Improvement schemes costing less than £50,000 each.	38
N/A	2	3	Accessibility improvements.	39
N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	40
# Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded				

Policy and Resources

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
2017/18 Schemes							
Schemes Supported from Local Resources							
Culture, Communities and Business Services							
1	Office Accommodation Schemes	350	58	-	408	-	8
2	Facilities Management Schemes	137	23	-	160	-	3
3	Vehicles for Hampshire Transport Management #	-	-	2,000	2,000	-	200
4	Community Buildings and Village Halls	-	-	125	125	-	-
5	CCBS Minor Works	328	-	-	328	-	7
6	Workstyle	893	147	-	1,040	-	21
Corporate Services							
7	IT - replacement of equipment	-	-	250	250	-	50
8	Contingency	185	-	-	185	-	3
Total Programme Supported by Local Resources		1,893	228	2,375	4,496	-	292

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
N/A	-	-	Various schemes throughout the County, linking to the Corporate Priority of maximising wellbeing.	1
N/A	-	-	Various schemes throughout the County.	2
N/A	-	-	Continuing programme of replacing vehicles linking to the Corporate Priority of making Hampshire safer and more secure for all.	3
Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	4
N/A	1	12	Provision of minor works across the department including Library and Countryside services	5
N/A	1	12	Continuation of the Workstyle programme to enable flexible smarter working and reduce revenue costs	6
N/A	-	-	Programme of replacing IT equipment.	7
N/A	-	-		8
# controlled on an accrued expenditure basis				

Policy and Resources

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2017/18 Schemes (continued)						
	Schemes Supported by the Government						
	Schools Condition Funding						
9	Rowner Infant, Gosport	1,100	182		1,282	-	26
10	Warblington School, Havant	1,700	281		1,981	-	40
11	North Baddesley Infant	250	41		291	-	6
12	North Waltham Primary, Basingstoke	200	33		233	-	5
13	Red Barn Primary, Portchester	250	41		291	-	6
14	Southwood Infant, Cove	400	66		466	-	9
15	Connaught School, Aldershot	800	132		932	-	19
16	Test Valley School, Stockbridge	800	132		932	-	19
17	Schools Condition Funding (costing less than £250,000)	9,789	1,615	-	11,404	-	228
	Priority Schools Building Programme						
18	Olivers Battery Primary, Winchester	1,823	340	-	2,163	-	43
19	Overton CofE Primary	2,702	488	-	3,190	-	64
20	Talavera Infant School, Aldershot	2,204	411	-	2,615	-	52
21	Wootey Junior School, Alton	2,018	372	-	2,390	-	48
	Total Schemes Supported by the Government	24,036	4,134	-	28,170	-	565
	Total Excluding Land				32,666	-	857
	Advance and Advantageous Land Purchases				646	-	-
	Total Programme				33,312	-	857

Capital Programme - 2017/18

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
Owned	1	12	Timber frame reclad & thermal upgrade	9
Owned	1	12	Phase 1 reclad and upgrading of external building fabric	10
Owned	1	12	Crosswall recladding and thermal upgrading	11
Owned	1	12	Pitched roof insulation upgrade and recovering	12
Owned	1	12	Pitched roof insulation upgrade and recovering	13
Owned	1	12	Pitched roof insulation upgrade and recovering	14
Owned	1	12	ROSLA block thermal upgrading, roof recovering and recladding	15
Owned	1	12	ROSLA block thermal upgrading, roof recovering and recladding	16
Owned	-	-	Major improvements, linking to the Corporate Priority of making Hampshire safer and more secure for all.	17
Owned	1	12		18
Owned	1	12	Major improvements, linking to the Corporate Priority of making Hampshire safer and more secure for all.	19
Owned	1	12		20
Owned	1	12		21

Policy and Resources

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2018/19 Schemes						
	Schemes Supported from Local Resources						
	Culture, Communities and Business Services						
22	Office Accommodation Schemes	350	58	-	408	-	8
23	Facilities Management Schemes	137	23	-	160	-	3
24	Vehicles for Hampshire Transport Management #	-	-	2,000	2,000	-	200
25	Community Buildings and Village Halls	-	-	125	125	-	-
26	CCBS Minor Works	328	-	-	328	-	7
27	Contingency	185	-	-	185	-	3
	Total Programme Supported by Local Resources	1,000	81	2,125	3,206	-	221
	Schemes Supported by the Government						
28	Schools Condition Funding	15,289	2,523	-	17,812	-	356
	Total Schemes Supported by the Government	15,289	2,523	-	17,812	-	356
	Total Excluding Land				21,018		577
	Advance and Advantageous Land Purchases				646		
	Total Programme				21,664		577

Capital Programme - 2018/19

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
N/A	-	-	Various schemes throughout the County, linking to the Corporate Priority of maximising wellbeing.	22
N/A	-	-	Various schemes throughout the County.	23
N/A	-	-	Continuing programme of replacing vehicles linking to the Corporate Priority of making Hampshire safer and more secure for all.	24
Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	25
N/A	1	12	Provision of minor works across the department including Library and Countryside services	26
N/A	-	-		27
Owned	-	-	Major repairs and improvements, linking to the Corporate Priority of making Hampshire safer and more secure for all.	28
			# controlled on an accrued expenditure basis	

Policy and Resources

Ref	Project	Construct- ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year	
						Running Costs	Capital Charges
		£'000	£'000	£'000	£'000	£'000	£'000
	2019/20 Schemes						
	Schemes Supported from Local Resources						
	Culture, Communities and Business Services						
29	Office Accommodation Schemes	350	58	-	408	-	8
30	Facilities Management Schemes	137	23	-	160	-	3
31	Vehicles for Hampshire Transport Management #	-	-	2,000	2,000	-	200
32	Community Buildings and Village Halls	-	-	125	125	-	-
33	CCBS Minor Works	328	-	-	328	-	7
34	Contingency	185	-	-	185	-	3
	Total Programme Supported by Local Resources	1,000	81	2,125	3,206	-	221
	Schemes Supported by the Government						
35	Schools Condition Funding	15,289	2,523	-	17,812	-	356
	Total Schemes Supported by the Government	15,289	2,523	-	17,812	-	356
	Total Excluding Land				21,018		577
	Advance and Advantageous Land Purchases				646		
	Total Programme				21,664		577

Capital Programme - 2019/20

Site Position	Contract Start		Remarks	Ref
	Date	Duration		
	Qtr	Months		
N/A	-	-	Various schemes throughout the County, linking to the Corporate Priority of maximising wellbeing.	29
N/A	-	-	Various schemes throughout the County.	30
N/A	-	-	Continuing programme of replacing vehicles linking to the Corporate Priority of making Hampshire safer and more secure for all.	31
Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	32
N/A	1	12	Provision of minor works across the department including Library and Countryside services	33
N/A	-	-		34
Owned	-	-	Major repairs and improvements, linking to the Corporate Priority of making Hampshire safer and more secure for all.	35

controlled on an accrued expenditure basis

This page is intentionally left blank