Public Document Pack

Hampshire County Council

NOTICE OF MEETING

Meeting	Cabinet
Date and Time	Friday, 1st February, 2019 at 10.30 am
Place	Wellington Room, EII Court, 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.

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 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 Personal Interest in a matter being considered at the meeting should consider, 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, 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 3 - 22)

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 & PRECEPT 2019/20** (Pages 23 - 124)

To receive a report of the Director of Corporate Resources regarding the Revenue Budget and Precept 2019/20

7. **CAPITAL PROGRAMME 2019/20 - 2021/22** (Pages 125 - 160)

To receive a report of the Director of Corporate Resources regarding The Capital Programme 2019/20 – 2021/22

8. **HAMPSHIRE & ISLE OF WIGHT SUSTAINABILITY & TRANSFORMATION PARTNERSHIP (STP) - SYSTEM REFORM PROPOSALS** (Pages 161 - 214)

To receive a report of the Director of Adults' Health and Care regarding the Sustainability and Transformation Partnership (STP)

9. **REFERRAL OF MOTION FROM COUNTY COUNCIL ON 29 NOVEMBER 2018** (Pages 215 - 218)

To receive a report of the Chief Executive regarding a Notice of Motion referred to Cabinet from County Council on 29 November 2018

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.

AT A MEETING of the Cabinet of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Monday, 10th December, 2018

Chairman:
* Councillor Roy Perry

* Councillor Keith Mans
* Councillor Liz Fairhurst
* Councillor Edward Heron
* Councillor Rob Humby
* Councillor Andrew Joy
* Councillor Mel Kendal
* Councillor Stephen Reid
* Councillor Patricia Stallard
* Councillor Seán Woodward

* Present

Also present with the agreement of the Chairman: Councillors Bennison, Carter, Carpenter, Chadd, Collett, Glen, Grajewski, House, Huxstep, McNair-Scott, Latham, Oppenheimer and Porter.

86. **APOLOGIES FOR ABSENCE**

All Members were present and no apologies were noted.

87. **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 at the time of the relevant debate 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 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 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 whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

88. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed.

89. **DEPUTATIONS**

No requests to make a deputation had been received.

It was noted that Councillor Adrian Collett would speak on the item relating to Brexit (minute 97 refers) and Councillor Keith House would speak on the items relating to Budget Setting, the Public Health Annual Report and Brexit (minutes 91, 95 and 97 refer) with the agreement of the Chairman.

90. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman reported that he had recently represented the County Council at the NCAS and CCN conferences, with both having a focus on the financial pressures facing County Councils in the areas of Adult Care and Children's Services. It was noted that although the position in Hampshire remained challenging, prudent financial management had gone some way to mitigating the difficulties faced by others.

Meetings with regional organisations, SEEC and SESL, had also been held and the Chairman explained that to draw together the various voices representing the South East region, he was proposing a federation of these two groups and a number of others. The aim was to ensure the needs and voice of the region was clear and understood, especially in light of the large net tax contribution to the Exchequer.

The Chairman highlighted to Cabinet some of the very successful Remembrance events held in November, in particular the concert held with German school children in Romsey Abbey. At a reception for the Hampshire Regiment Association, the Chairman had been able to present £15,000 from the County Council to enable the completion of refurbishment of the Memorial Garden at Serles House.

91. **BUDGET SETTING AND PROVISIONAL CASH LIMITS 2019/20**

[Councillor Mans declared a Personal Interest by virtue of being a Board Member for the Enterprise M3 LEP and remained in the meeting]

Cabinet received a report of the Director of Corporate Resources regarding budget setting and provisional cash limits 2019/20.

In introducing the report, the Chairman noted that the final financial settlement for 2019/20 had not yet been received; he highlighted the loan being made available to the Enterprise M3 LEP and the position on Members' devolved budgets.

The Director set out the key elements of the report, with particular reference to the autumn budget statement and consequential increase in funding in specific areas for the County Council. Across the organisation departments all faced financial pressure and were working hard to remain within cash limits and to develop high level savings targets for Transformation to 2021. It was confirmed that the loan facility being made available to the LEP was to enable cash flow for projects crossing financial years.

Councillor House addressed Cabinet at the invitation of the Chairman.
He raised a number of points relating to the County Council's load to the LEP, affordable homes and the implications of the end of austerity as announced by the Prime Minister.

It was confirmed that LEP loans were effectively secured via the assured income to the LEP from an agreed government grant.

Cabinet Members noted that the report detailed provision for the continuation of service provision for vulnerable Children and Adults within the resources available. The scale of the Capital Programme, which also generated significant investment in the Hampshire economy was recognised as were the benefits of working with partners to ensure joined up service delivery. It was highlighted that new housing was the responsibility of District Councils, however the County Council had been very successful in the delivery of high-quality Extra Care housing.

The recommendations in the report were considered and agreed. The decision record is attached.

92. **TRANSFORMATION TO 2019 REPORT NO. 5**

Cabinet received a report of the Chief Executive providing an update on the Transformation to 2019 Programme.

The report was introduced and it was highlighted that progress against the savings targets was good and on target. Cabinet were advised that the on-boarding of the three London Boroughs (Westminster, Kensington and Chelsea, and Hammersmith and Fulham) to the Council's successful shared service arrangements, was delivered on time and on budget at the beginning of December. The Digital and Productivity programmes had also been successfully implemented across the County Council. With reference to the Transformation to 2021 programme, the importance of completing the current programme was stressed, in order to ensure there would not be a savings legacy to carry forward.

Cabinet welcomed the report and noted the impact of both an ageing population and of increasing numbers of children in care on the pressures being faced by the County Council. It was recognised that Hampshire's ability to retain capacity had enabled it to deliver programmes such as Digital to achieve savings.

The recommendations in the report were considered and agreed. The decision record is attached.

93. **PROGRESS REPORT ON THE ADULTS' HEALTH & CARE EXTRA CARE HOUSING PROGRAMME**

Cabinet received a report of the Director of Adults' Health and Care regarding the Extra Care housing programme.

In introducing the report, the programme was outlined and it was noted that a further benefit had been the significant revenue savings achieved through the improvement of facilities.

Cabinet applauded the quality of the care and the facilities and recognised the positive impact on people's lives.

The recommendations in the report were considered and agreed. The decision record is attached.

94. **HAMPSHIRE COUNTY STRATEGY GROUP FOR COMMUNITY SAFETY**

Cabinet received a report of the Director of Adults' Health and Care regarding the Hampshire County Strategy Group for Community Safety

The basis and development of the County Strategy Group was set out for Cabinet and it was heard that the outcomes and work of the Group had been reported in a number of different forums, including to the Policy and Resources Select Committee.

The recommendations in the report were considered and agreed. The decision record is attached.

95. **ANNUAL PUBLIC HEALTH REPORT**

Cabinet received a report presenting the annual report of the Director of Public Health.

It was confirmed that it was a statutory duty of the Director of Public Health to prepare an annual report. This particular report focussed on the importance of place to health.

With the agreement of the Chairman, Councillor House addressed Cabinet. Welcoming an interesting report with useful statistics, he questioned the impact of austerity on public health and the relationship with other Council services.

The Executive Member for Public Health assured Cabinet that the public health team worked in close partnership with all County Council departments to ensure the maximisation of service delivery. Furthermore that details of all of the different ways in which public health was engaged with County Council activities would require a separate report. Cabinet acknowledged that this was reflective of the cross departmental approach to service delivery across the organisation and cited a number of examples.

The recommendations in the report were considered and agreed. The decision record is attached.

96. **SERVING HAMPSHIRE - 2018/19 Q2 PERFORMANCE REPORT**

Cabinet received a report of the Chief Executive setting out the 2018/19 Q2 Performance Report.

The report was introduced with particular reference to the approach to performance analysis and the methodology. Key performance points were highlighted to Cabinet.

Cabinet noted the high level of performance reported across a number of key areas/ They acknowledged the transition from internal to external sources of measuring performance and the consequential independent validation of the data.

The recommendations in the report were considered and agreed. The decision record is attached.

97. **BREXIT: THE POTENTIAL IMPACT ON THE COUNTY COUNCIL'S RESOURCES AND SERVICES**

Cabinet received a report of the Chief Executive regarding the potential impact on the County Council's resources and services of Brexit.

It was noted that this report focussed specifically on the issues facing the County Council. The Leader reported that he had personally attended a number of meetings about the impact on local government as a whole and acknowledged that the situation was fast moving. An assurance of support to complete any residency requirements was given to the c. 300 EU nationals employed by the County Council. The Leader also recognised the potential impact on traffic through the port of Portsmouth in particular, on trading standards and confirmed that he was seeking reassurance that EU related income to Hampshire through grants and the Common Agricultural Policy would be replaced following Brexit.

The Chief Executive introduced the content of the report, highlighting three key themes of: general preparation, resilience in the event of there being no Brexit deal and the workforce implications.

With the agreement of the Chairman, Councillor Collett addressed Cabinet. Thanking officers for the report and welcoming the Leader's reassurances around EU funding, he cited his own positive experience of European co-operation and explained why he would like to debate the issue in Full Council. .

With the agreement of the Chairman, Councillor House addressed Cabinet. He expressed disappointment that the report did not consider wider implications of Brexit on the County. He noted that by February the process of agreeing a Brexit deal would be further advanced.

It was confirmed that the remit of the report had been to evaluate the impact on Council services, however it also highlighted the extent of work undertaken at a regional and national level. The section of the report setting out the next steps, including reference to the wider economic impact and the proposal for a Hampshire Conference was drawn to Cabinet's attention. The work and preparations of the local resilience forum was outlined, particularly in the areas of travel, services, information and data sharing and public disorder.

Cabinet agreed that as a body, the County Council was responsible for its own service delivery and therefore it was correct that the report focussed on the potential impact on the delivery of those services. It was reported that opportunities for investment in Hampshire were being explored on an ongoing basis. It was confirmed that the Council motion would be considered at the next meeting of Cabinet and that the respective mover and seconder of the motion would be given an opportunity to speak.

The recommendations in the report were considered and agreed. The decision record is attached.

Chairman,

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

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

Contact name: Rob Carr – Head of Finance

Tel: 01962 847508 **Email:** Rob.Carr@hants.gov.uk

1. The decision:

that Cabinet:

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

2. Reason(s) 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 2019.

3. Other options considered and rejected:

3.1. None

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: Not applicable

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:**
--	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Transformation to 2019: Report No. 5
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 latest Tt2019 programme risk assessment, including the early securing of £60m of savings - section 5.

1.2 Notes that five of the six service specific Tt2019 public consultations have been completed and Executive Member decisions taken, with the one remaining consultation, Learning Disabilities Respite Care Services due to close later this month – 21st December - section 5.

1.3 Notes the continued positive progress being made in relation to the onboarding of the three London Boroughs to the Council's shared services platform – section 5.

1.4 Notes the progress and strong contributions being made by the three enabling projects to the programme; Digital, Productivity and Procurement – section 6.

1.5 Notes that programme progress will continue to be monitored closely and that a further update will be provided to Cabinet before the end of 2018/19 – section 5 and 8.

1.6 Notes the update on the planning work and forward timescales for the successor £80m Tt2021 programme – section 7

1.7 Agrees to continue to lobby Government in respect of new charging powers aimed specifically at raising income that will be used to protect important universal services into the future e.g. Household Waste Recycling Centres, or to enable other specific savings proposals not to be implemented or for their impact to be mitigated.

2. Reason(s) for the decision:

2.1. To provide an update on progress with Transformation to 2019, 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: None

4.2. Conflicts of interest declared by other Executive Members consulted: Not applicable

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:**
---	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Progress report on the Adults' Health and Care Extra Care Housing Programme
Report From:	Director of Adults' Health and Care

Contact name: Graham Allen

Tel: 01962 847200 **Email:** Graham.allen@hants.gov.uk

1. The decision:

It is recommended that Cabinet:

a) note the positive progress made to date in the Extra Care Housing programme within the Adults' Health and Care Department for both Older and Younger Adults.

b) note the ambitions for the future of Extra Care Housing over the next 5 years.

2. Reason(s) for the decision:

2.1. The purpose of this paper is to provide a high level summary of the positive progress being made on the Extra Care Housing (ECH) programme within the Adults' Health and Care Department

3. Other options considered and rejected:

3.1. None

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: Not applicable

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:**
--	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Hampshire County Strategy Group for Community Safety
Report From:	Director of Adults' Health and Care

Contact name: Sue Lee, Strategic Partnership Manager

Tel: 07551152760 **Email:** Susan.lee@hants.gov.uk

1. The decision:

That Cabinet:

a) Note the establishment of the Hampshire County Strategy Group for Community Safety and the current work programme.

b) Note the work undertaken to develop the Strategic Assessment of Community Safety and the establishment of strategic priorities for partnership working and increased operational impact to affect them, including;

- The threat of serious organised crime, especially related to the exploitation of children including 'County Lines' gangs
- Increased vulnerability through Information and Communications Technology and media channels
- The interconnectedness and impact of mental health, substance misuse, domestic abuse and adverse childhood experiences
- The continuing threat of radical extremism
- The importance of understanding the changing demographics of our communities and using this to understand vulnerability and to promote inclusion and community cohesion
- Retaining the capacity of voluntary support services for vulnerable people
- Providing opportunities for all children to engage in positive activities and to aspire to achieve
- More effective collaboration and alignment of scarce resources to focus on vulnerability and repeat victimisation

c) Establish an annual cycle of reporting to Cabinet, in agreement with the relevant Lead Members, to provide assurance that Community Safety and statutory requirements are fully met.

2. Reason for the decision:

2.1. The purpose of this paper is to outline the current position regarding the County Strategy Group and its progress in delivering its statutory functions.

3. Other options considered and rejected:

3.1. None

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: Not applicable

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:**
---	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Annual Report of the Director of Public Health
Report From:	Director of Public Health

Contact name: Sue Lee, Strategic Partnership Manager

Tel: 02380 383329 **Email:** Sallie.bacon@hants.gov.uk

1. The decision:

That Cabinet:

1.1. notes the 2017-2018 annual report of the Director of Public Health and

1.2. approves publication of the report.

2. Reason for the decision:

2.1. To consider the latest Director of Public Health's Annual Report to Cabinet, ahead of publication

2.2. This year's report ' Shaping Places to improve Health Outcomes' looks at the importance of 'place' for health, specifically looking at green and blue (waterbased natural environment) spaces, active travel and the food environment. The report uses innovative new datasets to explore the issues in Hampshire and makes recommendations for what more we can do together to shape places to improve health.

3. Other options considered and rejected:

3.1. None

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: Not applicable

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:**
--	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Serving Hampshire – 2018/19 Q2 Performance Report
Report From:	Chief Executive

Contact name: Philippa Mellish, Head of Insight and Engagement

Tel: 01962 847482 **Email:** philippa.mellish@hants.gov.uk

1. The decision:

That Cabinet:

1.1 notes the County Council's performance for the first half of 2018/19, and

1.2 endorses work underway to advance the County Council's inclusion and diversity work, recognising feedback from the National Inclusion Standard pilot and staff survey..

2. Reason(s) for the decision:

2.1. To provide strategic oversight of the County Council's performance during the first six months of 2018/19 against the Serving Hampshire Strategic Plan for 2017-21 (Serving Hampshire).

2.2. To update Cabinet on the County Council's work to advance inclusion and diversity.

3. Other options considered and rejected:

3.1. None

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: Not applicable

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:**
--	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	10 December 2018
Title:	Brexit: the potential impact on the County Council's resources and services
Report From:	Chief Executive

Contact name: Deborah Harkin, Assistant Chief Executive

Tel: 01962 845006 **Email:** Deborah.Harkin@hants.gov.uk

1. The decision:

That Cabinet:

1.1 Note the high-level findings from the scoping exercise on the potential impact Brexit may have on the County Council's resources and services.

1.2 Endorse the County Council's current activities in relation to Brexit, including contingency planning for a 'no deal' scenario.

1.3 Agree proposed future actions to strengthen Hampshire's resilience to any risks associated with Brexit, in collaboration with public and private sector partners, to help ensure the county's continued economic prosperity.

2. Reason(s) for the decision:

2.1. To provide an update on current and planned activities by the County Council in response to the evolving Brexit landscape;

3. Other options considered and rejected:

3.1. None

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: Not applicable

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:**
---	10 December 2018
Chairman of Cabinet **Councillor Roy Perry**	

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	1 February 2019
Decision Maker:	County Council
Date:	14 February 2019
Title:	Revenue Budget and Precept 2019/20
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Carolyn Williamson

Tel: 01962 847400 **Email:** Carolyn.Williamson@hants.gov.uk

1. Recommendations

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

1.1. Notes the current position in respect of the financial resilience monitoring for the current financial year.

1.2. Approves the Revised Budget for 2018/19 contained in Appendix 1, including a transfer of £1.0m to the Investment Risk Reserve.

1.3. Gives approval to transfer any spare resources on the 2018/19 winter maintenance budget to the highways maintenance budget for 2019/20 and to apply this principle in future years.

1.4. Approves the updated cash limits for departments for 2019/20 as set out in Appendix 2.

1.5. Delegates authority to the Deputy Chief Executive and 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 Councils or any late changes in the final Local Government Finance Settlement.

1.6. **Recommends to County Council that:**

a) The Treasurer’s report under Section 25 of the Local Government Act 2003 (Appendix 6) be taken into account when the Council determines the budget and precept for 2019/20.

b) The Revised Budget for 2018/19 set out in Appendix 1 be approved.

c) The Revenue Budget for 2019/20 (as set out in Appendix 3 and Appendix 4) be approved.

d) Funding for one off revenue priorities linked to the development of capital investment totalling £2.9m as set out in paragraphs 5.26 to 5.46 be approved.

e) Funding for the future years cost of the Manydown development of up to £4.2m be approved to be met from general contingencies.

f) Loan funding of up to £600,000 a year from 2018/19 to 2026/27 be made available to meet the running costs of the Manydown Garden Communities LLP to be met from general contingencies.

g) The total **net budget requirement** for the general expenses of the County Council for the year beginning 1 April 2019, be £757,211,373.

h) The **council tax requirement** for the County Council for the year beginning 1 April 2019, be £634,450,710.

i) The County Council's band D council tax for the year beginning 1 April 2019 be £1,236.87, an increase of 2.99%.

j) The County Council's council tax for the year beginning 1 April 2019 for properties in each tax band be:

	£
Band A	824.58
Band B	962.01
Band C	1,099.44
Band D	1,236.87
Band E	1,511.73
Band F	1,786.59
Band G	2,061.45
Band H	2,473.74

k) Precepts be issued totalling £634,450,710 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 authority's area as determined by them and as set out overleaf:

Basingstoke and Deane	65,768.80
East Hampshire	50,461.90
Eastleigh	44,805.97
Fareham	42,909.60
Gosport	26,941.34
Hart	40,704.11
Havant	40,708.00
New Forest	71,074.40
Rushmoor	31,300.99
Test Valley	48,966.00
Winchester	49,307.47

l) The Capital & Investment Strategy for 2019/20 (and the remainder of 2018/19) as set out in Appendix 7 be approved.

m) The Treasury Management Strategy for 2019/20 (and the remainder of 2018/19) as set out in Appendix 8 be approved.

n) An increase to the allocation targeting higher yields from £200m to £235m (as set out in the Treasury Management Strategy in Appendix 8) to increase the overall rate of return and the income contributed to the revenue budget, based on the stability of the County Council's cash balances be approved.

o) Authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

1.7. **RECOMMENDATIONS TO COUNTY COUNCIL**

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

County Council is recommended to approve:

a) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 6) and take this into account when determining the budget and precept for 2019/20.

b) The Revised Budget for 2018/19 set out in Appendix 1.

c) The Revenue Budget for 2019/20 (as set out in Appendix 3 and Appendix 4).

d) Funding for one off revenue priorities linked to the development of capital investment totalling £2.9m as set out in paragraphs 5.26 to 5.46.

e) Funding for the future years cost of the Manydown development of up to £4.2m to be met from general contingencies.

f) Loan funding of up to £600,000 a year from 2018/19 to 2026/27 to meet the running costs of the Manydown Garden Communities LLP to be met from general contingencies.

g) That the total **net budget requirement** for the general expenses of the County Council for the year beginning 1 April 2019, be £757,211,373.

h) That the **council tax requirement** for the County Council for the year beginning 1 April 2019, be £634,450,710.

i) That the County Council's band D council tax for the year beginning 1 April 2018 be £1,236.87, an increase of 2.99%.

j) The County Council's council tax for the year beginning 1 April 2019 for properties in each tax band be:

	£
Band A	824.58
Band B	962.01
Band C	1,099.44
Band D	1,236.87
Band E	1,511.73
Band F	1,786.59
Band G	2,061.45
Band H	2,473.74

k) Precepts be issued totalling £634,450,710 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 authority's area as determined by them and as set out overleaf:

Basingstoke and Deane	65,768.80
East Hampshire	50,461.90
Eastleigh	44,805.97
Fareham	42,909.60
Gosport	26,941.34
Hart	40,704.11
Havant	40,708.00
New Forest	71,074.40
Rushmoor	31,300.99
Test Valley	48,966.00
Winchester	49,307.47

l) The Capital & Investment Strategy for 2019/20 (and the remainder of 2018/19) as set out in Appendix 7.

m) The Treasury Management Strategy for 2019/20 (and the remainder of 2018/19) as set out in Appendix 8.

n) An increase to the allocation targeting higher yields from £200m to £235m (as set out in the Treasury Management Strategy in Appendix 8) to increase the overall rate of return and the income contributed to the revenue budget, based on the stability of the County Council's cash balances.

o) The delegation of authority to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

2. Executive Summary

2.1. The purpose of this report is to set out the County Council's proposals for the revenue budget and precept for 2019/20. It also provides an update on the financial position for 2018/19.

2.2. The deliberate strategy that the County Council has followed to date for dealing with grant reductions and the removal of funding that was historically provided to cover inflation, coupled with continued demand pressures over the last decade is well documented. It involves planning ahead of time, through a two yearly cycle, releasing resources in advance of need and using those resources to help fund transformational change.

2.3. This strategy has served the County Council, and more particularly, its services and community well, as it has delivered transformation programmes on time and on budget with maximum planning and minimum disruption. Put simply, it is an approach that has ensured Hampshire County Council has continued to avoid the worst effects of funding reductions that have started to adversely affect other local authorities.

2.4. In line with this financial strategy savings targets for 2019/20 were approved as part of the 2017/18 budget setting process and detailed savings proposals were developed through the Transformation to 2019 (Tt2019) Programme and approved by Executive Members in September 2017 and then by Cabinet and County Council in October and November 2017. The impact of the agreed savings has been reflected in the detailed budgets approved by Executive Members and presented in this report.

2.5. During January individual Executive Members have been considering their revenue budget proposals with the Leader and Cabinet and Select Committees who provide overview and scrutiny. 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 14 February 2019.

2.6. This report also considers a number of revenue items that are linked to the development of capital investment priorities totalling £2.9m that are outlined for approval, together with other approvals associated with the Manydown development site.

2.7. Financial performance in the current year remains strong. Indications are that all departments will be able to manage the large-scale investment required to deliver their planned transformation activity and meet service pressures through the use of cost of change and other reserves, along with appropriate corporate funding. 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 being felt in all departments.

2.8. The demographic pressures within social care departments 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.

2.9. For Adults' Health and Care, a combination of a more stable service position and increased resources from government and the social care precept mean that short term pressures are under better control. However, the County Council is still having to deal with the fact that the population of over 75 year olds is expected to increase by 30% over the next seven years, equating to around an extra 5,500 people per year, many of which will already have or will develop some kind of social care need.

2.10. 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 the numbers of children in care increasing by 372 (28.4%) in the last three and a half years alone. Growing attention nationally is now being focused on the pressures facing children's services and this is now the biggest pressure area that the County Council faces.

2.11. 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 2019/20, alongside additional one off funding from government, announced in the Budget.

2.12. The Budget in the autumn included some welcome announcements in respect of one off additional funding for both adults' and children's social care and for highways and reflects extensive lobbying undertaken by the County Council in these areas. Although this funding falls far short of the amount required (we have received £12.8m against minimum recurring pressures of £23.5m for social care in 2019/20 alone) and is only one off, it does however signal that some of the pressures on local government are being recognised by the Treasury and the hope is that this will feed through to further changes within next years Comprehensive Spending Review (CSR).

2.13. The Medium Term Financial Strategy (MTFS) highlighted the fact that beyond 2021/22 if we are to remain financially sustainable there needs to be a significant change in the way in which growth in adults' and children's social care is funded, since it is not possible to continually cut some services to fund growth in others.

2.14. The provisional Local Government Finance Settlement was announced on 13 December 2018 and confirmed the grant figures for 2019/20 broadly in line with the four year settlement and there has been no change to the council tax thresholds, except for the police precept.

2.15. In line with the MTFS, this report recommends that council tax is increased by 2.99% in 2019/20, which is half the level of increase applied last year and reflects government policy. This will generate around £18m additional income and it is likely that Hampshire will remain the second lowest county level council tax in the country, without suffering from the same financial problems as some of the other low council tax county councils. The Adult Social Care precept is unchanged as the County Council has applied the maximum allowable 6% increase over two years rather than three; utilising the flexibility provided by government.

2.16. 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 Deputy Chief Executive and Director of Corporate Resources in consultation with the Leader and Chief Executive to make these changes as appropriate.

2.17. The County Council's Reserves Strategy, which is set out in Appendix 5, is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be successfully planned, developed and safely implemented.

2.18. The apparent lack of understanding of local authority reserves continues to be a national issue and in response some indicative work by the Local Government Association highlighted that for local government collectively, after earmarked or committed reserves had been excluded, the remaining uncommitted reserves only left enough money to run services for around 25 days. For the County Council the same exercise was repeated and gave a figure of just over 27 days. This highlights once again that reserves offer no long term solution to the financial challenges we face. Correctly used however, they do provide the time and capacity to properly plan, manage and implement change programmes as the County Council has demonstrated for many years now.

2.19. In addition, this report includes both the County Councils Capital and Investment Strategy and the Treasury Management Strategy (TMS) for 2019/20 (and the remainder of 2018/19), set out in Appendices 7 and 8 respectively.

2.20. The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The TMS supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

3. Contextual Information

3.1. The current financial strategy which the County Council operates works on the basis of a two year cycle of delivering departmental savings targets 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 with any early delivery of resources retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures. The model has served the authority well.

3.2. The County Council's strategy placed it in a very strong position to produce a 'steady state' budget for 2018/19 and safely implement the next phase of changes through the Transformation to 2019 (Tt2019) Programme to deliver savings totalling £140m.

3.3. The Tt2019 Programme is progressing well and to plan, but it is clear that bridging a further gap of £140m is extremely difficult and will take longer to achieve in order to avoid service disruption. The Chief Executive's report entitled Transformation to 2019 – Report No.5 was presented to Cabinet in December 2018 and outlined the positive progress being made.

3.4. The anticipated delay in the delivery of some elements of programme has been factored into our medium term planning to ensure that enough one off funding exists both corporately and within departments to meet any potential gap over the period. Taking up to four years to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy and further emphasises the value of our Reserves Strategy.

3.5. The budget setting process for 2019/20 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.

3.6. The Medium Term Financial Strategy (MTFS) approved by the County Council in September 2018 flagged that the expectation was for minimal change to the provisional Local Government Finance Settlement for 2019/20, the final year of the Comprehensive Spending Review (CSR). However, it was acknowledged that the Budget in the autumn could potentially contain some additional information that could impact our planning assumptions.

3.7. In overall terms, the announcements in the Budget had very little impact on the revenue position reported in the MTFS, although there were some welcome announcements in respect of one off additional funding for both adults' and children's social care and for highways. Although this funding falls far short of the amount required (which is a minimum of £23.5m for social care in 2019/20 alone) and is only one off, it does however signal that some of the pressures on local government are being recognised by the Treasury and the hope is that this will feed through to further changes within next years CSR.

3.8. The provisional Local Government Settlement was announced on 13 December and more detail about the provisional settlement is set out in Section 6 of this report.

3.9. The final grant settlement for 2019/20 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 2018.

3.10. In December 2018 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.

4. Third Quarter Budget Monitoring

4.1. Strong financial management has remained a key focus during the year and enhanced financial resilience monitoring, which looks not only at the regular financial reporting but also at potential pressures in the system and the early achievement of savings being delivered through transformation, has continued through regular reports to the Corporate Management Team (CMT) and to Cabinet.

4.2. The table overleaf summarises the latest forecast position for each department as at the end of December (Month 9) and indicates that all departments, with the exception of Children's Services, will be able to manage the large-scale investment required to deliver their planned transformation activity and meet service pressures through the use of cost of change and other reserves, along with currently agreed corporate funding:

	£'000
Investment / Cost of Change Used	46,578
Pressures	29,567
Tt2017 Late Delivery	654
Subtotal	**76,799**
To Be Met From:	
Tt2019 Early Delivery	(25,663)
Other Savings	(31,317)
Other Departmental Reserves	(1,678)
Unallocated Corporate Support	(30,348)
Contribution to Departmental Cost of Change	12,875
Total (Under) / Over Spend	**668**

4.3. 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 pressures.

Adults' Health and Care

4.4. For 2018/19 it is forecast that the Department will deliver early Tt2019 savings of £10.1m which is a one off benefit. In addition, favourable forecast variances within adult social care service budgets of £0.2m are anticipated.

4.5. The main recurrent pressures in 2018/19 relate to the provision of care, both purchased and provided in house with pressures of £5.4m and £2.1m respectively. However, in year these have been offset by non-recurrent funding made available through the "Meeting Social Care Needs" workstream within the increased Improved Better Care Fund (IBCF) of £4.8m. In addition, there are various savings across the Department's non-care budgets, including departmental wide staffing budgets, that total £2.9m.

4.6. The overall forecast outturn position for 2018/19 will allow £10.3m to be transferred to the Cost of Change Reserve, bringing the reserve balance up to £31.6m by the end of 2018/19. This sum will be utilised in full, within the following two years, to fund planned delays in savings and to pay for one off project costs.

4.7. The Department has continued to experience growth pressures because of demographic increases in the numbers of people requiring care and rising costs due to the increased complexity of clients needs alongside the impact of the National Living Wage (NLW) which is forecast to add up to £45m extra to the costs of buying care from the private markets. Appropriate corporate support is available for these items and is built into the MTFS.

4.8. Looking further ahead, it is anticipated that further care provision pressures will arise from both increases in demand and complexity of clients and from care costs to ensure market stability. In addition, non-recurrent funding provided through both the IBCF, including recently announced support to meet winter pressures will cease over the same period. Together this provides a major budgetary challenge to the Department that will require close monitoring and corporate support in future years.

4.9. The budget for Public Health included extra spend of £2.0m that was to be drawn from the Public Health Reserve. The expected outturn forecast for 2018/19 is a saving of £0.7m against this position and will lead to a lower than originally expected draw on the Public Health Reserve. This has been achieved through planned work to deliver efficiencies and innovation within existing services in advance of future reductions in funding, including holding vacancies in the Public Health team and making reductions in contractual and non-contractual spend.

4.10. As at April 2018, the forecast closing balance of the Public Health Reserve by 31 March 2019, after budgeted use of £2.0m in year was anticipated to be £5.8m but in light of the early realisation of savings, it is now forecast that the balance at year end will be £6.5m.

Children's Services

4.11. 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 and growing attention nationally is now being focused on the pressures facing children's services.

4.12. The numbers of children in care have increased by 372 (28.4%) over the last three and a half years, partly as a result of new Unaccompanied Asylum Seeking Children (UASC) being accepted into the county. The cost of care leavers also continues to rise as a result of the high numbers of UASC who do not have access to government funding and as a result of the requirement for local authorities to provide corporate parenting to all care leavers until the age of 25.

4.13. Local authorities are citing the pressure in children's social care as their greatest immediate financial concern *(Source – LGiU/MJ State of Local Government Finance Survey 2018),* with rising demand for support leading to over spends in an increasing number of authorities. The key reasons for the increasing numbers relate to:

- A much better awareness and identification of child abuse and neglect from a range of partners.
- The better application of consistent thresholds to receive help as a result of government statutory guidance ('Working Together to Safeguard Children').
- A growing professional aversion to risk from partners driven by national child care scandals.
- The impact of economic and financial hardship on families.

- Greater awareness of abuse such as child sexual exploitation, child criminal exploitation and online abuse.
- The creation of a number of new policy initiatives such as 'staying put' which allow teenagers to stay in their foster care placements.
- Children remanded to custody being treated by law as children in care.
- A range of new legal processes such as the 'public law outline' which drive local authorities to put far more case decisions before the family courts.
- A drive by the courts for all application cases to conclude within 26 weeks.
- Policy drivers such as the national redistribution of UASC.

4.14. Children's Services have action plans in place and are working hard 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 2018/19. However, the Department is currently forecasting an over spend of approaching £0.7m at year end, by which point the Department's Cost of Change Reserve will be exhausted.

4.15. This position will be kept under close review and may improve in the final quarter of the year through a combination of continued positive management action in the pressure areas and under spends elsewhere in Children's Services. However, the current level of growth in the numbers of children in care indicates that a further draw on corporate contingencies may be required to achieve a break even position at the end of the financial year.

Economy, Transport and Environment (ETE)

4.16. 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.

4.17. 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 each year. The weather is obviously a key factor that impacts both on the condition of the roads and levels of activity around winter maintenance.

4.18. The highways maintenance budget in 2018/19 has benefitted from £6.0m of additional one off funding, half of which was provided by the Government. This included County Council resources from the 2017/18 winter maintenance budget, reinvestment of corporate savings and funding from the Corporate Policy Reserve to complement pothole grant funding from the Government. This allowed a programme of vital remedial work to the county's road network following the prolonged cold and wet period in the spring of 2018/19.

4.19. Third quarter forecasts indicate potential spare resources within the 2018/19 winter maintenance budget, although a change in the weather in the coming months could eliminate this sum. However, in the light of the current outturn forecast, approval is sought to again add any spare resources from the 2018/19 winter maintenance budget to the 2019/20 highways maintenance budget to continue to give this much needed flexibility.

4.20. This approach has been sensibly adopted each year since 2016/17 and given the pressures on highways maintenance approval is sought to apply this principle in future years; with the position reported to Cabinet and County Council each year as part of the End of Year Financial report.

4.21. Additional funding for potholes has been provided by the Government this year, which for Hampshire equates to £11.9m. Greater flexibility has been granted in respect of the use of this funding which is welcomed, as the County Council needs to concentrate on a longer term solution to the maintenance of our carriageways which requires spend in the order of £285m to bring them to an acceptable standard, not to mention the vast investment also required in footways and structures.

4.22. Waste volume growth (due to demographic growth) and issues with residual waste continue to represent a significant risk to the financial position of the Department. Addressing these challenges remains a key priority and the Department will actively engage with the proposals in the Government's new waste strategy that is currently being consulted on. The current pressures are effectively managed through corporate allocations.

4.23. Overall the outturn forecast for the Department for 2018/19 is a saving of £5.7m resulting from planned early achievement of Tt2019 savings as well as adopting a cautious approach to business as usual budget with tight control of vacancy management and non-pay budgets in the light both of delivery challenges around the Tt2019 Programme and the need for future savings.

4.24. Over the past months the Government has announced several initiatives in relation to waste disposal and recycling including a consultation on a Deposit Return Scheme and a Resources and Waste Strategy (published on 18 December 2018). The resulting uncertainty about the wider regulatory and financial environment in which the service will operate in the future has impacted on the County Council's progress with the Single Materials Recovery Facility project which underpins the planned Tt2019 saving for waste disposal. Some £3.1m of the Department's Tt2019 savings will be delayed so the County Council can better understand the Government's intentions and ensure appropriate facilities are constructed and this will be managed through use of the Department's Cost of Change Reserve.

4.25. Recognising that not all of the Department's required savings will be achieved in full by 2019/20 and that cash flow support needs to be built up in advance, the saving in 2018/19 will enable a contribution to the Department's Cost of Change Reserve at the end of the year. 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 will place further pressure on the Department. The forecast saving is at least in part dependent on weather conditions in the final quarter of the year and a period of severe winter or wet weather would reduce this figure.

Culture, Communities and Business Services (CCBS)

4.26. CCBS delivers a wide range of services and the Department have been very successful to date 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.

4.27. For 2018/19 this has placed the Department in a strong position, enabling them to invest in the resources needed to develop the next phase of transformation and ensure there is provision within their cost of change reserves to fund future activity to deliver the required Tt2019 savings and cover a timing issue associated with the organisation's changing need for office accommodation.

4.28. Successive budget reductions also mean there is less scope to generate savings across the services and ever greater levels of investment and resources are required to generate further savings as is the case with other departments. However, CCBS is in a better position than some other departments to be able to encourage use of its services to generate external income, but this does increase the risk in the budget moving forward as the reliance on that income becomes ever greater.

Corporate Services

4.29. Since 2010, Corporate Services have been required to deal with increasing work pressures at a time when 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.

4.30. Corporate Services have also been using their cost of change reserves to fund additional capacity in their departmental transformation teams and the corporate Transformation Team. The longer timeframes for delivering the Tt2019 Programme together with planning for the successor programme, will also mean that these teams will be in place for longer, placing further pressure on available resources.

4.31. The forecast position for 2018/19 is that savings will still allow a contribution to cost of change balances even after substantial transformation costs have been met in year. 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.

4.32. In addition, Corporate Services teams will continue to provide critical support to other departments during the implementation of their own transformation programmes and it will be important for the Department to manage this further pressure to service delivery.

Schools

4.33. Financial pressures on schools are increasing, both at an individual school level and within the overall schools' budget. The overall schools' budget is currently in deficit and this deficit will increase again in the current financial year, with the Schools' Forum agreeing for this to be carried forward into the budget for 2019/20. The pressure experienced in Hampshire is reflected across many other authorities and predominantly relates to demand led budgets funding pupils with high levels of additional need, in particular where there are increasing numbers of pupils with Education, Health and Care Plans (EHCP), and as a result of extending this support for young people up to the age of 25.

4.34. There are an increasing number of schools in, or at risk of falling into deficit, and nationally it has been reported that 30% of all local authority maintained secondary schools are in deficit. In Hampshire this figure is about the same but is expected to continue to grow over the next few years unless there is a change in the national funding position. Reasons for schools falling into deficit vary, and tailored support is being provided to individual schools facing financial difficulties along with appropriate challenge and intervention where required.

4.35. In September 2017, the Department for Education (DfE) announced the introduction of a National Funding Formula (NFF) for Schools, High Needs and the Central School Services blocks. The Government's intention remains that individual school budgets should ultimately be set on the basis of a single national formula (a 'hard' funding formula) however, no timescales have been set. The DfE have recently announced that the current arrangement, where funding for schools will be calculated on a national basis and then passed to the local authority for allocation, will continue for a further year to include 2020/21.

4.36. Further funding for high needs is due to be received through the NFF, an additional funding allocation was announced by the DfE in December and a transfer of funding of 0.5% (which equates to £3.7m) of the Schools Block has been agreed to help meet these pressures in 2019/20. Several options are also being considered to reduce this pressure going forward.

4.37. The next section outlines the expected general outturn position for the current year in more detail.

5. Revised Budget 2018/19

5.1. 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 to assess the likely impact on the outturn position for the end of this year.

5.2. Appendix 1 provides a summary of the original budget that was set for 2018/19 together with adjustments that have been made during the year. The proposed Revised Budget for 2018/19 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 or provide additional contributions to the GER.

5.3. The paragraphs below explain the main adjustments that have been made to the budget during the year:

Adjusted Budget 2018/19

5.4. **Departmental Spending** – Budgeted departmental spending has increased by more than £43.7m and the reasons for this are highlighted in the table below:

	£M
Use of cost of change reserves	21.9
Net increase in grants	10.5
Impact of 2018/19 pay award	7.3
In Year Adults' social care draw from central contingency	0.6
In Year Children's Service's draw from central contingency	1.2
Approved funding for Strategic Land Development	0.7
Other Net Changes	1.5
Total	**43.7**

5.5. The increases in budgeted departmental spending are mainly because of increased government grants, the allocation of approved funding (for example from contingencies) or the one off use of cost of change reserves. The true value of recurring increases is £9.1m relating to the 2018/19 pay award and the allocation of funding to the social care departments, but all of these represent transfers from contingencies rather than new spend.

5.6. The paragraphs below outline changes to the other items that make up the overall revenue account.

5.7. **Capital Financing Costs** – The decrease is due to changes in the capital charges to Hampshire Transport Management for assets that have been purchased which have an impact as it is a Trading Unit.

5.8. **Revenue Contributions to Capital Outlay (RCCO**) – The decrease in RCCO reflects changes made to the Capital Programme and it's 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 2018/19.

5.9. **Contingencies** – The reduction in contingencies is mainly the result of transfers made to departmental budgets during the year, notably in relation to the 2018/19 pay award.

5.10. **Dedicated Schools Grant (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 announcement in the Budget of additional funding for adults' social care, along with some changes in known grants; including the UASC Grant and the Teacher's Pay Grant.

5.11. **Other Levies** – The increase reflects the transfer of Chichester Harbour from the ETE cash limited budget to adopt a consistent approach to the treatment of all levies.

5.12. 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 2018/19

5.13. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2018/19. 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.

5.14. As set out in Section 4 it is anticipated that there will be savings in the majority of departmental budgets by the end of the year. 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.

5.15. For all departments 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 cost of change in the year as required, albeit that additional corporate support may be required by Children's Services.

5.16. **Interest on Balances** – The County Council adopts a very prudent approach to estimating for interest on balances given the number of different variables involved. For 2018/19 current forecasts anticipate that performance in the year will exceed this figure and an additional return of £5.0m is therefore assumed in the revised budget.

5.17. **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.

5.18. The estimates for 2018/19 have therefore been revised taking this into account and show a saving of £2.0m in the overall capital financing costs for the year.

5.19. **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 implemented during the year, allowance for growth in waste disposal costs, together with some other centrally held contingencies in respect of pay and price increases.

5.20. In considering the revised budget position, it is timely to review these contingencies in light of the current financial position highlighted in monitoring reports.

5.21. Given the position outlined for the social care departments in the current year it is anticipated that the overall sums held for social care are sufficient, especially as Adults' Health and Care have benefited from additional funding to meet winter pressures as announced in the Budget, and therefore that some of the contingency held can be released. This still retains funding to cover potential adverse movement in the final quarter of the year given the recognised volatility of these areas, and to provide additional support to Children's Services should it be required.

5.22. At this stage of the year, it is also 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 £12.0m which can be declared as savings against the adjusted budget.

5.23. 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.

5.24. Taking this £12.0m, together with the £7.0m available from capital financing and interest on balances gives a grand total of £19.0m that can be used on a one off basis.

5.25. It is proposed that this total of £19.0m is used as follows:

- Provision of funding for a number of revenue purposes linked to the development of capital investment priorities (as described in more detail in paragraphs 5.26 to 5.46) which total £2.9m.
- The addition of £1.0m to the Investment Risk Reserve as explained in paragraph 13.11.
- The addition of the balance of £15.1m to the GER to begin to make provision for the period beyond 2020 to support the two year savings cycle and to provide cash flow support to the Transformation to 2021 (Tt2021) Programme.

Development of Capital Investment Priorities

5.26. The rules that govern capital expenditure within local government are well defined and in more recent years flexibilities that have previously been allowed within accounting definitions have been tightened. In particular this includes early feasibility or development works that do not necessarily lead to an identifiable new capital asset.

5.27. In recent years therefore, the County Council has changed its approach and has been setting aside provisions within the revenue budget that allow officers to take forward capital investment proposals that are in their early stages or require significant technical resources due to their complexity (for example Manydown and other strategic land schemes). Last year a revised approach for dealing with new school design and delivery was also approved which funds Property Services input from revenue where we pursue free schools or other funding from the Education Skills and Funding Agency.

5.28. Given the changing nature of these programmes funding for each year is considered as part of the budget setting process and the requests for 2019/20 for these areas is shown below:

	£'000
Strategic Land Development	2,800
New Schools Design & Delivery Strategy	100
Total	**2,900**

5.29. **Strategic Land Development** – The Strategic Land Programme (SLP) was set up in 2008 to maximise the financial returns on the County Council's land holdings that had the potential for sale and development in the future. By developing the plan and opportunities for a site, usually through to outline planning permission stage, this greatly increases the eventual financial return at the point the land is released for development. Since its inception the SLP has realised and delivered over £21m of capital receipts up to and including the 2017/18 financial year and based upon current local plan allocations, planning approvals and projects it is anticipated that it will generate over £250m of net receipts for the County Council in the period up to 2029/30.

5.30. To realise this, the Country Council invests annually in the SLP to prepare and bring forward its land. Within the Programme Business Plan overall revenue expenditure is forecast at approximately 10% of total receipts, with a range of between 1% and 11% spend per project depending on the planning / disposal strategy of individual projects and their scale. The spend supports a dedicated team within Property Services and the procurement of specialist advice or consultancy depending on the nature of the site and its complexity.

5.31. Total funding of approaching £12.7m since 2008 has previously been approved to take forward a large number of sites (notably Manydown) and this funding was due to run out during the current financial year. A further sum of up to £1.25m was approved in December 2018 to complete the anticipated plan of works through to March 2019.

5.32. The phasing of the programme is difficult to predict and is influenced by many factors some of which are outside of the County Council's control. In some respects, higher spend on a site often means that progress has been accelerated and receipts will be achieved earlier. In addition, market interest in a site may bring forward work that was planned in the future.

5.33. Therefore, future allocations to the programme are currently being agreed in February each year as part of the budget setting process. For 2019/20 the latest forecast is that up to £2.8m will be required to continue the planned programme, which includes just over £1.4m for Manydown.

5.34. It is proposed to bring a more detailed report forward outlining the forward programme in respect of Strategic Land Development generally and a financial overview of the Manydown site, but some decisions are required now in order for the Manydown development and our involvement in the Joint Venture with Basingstoke and Deane Borough Council (B&DBC) and Urban and Civic to continue over the medium term

5.35. The financing arrangements for Manydown are complex and a fuller summary of the overall picture is set out in Appendix 9. However, key issues for this report are detailed in the paragraphs below.

5.36. **Manydown** - The planning and development costs of the Manydown site have been met equally by Hampshire County Council and B&DBC since the project's inception. The County Council element has been funded from the initial allocation of £12.7m provided for Strategic Land Development in 2008, although since 2018/19 new annual funding has been approved following the depletion of the original funding amount.

5.37. A request for a further £1.4m is included within this report to continue to the programme into 2019/20 to pay for project team costs and external advisors that have been used to assist with the complex land, governance and taxation elements of the programme. It should be noted however that these costs cover both the Phase 1 land allocation and the larger Phase 2 allocation which is expected to be released much further into the future.

5.38. Whilst budget allocations are currently agreed on an annual basis, it is expected that further costs of at least £4.2m will be incurred by the County Council up until 2022/23 at which point the project will be scaled down. Initial approval of this forward expenditure is therefore sought in this report, albeit that some of this expenditure can be recovered from other sources as explained in Appendix 9.

5.39. Separately to this, the County Council is joint owner of Manydown Garden Communities Limited Liability Partnership (MGC) with B&DBC (previously referred to as TopCo) as part of the overall Manydown governance structure. The costs of running MGC company will ultimately be met from funds generated through the development of the site, but for the time being both councils are required to make loans to the company to keep it solvent.

5.40. This report therefore seeks approval to make loans to the company as necessary to fund its operations, up to a maximum of £600,000 a year. The loan for 2019/20 is expected to be around £450,000 and the total amount of borrowing over the period is expected to be repaid in 2027/28 from the initial sale proceeds from the Manydown site.

5.41. Whilst significant, all of these costs need to be viewed in the context that the overall SLP, of which Manydown is the biggest element, are expected to generate net receipts of around £250m to the County Council up to 2029/30.

5.42. **New Schools Design and Delivery Strategy** – Under current government policy, all new schools are required to be established as Academies. The County Council has chosen to take an active role to ensure they are set up on a firm footing and that sponsors are selected to provide a high standard of education and in July 2017 details of the strategy to design and deliver new schools were included in the 2016/17 – End of Year Financial Report.

5.43. At that point it was agreed that funding for the professional resources within Property Services required to take this forward would be approved on an annual basis as the programme of works and timing of delivery became clearer with indicative amounts for future years considered as part of the development of the MTFS.

5.44. The latest estimates of the revenue funding requirements for both strategic planning and feasibility costs are as follows:

Financial Year	**Previous Estimate £'000**	**Updated Estimate £'000**	
2017/18 Actual	*780*	*780*	
2018/19	1,480	930	
Approved Funding	**2,260**		
2019/20	1,630	650	
Cumulative		**2,360**	
2020/21	870	1,440	Indicative
2021/22		900	Indicative
2022/23		400	Indicative

5.45. Funding for the costs up to and including 2018/19 was approved in February 2018 and so, after taking into account the re-phased activity, additional funding of £100,000 is required for 2019/20.

5.46. This revenue funding will provide the necessary planning and feasibility resources in Property Services to shape, oversee and deliver the future major programme of new schools. The scale of the investment in Hampshire schools that can be secured from both government grant and developers' contributions is good evidence of the need to continue to maintain capacity and skills in this area.

6. Local Government Finance Settlement

6.1. As previously noted, the settlement published in 2016 covered four years from 2016/17 to 2019/20 and, following the acceptance by the then DCLG of the County Council's Efficiency Plan for the period, the expectation was for minimal change to the figures previously published and the implications of the four year settlement were incorporated into the MTFS in July 2016.

6.2. Although the offer of a four year settlement provided greater but not absolute funding certainty, the provisional Local Government Settlement announced on 13 December confirmed grant figures for 2019/20 broadly in line with the four year settlement and there has been no change to the council tax thresholds, except for the police precept. The other key elements of the provisional settlement were:

- The County Council's Revenue Support Grant (RSG) was reduced to zero in 2019/20 as part of the original four year settlement. On top of this a further £1.6m was lost as a result of 'negative RSG' which reduced the top up grant from business rates. The Government has announced that there will be no 'negative RSG' in 2019/20 and this therefore represents a benefit of £1.6m to the County Council next year.
- A £180m surplus from the business rates levy account will be distributed pro rata to the Settlement Funding Assessment (SFA) - the County Council's allocation is £1.8m.
- The continuation of 100% pilots in Devolution Deal Areas and fifteen 75% business rates retention pilots. Hampshire County Council's bid was not successful but Portsmouth, Southampton and the Isle of Wight have had their existing pilot extended, albeit at a lower retention level (2018/19 was 100% retention).
- £20m has been added to the settlement to maintain the New Home Bonus (NHB) baseline at 0.4% (only growth in new homes above this baseline level attract the NHB). Hampshire will receive approaching £4.9m from the NHB and this is already factored into the MTFS for next year.
- The provisional settlement confirmed the allocations of adult social care funding announced in the Budget but the Green Paper for adult social care which was originally due to be published in summer 2018 has been delayed further until next year.

6.3. It is proposed that the additional one off allocations, set out above, and totalling £3.4m, are added to the GER in line with the requirement to make provision for future years.

6.4. The final Local Government Finance Settlement for 2019/20 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 no longer receive any RSG from government - a further reduction in grant of £20.8m compared to 2018/19.

Council Tax

6.5. 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 presumed that local authorities would put up their council tax by the maximum they are allowed each year in the period to 2020.

6.6. The MTFS approved by the County Council in September 2018 assumed that council tax will increase by the maximum permissible without a referendum in line with government policy. This will mean a council tax increase of 2.99% (subject to the final confirmation of the referendum limit by the Government), as recommended in this report, in line with the Government's policy and as set out in the County Council's MTFS.

6.7. The Adult Social Care precept is unchanged as the County Council has applied the maximum allowable 6% increase over two years rather than three; utilising the flexibility provided by government.

6.8. This proposed increase will see the council tax for a Band D property increase by £35.91 per annum (less than 70p per week) to £1,236.87.

6.9. This will generate around £18m of additional income but it is anticipated that Hampshire will have the second lowest council tax in 2019/20 of any county across the country and with this position continues to maintain strong performance both within its financial management and service provision. The average council tax across all counties in 2018/19 was just over £1,290, some £90 higher than Hampshire's level in that year. If the County Council set its council tax at this average amount, it would receive around £46m a year more income than current levels.

6.10. Total income from council tax in 2019/20 is expected to be just over £634m and represents 83.8% of the total funding of the County Council's net budget. This compares to 78.2% which was the position for 2010/11.

7. Service Cash Limits 2019/20

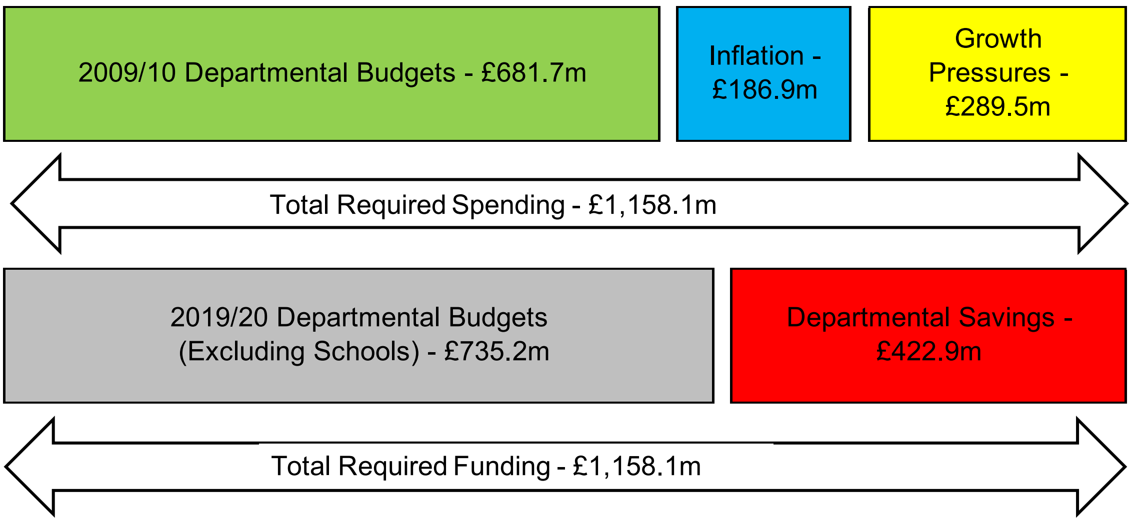
7.1. In December 2018 Cabinet considered a budget update report which set provisional cash limit guidelines for departments for 2019/20. It is worth re-iterating at this stage that cash limits have been cut significantly since the period of austerity began as demonstrated in the following table:

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%
2019/20	2 year target	-19.0%
		-63.5%

7.2. 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 the County Council's gross expenditure remains in the region of £1.9 billion.

7.3. Over the period since 2010 net departmental budgets (excluding schools) have in fact grown by more than £50m as shown in the diagram below, with much of the additional funding allocated to Adults' Health and Care:

Net Departmental Budgets (Excluding Schools) - 2009/10 v 2019/20



7.4. The diagram highlights the fact that whilst the value of departmental budgets has not changed significantly over the last ten years, this masks the fact that without the need to make savings, net departmental budgets in 2019/20 would have been in excess of £1.15bn, an increase of £476m on the 2009/10 figure.

7.5. In December the cash limit guidelines agreed for 2019/20 did not include an allowance for the second year of the two year pay award covering the 2018/19 and 2019/20 financial years, provision for which had been made within contingencies. However, the required allocations (including on costs) have now been finalised and have been added to departmental cash limit guidelines.

7.6. Appendix 2 sets out the cash limits agreed in December and provides information on adjustments that have been made subsequently, which are the result of changes to grants within the local government finance regime and the pay award - overall, cash limits have increased by £35.8m. The reasons for the increase are summarised in the following table and explained in more detail in Appendix 2:

	£M
Increase in Dedicated Schools Grant	20.5
Changes in other schools' grants	5.5
2019/20 Pay Award (plus on costs)	9.8
Total	**35.8**

7.7. The pay award for 2019/20 reflects the ongoing impact of the introduction of the NLW. As has been highlighted previously whilst there is an impact on pay for County Council staff, the major impact of the implementation of the NLW is contained within the additional cost of purchasing external social care provision, which has been factored into the budget for 2019/20 and future years as part of the MTFS.

7.8. In a similar way to the changes for 2018/19 the amendments summarised in the table above have not had a bottom-line impact on the revenue budget for 2019/20 as they are the result of changes in grants or the allocation of contingency amounts.

8. Savings Proposals

8.1. The County Council continues to implement the Tt2019 Programme, to deliver £140m of savings, which will bring the cumulative total to £480m over a 10 year period. 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 in September 2017 and then by Cabinet and County Council in October and November 2017.

8.2. In line with previous major cost reduction exercises, progress is being closely monitored and is subject to monthly review by CMT. This ensures that issues, concerns and risks are dynamically responded to and dealt with. It also means that benefits realisation and the timely delivery of savings is consistently in focus, which for this programme, given the cash flow support required, is ever more important. Furthermore, it is almost certain that there will be a continued squeeze on public sector funding into the next decade. This puts an added premium on Tt2019 being delivered in full, and in the most timely manner possible, to put the Council in the best position possible at the commencement of the successor programme - Tt2021.

8.3. It is recognised that each successive savings programme is becoming harder to deliver and the challenges associated with the Tt2019 Programme have been made clear. Delivery will extend beyond two years and provision has been made to ensure one off funding is available both corporately and within departments to enable the programme to be safely delivered. Taking up to four years to safely deliver service changes, rather than being driven to deliver within the two year financial target, requires the careful use of reserves as part of our overall financial strategy to allow the time to deliver and to provide resources to invest in the transformation of services. This further emphasises the value of our Reserves Strategy.

8.4. The last report to Cabinet in December 2018 indicated that implementation progress of the Tt2019 Programme continues to be positive with some £86m of the £140m target secured or close to being secured by the end of September. This includes the full achievement of the £23.2m of corporate savings alongside delivery across the departmental programmes that is in line with the forecast profile.

8.5. Rigorous monitoring of the delivery of the programme will continue during 2019/20, to ensure that departments are able to stay within the cash limited budget as set out in this report.

8.6. The early action taken by the County Council in developing and implementing the savings programme for 2019/20 means that the Authority is in a strong position for setting a balanced budget in 2019/20 and the impact of the agreed savings has been reflected in the detailed budgets approved by Executive Members and presented in this report.

9. Service Budgets 2019/20

9.1. As explained in Section 7, departments have been set cash limit guidelines for 2019/20 which include allowances for inflation, pressures, approved savings and other agreed changes.

9.2. Appendix 3 provides a summary for each department of the main services under their control and shows the original budget for 2018/19, the revised budget for 2018/19 and the proposed budget for 2019/20. All departments are proposing budgets that are within their cash limits.

10. 2019/20 Overall Budget Proposals

10.1. Whilst service budgets make up the clear 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.

10.2. Appendix 4 sets out a summary of the overall revenue account starting with the cash limited expenditure for departments 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 2018/19 budget.

10.3. **Interest on Balances and Capital Financing Costs** – The decrease of £2.0m in capital financing costs primarily reflects updated estimates for income on the County Council's investment portfolio in the light of anticipated returns and the forecast level of balances in 2019/20.

10.4. **Revenue Contributions to Capital Outlay (RCCO**) – Each year, revenue contributions are made to help fund the Capital Programme. The decrease of almost £2.2m is due to planned changes in contributions which are offset by amounts in other sections of the revenue account and therefore has no impact on the overall budget.

10.5. **Contingencies** – The budget for contingencies has increased by almost £35.0m compared to the 2018/19 original budget. This mainly reflects increases in contingency amounts held for CLA, capital related investment and notably corporate cash flow funding of up to £24.0m for the Tt2019 Programme in line with the approved MTFS.

10.6. Existing contingency provisions in respect of key risk items such as inflationary pressures and demand pressures (notably for social care) have been retained in the base budget. These provisions represent the recommendation by the Deputy Chief Executive and Director of Corporate Resources, as the Authority's Chief Financial Officer (CFO) 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.

10.7. **DSG** –The increase in the DSG reflects national formula changes. The National Funding Formula, introduced for the Schools, High Needs and Central School Services blocks in 2018/19, included some transitional elements. These have been unwound for 2019/20, which has resulted in additional funding being received in each of the blocks. The High Needs Block also includes an additional allocation of almost £3.0m, which has been provided by the Department for Education to provide support to children and young people with special educational needs and disabilities.

10.8. **Specific Grants** – This income budget has been updated following grant notifications for 2019/20 and the increase is largely due to the additional one off funding for social care announced in the Budget in November. In addition, it has been confirmed that the Teachers Pay Grant and Free School Meals Supplementary Grant will also continue for 2019/20

10.9. **Pension Costs** – Pension costs for past deficit payments are accounted for centrally and the increase of approaching £1.8m reflects the agreed recovery plan for the current actuarial valuation of the fund.

10.10. **Earmarked Reserves** – Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account. However, the reduction in the draw from earmarked reserves in 2019/20 is due to the fall out of the use of the GER to balance the budget in 2018/19, as explained briefly in the paragraphs below.

10.11. 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 helps the County Council to dampen the impact of funding reductions; allowing a planned approach to the delivery of savings.

10.12. However, in 2019/20 whilst the draw from the GER to meet the deficit in the intervening year will drop out, this will be partially offset by the requirement to provide corporate cash flow support for the Tt2019 Programme which will be drawn from the GER and held in contingencies.

10.13. The comprehensive Reserves Strategy, updated to include the figures at the end of March 2018, was presented to Council as part of the MTFS in September 2018 and is set out in Appendix 5.

10.14. 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 will be drawn on in 2019/20.

10.15. The Reserves Strategy highlights the point 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. Only in the region of 18% 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 £74.9m at the end of 2017/18, is in reality committed to cash flow the safe delivery of the Tt2019 Programme and to balance the budget in 2020/21.

10.16. **Use of General Balances** –The 2018/19 original budget assumed a draw from general balances of £1.0m to make a one off contribution to the GER in line with the MTFS. This amount has been amended for 2019/20 to reinstate the annual contribution of £0.9m in order to maintain general balances at circa 2.5% of the County Council's net budget requirement; in line with the CFO's recommended level.

10.17. Appendix 6 represents the CFO's 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 (referencing the financial resilience of the Authority against the backdrop of CIFPA's Financial Resilience Index) and places this in the context of the recommended contingencies and balances set out in this report.

11. Budget and Council Tax Requirement 2019/20

11.1. The report recommends that council tax is increased by 2.99% in 2019/20, in line with the MTFS and with government policy which assumes that local authorities will put up their council tax by the maximum they are allowed.

11.2. In addition to the recommended increase for council tax, there are other changes within the council tax calculation that have an impact on the budget. The council tax base represents the estimated number of houses eligible to pay council tax and the latest forecasts provided by the Districts which take into account expected growth and any adjustments for the impact of their Council Tax Reduction Schemes result in additional income of £4.4m over and above that assumed previously, albeit that these forecasts may change before the budget is finally set.

11.3. The County Council is also notified by Hampshire Districts, of the estimated level of collection fund surpluses or deficits that need to be taken into account in setting the council tax for 2019/20. 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 2013.

11.4. For 2018/19 a net council tax collection fund surplus of just almost £3.8m 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.

11.5. The current prediction for business rate collection funds is a deficit of more than £0.4m 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.

11.6. Similarly, Districts have provided estimates of what business rate income they expect to receive for 2019/20 based on their experience during the current financial year. These estimates have yet to be finalised and, given continuing 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.

11.7. Taking account of all the budget changes outlined in this and previous sections of this report, the County Council can set a balanced 2019/20 budget as follows:

	£M
Removal of “Negative RSG”	1.6
Business Rates Account Levy Grant	1.8
One off Council Tax Collection Fund Surplus	2.3
One off Business Rates Collection Fund Deficit	(0.4)
Tax Base Growth	4.4
Contribution to GER	(9.7)
Balanced Budget	**0.0**

11.8. The table shows that in 2019/20, because of the changes, the County Council can make a contribution to the GER to begin to build the sum available for future years in line with the MTFS.

11.9. Local authorities are required to report a formal council tax requirement as part of the budget setting process and the recommendations to Council in this report show that the Council Tax Requirement for the year is £634,450,710.

12. Capital and Investment Strategy

12.1. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Treasury Management Code of Practice. In England the Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.

12.2. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The MHCLG's guidance includes the requirement to produce an Investment Strategy. The County Council's Capital and Investment Strategy (Appendix 7) has been prepared for approval by full County Council.

12.3. The Treasury Management Strategy (TMS), as referenced in Section 13 and set out in Appendix 8, supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and treasury investments, and the associated risks.

12.4. The Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

12.5. The County Council has previously reported these matters in separate reports relating to the Revenue Budget, the Capital Programme and the MTFS. In line with the latest statutory guidance, these inter-related issues are brought together in one Capital and Investment Strategy.

12.6. This Strategy covers:

- Governance arrangements for capital investment.
- Capital expenditure forecasts and financing.
- Prudential indicators relating to financial sustainability (see paragraphs 12.7 to 12.9).
- Minimum Revenue Provision (MRP) for the repayment of debt.
- Treasury Management definition and governance arrangements.
- Investments for service purposes, linked to the County Council's commercial strategy.

- Knowledge and skills.
- Chief Financial Officer's conclusion on the affordability and risk associated with the Capital and Investment Strategy.
- Links to the statutory guidance and other information.

Prudential Indicators

12.7. 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.

12.8. Some of the limits have been altered to reflect the revised TMS and Capital and Investment Strategy although this does not expose the County Council to any greater levels of risk.

12.9. Appendix 7 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 2019/20.

13. Treasury Management Strategy for 2019/20

13.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

13.2. The County Council's Treasury Management Strategy (including the Annual Investment Strategy) for 2019/20; and the remainder of 2018/19 is set out in Appendix 8 for approval and fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

13.3. The TMS has been reviewed in light of current and forecast economic indicators and it remains broadly unchanged from last year, albeit that it is now complemented by the Capital and Investment Strategy (Appendix 7), which is explained in Section 12.

Investments Targeting Higher Returns

13.4. 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, allowing further diversification, increasing 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.

13.5. By the end of 2018/19 the County Council will have fully allocated the £200m targeted for higher yielding investments. As cash balances continue to rise it is proposed that for 2019/20 this limit is increased to £235m.

13.6. The County Council's higher yielding investment strategy continues to perform well and figures reported as at the end of Month 8 (November) are outlined in the table below:

	2018/19 Value £M	**2018/19 Return %**
Local Authorities – Fixed Deposits	20.0	3.96
Local Authorities – Fixed Bonds	10.0	3.78
Registered Providers	5.0	3.40
Pooled Property Funds	58.4	4.19
Pooled Equity Funds	43.4	5.80
Pooled Multi-Asset Funds	20.0	7.15
Higher Yielding Investments	**156.8**	**4.93**

13.7. There continues to be national debate about local authorities investing directly in commercial property and both CIPFA and the MHCLG have expressed concerns about the potential risks, resulting in the revision of guidance.

13.8. The County Council utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select the particular investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building. This generates high returns without the need to prudentially borrow, without the risk of owning individual properties and with the security of a much larger and diverse portfolio than could be achieved by the County Council on its own, even with our scale of investments.

13.9. For the County Council our strategy towards external investments was clearly set out in the MTFS and in the TMS and our current approach is still considered to be appropriate and prudent and continues to deliver good returns.

13.10. Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in assets other 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.

13.11. When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. It is recommended that a further £1.0m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional amount to be targeted at higher yielding investments and will bring the total amount in the reserve to £3.0m.

14. Consultation

14.1. A consultation was undertaken against the background of the next stage of the County Council's transformation and efficiencies programme, Tt2019, to inform the overall approach to balancing the budget by 2019/20 and making the anticipated £140m additional savings required by April 2019.

14.2. The '*Serving Hampshire – Balancing the Budget*' Consultation that was carried out between 3 July and 21 August 2017 sought to understand the extent to which residents and stakeholders support the County Council's financial strategy and also sought residents' and stakeholders' views on options for managing the anticipated budget shortfall.

14.3. The findings from the Consultation were provided to Executive Members and Directors during September 2017, to inform departmental savings proposals, in order for recommendations to be made to Cabinet and the full County Council in October and November 2017 on the MTFS and Tt2019 Savings Proposals. The results were also reported to Cabinet and County Council as part of the final decision making process and a summary is contained in Appendix 10.

14.4. Following the '*Serving Hampshire – Balancing the Budget*' Consultation a series of more detailed consultations have been undertaken, on some of the savings proposals included within the Tt2019 Programme. This second round of consultation helped to inform further detailed Executive decisions during 2018. Whilst technically all savings have been removed from the budget for 2019/20, where final consultations or further Executive Member decisions are still required, funding has been set aside within departmental cost of change reserves or corporate contingencies to continue to fund the service pending the results of the consultation and final Executive Member decision.

14.5. Specific statutory consultation was carried out with the business community on the budget proposals for 2019/20 and a summary of the key issues arising from this can also be found at Appendix 10 to this report.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Links to previous Member decisions:	
Title	Date
Medium Term Financial Strategy Update and Transformation to 2019 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments	Cabinet - 16 October 2017 County Council – 2 November 2017
Looking Ahead - Medium Term Financial Strategy https://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=10915&PlanId=0&Opt=3#AI8687	Cabinet - 18 June 2018 County Council – 20 September 2018
Budget Setting and Provisional Cash Limits 2019/20 (Cabinet) http://democracy.hants.gov.uk/documents/s26900/Budget%20Report.pdf	10 December 2018

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

1.2. **Equalities Impact Assessment:**

The budget setting process for 2019/20 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 2019 Programme were considered in detail as part of the approval process carried out in Cabinet and County Council during October and November 2017 and full details of the Equalities Impact Assessments (EIAs) relating to those changes can be found in Appendices 4 to 7 in the October Cabinet report linked below:

http://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments

In some cases, further Stage 2 consultations were required and this was reflected in the EIAs that were published at the time.

2. Impact on Crime and Disorder:

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

3. Climate Change:

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. Revised Budget 2018/19
2. Final Cash Limit Calculation 2019/20
3. Proposed Departmental Service Budgets 2019/20
4. Proposed General Fund Revenue Budget 2019/20
5. Reserves Strategy
6. Section 25 Report from Chief Financial Officer
7. Capital and Investment Strategy 2019/20 to 2021/22
8. Treasury Management Strategy Statement 2019/20 to 2021/22
9. Manydown Summary
10. Consultation

Revised Budget 2018/19

	Original Budget 2018/19 £'000	Adjustment £'000	Adjusted Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Variance £'000
Departmental Expenditure					
Adults' Health and Care	398,955	30,127	429,082	429,082	0
Children's – Schools	806,885	(2,634)	804,251	804,251	0
Children's – Non Schools	167,041	6,964	174,005	174,005	0
Economy, Transport and Environment	112,506	2,496	115,002	115,002	0
Policy and Resources	91,521	6,724	98,245	98,245	0
	1,576,908	**43,677**	**1,620,585**	**1,620,585**	**0**
Capital Financing Costs					
Committee Capital Charges	135,041	5,994	141,035	141,035	0
Capital Charge Reversal	(136,329)	(6,985)	(143,314)	(143,314)	0
Interest on Balances	(7,595)		(7,595)	(12,595)	(5,000)
Capital Financing Costs	40,301		40,301	38,301	(2,000)
	31,418	**(991)**	**30,427**	**23,427**	**(7,000)**
RCCO					
Main Contribution	10,582	955	11,537	11,537	0
RCCO From Reserves		(1,706)	(1,706)	(1,706)	0
	10,582	**(751)**	**9,831**	**9,831**	**0**
Other Revenue Costs					
Contingency	58,413	(10,761)	47,652	35,652	(12,000)
Dedicated Schools Grant	(747,270)	4,166	(743,104)	(743,104)	0
Specific Grants	(173,314)	(7,139)	(180,453)	(180,453)	0
Pensions - Non Distributed Costs	20,291	(13)	20,278	20,278	0
Levies	1,998	243	2,241	2,241	0
Coroners	1,747	52	1,799	1,799	0
Business Units (Net Trading Position)	218	194	412	412	0
	(837,917)	**(13,258)**	**(851,175)**	**(863,175)**	**(12,000)**
Net Revenue Budget	**780,991**	**28,677**	**809,668**	**790,668**	**(19,000)**
Contributions to / (from) Earmarked Reserves					
Transfer to / (from) Earmarked Reserves	(28,213)	(29,552)	(57,765)	(38,765)	19,000
Trading Units Transfer to / (from) Reserves	(77)	(831)	(908)	(908)	0
RCCO from Reserves		1,706	1,706	1,706	0
	(28, 290)	**(28,677)**	**(56,967)**	**(37,967)**	**19,000**
Contribution to / (from) Balances	(1,000)		(1,000)	(1,000)	0
NET BUDGET REQUIREMENT	**751,701**	**0**	**751,701**	**751,701**	**0**

	Original Budget 2018/19 £'000	Adjustment £'000	Adjusted Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Variance £'000
NET BUDGET REQUIREMENT	**751,701**	**0**	**751,701**	**751,701**	**0**
Funded by:					
Business Rates and Government Grant	(138,551)		(138,551)	(138,551)	0
Business Rates Collection Fund Deficit / (Surplus)	(71)		(71)	(71)	0
Council Tax Collection Fund Deficit / (Surplus)	(4,627)		(4,627)	(4,627)	0
COUNCIL TAX REQUIREMENT	**608,452**	**0**	**608,452**	**608,452**	**0**

Final Cash Limit Calculation 2019/20

	December Cash Limit Guideline £'000	2019/20 Pay Award & On-Costs £'000	Grants £'000	Final Cash Limit 2018/19 £'000
Adults' Health and Care	382,229	3,226		385,455
Children's – Schools	802,108		25,978	828,086
Children's – Non Schools	156,592	2,169		158,761
Economy, Transport and Environment	102,023	833		102,856
Policy and Resources	84,540	3,623		88,163
	1,527,492	**9,851**	**25,978**	**1,563,321**

Notes:

Pay Award & On-Costs

- The second year of the two year pay award covering the 2018/19 and 2019/20 financial years, provision for which had been made within contingencies. In addition, this includes on-costs and reflects the 1% increase in the pension contribution rate previously agreed.

Grants

- The increase for Children's - Schools is primarily due to an increase in DSG (£20.5m) as announced in the Schools' revenue funding settlement on 13 December 2018. The National Funding Formula, introduced for the Schools, High Needs and Central School Services blocks in 2018/19, included some transitional elements. These have been unwound for 2019/20, which has resulted in additional funding being received in each of the blocks.
- In addition, it has been confirmed that the Teachers Pay Grant (£4.7m) and Free School Meals Supplementary Grant (£1.1m) will also continue for financial year 2019/20 and these have been partially offset by a reduction in the anticipated Pupil Premium (£0.3m).

Adults' Health and Care Budget Summary 2019/20

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Director:			
Director	1,277	1,532	1,481
Strategic Commissioning and Business Support:			
Strategic Commissioning	18,061	18,095	15,172
Transformation			
Transformation	3,443	5,103	3,714
Older People and Physical Disabilities:			
Older People and Physical Disabilities Community Services	125,609	125,992	125,484
Learning Disabilities and Mental Health Services:			
Learning Disabilities Community Services	105,474	109,185	106,657
Mental Health Community Services	16,947	17,961	16,998
Contact Centre	665	1,330	1,248
Internal Provision:			
Internal Provision	36,696	39,831	42,173
Reablement	11,408	12,202	11,069
Governance, Safeguarding and Quality:			
Safeguarding	3,591	3,671	3,559
Centrally Held:			
Centrally Held	22,908	41,304	5,482
Total Adults' Services Budget	**346,079**	**376,206**	**333,037**
Public Health:			
Drugs and Alcohol	9,278	9,278	9,245
Central (*)	2,710	2,675	2,924
Children 5-19	4,036		
Children under 5 (*)	16,566		
Children and Young People (*)		23,990	23,800
Dental	180	180	180
Health Checks (*)	1,447	1,447	1,211
Health Protection (*)	29		

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Information and Intelligence	22	22	16
Infection Prevention and Control		29	5
Mental Health and Wellbeing		1,821	2,121
Misc. Health Improvements & Wellbeing (**)	5,697	108	108
Nutrition, Obesity and Physical Activity	959	508	515
Older People		866	866
Sexual Health (*)	9,843	9,843	9,218
Tobacco	2,109	2,109	2,209
Total Public Health Budget	**52,876**	**52,876**	**52,418**
Adults' Health and Care Cash Limited Budget	**398,955**	**429,082**	**385,455**

* Includes mandated services

** Specific services include

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

Children's Services Budget Summary 2019/20

Service Activity	**Original Budget 2018/19 £'000**	**Revised Budget 2018/19 £'000**	**Proposed Budget 2019/20 £'000**
Early Years	**80,115**	**76,586**	**78,076**
Individual Schools Budgets	546,797	545,885	557,372
Schools De-delegated Items	2,102	2,098	2,171
Central Provision Funded Through Maintained Schools' Budget Share	2,250	2,246	2,998
Growth Fund	5,165	5,022	5,705
Schools Block	**556,314**	**555,251**	**568,246**
High Needs Block ISB	30,534	31,762	33,656
Central Provision Funded Through Maintained Schools' Budget Share	47	47	65
High Needs Top-Up Funding	63,461	62,828	67,129
SEN Support Services	4,808	4,729	5,095
High Needs Support for Inclusion	3,286	3,196	3,097
Hospital Education Service	589	589	589
High Needs	**102,725**	**103,151**	**109,631**
Central Block	**8,116**	**8,116**	**8,275**
Other Schools Grants	**59,615**	**61,147**	**63,858**
Total Schools Budget	**806,885**	**804,251**	**828,086**
Young Peoples Learning & Development	**725**	**745**	**772**
Adult & Community Learning	**389**	**640**	**334**
Asset Management	86	86	88
Central Support Services	(227)	(218)	(221)
Educational Psychology Service	1,565	1,574	1,712
Home to School Transport	32,180	31,631	31,684
Insurance	39	39	40
Monitoring of National Curriculum Assessment	51	46	46
Parent Partnership, Guidance and Information	203	218	214
Pension Costs (includes existing provisions)	2,600	2,480	2,465
School Improvement	1,634	1,779	1,744
SEN Administration, Assessment, Co-ordination & Monitoring	2,092	2,679	1,729

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Statutory/Regulatory Duties	709	730	663
Service Strategy & Other Ed Functions	**40,932**	**41,044**	**40,164**
Management & Support Services (Including facilities management and overheads)	**2,318**	**2,462**	**1,955**
Early Achievement of Savings	**773**	**2,123**	**0**
Other Education & Community	**45,137**	**47,014**	**43,225**
Services for Young Children	**1,595**	**1,491**	**1,368**
Adoption Services	3,682	3,631	3,777
Asylum Seekers	3,487	4,632	4,932
Education of Children Looked After	125	181	142
Fostering Services	28,034	27,268	22,394
Leaving Care Support Services	5,209	5,539	6,245
Other Children Looked After Services	2,740	3,125	4,623
Residential Care	26,896	26,681	22,151
Special Guardianship Support	2,206	4,133	4,220
Children Looked After	**72,379**	**75,190**	**68,484**
Other Children & Families Services	**1,384**	**1,289**	**1,357**
Direct Payments	1,625	1,856	1,906
Other Support for Disabled Children	241	241	244
Short Breaks (Respite) for Disabled Children	5,504	5,222	3,960
Targeted Family Support	4,539	4,743	3,742
Universal Family Support	42	39	38
Family Support Services	**11,951**	**12,101**	**9,890**
Youth Justice	**1,577**	**1,437**	**737**
Safeguarding & Young Peoples Services	**19,564**	**19,904**	**23,024**
Services for Young People	**658**	**594**	**642**
Management & Support Services (Including government grants and legal costs)	**10,792**	**11,891**	**9,912**
Early Achievement of Savings	**1,882**	**2,972**	**0**
Non-Distributed Costs	**122**	**122**	**122**
Children's Social Care	**121,904**	**126,991**	**115,536**
Total Non-Schools Budget	**167,041**	**174,005**	**158,761**
Children's Services Cash Limited Budget	**973,926**	**978,256**	**986,847**

ETE Budget Summary 2019/20

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Highways Maintenance	11,392	14,024	12,244
Street Lighting	9,969	9,969	10,125
Winter Maintenance	6,144	5,594	5,732
Concessionary Fares	13,118	13,118	13,222
Other Public Transport	5,297	5,441	3,249
Road Safety & Traffic Management	1,292	1,400	1,543
Other Highways, Traffic & Transport Services	(48)	(46)	(996)
Staffing & Operational Support	9,405	10,157	7,324
Highways, Traffic and Transport	**56,569**	**59,657**	**52,443**
Waste Disposal Contract	46,315	47,106	45,044
Environment & Other Waste Management	319	305	297
Strategic Planning	967	1,038	762
Chichester Harbour Conservancy	193		
Waste, Planning and Environment	**47,794**	**48,449**	**46,103**
Departmental and Corporate Support	3,546	3,704	3,494
Early Achievement of Savings	3,840	2,280	50
Total Environment and Transport Budget	**111,749**	**114,090**	**102,090**
Economic Development	757	912	766
Total Economic Development Budget	**757**	**912**	**766**
ETE Cash Limited Budget	**112,506**	**115,002**	**102,856**

Policy & Resources Budget Summary 2019/20

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Legal Services	2,495	2,798	2,683
Transformation & Strategic Procurement	1,012	1,543	1,164
Governance	2,463	3,170	2,760
Transformation and Governance	**5,970**	**7,511**	**6,607**
Finance	3,717	3,911	3,448
HR [1]	4,366	3,151	2,589
IT	21,341	22,470	20,460
Audit	661	695	633
Customer Business Services	2,404	7,303	6,948
Corporate Resources Transformation	854	870	1,022
Corporate Resources Management	183	98	21
Corporate Resources	**33,526**	**38,498**	**35,121**
Communication, Marketing & Advertising	565	730	634
Corporate Customer Services [2]	2,824		
Web Team [3]	563		
Insight & Engagement	722	867	640
Chief Executive's Office & Leadership Support	764	621	575
Customer Engagement Service	**5,438**	**2,218**	**1,849**
Corporate Services Budget	**44,934**	**48,227**	**43,577**
Corporate & Democratic Representation	66	66	66
Grants to Vol	227	227	232
Grants & Contributions to Voluntary Bodies	806	806	823
Southern Sea Fisheries	307	307	307
Members Devolved Budgets	390	624	390

[1] Recruitment (£1.6m) transferred to Customer Business Services
[2] Corporate Customer Services transferred to Customer Business Services
[3] Web team transferred to IT

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Rural Affairs	200	137	200
Other Miscellaneous	221	261	441
P&R Non-Departmental Budget (Direct)	**2,217**	**2,428**	**2,459**
Members Support Costs	1,749	1,749	1,584
Repair & Maintenance	7,812	8,013	8,375
Strategic Asset Management	1,254	3,271	1,259
Other Miscellaneous	331	331	311
P&R Non-Departmental Budget (Central)	**11,146**	**13,364**	**11,529**
Other Policy and Resources Budget	**13,363**	**15,792**	**13,988**
Transformation	210	775	558
Business Development Team		578	532
Rural Broadband	250	253	262
CCBS IT Budget	76	98	78
Transformation and Business Management	**536**	**1,704**	**1,430**
Regulatory Services	1,076	1,257	1,163
Business Support	833	461	553
Scientific Services	49	129	25
Asbestos	(21)	(2)	(8)
Community and Regulatory Services	**1,937**	**1,845**	**1,733**
Risk, Health & Safety	199	53	27
Sir Harold Hillier Gardens	87	87	64
Culture & Heritage	**286**	**140**	**91**
Corporate Estate	(194)	(193)	(206)
County Farms	(497)	(497)	(497)
Development Account	(415)	(412)	(348)
Sites for Gypsies and Travellers	55	61	11
Property Services	1,687	2,091	2,787
Office Accommodation / Workstyle	4,591	5,088	3,439
Facilities Management	3,337	3,457	3,318

Service Activity	Original Budget 2018/19 £'000	Revised Budget 2018/19 £'000	Proposed Budget 2019/20 £'000
Hampshire Printing Services	(136)	(125)	(80)
Caretaking & Cleaning Services	(11)	(6)	
Segensworth Unit Factories	(12)	(12)	(12)
Print Sign Workshop	9	10	10
Property Services and Facilities:	**8,414**	**9,462**	**8,422**
Net Contribution to / (from) Cost of Change	1,093	(97)	296
CCBS P&R Services	**12,266**	**13,054**	**11,972**
Library Service	10,996	12,334	11,013
Energise Me Grant (Sport)	141	141	133
Community	164	49	49
Community Services	**11,301**	**12,524**	**11,195**
Countryside – Country Parks, Countryside Sites, Nature Reserves	1,787	2,192	1,470
Arts and Museums (including HCT grant)	2,634	2,634	2,619
Archives	730	768	695
Outdoors Centres	195	366	299
Community Grants	977	753	813
Great Hall		5	18
Culture & Heritage Services	**6,323**	**6,718**	**5,914**
Net Contribution to / (from) Cost of Change	2,224	909	371
CCBS Recreation & Heritage Services	**19,848**	**20,151**	**17,480**
Countryside – Rights of Way	1,075	1,041	1,112
Net Contribution to / (from) Cost of Change	35	(20)	34
CCBS Countryside & Rural Affairs Services	**1,110**	**1,021**	**1,146**
Total CCBS Cash Limited Budget	**33,224**	**34,226**	**30,598**
Policy & Resources Cash Limited Budget	**91,521**	**98,245**	**88,163**

Revenue Budget 2019/20

	Original Budget 2018/19 £'000	Adjustment £'000	Proposed Budget 2019/20 £'000
Departmental Expenditure			
Adults' Health and Care	398,955	(13,500)	385,455
Children's - Schools	806,885	21,201	828,086
Children's - Non Schools	167,041	(8,280)	158,761
Economy, Transport and Environment	112,506	(9,650)	102,856
Policy and Resources	91,521	(3,358)	88,163
	1,576,908	**(13,587)**	**1,563,321**
Capital Financing Costs			
Committee Capital Charges	135,041	5,994	141,035
Capital Charge Reversal	(136,329)	(6,985)	(143,314)
Interest on Balances	(7,595)	(2,841)	(10,436)
Capital Financing Costs	40,301	1,800	42,101
	31,418	**(2,032)**	**29,386**
RCCO			
Main Contribution	10,582	(2,178)	8,404
	10,582	**(2,178)**	**8,404**
Other Revenue Costs			
Contingency	58,413	34,998	93,411
Dedicated Schools Grant	(747,270)	(16,958)	(764,228)
Specific Grants	(173,314)	(16,262)	(189,576)
Pensions – Non-Distributed Costs	20,291	1,772	22,063
Levies	1,998	293	2,291
Coroners	1,747	74	1,821
Business Units (Net Trading Position)	218	236	454
	(837,917)	**4,153**	**(833,764)**
Net Revenue Budget	**780,991**	**(13,644)**	**767,347**
Contributions to / (from) Earmarked Reserves			
Transfer to / (from) Earmarked Reserves	(28,213)	17,490	(10,723)
Trading Units Transfer to / (from) Reserves	(77)	(236)	(313)
	(28,290)	**17,254**	**(11,036)**
Contribution to / (from) General Balances	(1,000)	1,900	900
NET BUDGET REQUIREMENT	**751,701**	**5,510**	**757,211**

	Original Budget 2018/19 £'000	Adjustment £'000	Proposed Budget 2019/20 £'000
NET BUDGET REQUIREMENT	**751,701**	**5,510**	**757,211**
Funded by			
Business Rates and Government Grant	(138,551)	19,133	(119,418)
Business Rates Collection Fund Deficit / (Surplus)	(71)	492	421
Council Tax Collection Fund Deficit / (Surplus)	(4,627)	864	(3,763)
COUNCIL TAX REQUIREMENT	**608,452**	**25,999**	**634,451**

<u>Reserves Strategy</u>

1. Introduction

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

1.2 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 (meaning that they are not available for any other purposes) and merely delays the point at which the recurring savings are required.

1.3 At the end of the 2017/18 financial year the County Council's earmarked reserves together with the General Fund Balance stood at more than £645.6m an increase of just under £121.5m on the previous year. The increase in reserves is largely due to capital grants unapplied received in advance of spend, for both the County Council and the Enterprise M3 Local Enterprise Partnership (EM3 LEP), with the latter being part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

1.4 In line with the Medium Term Financial Strategy (MTFS) it also reflects the continued approach of releasing resources early and then using those resources to fund the next phase of change delivery. This includes an increase in the Grant Equalisation Reserve (GER) ahead of a large planned draw in 2018/19, enabling the County Council to continue its financial strategy of allowing delivery of more complex changes over a longer period to ensure they are planned and implemented safely.

1.5 This Appendix sets out in more detail what those reserves are for and outlines the strategy that the County Council has adopted.

2. Reserves Position 31 March 2018

2.1 Current earmarked reserves together with the General Fund Balance totalled £645.6m at the end of the 2017/18 financial year. The table overleaf 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 2016/17.

2.2 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 31/03/2017 £'000	Balance 31/03/2018 £'000	% of Total %

General Fund Balance	21,498	22,398	3.5
Fully Committed to Existing Spend Programmes			
Revenue Grants Unapplied	17,751	21,541	3.3
General Capital Reserve	126,075	139,645	21.6
Street Lighting Reserve	26,087	26,491	4.1
Public Health Reserve	7,412	7,837	1.2
Other Reserves	1,977	1,057	0.2
	179,302	**196,571**	**30.4**
Departmental / Trading Reserves			
Trading Accounts	12,753	10,970	1.7
Departmental Cost of Change Reserve	85,658	88,690	13.7
	98,411	**99,660**	**15.4**
Risk Reserves			
Insurance Reserve	20,571	25,571	4.0
Investment Risk Reserve	1,500	2,000	0.3
	22,071	**27,571**	**4.3**
Corporate Reserves			
Grant Equalisation Reserve	40,755	74,870	11.6
Invest to Save	31,100	32,109	5.0
Corporate Policy Reserve	4,632	5,889	0.9
Organisational Change Reserve	2,905	2,785	0.4
	79,392	**115,653**	**17.9**
HCC Earmarked Reserves	**379,176**	**439,455**	**68.0**
EM3 LEP Reserve	1,396	4,443	0.7
Schools' Reserves	46,679	37,252	5.8
Total Revenue Reserves & Balances	**448,749**	**503,548**	**78.0**
Total Capital Reserves & Balances	**75,415**	**142,069**	**22.0**
Total Reserves and Balances	**524,164**	**645,617**	**100.0**

General Fund Balance

2.3 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 (CFO) at around 2.5% of the net budget requirement and it represents a working balance of resources that could be used at very short notice in the event of a major financial issue.

2.4 The current balance stands at £22.4m which was 3.0% of net expenditure at the beginning of 2018/19; as projected in the budget setting report approved in February 2018. 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 Transformation to 2019 (Tt2019) Programme is implemented and in 2018/19 a one off draw of £1m is planned. After this, general fund balances will be around 2.5% of net expenditure at the beginning of 2019/20, which is broadly in line with the current policy.

Fully Committed to Existing Spend Programmes

2.5 By far the biggest proportion of reserves are those that are fully committed to existing spend programmes and more than £139.6m of this funding is required to meet commitments in the Capital Programme. These reserves 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.

2.6 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).

2.7 These reserves do not therefore represent ‘spare’ resources in any way and will be utilised as planned in the coming years.

2.8 Specifically, the Street Lighting Reserve represents the anticipated surplus generated by the financial model for this Public Finance Initiative scheme that is invested up front and then applied to the contract payments in future years and the Public Health reserve represents the balance of the ring-fenced government grant carried forward for future public health expenditure.

Departmental / Trading Reserves

2.9 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.

2.10 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 to provide the time and flexibility to generate new revenues to balance the bottom line in future years.

2.11 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 potential over spends / pressures 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 significant change programmes.
- 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 IT enabling activity associated with the Tt2019 Programme.
- 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.

2.12 Utilising reserves in this way and allowing departments and trading areas to retain under spends or surpluses, 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.

2.13 All departments will be utilising their reserves to fund the activity to deliver the Tt2019 Programme and to fully cash flow the later delivery of savings if needed. The exception to this is Children's Services and to a lesser extent Adults' Health and Care who will require some additional corporate support based on the current forecast of savings delivery, provision for which is made within the MTFS.

Risk Reserves

2.14 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.

2.15 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.

Corporate Reserves

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

2.17 This leaves other available earmarked reserves that are under the control of the County Council and total more than £115.6m 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, 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 the residents of Hampshire. These reserves are broken down into four main areas:

2.18 **Grant Equalisation Reserve (GER)** – 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.

2.19 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 Comprehensive Spending Review (CSR) 2010 period from the GER to smooth the impact of the grant reductions.

2.20 It has become clear that the period of tight financial control will continue into the next decade and the County Council has taken the opportunity to increase the reserve to be able to continue the sensible policy of smoothing the impact of funding reductions without the need to make ‘knee jerk’ reactions to offset large decreases in grant.

2.21 The GER currently stands at approaching £74.9m, but this reflects the fact that a significant draw will be required in 2018/19 as part of the County Council’s strategy of delivering changes 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.

2.22 In the period to 2021/22, the unallocated amount remaining in the reserve will be £29.4m and in preparation for future draws beyond 2020 further additions will be required to the GER. The table below summarises the forecast position for the GER as set out in the MTFS. This is before any requirement to balance the budget in 2020/21 or to provide corporate funding to cash flow the next stage of transformation which is likely, given the experience of Tt2019, although the scale is unknown at this stage:

	GER £'000
Balance at 31/03/2018	74,870
2018/19 Draw as per February Budget Setting	(26,435)
Further Budgeted Additions:	
MRP “Holiday”	21,000
Planned Use:	
Cash Flow Tt2019	(40,000)
Unallocated Balance	**29,435**

2.23 **Invest to Save** – This reserve is earmarked to provide funding to help transform services 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 efficiencies 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.

2.24 **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.

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

2.26 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.

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

2.28 A scheme is in place, albeit adapted since first introduced, 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

2.29 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 periodically in line with the implementation of the Authority’s change programmes and the consequent requirement for future organisational change.

2.30 It should be highlighted that the total ‘Corporate Reserves’ outlined above account for approximately 17.9% of the 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’ Corporate Reserves, standing at £74.9m at the end of 2017/18, is in reality fully committed to balance the budget in 2018/19 with the remainder planned to be utilised in the following years to cash flow the safe delivery of the Tt2019 Programme and the next phase of transformation.

2.31 The reserves detailed above represent the total revenue reserves of the County Council and amount to £503.5m as shown in the table on second page of this Appendix. In addition, the County Council is required to show other reserves as part of its accounts which are outlined below.

Enterprise M3 Local Enterprise Partnership (EM3 LEP) Reserve

2.32 The County Council is the accountable body for the funding of the EM3 LEP and has therefore included the EM3 LEP’s income, expenditure, assets and liabilities, (including reserves) in its accounts. Prior to 2015/16 the County Council did not include transactions relating to the EM3 LEP in its accounts.

2.33 The County Council does not control the level or use of the EM3 LEP Reserve.

Schools’ Reserves

2.34 Schools' reserves account for more than £37.2m or 5.8% of total reserves and balances. Schools are facing increasing financial pressure relating to high needs and early years, both at an individual school level and within the overall schools' budget. This is reflected in the fall in the value of schools' reserves in 2017/18.

2.35 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 to smooth fluctuations in cash flow over several years.

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

Capital Reserves

2.37 The Capital Grants Unapplied Reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

2.38 A sum of approaching £142.1m is held within capital reserves and balances, although of this £36.5m relates to the EM3 LEP which is included in the annual accounts, as the Council is the Accountable Body. EM3 LEP capital grants unapplied have increased as part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

3. Reserves Strategy

3.1 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.

3.2 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."*

3.3 We are in an extended period of tight financial control 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 safely deliver savings.

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

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

3.5 This cycle has been clearly evident during the last six financial years, with surplus funds generated in advance of need as part of budget setting and then supplemented by further resources released in the year. Achievement in advance of need within departments and efficiencies in contingency amounts due to the successful implementation of change has meant that the Council has been able to provide material funding including the following:

- Departmental reserves to pay for the cost of change associated with their own transformation programmes.
- Funding within the Invest to Save Reserve to help support the Tt2019 Programme and Digital 2 that will deliver the next phase of transformation.
- Additional funds for the GER to help smooth the impact of grant reductions and safely manage the implementation of change, giving the County Council maximum flexibility in future budget setting processes.

3.6 It is recognised that each successive change programme is becoming harder to deliver and the challenges associated with the Tt2019 Programme are well known. The MTFS has made clear that delivery will extend beyond two years and provision has been made to ensure one off funding is available both corporately and within departments to enable the programme to be safely delivered. Taking up to four years to deliver service changes, rather than being driven to deliver within the two year financial target, requires the careful use of reserves as part of our overall financial strategy to allow the time to deliver and also to provide resources to invest in the transformation of services. This further emphasises the value of our Reserves Strategy.

3.7 Beyond 2020 the financial landscape will be significantly different, and the County Council will no doubt face the biggest ever challenge to its overall financial sustainability which will be impacted one way or another by government policy on fair funding, business rate retention and the future for adults' social care and the growing pressure nationally on children's services.

3.8 This increases the potential necessity to use reserves to alleviate the ongoing financial pressures in the coming years and 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 Deputy Chief Executive and 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 funding reductions announced to the end of the decade and the uncertainty surrounding the outcome of the next Comprehensive Spending Review (CSR), this report considers not only the short term position but also the position beyond 2020 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, or as is more recently the case, to provide cash flow funding to support a longer delivery timescale for the more complex elements of the programme

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 resource allocation and the impact on service provision, rather than these 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 funding reductions began and as reflected in the annual opinion of the External Auditors who have given an unqualified opinion on the annual accounts and in securing value for money / financial resilience.

A further £98m of savings were removed from the budget in 2017/18 and the outturn for that year was positive in all areas apart from the cost of Children Looked After (CLA) which showed an over spend of £7.2m at the end of the year, despite a £9.5m cash injection at the beginning of the year. However, this over spend related to the rate of increase in CLA numbers together with escalating placement costs rather than non-delivery of savings proposals.

Budget 2019/20

The budget for 2019/20 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.

As part of the budget setting process this year a further £140m has been removed from detailed budgets and this is reflected in the departmental summaries contained in Appendix 3. However, it has repeatedly been reported to Cabinet and County Council as part of the MTFS and updates on the Transformation to 2019 (Tt2019) Programme that delivery of these savings in some areas will extend beyond this financial year and in some cases on to 2021/22 before the full value of savings can be achieved.

This reflects the complexity of the savings programmes in the social care services in particular and the fact that some of the changes will take time to implement and fully bed in and will not start to have a major impact until new cohorts of clients come into the service. Funding to meet the later delivery of these savings must first come from departmental cost of change reserves, but a corporate contingency over 2020/21 and 2021/22 of £40m was also provided as part of the 2018/19 budget setting process to support this position.

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 2019/20

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 includes the announced reductions in government grant over the current CSR period and plans are in place to deliver a balanced budget by 2019/20 based on the Tt2019 Programme. The four year settlement announced at the end of 2015 had a massive impact on those projections, but these have been incorporated in the MTFS and the Tt2019 Programme takes this into account.

   Following acceptance by the then Department for Communities and Local Government (DCLG) of the County Council's Efficiency Plan for the period to 2019/20, the expectation was for minimal change for 2019/20 when the Provisional Local Government Finance Settlement was announced in December; which was the case for general grant income. However, there were a number of one off funding announcements for adults' and children's social care which provides an additional £12.8m of resources in 2019/20.

   The funding for adults' social care (£4.7m) will be included within the Improved Better Care Fund (IBCF). The remainder will be allocated to Children's Services, given the current financial pressures the Department is facing, and this one off amount will be held in contingencies. These additional resources will be used in the first instance to meet the cost pressures already identified in these areas, minimising the use of corporate allocations that will be retained within contingencies to provide greater financial resilience in the budget for the year.

   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, for example reductions to the Public Health grant.

b) **Social Care Demand Pressures** – By far the biggest impact in recent years has been the accelerating increase in the number and cost of CLA. A base budget increase of £9.5m was added to the budget for 2017/18 but this was over spent by £7.2m at the end of the year.

   Following this increase a major piece of work was undertaken to track the increases in placements and costs across the different care groups from 2016/17 to 2017/18 and use this as a basis for forecasting over the MTFS period. This required a base budget change of £13.5m in 2019/20, followed by further annual increases of £8.6m in 2020/21 and £10.3m in 2021/22. This was in addition to the significant provisions that had already been made for growth in this area and have been built into the forecasts of the budget deficit for the Transformation to 2021 (Tt2021) Programme.

   Current trend analysis in 2018/19 shows that the rate of growth is above these levels which would have a further impact on the provision in the 2019/20 budget but given the extra £8.1m funding that was granted by the Government in the provisional settlement, I am content that there is sufficient funding available in the year to meet any further increased costs. Potential increases beyond 2019/20 are dealt with in the later section of this Appendix.

   Regular monthly meetings continue to be held with the Director of Children's Services to consider the progress on delivery of savings, pressures and overall financial planning for the Department and this group will continue to look in detail at the CLA position as the year progresses.

Adults' social care is traditionally a far more volatile picture given the large 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' Health and Care 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, experience has shown that the Department 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.

The strengths based approach to social care activity that has been implemented across the Department continues to deliver savings and reduce demand and whilst the expected timescales for delivery of the full Tt2019 Programme savings has been extended to 2021/22, this is supported by the Departments own reserves and the centrally held contingency set aside for this purpose.

Due to the nature of adults' 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. Monitoring in this area has been strong in recent years with no year end surprises coming to light, which gives me confidence that this area is in as stable a position as it can be given the inherent volatility within the client base and the services provided.

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 3% general increase in 2018/19 and 2019/20 (increased from 2%) without the need to hold a referendum. The County Council has already used all of its flexibility for the adult social care precept in previous years and this report therefore recommends that an increase of 2.99% is applied in 2019/20 in line with the assumptions in the MTFS.

d) **Pay and Price Risk** – The MTFS contained provision for the second year of the two year pay award covering the 2018/19 and 2019 financial years and this is now reflected in the detailed budgets set out in this report. Increases in employer pension rates are also a factor that can impact on the budget and the results of the 2016 pension fund valuation and the increases have been built into the financial forecasts moving forward.

Similarly, the impact of price inflation has been considered 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.

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 for 2019/20 is circa £10.4m 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. Contributions to this reserve are regularly reviewed to ensure adequate provision is made.

The Adequacy of Reserves

The County Council's policy on general balances is to hold a minimum prudent level which based on the previous risk assessment is around 2.5% of net expenditure. The projected level of general fund balances will be 2.7% of net expenditure at the beginning of 2019/20. This in part reflects the declining level of spend, rather than an increase in the level of balances held.

Overall the level of earmarked reserves and balances that the County Council holds stood at £645.6m (including schools and the Enterprise M3 LEP reserve) at the end of March 2018 and these reserves, the majority of which are held for specific purposes as set out in the Reserves Strategy in Appendix 5, underpin the overall MTFS and the Capital Programme.

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 unallocated level of the GER is forecast to be £29.4m as outlined in Appendix 5 and this provides sufficient funding to meet the draw required for the interim year in 2020/21. Whilst this is a positive position, further significant contributions will need to be made to support the later delivery of the Tt2021 Programme, since inevitably this will have a similar profile to that of the Tt2019 Programme, especially in Adults' Health and Care whose target is over 50% of the total £80m that is required.

CIPFA Financial Resilience Index

Following the events in Northamptonshire and a heightened national focus on the finances of local government more generally, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a Financial Resilience Index (FRI) which they consulted on last year. The index uses a range of financial information and other factors to generate a series of measures against which all authorities are 'stress tested'.

The original proposal was to produce a single consolidated score for each authority using the measures and to make this information publicly available. However, the consultation feedback (which Hampshire participated in) raised concerns that this may lead to the publication of a league table and have unintended consequences across the sector if used in a negative way. CIPFA responded to this feedback and have removed the consolidated score and have suggested that for the first year the information will only be provided to CFOs to assist them in carrying out their role.

The County Council also responded to say that the FRI should not be viewed as the only source of information for each authority and that the most appropriate measure of financial resilience should be the Section 25 report that must be published by the CFO. To that end, I have added this extra section to the Section 25 report to cover the results of the index, albeit I am not able to publish the full suite of indicators at this stage.

Lower Risk Areas:

- The County Council scored well on most indicators relating to reserves, in fact Hampshire has the highest level of reserves of any County Council.
- The rate of use of its reserves and the reserves depletion time also came out as low risk.
- The County Council has a relatively low grant to expenditure ratio, indicating that it is less reliant on government funding for financial sustainability.
- The council tax requirement as a proportion of total funding was also positive meaning that a high proportion of resources was generated locally and was therefore low risk as a continued income source.
- Hampshire has a good children's social care Ofsted judgement and an unqualified External Auditors value for money assessment.

Higher Risk Areas:

- The level of unallocated reserves was flagged as slightly higher risk, which reflects the commentary in the Reserves Strategy in Appendix 5 that the majority of our reserves are set aside for a specific purpose. We are fully aware of this fact and the MTFS already provides for future funding that is essential to maintain our financial sustainability.
- Our ratio of adult social care spend to total expenditure is high. Again, this is not a surprise to us and reflects the demography of the County. Growth in adults' social care spend is reflected in the MTFS and alongside children's social care remains one of the biggest risk areas in the budget, which is monitored closely and is the subject of monthly meetings between the CFO and Director of Adults' Health and Care.
- Our ratio of retained business rates to total expenditure is relatively low. In some respects, this is partly a consequence of the way the current system works in that County Councils only receive 9% of locally retained business rates. It is also the counter position to the council tax measure highlighted above, since you would expect these two elements to be at different ends of the risk scale, which is borne out by the results of all other County Councils.

I am content that the results of the FRI, reflect what we already know about the financial sustainability of the County Council and that two of the higher risk areas are simply a matter of demographics and local government finance methodology.

Budget 2019/20 – 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 2019/20.

The Position Beyond 2020

The latest MTFS was approved by County Council in September last year and extended the planning horizon to 2021/22. The next CSR is due to take place this year and will set the framework for public spending over the next four years.

Local government finances will be impacted over this period not only as a result of the total amount of funding that will be made available but also as a result of the Fair Funding Review and the extension of Business Rate Retention, on which consultation papers were published in December last year as part of the provisional settlement.

In keeping with its previous planning cycle, a forecast Tt2021 Programme target of £80m has already been set for departments and officers have already begun preparing options for potential savings for consideration later in the year with a view to carrying out a public consultation over the summer.

The period beyond 2019/20 represents perhaps the highest risk period that has ever been faced and meeting a further £80m of savings on top of the £480m removed from the budget to date will be extremely challenging and is likely to be delivered once again over an extended period, placing further pressure on corporate funding to support this.

The MTFS highlighted the fact that beyond 2021/22 without a significant change in the way in which growth in adults' and children's social care is funded, the County Council is unlikely to be financially sustainable since it is not possible to continually cut some services to fund growth in others.

At this stage however, in the absence of the outcome of the CSR and other changes to the local government finance regime, the County Council must focus on delivery of the remaining Tt2019 Programme savings and I believe it is well placed to do that underpinned by departmental reserves and the corporate funding that is already in place.

Carolyn Williamson

Deputy Chief Executive and Director of Corporate Resources

17 January 2019

Capital and Investment Strategy 2019/20 to 2021/22

1. Introduction

1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2 The County Council has previously reported these matters in separate reports relating to the Revenue Budget, the Capital Programme and the Medium Term Financial Strategy (MTFS). In line with the latest statutory guidance, these inter-related issues are brought together in this one Capital and Investment Strategy.

1.3 This Strategy covers:

- Governance arrangements for capital investment.
- Capital expenditure forecasts and financing.
- Prudential indicators relating to financial sustainability.
- Minimum Revenue Provision (MRP) for the repayment of debt.
- Treasury Management definition and governance arrangements.
- Investments for service purposes, linked to the County Council's commercial strategy.
- Knowledge and skills.
- Chief Financial Officer's conclusion on the affordability and risk associated with the Capital and Investment Strategy.
- Links to the statutory guidance and other information.

2. Governance

2.1 The County Council's MTFS 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. This is kept under review by the Corporate Infrastructure Group (CIG) which is chaired by the Director of Economy, Transport and Environment and includes representatives from his Department, together with Officers from Children's Services, Adults' Health and Care and Property Services. The aim of the group is to ensure a co-ordinated approach to capital investment and major developments across the County Council.

2.2 In accordance with the MTFS, in December each year, the Cabinet sets cash limit guidelines for a capital programme funded by local resources. Executive Members propose capital programmes within these cash limits together with schemes funded by government grants and other external sources. The proposed programmes are scrutinised by the relevant Select Committee. The final Capital Programme is then presented to Cabinet and to County Council in February each year.

3. Capital Expenditure and Financing

3.1 Capital expenditure is spending by the County Council on assets, such as land, property, the highway network or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

3.2 The estimated level of capital expenditure (or ‘payment’) flows each year, together with forecasts of financing resources, are two of the factors considered in determining the size of the cash limit guidelines for the Capital Programme.

3.3 Capital expenditure may be funded directly from revenue however the general pressures on the Council’s revenue budget and council tax levels limit the extent to which this may be exercised as a source of capital funding. Prudential borrowing does provide an option for funding additional capital development but one which then results in costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.

3.4 Given the pressure on the Council’s revenue budget in future years, prudent use has been made of this discretion to progress schemes in cases where there was a clear financial benefit. Such schemes focus on clear priorities, and those that generate revenue benefits in future financial years, in the form of clear and measurable revenue savings or longer term income generation either directly or through council tax or business rate yield.

3.5 Expenditure flows in 2018/19 and the following three years will result from works in progress (schemes started in 2018/19 and earlier years) plus those arising from the proposed programme for 2019/20 to 2021/22, as Table 1 below shows:

Table 1: Forecast Capital Expenditure Flows

	2018/19 £’000	**2019/20 £’000**	**2020/21 £’000**	**2021/22 £’000**
Works in Progress at 31 March 2018 and Schemes starting in 2018/19	203,376	166,499	97,678	34,815
Programmes starting in 2019/20, 2020/21 and 2021/22		113,937	122,895	132,638
Land Acquisition	9,405	1,846	2,396	646
Total Expenditure Flows	**212,781**	**282,282**	**222,969**	**168,099**

3.6 In practice, expenditure flows in the years after 2018/19 may vary from those shown in Table 1 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 in the Capital Programme, which is presented in a separate report elsewhere on this Agenda.

Table 2 - Resources to Fund Capital Expenditure

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Prudential borrowing	49,255	48,873	38,642	16,322
Less repayments from capital	(3,165)	(13,489)	(16,578)	(10,025)
Capital grants	86,579	160,259	143,892	139,172
Contributions from other bodies including developers	20,682	46,843	42,094	25,523
Capital receipts	3,129	2,750		
Revenue contributions to capital	11,537	8,404	7,771	6,743
New Resources in the Year	**168,017**	**253,640**	**215,821**	**177,735**
Draw From / (Contribution to) the Capital Reserve:	44,764	28,642	7,148	(9,636)
Total Resources Available	**212,781**	**282,282**	**222,969**	**168,099**

4. Prudential Indicators

4.1 The framework for the use of prudential borrowing, 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, to be funded by business unit reserves.
- Temporary borrowing to accommodate shortfalls in general capital resources.

4.2 As the loan repayments and interest charges must be financed by the County Council from its own resources, it is important that the use of prudential borrowing is very closely controlled and monitored.

4.3 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). 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 CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 3: Ensuring Borrowing is Only for Capital Purposes

	31/03/19 Revised £M	31/03/20 Estimate £M	31/03/21 Estimate £M	31/03/22 Estimate £M
CFR	**794**	**817**	**816**	**796**
Debt				
Borrowing	277	268	258	249
PFI Liabilities	157	150	142	133
Total Debt	**434**	**418**	**400**	**382**

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

Affordable borrowing limit

4.5 The County Council is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. 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.

Table 4: Affordable Borrowing Limits

	2018/19 Revised £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M
Authorised Limit:				
Borrowing	700	730	760	770
PFI and Leases	210	200	190	180
Authorised Limit	**910**	**930**	**950**	**950**
Operational boundary:				
Borrowing	650	690	710	720
PFI and Leases	170	160	150	150
Operational Boundary	**820**	**850**	**860**	**870**

Ratio of Financing Costs to Net Revenue Stream

4.6 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.

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2018/19 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	1.19%	1.12%	1.38%	2.13%

4.7 A low proportion is forecast demonstrating that the cost of financing is minimised and the proportion of revenue budget available for delivering services is maximised.

Incremental Impact of Capital Investment Decisions

4.8 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 for the next three years.

Table 6: Incremental Impact of Capital Investment Decisions

	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
General Fund - increase in Annual Band D Council Tax	2.79	4.73	4.16

5. Minimum Revenue Provision (MRP) for Debt Repayment

5.1 Where the County Council finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. The 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 2019/20

5.2 Prior to 2015/16 the County Council calculated MRP for supported borrowing4 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

[4] Borrowing or use other forms of credit to finance capital expenditure, for which central government previously provided a revenue stream to support repayment of principal and interest.

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.

5.3 As agreed in 2016/17 the County Council has paused 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.

5.4 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 Guidance) 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 Section106 Developers Contributions, MRP will not be applied.

5.5 MRP in respect of leases and Private Finance Initiative (PFI) 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.

5.6 Capital expenditure incurred during 2019/20 will not be subject to an MRP charge until 2020/21.

5.7 Based on the Authority's latest estimate of its CFR on 31 March 2019, the budget for MRP has been set as follows:

Table 7: MRP Budget

	31/03/2018 Estimated CFR £M	2018/19 Estimated MRP £M
Supported Capital Expenditure	454	
Unsupported Capital Expenditure After 31/03/2008	117	8,019
Finance Leases and PFI	164	7,168
Transferred Debt	28	569
Total General Fund	**763**	**15,756**

6. Treasury Management

6.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

6.2 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 (TMS).

6.3 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.

6.4 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. It therefore invests its funds prudently and has regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

6.5 The County Council's TMS, included as Appendix 8, to this report is scrutinised by the Audit Committee and approved by the County Council each year. Actual performance is reviewed by the Audit Committee and reported to Cabinet and County Council.

7. Investments for Service Purposes

7.1 The County Council's commercial strategy was set out in detail in the update of the MTFS presented to Cabinet and County Council in October and November 2017. A summary of the strategy is outlined below.

7.2 There are four main areas where the County Council has sought to generate additional income to help close the budget deficit:

- Charging users for the direct provision of services.
- Investing money or using assets to generate a return.
- Expanding traded services to other organisations.
- Developing Joint Ventures (JVs) that yield additional income or generate a return.

7.3 The second and fourth approaches listed above directly relate to this Capital and Investment Strategy, although it is the first and third approaches that contribute the most income on an annual basis to support the County Council's financial position. This is a deliberate outcome of the overall strategy and has been achieved through the pursuit of a range of initiatives targeting increased income generation but without over exposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.

Pooled Funds

7.4 Faced with a historically low interest rate environment, the County Council decided, as part of the 2014/15 strategy, to earmark £90m of its cash balances for investments appropriately targeting a higher yield. In 2017, the County Council agreed to increase this amount to £200m and a further increase to £235m is proposed in the TMS (Appendix 8) and included as a recommendation in this report. This is in addition to £15m of long term investments that had been made for the Street Lighting PFI scheme. Higher yields can be accessed through investments in assets other than cash, such as equities, bonds and property. The County Council has made investments in property, equities and government bonds, as well as long term investments with other Local Authorities.

7.5 The principle mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long term investments the amounts invested need to be taken from the County Council's most stable cash balances. The allocation of £235m has been based on half of the Council's forecast future minimum balance.

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

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

Utilising Property Assets

7.8 The County Council utilises its own property to make a return. In areas where we already own buildings we are working with partners to utilise this space more effectively from a joint service provision point of view and at the same time making a return on the space we have provided. Further work is being undertaken to maximise the usage of space in existing buildings with a view to potentially offering whole buildings on the commercial market for lease. This approach enables the County Council to use existing assets to generate income with minimal risk, compared to buying additional property using prudential borrowing purely to try to make a financial return.

Developing Joint Ventures

7.9 The County Council is pursuing a number of opportunities either through its land holdings or through the relationships it has with partners or contractors that look at new and innovative ways of generating a financial return. To date the County Council has been helpful in responding to Borough Council Local Planning Authority requests for the potential use of its public land holdings for potential residential development. This will continue the stream of substantial capital receipts the County Council has benefitted from over recent decades to enable it to reinvest in existing services and ongoing transformation initiatives.

7.10 In addition, an alternative avenue that the County Council is currently actively pursuing in two cases is to become even more active and influential in the market of delivering homes across the county on some of its key sites. This will have the benefit of not only giving greater influence and certainty in the types and rates of homes, neighbourhoods and infrastructure and facilities being developed on its land but also the potential for greater certainty in the programming of development and receipts through economic cycles. Furthermore, it will also offer the County Council the advantage of considering whether it wishes to benefit from capital or revenue receipts from development and residential assets or combinations of the two depending on individual sites and its own circumstances.

7.11 Another area that the County Council can look to exploit is the relationships it has with its partners and contractors. There is already a long standing relationship with our waste disposal contractors Veolia that includes innovative ways of generating income for both parties. The long term contract allows the use of surplus capacity at our waste facilities for commercial purposes for which the County Council receives an income share. Similarly, provisions are in place for working with our new highways maintenance contractor Skanska to develop joint ventures linked to the existing contract that will yield additional income for both parties. A third example is the superfast broadband contract with BT Openreach that includes mechanisms that provide a rebate to the County Council when take up is greater than the original estimates in Openreach's commercial bid. To date, rebates and savings have added a further £7.8m of delivery to the programme without requiring additional capital funding from the County Council and further rebates are expected in the next few years.

7.12 With the primary aim of improving economic prosperity and related infrastructure within Hampshire, the County Council may consider granting loans to other organisations. To date, loans totalling £9.5m at market rates of interest have been approved to the Enterprise M3 Local Enterprise Partnership (EM3 LEP) and Farnborough International Ltd.

7.13 The development of all these opportunities is reported to Cabinet and, if additional capital schemes are proposed, County Council approval is sought to add them to the Capital Programme.

8. Knowledge and skills

8.1 The County Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

8.2 Staff attend training courses, seminars and conferences provided by the Chartered Institute of Public Finance and Accountancy (CIPFA), Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

8.3 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 in November 2018, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2019.

Investment Advisers

8.4 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 Deputy Chief Executive and Director of Corporate Resources, her staff and Arlingclose.

9. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy

10.1 This Capital and Investment Strategy has been developed alongside the TMS (Appendix 8) and the Reserves Strategy (Appendix 5). Together, they form an integrated approach adopted by the County Council to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget whilst recognising and managing risk to an acceptable level.

10.2 The forward planning of capital funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Deputy Chief Executive and Director of Corporate Resources that the proposed Capital Programme is prudent, affordable and sustainable.

10. Links to Statutory Guidance and Other Information

10.1 The Local Government Act 2003, Section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:

- Ministry of Housing, Communities & Local Government (MHCLG) - Local Government Investment* MHCLG Investment.
- CIPFA's Prudential Code 2017
- CIPFA's Treasury Management Code 2017

(*Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code and a TMS in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document).

10.2 The County Council includes its non-treasury management Investment Strategy within this Capital Strategy. The TMS is a separate document reported to Cabinet and County Council, (Appendix 8).

10.3 The proposed Capital Programme is a separate document presented to Cabinet and County Council in a separate report elsewhere on this Agenda.

Treasury Management Strategy Statement 2018/19 to 2020/21

1. Summary

1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

1.2. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3. The purpose of this TMSS is, therefore, to present for approval the Treasury Management Strategy (including the Annual Investment Strategy) for 2019/20; and the remainder of 2018/19.

2. Introduction

2.1 Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice. In England the Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.

2.2 The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. The MHCLG's guidance includes the requirement to produce an Investment Strategy. The County Council's Capital and Investment Strategy (Appendix 8) has been prepared for approval by full County Council.

2.3 This Treasury Management Strategy (TMS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

2.4 Treasury management in the context of this Strategy is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.5 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 financial risk are therefore central to the County Council's prudent financial management.

2.6 Treasury risk management at the County Council is conducted within the framework of the CIPFA Code which requires the County Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.7 Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategy (Appendix 8).

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 UK's progress negotiating its exit from the European Union (EU), together with its future trading arrangements, will continue to be a major influence on the County Council's TMS for 2019/20.

3.3 UK Consumer Price Inflation (CPI) for October was up 2.4% year-on-year, slightly below the consensus forecast and broadly in line with the Bank of England's (BoE) November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, means real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

3.4 The rise in quarterly Gross Domestic Product (GDP) growth to 0.6% in Quarter 3 from 0.4% in the previous quarter was due to weather-related factors boosting overall household consumption and construction activity over the summer following the weather-related weakness in Quarter 1. At 1.5%, annual GDP growth continues to remain below trend. Looking ahead, the BoE, in its November Inflation Report, expects GDP growth to average around 1.75% over the forecast horizon, providing the UK's exit from the EU is relatively smooth.

3.5 Following the BoE's decision to increase the Bank Rate to 0.75% in August 2018, no changes to monetary policy has been made since. However, the BoE expects that should the economy continue to evolve in line with its November forecast, further increases in the Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee (MPC) continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Credit Outlook

3.6 The big four UK banking groups have now divided their retail and investment banking divisions into separate legal entities under ringfencing legislation. Bank of Scotland, Barclays Bank UK, HSBC UK Bank, Lloyds Bank, National Westminster Bank, Royal Bank of Scotland and Ulster Bank are the ringfenced banks that now only conduct lower risk retail banking activities. Barclays Bank, HSBC Bank, Lloyds Bank Corporate Markets and NatWest Markets are the investment banks. Credit rating agencies have adjusted the ratings of some of these banks with the ringfenced banks generally being better rated than their non-ringfenced counterparts.

3.7 European banks are considering their approach to Brexit, with some looking to create new UK subsidiaries to ensure they can continue trading here. The credit strength of these new banks remains unknown, although the chance of parental support is assumed to be very high if ever needed. The uncertainty caused by protracted negotiations between the UK and EU is weighing on the creditworthiness of both UK and European banks with substantial operations in both jurisdictions.

Interest Rate Forecast

3.8 Following the increase in the Bank Rate to 0.75% in August 2018, the Council's treasury management adviser Arlingclose is forecasting two more 0.25% rises during 2019 to take official UK interest rates to 1.25%. The BoE's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that a higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

3.9 The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the EU and Eurozone growth softens. While assumptions are that a Brexit deal is struck, and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity (at the time of writing this commentary in mid-December). As such, the risks to the interest rate forecast are considered firmly to the downside.

3.10 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 2018, the County Council held £278m of borrowing and £598m 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 overleaf:

Table 1: Balance Sheet Summary and Forecast

	31/03/18 Actual £M	31/03/19 Revised £M	31/03/20 Estimate £M	31/03/21 Estimate £M	31/03/22 Estimate £M
Capital Financing Requirement	764	794	813	816	796
Less: Other long-term liabilities					
- Street Lighting PFI	(56)	(53)	(50)	(46)	(42)
- Waste Management Contract	(108)	(104)	(100)	(96)	(91)
Borrowing CFR	600	637	663	674	663
Less: External borrowing					
- Public Works Loan Board	(236)	(227)	(217)	(217)	(208)
- Market Loans (incl. LOBOs)	(41)	(41)	(41)	(41)	(41)
Internal (Over) Borrowing	**323**	**369**	**405**	**416**	**414**
Less: Reserves and balances	(646)	(629)	(612)	(619)	(623)
Less: Allowance for working capital	(184)	(184)	(184)	(184)	(184)
Resources for Investment	**(830)**	**(813)**	**(796)**	**(803)**	**(807)**
New Borrowing or (Investments)	**(507)**	**(444)**	**(391)**	**(387)**	**(393)**

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 Public Works Loan Board (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, repayment of external debt, 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 2019/20.

5. Borrowing Strategy

5.1 The County Council currently holds £278m of loans, a decrease of £16m 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 2019/20. The County Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £930m.

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 Alternatively, the County Council may arrange forward starting loans during 2019/20, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

5.6 In addition, the County Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources

5.7 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body.
- Any institution approved for investments (see below).
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- 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.

Other Sources of Debt Finance

5.8 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing.
- Hire purchase.
- Private Finance Initiative (PFI).
- Sale and leaseback.

5.9 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

5.10 The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at 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. All of these loans have options during 2019/20, and although the County Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, 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. Total borrowing via LOBO loans will be limited to the current level of £20m.

Short-term and Variable Rate loans

5.11 These loans leave the County Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators at Section 7 of this Strategy.

Debt Rescheduling

5.12 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 £550m and £665m, and lower levels are expected in the forthcoming year, as shown in Table 1.

Objectives

6.2 The CIPFA Code requires 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 2019/20, there is a small chance that the BoE 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 very low returns from short-term unsecured bank investments, the County Council aims to further diversify into more secure and / or higher yielding asset classes during 2019/20. This is especially the case for the estimated £410m that is available for longer-term investment. Approximately 86% of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers, pooled property, equity and multi-asset funds, and secured bank bonds.

6.5 Whilst of the remaining cash subject to bail-in risk, 6% is held in short-term notice accounts which are maturing before the end of the financial year, 80% is held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in and 14% is held in certificates of deposit which can be sold on the secondary market. This diversification is a continuation of the strategy adopted in 2015/16. Further detail is provided at Annex B.

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, allowing further diversification, increasing 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.

6.7 By the end of 2018/19 the County Council will have fully allocated the £200m targeted for higher yielding investments. As cash balances continue to rise it is proposed that for 2019/20 this limit is increased to £235m.

6.8 Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in assets other 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.

6.9 When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve in order to mitigate the risk of an irrecoverable fall in the value of these investments. It is recommended that a further £1.0m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional amount to be targeted for higher yielding investments and will bring the total amount in the reserve to £3.0m.

6.10 As shown in Annex B the County Council has invested £156.8m of the £200m allocation as at 30 November 2018. In addition, the County Council has committed a further £43.2m to investments in pooled funds, which once invested will complete the allocation targeting higher yields. Without this allocation the weighted average return of the Council's cash investments would have been 1.21%; the allocation to higher yielding investments has added 0.98% (£5.9m based on the cash balance at 30 November 2018) to the average interest rate earned by the remainder of the portfolio.

6.11 Although money can be redeemed from the pooled funds at short notice, the County Council's intention is to hold them for at least the medium-term. Their performance and suitability in meeting the County Council's investment objectives are monitored regularly and discussed with Arlingclose.

Table 2: Pooled Fund Investments Capital Value at 30 November 2018

Pooled fund investments	Principal Invested £M	Market Value 30/11/18 £M	Capital Yield (per annum) %
Pooled property	58.4	60.4	2.29
Pooled equity	43.4	44.8	(0.86)
Pooled multi-asset	20.0	19.5	(2.58)
Total	**121.8**	**124.6**	**0.36**

Investment Limits

6.12 The maximum that will be lent to any one organisation (other than the UK Government) will be £70m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, and investments in pooled funds, as they would not count against a limit for any single foreign country, since the risk is diversified over many countries.

Table 3: 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 and Registered Social Landlords	£70m in total
Money Market Funds	50% in total
Real Estate Investment Trusts	£70m in total

Approved Counterparties

6.13 The County Council may invest its surplus funds with any of the counterparty types in Table 4 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 4: Approved Investment Counterparties and Limits

Credit Rating	**Banks**		**Government**	**Corporates**	**Registered Providers**	
	Unsecured	**Secured**			**Unsecured**	**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
None	£35m 6 months	N/A	£70m 25 years	N/A(*)	£35m 5 years	£35m 25 years
Pooled Funds & Real Estate Investment Trusts	£70m per fund					

*See paragraph 6.18

This table must be read in conjunction with the notes below

Credit Rating

6.14 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

6.15 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. See below for arrangements relating to operational bank accounts.

Banks Secured

6.16 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

6.17 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

6.18 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.

6.19 The County Council will not invest in an un-rated corporation except where it owns a controlling interest in the corporation, in which case a limit of £35m will for an investment of up to 20 years will apply.

Registered Providers Secured and Unsecured

6.20 Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and Registered Social Landlords. These bodies are tightly regulated by the Regulator of Social Housing (in

England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

6.21 Shares or units in diversified investment vehicles consisting of 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.

6.22 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.

Real Estate Investment Trusts (REITs)

6.23 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational Bank Accounts

6.24 The County Council may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB - and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The County Council's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts as positive, and as close to zero as possible. The BoE has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

6.25 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.

6.26 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

6.27 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 and analysis from the County Council's treasury management adviser. 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.

6.28 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

6.29 The extent of these restrictions will be in line with prevailing financial market conditions. 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 earnt but will protect the principal sum invested.

Liquidity Management

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

Table 5: Interest Rate Risk Indicator

	30 November 2018	Impact of +/- 1% Interest Rate Change
Sums Subject to Variable Interest Rates		
Investment	£373.1m	+ / - £3.7m
Borrowing	(£20.0m)	+ / - £0.2m

Maturity Structure of Borrowing

7.3 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: Refinancing Rate Risk Indicator

	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%

7.4 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a Year

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: Price Risk Indicator

	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£410m	£350m	£350m

8. Related Matters

8.1 The CIPFA Code requires the County Council to include the following in its TMSS.

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 considered 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. The use of financial derivatives is not planned as part of the implementation of the TMSS and any changes to this would be reported to members in the first instance.

Investment Advisers

8.5 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 Deputy Chief Executive and Director of Corporate Resources, her staff and Arlingclose.

Markets in Financial Instruments Directive

8.6 The County Council has opted up to professional client status with its providers of financial services, including advisers, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the County Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Annex A - Arlingclose Economic & Interest Rate Forecast October 2018

Underlying assumptions:

- The Monetary Policy Committee (MPC) left the Bank Rate unchanged at the September meeting, after voting unanimously to increase Bank Rate to 0.75% in August.

- Our projected outlook for the UK economy means we maintain the significant downside risks to our interest rate forecast. The UK economic environment is relatively soft, despite seemingly strong labour market data. Gross Domestic Product (GDP) growth recovered somewhat in Quarter 2 2018, but the annual growth rate of 1.2% remains well below the long term average. Our view is that the UK economy still faces a challenging outlook as the country exits the European Union EU) and Eurozone economic growth softens.

- Cost pressures were projected to ease but have risen more recently and are forecast to remain above the Bank's 2% target through most of the forecast period. The rising price of oil and tight labour market means inflation may remain above target for longer than expected. This means that strong real income growth is unlikely in the near future.

- The MPC has a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. We believe that MPC members consider both that: 1) ultra-low interest rates result in other economic problems, and 2) higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise, and cuts are required.

- The global economy appears to be slowing, particularly the Eurozone and China, where the effects of the trade war has been keenly felt. Despite slower growth, the European Central Bank (ECB) is adopting a more strident tone in conditioning markets for the end of Quantitative Easing, the timing of the first rate hike (2019) and their path thereafter. Meanwhile, European political issues, mostly lately with Italy, continue.

- The US economy is expanding more rapidly. The Federal Reserve has tightened monetary policy by raising interest rates to the current 2% - 2.25% range; further rate hikes are likely, which will start to slow economic growth. Central bank actions and geopolitical risks have and will continue to produce significant volatility in financial markets, including bond markets.

Forecast:

- The MPC has maintained expectations of a slow rise in interest rates over the forecast horizon. Our central case is for the Bank Rate is to rise twice in 2019. The risks are weighted to the downside.

- Gilt yields have remained at low levels. We expect some upward movement from current levels based on our interest rate projections, the strength of the US economy and the ECB's forward guidance on higher rates. However, volatility arising from both economic and political events will continue to offer borrowing opportunities.

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.17
Arlingclose Central Case	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.17
Downside risk	0.00	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.65
3-mth money market rate														
Upside risk	0.10	0.10	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.17
Arlingclose Central Case	0.80	1.00	1.10	1.20	1.30	1.30	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.17
Downside risk	0.20	0.50	0.60	0.70	0.80	0.80	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.68
1-yr money market rate														
Upside risk	0.20	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.33
Arlingclose Central Case	1.05	1.25	1.35	1.40	1.50	1.45	1.40	1.40	1.40	1.40	1.40	1.40	1.40	1.37
Downside risk	0.35	0.50	0.60	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.69
5-yr gilt yield														
Upside risk	0.15	0.20	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.15	1.20	1.25	1.35	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	0.30	0.35	0.45	0.50	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.54
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.60	1.65	1.65	1.70	1.75	1.75	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70
Downside risk	0.30	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.55
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.90	1.95	1.95	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.98
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.32
Arlingclose Central Case	1.80	1.85	1.85	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.88
Downside risk	0.30	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.43

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 30 November 2018

<u>**Investments**</u>	**Balance 31/09/2018 £M**	**Movement £M**	**Balance 30/11/2018 £M**	**Rate 30/11/2018 %**	**WAM (*) 30/11/2018 Years**
Short Term Investments					
- Banks and Building Societies:					
- Unsecured	20.5	(3.6)	16.9	0.72	0.31
- Secured	52.4		52.4	1.14	0.22
- Money Market Funds	21.1	23.4	44.5	0.73	0.01
- Cash Plus Funds	20.0		20.0	0.59	N/A
- Local Authorities	122.0	16.5	138.5	1.34	0.47
- Registered Provider	20.0		20.0	2.30	0.16
	256.0	**36.3**	**292.3**	**1.22**	**0.32**
Long Term Investments					
- Banks and Building Societies:					
- Secured	78.3		78.3	1.06	2.40
- Local Authorities	81.0	(10.0)	71.0	1.33	2.45
	159.3	**(10.0)**	**149.3**	**1.20**	**2.42**
Long Term Investments – high yielding strategy					
- Local Authorities					
- Fixed deposits	20.0		20.0	3.96	15.30
- Fixed bonds	10.0		10.0	3.78	15.11
- Pooled Funds					
- Pooled property**	55.0	3.4	58.4	4.19	N/A
- Pooled equity**	40.0	3.4	43.4	5.80	N/A
- Pooled multi-asset**	20.0		20.0	7.15	N/A
- Registered Provider	5.0		5.0	3.40	0.41
	150.0	**6.8**	**156.8**	**4.93**	**13.12**
Total Investments	**565.3**	**33.1**	**598.4**	**2.20**	**1.99**

* WAM - Weighted Average Maturity

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 30 November 2018.

	£M	%
External Borrowing		
PWLB Fixed Rate	(237.2)	(4.69)
LOBO Loans	(20.0)	(4.76)
Other Market Loans	(21.0)	(4.01)
Total External Borrowing	**(278.2)**	**(4.64)**
Other Long-Term Liabilities:		
Street Lighting PFI	(107.9)	
Waste Management Contract	(56.3)	
Total Other Long-Term Liabilities	**(164.2)**	
Total Gross External Debt	**(442.4)**	
Investments	**598.4**	**2.20**
Net (Debt) / Investments	**156.0**	

Manydown Summary

Introduction

The County Council together with Basingstoke and Deane Borough Council (BDBC) jointly own a leasehold interest with the option to purchase in land at Manydown in Basingstoke. The land itself is owned by the Manydown Company. The two councils have entered into a joint venture arrangement with a private sector company called Urban and Civic (U&C) with a view to purchasing and developing part of the Manydown site to provide 3,520 homes and associated infrastructure, representing Phase 1 of the overall programme.

A company structure has been established as a means of providing the financing and delivery arm for the development. The County Council together with BDBC have jointly established a company – Manydown Garden Communities (MGC) LLP, which in turn will own a 50% share of a company with the councils' private sector partner U&C.

The financial, land ownership and overall governance and company structure for Manydown is extremely complicated and these items have been reported in detail to the Executive Member for Policy and Resources over many years. A strategic business case was approved that included high level cost estimates and potential return from the development option that was chosen, but this has not been reported more generally as part of financial updates to Cabinet. Given the stage of the project and the future commitment that the County Council is now entering into it is important that the overall cost position is fully outlined, and approvals put in place for the forward expenditure that the County Council must meet.

The purpose of this appendix is to outline the different financial elements of the Manydown arrangements and to consider the future funding arrangements that need to be put in place.

Financial Context

There are four separate financial elements to the Manydown development and wider governance arrangements, namely

- The County Council in its role as a developer and land owner.
- The County Council in its role as part owner of the Manydown Garden Communities Limited Liability Partnership (MGC) – formerly referred to as TopCo.
- The County Council as an investor, which gives us the right under the contract to provide part of the loan funding to DevCo to fund the initial infrastructure costs (referred to as Loan Note B).
- The County Council as an investor, which gives us the right to provide part of the loan funding to DevCo for the housing development (the senior debt) instead of borrowing from the financial markets. This debt would be secured against the value of the land.

Taking each of the items in turn:

The County Council in its Role as a Developer and Land Owner

Since 2000 the County Council and BDBC have been paying for the costs associated with bringing the Manydown land forward for development together with the significant, legal, technical and procurement costs of appointing a private sector partner and putting in place the MGC and DevCo arrangements.

For Hampshire these costs have previously been met from the provision of £12.7m granted for the Strategic Land Programme (SLP) that was agreed in 2008. In 2018/19 this funding was depleted and now annual requests for funding for the SLP are made as part of the budget setting process. A request for £2.8m is included in the Budget Report, together with an initial approval just for Manydown for a further £4.2m to cover anticipated costs up to 2022/23.

Under the terms of the lease some of these costs can be deducted from the cost of the councils acquiring the freehold and under their contract, the cost of the procurement to appoint U&C will be reimbursed by DevCo. The SLP costs also include early work for Phase 2 at Manydown but given the long time scales for these costs, they are being accounted for now, albeit they will be partly reimbursed in the future in the same way as Phase 1.

The County Council will need to fund the purchase of the freehold with BDBC under the terms of the lease, which will then be sold to MGC. The payment for the land from MGC to the councils will be half in cash and half in loan notes (referred to as Loan Notes C) on which interest will be charged.

As sales of the finished housing start to complete, the County Council will benefit from the repayment of its C Loan Notes and finally dividends paid out by MGC. Both the interest on the loan and dividend will be paid as revenue rather than as a capital receipt. It is expected that MGC will be in a position to pay dividends to the councils from around 2028/29 onwards, albeit that this is dependent on a large number of factors.

The costs associated with planning, developing and delivering infrastructure and housing on the Manydown site are significant and as highlighted above require the County Council to fund some of this in advance. The overall financial arrangements for Manydown are commercially confidential and it is not therefore possible to provide detailed figures at this stage. It should be noted however that even with the costs outlined in this report, the Strategic Land Programme of which Manydown is a part is expected to generate net receipts of £250m for the County Council up until 2029/30.

The County Council as Part Owner of MGC

Some of the costs incurred by both Councils can be charged to MGC as they relate to activity that they have responsibility for. In addition, the company itself will have some day to day running costs that need to be funded.

At this stage of the development, there are no external income sources that can be used to fund this expenditure and therefore as owners of the company, both councils are required to make loans to MGC to fund this expenditure.

All of the loan costs will be reimbursed back to both councils at the point the first tranche of proceeds are received. In the meantime, interest is payable to the councils, which can be accrued for but will be rolled up and paid as part of the overall repayment of the loan.

The Budget Report includes recommendations to authorise loans of up to £600,000 a year to TopCo from 2018/19 up until 2026/27 to provide future flexibility, but at this stage annual amounts of around £450,000 are anticipated. Over an eight year period interest in the order of £800,000 is expected to be earned.

The County Council as an Investor – Loan Note B

The requirement for infrastructure works to service the development site are significant and are included within the overall cost model and financing. Under the terms of the contract let by the councils, it is U&C's responsibility to provide this funding although it will attract a high rate of interest because of the unsecured nature of this finance.

Both councils have the right under the contractual arrangements to provide half of this investment funding between them and this would attract interest from the development at the same rate as U&C would earn.

The County Council has previously agreed a change to the Annual Investment Strategy that would allow investments in joint venture arrangements where it has some level of controlling interest and a provisional sum of £35m was allocated as a potential investment in the Manydown site.

This is purely a treasury management decision albeit that it is complicated by the County Council's involvement in the wider land development. Final decisions on whether to invest any of this allocation into Loan Note B can be made annually as part of the approval of an annual business plan for DevCo.

The County Council as an Investor – Senior Debt

Under their contract it is U&C's responsibility to source senior debt for DevCo, which they could provide directly, jointly with a funding partner or from the financial markets. Senior debt would be to help fund the ongoing project, including the construction of homes, once the initial infrastructure is in place, senior debt would be secured against the land as an asset and is therefore much lower risk, attracting a lower interest rate than Loan Note B.

Once again under the contractual terms, both councils have the right to provide some of this investment funding themselves.

Whilst the £35m allocation or any part of it could be invested in Loan Note B or the senior debt, the County Council is not obliged to do so or could loan greater amounts if it chose. For these two financing items both councils are not required to invest equally as is the case for most of the other elements of Manydown.

Final decisions on whether to invest in the senior debt and at what levels will be taken as part of the approval of DevCo's business plan, starting in 2019/20.

<u>Conclusion</u>

This Appendix seeks to set out more clearly the County Council's financial involvement in Manydown and outline the financial commitments that the County Council in entering into over the coming years.

The substantial gains that will be made as a result of pursuing the Manydown development in this way is testament to the County Council's innovative approach to its land holdings in this area and to the long term approach it takes in respect of its wider SLP.

Consultation

The County Council has been planning for the next round of budget savings for some time and during 2017 developed a range of savings options that were designed to balance the estimated £140m deficit in the 2019/20 budget. These proposals were consulted on during the summer of 2017.

The Medium Term Financial Strategy (MTFS) report was presented to Cabinet on 16 October 2017 and contained a summary of the headline findings from the '*Serving Hampshire – Balancing the Budget*' Consultation that was carried out by the County Council, between 3 July and 21 August 2017.

The Consultation was undertaken against the background of the next stage of the County Council's transformation and efficiencies programme, Transformation to 2019 (Tt2019) in order to inform the overall approach to balancing the budget by 2019/20 and making the anticipated £140m additional savings required by April 2019.

The Consultation sought to understand the extent to which residents and stakeholders support the County Council's financial strategy and also sought residents' and stakeholders' views on options for managing the anticipated budget shortfall. The options necessarily extended beyond cost reduction and income raising possibilities to areas such as council tax increases, possible legislative changes and the organisation (structure) of local government in Hampshire.

These additional options could help to inform the approach the County Council takes to delivering savings beyond 2019/20. With the squeeze on public finances anticipated to extend into the next decade and the general uncertainties that surround Brexit, it is almost certain that further savings, beyond those required for Tt2019, will be needed in the future.

The County Council carried out an open consultation designed to give residents and wider stakeholders the opportunity to have their say about ways to balance the County Council's budget.

Responses could be submitted through an online Response Form, or by a paper version, which was made available from all Hampshire libraries, or on request. Alternative formats, such as Easy Read, were also made available on request. Unstructured responses sent through other means, such as email or as written letters, and received by the consultation's close were also accepted. An Information Pack was produced alongside the consultation, providing information about each of the options presented.

3,764 members of the public and stakeholder organisations or groups completed the consultation questionnaire and 11 responses were submitted through channels outside of the consultation questionnaire.

Overall there was clear support for the County Council's current financial strategy with 65% of respondents supporting the approach to dealing with reductions in government grant.

Headline findings from the consultation are set out below and the full findings report is also available:

- Responses were relatively evenly split between those who tended to support changes to local services and those who did not (50% agreed, 45% disagreed and 5% had no view either way). Of all the options, this was respondents' least preferred.
- Two thirds of respondents (67%) agreed that the County Council should raise existing charges or introduce new charges to help cover the costs of running some local services.
- Over half of respondents (57%) agreed that the County Council should lobby the Government to vary the way some services are provided and enable charging where the County Council cannot levy a fee due to statutory restrictions.
- Of all the options presented, generating additional income was the most preferred option.
- On balance, the majority of respondents (56%) agreed that the County Council should retain its current position not to use reserves to plug the budget gap. Of all the options, this was respondents' second least preferred.
- Respondents would prefer the County Council to continue with its plans to raise council tax in line with Government policy (50% ranked this as their preferred approach to increasing council tax). Of all the options, increasing council tax was respondents' second most preferred.
- More than half of those who responded (64%) agreed that the County Council should explore further the possibility of changing local government structures in Hampshire.

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

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

The findings from the Consultation were provided to Executive Members and Directors during September 2017, to inform departmental savings proposals, in order for recommendations to be made to Cabinet and the full County Council in October and November 2017 on the MTFS and Transformation to 2019 (Tt2019) Saving Proposals.

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

Business Consultation

A presentation was given to the Business Engagement Forum on 21 November 2018 on the County Council's budget proposals for 2019/20, with a focus on issues of significance to the business community.

The presentation acknowledged the status of the 2019/20 budget in that key decisions in respect of savings proposals had already been taken as part of the 2018/19 budget setting process and were agreed by Cabinet and Full Council during November 2017, in order to provide the time and capacity for the savings to be implemented as part of the Tt2019 Programme.

Within the County Council's Strategic Plan, Outcome 1 is that 'Hampshire maintains strong and sustainable economic growth and prosperity' and the presentation also set out the resources allocated by the County Council to economic development and the activity undertaken which is critical to the ongoing success of the economy in Hampshire.

The response on the day was generally supportive of the County Council's approach to tackling the budget deficits over the pro-longed period of funding reductions but participants expressed concern about the potential impact on residents of further reductions particularly in the area of social care services.

Questions were raised about the ability of the County Council to raise council tax in 2019/20 to a level that would be able to support major infrastructure repairs that were vital to the regional economy and in particular to the port of Southampton. It was explained that at the present time, the County Council cannot raise council tax above 3% without undertaking a referendum, the cost of which would be around £1.5m and as yet there had been no positive council tax referendum vote anywhere in the country.

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

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	1 February 2019
Decision Maker:	County Council
Date:	14 February 2019
Title:	Capital Programme 2019/20 to 2021/22
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Rob Carr

Tel: 01962 847508 **Email:** rob.carr@hants.gov.uk

1. Recommendation(s)

The following decisions are sought, based on the recommendations of the Leader and Cabinet to the County Council, for the capital programme for 2019/20 to 2021/22 and the revised capital programme for 2018/19.

1.1. It be a recommendation by Cabinet to Council that:

a) the capital programme for 2019/20 and the provisional programmes for 2020/21 and 2021/22 as set out in Appendix 1 be approved.

b) the increase in value of the M27 J10 scheme (design and development phase) from £1.5 million to £4 million be approved

1.2. Council is recommended to:

a) approve the capital programme for 2019/20 and the provisional programmes for 2020/21 and 2021/22 as set out in Appendix 1.

b) Approve the increase in value of the M27 J10 scheme (design and development phase) from £1.5million to £4million

2. Executive Summary

2.1. This report sets out for approval the proposed capital programme for 2019/20 to 2021/22 of £491.6 million. It also includes the schemes for the current year giving a total programme of some £820m, one of the largest anywhere in the country.

2.2. 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. The County Council's Capital and Investment Strategy is included as Appendix 8 of the revenue budget report and meets the requirements of statutory guidance, revised in 2017 by the Minister for Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.3. 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.

2.4. The programme delivers schemes totalling £491.6 million over the three years from 2019/20 to 2021/22. This follows a revised programme of £328.4 million for 2018/19, providing a total capital programme of £820 million over the four years, providing a big boost for the local economy through jobs and construction materials. This is a very significant investment in infrastructure of Hampshire. It will provide:

- £160 million of investment in new and extended school buildings in Hampshire in the period 2019/20 to 2021/22 to ensure there is a school place for every child in Hampshire
- £122 million for structural maintenance and improvement of roads and bridges in Hampshire over the next three years
- £72 million for integrated transport schemes including £9 million specifically focused on walking and cycling improvements
- £94 million for major improvement of school and other County Council buildings over the next three years.

2.5. The detailed capital programmes are included in Appendix 1. A summary of the programme is shown in the table below.

Table 1 - Proposed capital programme

	Revised 2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Adult Social Care & Health	43,241	13,422	481	481	57,625
Children's Services	48,633	105,145	29,251	81,980	265,009
Environment & Transport	197,285	97,593	51,765	44,917	391,560
Policy & Resources	39,226	22,656	21,956	21,956	105,794
Total	328,385	238,816	103,453	149,334	819,988
			491,603		

2.6. 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.

2.7. The proposals take account of the County Council's Capital and Investment 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 the Capital and Investment Strategy, Appendix 8 of the report on this Agenda on the Revenue Budget.

2.8. The capital programme is supported by Government grants for schools, highways, transport and disabled facilities. The Secretary of State has yet to announce details of individual local authority basic need capital allocations for the year 2021/22 and School Condition Allocation (SCA) for the year 2019/20. However, indications are that the 2019/20 SCA allocation will be equal to 2018/19. Devolved Formula Capital (DFC) has yet to be confirmed for 2019/20 but again, expectations are that it will be at a similar level to the 2018/19 allocation. The Chancellor of the Exchequer announced an additional £400m for schools in the budget. This will be paid as an additional DFC grant during 2018/19 and is to be spent on schools' own priorities such as building improvements, equipment and ICT.

2.9. The Department for Transport (DfT) has confirmed the Integrated Transport and Structural Maintenance allocations for 2019/20 and 2020/21. In addition, the DfT has confirmed that Band 3 (highest band) recipients of its Incentive Fund such as the County Council will be awarded £4.531 million (the maximum available) each year until 2020/21. Further, it is assumed that the County Council will receive £2.123 million more from the Government's Pothole Action Fund in 2019/20 and 2020/21. For planning purposes, the same level of funding from all these sources is assumed for 2021/22. In addition, the County Council has had a great deal of success in securing Highways England funding and Local Growth Funding (LGF) from both the EM3 and Solent Local Enterprise Partnerships (LEPs).

2.10. However, there still remain major highways schemes that are key to the region but have not been successful in attracting any external funding. An example of this is the Redbridge Flyover which needs works in the order of £25 million and is regionally important in both transport and economic terms.

2.11. From 2016/17, the Government has discontinued the Social Care capital grant and increased the Disabled Facilities Grant. The Secretary of State has not yet announced details of individual local authority capital allocations for 2019/20. For planning purposes, the 2019/20 programme assumes £11.64 million in line with the 2018/19 allocation.

2.12. 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 £320 million by 2022/23. The repayment of the 'bridging loans' (pending capital receipts) 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,

3. Contextual information

3.1. The cash limit guidelines for the new capital programme for 2019/20 to 2021/22 have been set at the same level as the current capital programme.

3.2. Executive members have now prepared proposals for:

- a locally resourced capital programme for the three-year period from 2019/20 to 2021/22 within the guidelines set and other resources available to services
- a programme of schemes supported by Government capital grants.

3.3. '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.

3.4. In general, the programmes proposed by Executive Members have been developed in accordance with the priorities and timescales of the capital strategy as reviewed by the corporate infrastructure group.

4. Guideline cash limits for the capital programme

4.1. The guidelines for the locally resourced programme were set by Cabinet in December 2018 based on existing levels with no uplift for inflation. The guidelines and use of reserves proposed by Executive Members and other adjustments are shown in table 2.

Table 2 Guidelines for locally resourced capital programme

	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Adult Social Care and Health				
Original guideline	481	481	481	1,443
Contribution from reserves	1,300	-	-	1,300
Adults Social Care and Health total	**1,781**	**481**	**481**	**2,743**
Children's Services				
Original guideline	100	100	100	300
Developers' and other contributions	30,232	5,500	37,567	73,299
Carry forward from previous years	22,510	4,070	41,000	67,580
Children's Services total	**52,842**	**9,670**	**78,667**	**141,179**
Environment and Transport				
Original guideline	11,929	11,929	11,929	35,787
Prudential borrowing	6,000	-	-	6,000
Developers' and other contributions	16,331	7,948	2,600	26,879
Carry forward from previous years	2,277			2,277
Environment and Transport total	**36,537**	**19,877**	**14,529**	**70,943**
Policy and Resources				
Original guideline	4,692	4,692	4,692	14,076
Contribution from reserves	700	-	-	700
Policy and Resources total	**5,392**	**4,692**	**4,692**	**14,776**
Overall total	**96,552**	**34,287**	**98,369**	**229,641**

5. Government supported programme

5.1. The Government has 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 2019/20 onwards.

5.2. For schools, the Secretary of State has previously announced details of individual local authority Basic Need allocations for 2019/20 and 2020/21. Hampshire received a zero Basic Need allocation for 2019/20, and a favourable Basic Need allocation for 2020/21 of £14.7m. There is the potential for a zero or low capital allocation in 2021/22 as the DfE assess the impact of the free school places they directly fund. At this stage, it is considered prudent to assume a zero allocation in 2021/22.

5.3. Allocations to date for School Condition Allocation (SCA) and the formula allocation for Devolved Formula Capital (DFC) only cover 2018/19. For planning purposes, SCA is assumed to continue at the current level of £17.3m and expectations are that DFC will be at a similar level to the 2018/19 allocation of £3.3m. The additional £400m for schools nationally announced by the Chancellor of the Exchequer in the Autumn budget, will be paid as an additional DFC grant during 2018/19. In addition, the proposed capital programme uses the balance of funding announced by the DfE last year to support special educational needs and disability (SEND) projects at existing schools.

5.4. The Department for Transport (DfT) has confirmed the Integrated Transport and Structural Maintenance allocations for 2019/20 and 2020/21 at £21.584 million and for planning purposes, these grants are assumed to continue at a similar level in 2021/22. In addition, the DfT has confirmed that Band 3 (highest band) recipients of its Incentive Fund will be awarded £4.531 million (the maximum available) each year until 2020/21. It is assumed in this report that HCC retains its Band 3 status and that funding remains at this level in 2021/22.

5.5. In 2015 Government allocated £250 million for all local authorities over a five year period until 2020/21 through its Pothole Action Fund. An additional £100 million was added to this fund in the 2016 Autumn statement. It is assumed that HCC will receive £2.123 million more each year in 2019/20 and 2020/21 from this fund and that funding remains at this level in 2021/22.

5.6. Additional funding for potholes has been provided by the Government this year, which for Hampshire equates to £11.9m. Greater flexibility has been granted in respect of the use of this funding which is welcomed, as the County Council needs to concentrate on a longer term solution to the maintenance of our carriageways which requires spend in the order of £285m to bring them to an acceptable standard, not to mention the vast investment also required in footways and structures.

5.7. Together with Local Growth Funding (LGF), the Government's Joint Air Quality Unit and safer roads funding, the proposed programme is based on £124 million Government grant for highways and transport over the three years.

5.8. From 2016/17, the Government has discontinued the Social Care capital grant and increased the Disabled Facilities Grant. The anticipated funding for 2019/20 is £11.64m and is allocated as part of the Better Care Fund – Pooled budget which is overseen by the Hampshire Health and Wellbeing Board. However, grant conditions prevent the use of this funding for anything other than awarding grants for changes to a person's home.

6. The programmes submitted

6.1. The total starts value of the three-year programme submitted by Executive Members is £491.6 million, as shown in Table 3. It includes £262 million of schemes supported by Government grants.

Table 3 - Starts programmes proposed 2019/20 to 2021/22

	Land	Works etc			Total
		Locally Resourced	Supported by Govt Allocations	Total	
	£'000	£'000	£'000	£'000	£'000
2019/20	646	95,906	142,264	238,170	238,816
2020/21	646	34,074	68,733	102,807	103,453
2021/22	646	97,723	50,965	148,688	149,334
Total	1,938	227,703	261,962	489,665	491,603

6.2. The proposed programmes are in line with the cash limit guidelines for the capital programme. The programmes themselves are set out in detail in Appendix 1, with key themes outlined below.

7. Adult Services

7.1. 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. In 2019/20, a contribution from reserves will fund the replacement of the existing Nursecall systems in the remaining 11 In House units where recent replacement has not already occurred.

7.2. In September 2018 the County Council approved an initial £200m for the Bed Based Programme. Work is currently being undertaken to assess what bed based provision will be needed in the future so that we can invest in the right facilities in the right locations. Options for the existing estate are being assessed against the current and predicted future demand for in-house provision over the medium to longer term and an overall Outline Business Case and individual Full Business Cases will be presented in due course, and the capital programme will be updated accordingly.

7.3. Projects within the revised capital programme for 2018/19 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.

7.4. The locally resourced capital programme is supported by Government funding for the Disabled Facilities Grant. The Secretary of State has not yet announced details of individual local authority capital allocations for 2019/20. For planning purposes, the 2019/20 programme assumes £11.64m in line with the 2018/19 allocation. The funding is passed to Housing Authorities to award grants for changes to a person's home in accordance with the grant conditions.

8. Children's Services

8.1. The proposed three year programme provides sufficient school places to meet the forecast demand. During the period 2013 to 2018 the County Council will have delivered 12,691 new school places with projects contained within the 2019/20 to 2021/22 programme totalling a further 5,870 giving a total of 18,561 new school places by September 2021.

8.2. The current presumption (by the DfE) is that every new school will be an academy/free school. Hampshire's first free school, to meet the demand for additional school places, is Boorley Park Primary Academy scheduled to open in September 2019. A further nine schools are on the planning horizon to September 2022, however, the pace of development will be largely dictated by completion of new housing developments.

8.3. The overall increase in pupil numbers also impacts on the need for SEND places with 3.4% of our school population having a SEND Education Health and Care Plan. This, alongside advances in medical technology is giving rise to some schools having very specific accommodation needs to meet the specialist and often complex requirements of individual pupils. For these reasons, there are a number of significant suitability issues within special schools across the county that will be reviewed as part of a SEND School Places Sufficiency Strategy in 2019. The County Council has been successful in accessing Government SEND funding including a successful bid to the DfE for a 125 place 4-16 ASD special free school on the former Chineham Park Primary school site, Basingstoke.

8.4. The focus of capital investment in recent years has been on Basic Need and Capital Maintenance. However, it is recognised that some buildings are now in need of significant suitability investment that is beyond individual school budgets. The proposed programme allocates £5m (including fees) of County Council resources to start a programme of investment to ensure facilities are fit for purpose and continue to provide good quality learning environments.

8.5. The proposed programme includes other improvement and modernisation projects relating to access to schools, SEN improvements, health and safety, adaptations to properties of foster carers and disabled children and schools' devolved formula capital totalling £56 million over three years.

8.6. 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. In most cases the need for school places is driven by the speed of housing delivery on certain major sites, something which is clearly outside of the County Councils control and therefore requires flexibility in the way that the capital programme is delivered.

8.7. In contrast to the majority of local authorities across the country, the Children's Services capital programme maintains a balanced position between income and expenditure over the proposed three year period of the programme. However, the ongoing primary pressure and secondary impact indicates a deficit of resources over a five year period beyond the scope of this report. A deficit was identified in the Medium Term Financial Strategy and Transformation report to Cabinet on 16 October 2017. Further work is being undertaken with potential funders, including the Government, Local Planning Authorities, Developers and Local Enterprise Partnerships (LEPs) to maximise contributions from sources other than the County Council. The aim being to keep calls on the County Council's resources to a minimum.

9. Environment and Transport

9.1. Proposals of the Executive Member for Environment and Transport amount to just under £195 million over the next three years. The programme includes £122 million of new investment in structural maintenance, £72 million in the Integrated Transport programme and £0.3 million in flood and coastal defence projects.

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) (£124 million). The remainder is funded from a mix of local resources, (£44 million), developer contributions (£26 million), and other local authority contributions (£0.5 million).

9.3. The proposed integrated transport programme includes 6 major infrastructure schemes expected to start in 2019/20, totalling over £42 million. In addition, it is expected that the 2019/20 programme will increase significantly early in the next financial year assuming the full values of the other major schemes such as the M27 Junction 10 scheme are approved and reflected in the programme. Further, the County Council is developing additional schemes, which are expected to be added to 2020/21 and 2021/22 capital programme years once further developed.

9.4. The Flood Risk and Coastal Defence programme includes a number of major infrastructure projects of which schemes at Buckskin in Basingstoke, and at Romsey are the most significant with projected cost respectively

£6.24 million and £6.68 million. Hampshire County Council's investment of £3.54 million across the two schemes has unlocked national funding including Flood Defence Grant in Aid and Local Levy of approximately £8.8 million with districts partners contributing in excess of £0.5 million. Further schemes from the Flood Risk and Coastal Defence programme are being developed and delivered including at Lower Farringdon, Winchester and Farnborough. Other locations will be brought forward for delivery over the next 2 – 3 years as detailed designs and business cases are approved. Future iterations of the capital programme will therefore be developed to reflect the additional anticipated spend for these, and subsequent, years.

9.5. Early business case modelling has been undertaken regarding the development of a new material recycling facility (MRF). After a temporary pause in 2018 due to a series of Government policy initiatives and announcements on waste and recycling, work is expected to resume in early 2019 to reflect emerging Government policy and to clarify the type of MRF required, revise and refine the initial capital expenditure proposal and refine the model assumptions regarding the financial implication of a new MRF on the existing waste contract payment mechanism. Subject to completion of a full business case that illustrates a positive outcome in terms of delivery of MRF infrastructure there will be a requirement for borrowing on an invest to save basis of capital up £42million to fund the project, the level required will be confirmed by Q2 of 2019/20.

9.6. The revised 2018/19 programme includes the initial phase of the M27 J10 scheme at £1.5 million to enable design and development work to progress. The development of the scheme has progressed well since the award of the initial funding. However, in order to develop a full business case, additional external funding of up to £2.5 million is being sought. To minimise any delay to this work, the Executive Member for Environment and Transport is exceptionally recommending that the scheme value be increased to £4 million in anticipation of sufficient additional external funding being secured. In the event that not enough additional external funding is forthcoming, work will be suspended once existing funding is fully spent.

10. Policy and Resources

10.1. The proposed capital programme for Policy and Resources totalling £66.6 million, is largely based on the priorities for capital investment established in previous years, relating to the County Council's built estate (including schools), vehicles, country sites and community buildings and village halls. In 2019/20, contributions from reserves will fund essential infrastructure works on the Basingstoke Canal and support the next phase of the Country Parks Transformation Programme.

10.2. The School Condition Allocation from Government is included in the Policy and Resources programme to allow the funding to be managed flexibly between school condition and suitability works. Officers from Children's Services and Property Services continue to work closely together to identify the highest priority strategic building condition issues along with the need for modernisation improvements. Priorities for 2019/20 include two 2 storey timber framed schools in Hampshire that need replacing with an estimated total cost of £15.6m. Given the size of the projects, it is proposed to add the schemes to the Children's Services capital programme and transfer the corresponding SCA funding from Policy and Resources.

11. Capital Financing

11.1. 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.

11.2. The sources of finance to support the capital programme are:

- Government capital grants – since 2011/12, the Government has issued all its support for local authorities' capital expenditure 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 and departmental reserves.

11.3. The planned sources of funding to meet the forecast capital payments in each year are set out in the table below. 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.

Table 4 - Resources to fund capital expenditure

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Prudential borrowing	49,255	48,873	38,642	16,322
less repayments from capital	-3,165	-13,489	-16,578	-10,025
Capital grants	86,579	160,259	143,892	139,172
Contributions from other bodies including developers	20,682	46,843	42,094	25,523
Capital receipts	3,129	2,750	0	0
Revenue contributions to capital	11,537	8,404	7,771	6,743
New resources in the year	168,017	253,640	215,821	177,735
Use of the capital reserve:				
added to the reserve (-) or				-9,636
taken from the reserve (+)	44,764	28,642	7,148	
Total resources available	212,781	282,282	222,969	168,099
Forecast capital payments	212,781	282,282	222,969	168,099

11.4. Most of the capital receipts forecast in Table 4 are required to repay prudential borrowing for school and other rationalisation schemes started in advance of the site disposals

11.5. Progress during the remainder of 2018/19 and throughout 2019/20 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.

12. Prudential borrowing

12.1. 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 and is set out in the Capital and Investment Strategy (Appendix 8 of the Revenue Budget report elsewhere on this agenda).

12.2. The planned prudential borrowing will total £320 million, after deducting repayments to 31 March 2018. The schemes funded by these advances are summarised in Table 5.

Table 5 – Summary of outstanding and planned prudential borrowing advances

	£000
Financed from savings in the revenue budget	184,498
'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions	100,229
Capital investment to be financed from future charges to services	35,066
Total	319,793

13. Capital reserve

13.1. The capital reserve shown in Table 6 holds the approved local resources until they are required to fund actual capital payments as schemes progress. The County Council's approach is to apply grants and other contributions before using its own resources.

Table 6 – Capital reserve

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Opening balance	139,645	94,881	66,239	59,091	68,727
Used in year	-44,764	-28,642	-7,148		-47,613
Added in year				9,636	
Closing balance	94,881	66,239	59,091	68,727	21,114

14. Revenue implications

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

Table 7 – Revenue effects

	Running costs £000	Capital charges £000	Total £000
2019/20 starts	784	7,106	7,890
2020/21 starts	162	3,927	4,089
2021/22 starts	67	3,719	3,786
Total	1,013	14,752	15,765

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

14.3. However, the budget requirement is 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 £4.1 million.

15. Conclusions

15.1. 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 2018 have been supplemented with contributions from reserves and developers and adjusted by transfers between programme years and supplemented by Government grants of £262 million, giving a total programme for the next three years of £491.6 million.

15.2. 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 2019/20 and the progress on obtaining the capital receipts necessary to finance the capital programme.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:	
Title	Date
http://democracy.hants.gov.uk/documents/s26900/Budget%20Report.pdf	10 December 2018
Direct links to specific legislation or Government Directives	
Title	Date

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.)

Document	Location
None	

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

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

1.2 **Equalities Impact Assessment:**

Equalities impact assessments will be considered when individual project appraisals are developed.

2. Impact on Crime and Disorder:

2.1 Crime prevention issues will be considered when individual project appraisals are developed.

Climate Change:

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

  All relevant developments within the capital programme are subject to specific, detailed assessments. Energy conservation, and where applicable enhancing biodiversity, are priorities for all major building schemes.

- 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, such as the inclusion of passive cooling, solar shading, sustainable urban drainage and rainwater harvesting systems in building projects where technically feasible and deliverable within budget constraint

Adult Services **Capital Programme - 2019/20**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing**	
	2019/20 Schemes											
	Schemes Supported from Local Resources											
1	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26	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
2	Disabled Facilities Grants	-	-	11,641	11,641	-	-	N/A	1	12	Grant paid to district councils to fund adaptions to people's homes	2
3	Nursecall	-	-	1,300	1,300	-	130	N/A	1	12	Upgrade Nursecall system within In House, residential and nursing establishments	3
	Total Programme	241	40	13,141	13,422	-	156					
											+ Projects to be partly funded from external contributions.	

Adult Services **Capital Programme - 2020/21**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year		Site Position	Contract Start		Remarks	Ref
						Running Costs	Capital Charges		Date	Duration		
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing**	
	2020/21 Schemes											
	Schemes Supported from Local Resources											
4	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26	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
	Total Programme	241	40	200	481	-	26					
											+ Projects to be partly funded from external contributions.	

Adult Services **Capital Programme - 2021/22**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***		***Qtr***	***Months***	**All schemes support the Corporate Priority of maximising wellbeing**	
	2021/22 Schemes											
	Schemes Supported from Local Resources											
5	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26	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.	5
	Total Programme	241	40	200	481	-	26					
											+ Projects to be partly funded from external contributions.	

Appendix 1

Children's Services — **Capital Programme - 2019/20**

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2019/20 Schemes											
	Children's Social Care											
1	Foster Carers	86	14	-	100	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary	1
2	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes	2
	Primary School Improvements											
3	Ashley Junior, New Milton	296	49	-	345	-	7	Owned	2	12	School Improvements	3
4	Colden Common Primary, Winchester	1,545	255	-	1,800	-	36	Owned	2	12	expansion to two form entry	4
5	Fair Oak Infant & Junior, Eastleigh	1,545	255	-	1,800	-	36	Owned	2	12	Site Improvements	5
6	Fryern Junior, Chandlers Ford	6,560	1,082	-	7,642	-	153	Owned	2	12	Major Refurbishment	6
7	Grange Junior, Gosport	6,802	1,122	-	7,924	-	158	Owned	2	12	Major Refurbishment	7
8	Kings Furlong Nursery, Basingstoke	1,073	177	-	1,250	-	25	Owned	2	12	New Nursery Provision	8
	New Primary School Provision											
9	Barton Farm Primary, Winchester	8,955	1,478	-	10,433	-	-	Owned	2	12	New 2fe primary school to meet housing demand	9
10	Cornerstone CE (Aided) Primary Whiteley	10,987	1,813	-	12,800	-	-	Owned	2	12	New 3fe primary school to meet housing demand	10
11	Stoneham Park Academy, Eastleigh	5,322	878	-	6,200	-	-	Owned	2	12	New 1.5fe primary school to meet housing demand	11
	Secondary School Improvements											
12	Wyvern Secondary, Fair Oak	1,888	312	-	2,200	-	-	Owned	2	12	STP & classroom re-modelling	12
	New Secondary School Provision											
13	Deer Park School, Hedge End	18,438	3,042	-	21,480	-	-	Owned	2	24	New 7fe secondary school	13

Children's Services — **Capital Programme - 2019/20**

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes (continued)										**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
14	**Special School Improvements**	1,516	250	-	1,766	-	35	Owned	Various	Various	Rebuild and refurbishment of special schools	14
15	Norman Gate School, Andover	515	85	-	600	-	12	Neg.	2	12	Classroom remodelling	15
16	Prospect School, Havant	687	113	-	800	-	16	Neg.	2	12	3 Classroom extension	16
17	St Francis Special School, Fareham	3,772	622	-	4,394	-	88	Neg.	2	12	Significant re-modelling	17
	New Special School provision											
18	Austen Academy, Basingstoke	8,609	1,421	-	10,030	-	-	Owned	2	24	New 125 place special school	18
19	**Other Improvement Projects**	2,575	425	-	3,000	-	60	Owned	Various	Various	Various projects to meet identified needs	19
20	Purchase of modular classrooms	1,852	148	-	2,000	-	67	N/A	Various	Various	Various projects to be identified	20
21	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues	21
22	Schools Devolved Capital	3,313	-	-	3,313	-	66	N/A	Various	Various	Allocations to schools through devolved formula capital	22
23	Access improvements in schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school's buildings to improve accessibility	23
24	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes	24
25	Contingency	3,320	548	-	3,868	-	77	N/A	Various	Various		25
	Total Programme	90,428	14,217	500	105,145	-	904					

controlled on an accrued expenditure basis

Children's Services — **Capital Programme - 2020/21**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2020/21 Schemes											
	Children's Social Care											
26	Foster Carers	86	14	-	100	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary.	26
27	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	27
	Primary School Improvements											
28	Four Marks CE Primary, Alton	1,846	305	-	2,151	-	43	Owned	2	12	Expansion to 2fe	28
29	Whitchurch CE Primary, Basingstoke	1,846	305	-	2,151	-	43	Owned	2	6	Expansion to 2.5fe	29
	Secondary School Improvements											
30	Calthorpe Park, Fleet	7,880	1,300	-	9,180	-	184	Owned	2	12	Expansion to 12fe	30
31	**Special School Improvements**	2,194	362	-	2,556	-	51	Owned	Various	Various	Rebuild and refurbishment of special schools.	31
32	**Other Improvement Projects**	3,433	567	-	4,000	-	80	Owned	Various	Various	Various projects to meet identified needs.	32
33	Purchase of modular classrooms	1,852	148	-	2,000	-	67	N/A	Various	Various	Various projects to be identified.	33
34	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues.	34
35	Schools Devolved Capital	3,313	-	-	3,313	-	66	N/A	Various	Various	Allocations to schools through devolved formula capital.	35
36	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school buildings to improve accessibility	36
37	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes.	37
38	Contingency	2,060	340	-	2,400	-	48	N/A	Various	Various		38
	Total Programme	25,283	3,468	500	29,251	-	650					

controlled on an accrued expenditure basis

Appendix 1

Children's Services **Capital Programme - 2021/22**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2021/22 Schemes											
	Children's Social Care											
39	Foster Carers	86	14	-	100	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary	39
40	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes	40
41	Early Years/Childcare sufficiency	4,292	708	-	5,000	-	100	N/A	Various	Various	Improvements to early years facilities	41
	Primary School Improvements											
42	Bordon Infant & Junior, East Hants	2,936	485	-	3,421	-	68	Owned	2	12	expansion to 3fe	42
43	Fareham Primary Places	4,618	762	-	5,380	-	108	Owned	2	12	Expansion by 1fe	43
44	Morelands Primary, Havant	1,761	290	-	2,051	-	41	Owned	2	12	Expansion to 2fe	44
	New Primary School Provision											
45	Hartland Park Primary, Fleet	7,442	1,228	-	8,670	-	-	Owned	2	12	New 2fe primary school to meet housing demand	45
46	Hazelton Farm/Land east of Horndean	4,155	685	-	4,840	-	-	Owned	2	12	New 1fe primary school to meet housing demand	46
47	Manydown Primary, Basingstoke	7,442	1,228	-	8,670	-	-	Owned	2	12	New 2fe primary school to meet housing demand	47
48	Welborne Primary, Fareham	7,442	1,228		8,670	-	-	Owned	2	12	New 2fe primary school to meet housing demand	48
49	**Special School Improvements**	5,150	850	-	6,000	-	120	Owned	Various	Various	Rebuild and refurbishment of special schools	49
	New Special School Provision											
50	South Hampshire	12,876	2,124	-	15,000	-	-	Owned	2	12	80 Place co-educational SEMH school	50
51	**Other Improvement Projects**	3,433	567	-	4,000	-	80	Owned	Various	Various	Various projects to meet identified needs	51
52	Purchase of modular classrooms	1,852	148	-	2,000	-	67	N/A	Various	Various	Various projects to be identified	52
53	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues	53
54	Schools Devolved Capital	3,313	-	-	3,313	-	66	N/A	Various	Various	Allocations to schools through devolved formula capital	54
55	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school's buildings to improve accessibility	55
											# controlled on an accrued expenditure basis	

Children's Services **Capital Programme - 2021/22**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2021/22 Schemes (continued)										**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
56	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes	56
57	Contingency	2,974	491	-	3,465	-	69	N/A	Various	Various		57
	Total Programme	70,544	10,936	500	81,980		787					

controlled on an accrued expenditure basis

Economy, Transport and Environment — **Capital Programme - 2019/20**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes										**The following schemes all reflect the Corporate Priorities**	
	Schemes Supported from Local Resources											
1	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	591	N/A	1	12	Structural maintenance to improve road conditions.	1
2	Structural Maintenance - A31 Near Alton	900	100	-	1,000	-	50		4	6	Structural maintenance to improve road conditions.	2
3	Structural Maintenance - A33 North of Basingstoke	675	75	-	750	-	38		4	6	Structural maintenance to improve road conditions.	3
4	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies.	4
	Total Programme Supported by Local Resources	12,304	1,375	-	13,679	-	681					
	Schemes Supported by the Government and Other External Bodies											
5	Whitehill Bordon, A325 Integration +	2,454	816	-	3,270	-	164	N/A	2	18	Integration of new relief road with current A325	5
6	Whitehill Bordon, Budds Lane *	2,565	855	-	3,420	-	171	N/A	1	5	Pedestrian and cycle improvements	6
7	Botley Bypass Phase1	4,500	1,500	-	6,000	-	300	N/A	1 / (2021)	24	New road construction	7
8	A30 Corridor Brighton Hill Improvements, Basingstoke +	14,119	4,709	-	18,828	-	941	N/A	1 / (2021)	24	Road improvements	8
9	Redbridge Lane Roundabout (Bakers Drove), Nursling *	1,875	625	-	2,500	-	125	N/A	1	7	Road improvements	9
10	Farnborough Corridor - Lynchford Road Improvements *	6,150	2,050	-	8,200	-	410	N/A	4	18	Junction and capacity improvements	10
11	Farnborough Corridor - Invincible Road Improvements *	375	125	-	500	-	25	N/A	4	6	Junction and capacity improvements	11
12	High Street, West End Accessibiltiy Improvements *	188	62	-	250	-	13	N/A	2	4	Pedestrian accessibility improvements	12
13	A3090 Winchester Road/ Halterworth Lane, Romsey *	431	143	-	574	-	29	N/A	1	7	Junction Improvements	13

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

Appendix 1

Economy, Transport and Environment — **Capital Programme - 2019/20**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes (continued)										**The following schemes all reflect the Corporate Priorities**	
14	Hambledon Rd, Waterlooville - Toucan and Cycling Imps, Waterlooville*	188	62	-	250	-	13	N/A	2	3	Pedestrian and cycling improvements	14
15	Over Wallop Village - Traffic Management, Phase 2 *	249	83	-	332	-	17	N/A	1	4	Traffic calming on Wallop Rd and reclassification of the B3084	15
16	Romsey Road/Clifton Terrace, Winchester - Pedestrian Crossing *	361	120	-	481	-	24	N/A	1	3	New puffin crossing with associated improvements and junction work	16
17	Bishops Waltham Village Access Improvements *	203	68	-	271	-	14	N/A	2	3	Access improvements for pedestrians and cyclists to village centre	17
18	Whitchurch Access & Traffic Management *	291	97	-	388	-	19	N/A	2	3	Cycle and Accessibility improvements and A34 Off-Slip TM	18
19	Hook to Dilly Lane, Hartley Wintney Cycle Route *	334	111	-	445	-	22	N/A	4	4	Cycle route	19
20	Town Mill, Andover - Access to Car Park Improvements*	248	82	-	330	-	17	N/A	1	4	New access to Town Mill car park for vehicles from A3057 ring road	20
21	Town Mill, Andover - Riverside/Pocket Park Improvements+	390	130	-	520	-	26	N/A	3	4	Environmental enhancements at Riverside area and Pocket Park	21
22	Hayling Island (South Side) Accessibility Improvements *	176	59	-	235	-	12	N/A	1	4	Pedestrian improvements	22
23	Andover Railway Station *	244	81	-	325	-	16	N/A	1	4	Improvements to promote sustainable travel.	23
24	Roman Way/Viking Way/Smanell Road Traffic Calming, Andover *	225	75	-	300	-	15	N/A	3	4	Traffic calming & safety imps for pedestrians travelling to/from schoo	24
25	Jermyns Lane to Braishfield, Romsey*	263	87	-	350	-	18	N/A	1	4	Construction of footway	25
26	Kings School, Winchester *	225	75	-	300	-	15	N/A	1	1	Pedestrian/cyclist safety and accessibility improvements.	26
27	AQS programme - Rushmoor A331 NO_2 Speed Reduction*	284	94	-	378	-	19	N/A	3	3	Scheme to support air quality enhancements	27
28	AQS programme - Basingstoke A339 NO_2 Speed Reduction*	284	94	-	378	-	19	N/A	3	3	Scheme to support air quality enhancements	28
29	AQS programme - Fareham, NO_2 Bus Stop RTI*	266	88	-	354	-	18	N/A	3	4	RTI installation	29
30	AQS programme - Fareham, NO_2 Cycle Infrastructure*	420	140	-	560	-	28	N/A	3	3	Cycling improvements	30

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

Economy, Transport and Environment **Capital Programme - 2019/20**

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes (continued)										**The following schemes all reflect the Corporate Priorities**	
31	AQS programme - Rushmoor Bradfords Roundabout NO_2 Scheme*	329	110	-	439	-	21	N/A	4	5	Scheme to support air quality enhancements	31
32	A32/Wych Lane lane Junction Improvements, Gosport*	1,187	394	-	1,581	-	79	N/A	1	4	Junction improvements	32
33	A27 Portchester Precinct*	450	150	-	600	-	30	N/A	2	6	Safety improvements	33
34	Schemes Costing Less than £250,000	1,176	391	-	1,567	-	78	N/A	1	12	Local Improvements Sub-programme	34
35	Safety Schemes #	750	250	-	1,000	-	50	N/A	1	12	Casualty reduction programme.	35
36	Minor Improvements (part #) +	563	187	-	750	-	38	N/A	1	12	Improvement schemes costing less than £70,000 each.	36
37	Structural Maintenance of Roads and Bridges #	25,415	2,823	-	28,238	-	1,412	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	37
	Total Programme Supported by the Government and other bodies	67,178	16,736	-	83,914	779	4,198					
	Total Programme				97,593	779	4,879					

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

Economy, Transport and Environment — **Capital Programme - 2020/21**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***		***Qtr***	***Months***		
	2020/21 Schemes										**The following schemes all reflect the Corporate Priorities**	
	Schemes Supported from Local Resources											
38	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	591	N/A	1	12	Structural maintenance to improve road conditions.	38
39	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies	39
	Total Programme Supported by Local Resources	10,729	1,200	-	11,929	-	593					
	Schemes Supported by the Government and Other External Bodies											
40	Hartford Bridge Flats Junction Imps Phase 2 - Fourth Arm+	825	275	-	1,100	-	55	N/A	4	6	Addition of fourth arm on roundabout	40
41	Blackwater Valley Gold Grid*	1,125	375	-	1,500	-	75	N/A	3	12	Bus route improvements	41
42	A340 Safety and Accessibility Improvements, Basingstoke*	225	75	-	300	-	15	N/A	2	4	Cycleway and upgraded road surface to improve safety	42
43	Chapel Hill Cycle & Accessibility Improvements, Basingstoke*	188	62	-	250	-	13	N/A	4	4	Improve general access to and from development	43
44	A33 Additional Junctions, Basingstoke*	488	163	-	651	-	33	N/A	4	6	Provision of right turn lane on A33	44
45	A339/B3349 Junction Improvements, Alton*	727	243	-	970	-	49	N/A	4	9	Junction improvements (enhance capacity)	45
46	Anstey Road/Anstey Lane, Alton Junction Improvements*	225	75	-	300	-	15	N/A	1	3	Junction improvements for peds/cyclists and enhanced capacity	46
47	Horndean Access Improvements*	338	112	-	450	-	23	N/A	1	4	Pedestrian and cycle accessibility imps and traffic management	47
48	A27 Barnes Lane Junction Improvements*	488	162	-	650	-	33	N/A	3	6	Capacity improvements	48
49	Walworth RAB/A3093/A3057, Andover*	637	213	-	850	-	43	N/A	1	8	Signalisation of rbt and improvements to ped/cycle infrastructure	49
50	Sustainable Eastern Access, Andover*	525	175	-	700	-	35	N/A	1	7	Improvements to sustainable access	50
51	London Road/Eastern Avenue, Andover*	229	77	-	306	-	15	N/A	1	3	Junction imps at Eastern Ave/London Street	51

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

Economy, Transport and Environment **Capital Programme - 2020/21**

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2020/21 Schemes (continued)										**The following schemes all reflect the Corporate Priorities**	
52	London Road/The Middleway, Andover*	241	80	-	321	-	16	N/A	1	3	Road safety improvements	52
53	Schemes Costing Less than £250,000	1,125	375	-	1,500	-	75	N/A	1	12	Local Improvements Sub-programme	53
54	Safety Schemes #	750	250	-	1,000	-	50	N/A	1	12	Casualty reduction programme.	54
55	Minor Improvements (part #) +	563	187	-	750	-	38	N/A	1	12	Improvement schemes costing less than £70,000 each.	55
56	Structural Maintenance of Roads and Bridges #	25,414	2,824	-	28,238	-	1,412	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	56
	Total Programme Supported by the Government and other bodies	34,113	5,723	-	39,836	162	1,995					-
	Total Programme				51,765	162	2,588					

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

Appendix 1

Economy, Transport and Environment — **Capital Programme - 2021/22**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2021/22 Schemes										**The following schemes all reflect the Corporate Priorities**	
	Schemes Supported from Local Resources											
57	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	591	N/A	1	12	Structural maintenance to improve road conditions.	57
58	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies	58
	Total Programme Supported by Local Resources	10,729	1,200	-	11,929	-	593					
	Schemes Supported by the Government and Other External Bodies											
59	Whitehill Bordon - A325/B3004 - Sleaford Lights Junction*	750	250	-	1,000	-	50	N/A	1	10	Junction improvements	59
60	Safety Schemes #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty reduction programme.	60
61	Minor Improvements (part #) +	563	187	-	750	-	38	N/A	1	12	Improvement schemes costing less than £70,000 each.	61
62	Schemes Costing Less than £250,000	1,125	375	-	1,500	-	75	N/A	1	12	Local Improvements Sub-programme	62
63	Structural Maintenance of Roads and Bridges (part #)	25,415	2,823	-	28,238	-	1,412	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	63
	Total Programme Supported by the Government and other bodies	28,978	4,010	-	32,988	67	1,650					
	Total Programme				44,917	67	2,243					

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

Appendix 1

Policy and Resources **Capital Programme - 2019/20**

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported from Local Resources											
	Culture, Communities and Business Services											
1	Office Accommodation Schemes	350	58	-	408	-	8	N/A	-	-	Various schemes throughout the County	1
2	Vehicles for Hampshire Transport Management #	-	-	3,000	3,000	-	300	N/A	-	-	Continuing programme of replacing vehicles	2
3	Community Buildings and Village Halls	-	-	125	125	-	-	Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	3
4	CCBS Capital	328	-	-	328	-	7	N/A	1	12	Provision of minor works across the department including Library and Countryside services	4
5	Country Parks Transformation (Phase 2) - Staunton Country Park	386	64	-	450	-	9	Owned	1	12	To support a range of specific improvements at Staunton Country Park, including development of glasshouses and farm attractions, as well as improvements to catering facilities and toilets	5
6	Basingstoke Canal	215	35	-	250	-	5	Owned	1	12	Essential infrastructure works to ensure the Canal remains in good working order and the County Council meets its obligations as part owner of the Canal	6
	Corporate Services											
7	Contingency	185	-	-	185	-	3	N/A	-	-		7
	Total Programme Supported by Local Resources	1,464	157	3,125	4,746	-	332					
											# controlled on an accrued expenditure basis	

Policy and Resources

Capital Programme - 2019/20

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes (continued)										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported by the Government											
	Schools Condition Allocation (SCA)											
8	Crestwood School, Eastleigh	800	132		932	-	19	Owned	2	9	Roof replacement	8
9	Stoke Park Infant School, Eastleigh	800	132		932	-	19	Owned	2	9	Roof replacement	9
10	Testbourne School, Whitchurch	2,500	413		2,913	-	58	Owned	2	9	SCOLA recladding and internal alterations	10
11	Schools Condition Allocation (costing less than £250,000)	10,718	1,769	-	12,487	-	250	Owned	-	-	Major improvements to school buildings	11
	Total Schemes Supported by the Government	14,819	2,445	-	17,264	-	346					
	Total Excluding Land				22,010	-	678					
	Advance and Advantageous Land Purchases				646	-	-					
	Total Programme				22,656	-	678					

Appendix 1

Policy and Resources

Capital Programme - 2020/21

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***		***Qtr***	***Months***		
	2020/21 Schemes										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported from Local Resources											
	Culture, Communities and Business Services											
12	Office Accommodation Schemes	350	58	-	408	-	8	N/A	-	-	Various schemes throughout the County	12
13	Vehicles for Hampshire Transport Management #	-	-	3,000	3,000	-	300	N/A	-	-	Continuing programme of replacing vehicles	13
14	Community Buildings and Village Halls	-	-	125	125	-	-	Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	14
15	CCBS Capital	328	-	-	328	-	7	N/A	1	12	Provision of minor works across the department including Library and Countryside services	15
16	Contingency	185	-	-	185	-	3	N/A	-	-		16
	Total Programme Supported by Local Resources	863	58	3,125	4,046	-	318					
	Schemes Supported by the Government											
17	Schools Condition Allocation	14,819	2,445	-	17,264	-	345	Owned	-	-	Major improvements to school buildings	17
	Total Schemes Supported by the Government	14,819	2,445	-	17,264	-	345					
	Total Excluding Land				21,310		663					
	Advance and Advantageous Land Purchases				646							
	Total Programme				21,956		663					

controlled on an accrued expenditure basis

Appendix 1

Policy and Resources **Capital Programme - 2021/22**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2021/22 Schemes										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported from Local Resources											
	Culture, Communities and Business Services											
18	Office Accommodation Schemes	350	58	-	408	-	8	N/A	-	-	Various schemes throughout the County	18
19	Vehicles for Hampshire Transport Management #	-	-	3,000	3,000	-	300	N/A	-	-	Continuing programme of replacing vehicles	19
20	Community Buildings and Village Halls	-	-	125	125	-	-	Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	20
21	CCBS Capital	328	-	-	328	-	7	N/A	1	12	Provision of minor works across the department including Library and Countryside services	21
22	Contingency	185	-	-	185	-	3	N/A	-	-		22
	Total Programme Supported by Local Resources	863	58	3,125	4,046	-	318					
	Schemes Supported by the Government											
23	Schools Condition Allocation	14,819	2,445	-	17,264	-	345	Owned	-	-	Major improvements to school buildings	23
	Total Schemes Supported by the Government	14,819	2,445	-	17,264	-	345					
	Total Excluding Land				21,310		663					
	Advance and Advantageous Land Purchases				646							
	Total Programme				21,956		663					
											# controlled on an accrued expenditure basis	

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	1 February 2019
Title:	Hampshire and Isle of Wight Sustainability and Transformation Partnership - System Reform proposals
Report From:	Director of Adults' Health and Care

Contact name: Graham Allen

Tel: 01962 847200 **Email:** Graham.allen@hants.gov.uk

1. Recommendations

It is recommended that Cabinet:

1.1 Endorses and asserts its support to the principle of the Hampshire Local Care System determining the joint strategic direction of health, care and associated services in supporting the whole population of Hampshire.

1.2 Further endorses the consequent principle and expectation that wherever possible the NHS should seek to establish its key strategic commissioning and decision making arrangements as they affect the residents of the County of Hampshire so that they are contiguous with the boundaries and authority of the County Council (as with other upper tier local authorities).

1.3 Supports partnership working across local authority and other organisational boundaries through aligning services with Local Care Partnerships, ensuring equitable and appropriate access to acute and secondary care services, but on the clear understanding that financial and political accountability and strategic authority for social care remain with the County Council.

1.4 Supports the continued development of local operational 'clusters' of appropriate services in partnership with the NHS as the natural and best approach to determine the operational arrangements and delivery of community health and care services capable of supporting Hampshire's residents in the natural communities in which they live across the county.

1.5 Seeks recognition by the HIOW STP in its System Reform Proposals of the demographic pressures the Hampshire Local Care System will continue to face in coming years and of the need to support whole population health investments in preventative services and outcomes.

1.6 Requires that a further report is brought to Cabinet in the course of this next year which describes the progress of these arrangements and in particular confirms the progress of the systems of democratic accountability that should support these important developments for the residents of Hampshire.

2. Contextual information

2.1 The purpose of this report is to brief Cabinet on the development of health and social care strategic and working arrangements, as developed and proposed by the Hampshire and Isle of Wight Sustainability and Transformation Partnership (HIOW STP).

2.2 The STP has been for the past three years the core strategic planning mechanism focused predominantly on health services but with inevitable implications on care services for the wider Hampshire and Isle of Wight sub region. (There remains a separate STP arrangement for the northeast of Hampshire under the Frimley STP).

2.3 Furthermore, the tiers of planning and delivery, described here, are as outlined in the recently published NHS Long-term plan and, as such, this is the approach supported by the Secretary of State for Health and Care. Within the HIOW STP the expectations of this Government endorsement of an approach has guided many of the developments and proposals to date.

2.4 Given the complexities of arrangements being described in this summary report it may be helpful here to offer some simple definitions of the building blocks of the proposed arrangements (explained more fully in the attached appendix).

- The Sustainability and Transformation Partnership will also now be referred to as the **Integrated Care System (ICS)**, which should continue to cover Hampshire and the Isle of Wight as a geography of appropriate scale.
- **Local Care Systems** refer to the strategic commissioning relationships between clinical commissioning groups and local government, coterminous to individual upper tier local authorities. Increasingly these systems should have the potential to develop stronger joint strategic formal arrangements.
- **Local Care Partnerships** refer to the local partnership arrangements based upon the footprint populations of the respective hospital catchment areas. LCPs will <u>not</u> be formal structural arrangements.
- **Locality Clusters** will be the key service operational delivery building blocks made up of integrated health and care services providing health and care to their local communities.

2.5 It is widely understood that there are particular complexities to the HIOW STP arrangements because of the pre-existing local and service arrangements, between the four upper tier local authorities, the hospital trusts, the community trusts and the Clinical Commissioning Groups (CCGs). The presence of five CCGs (now functioning as two) across the County of

Hampshire has been a particular complication. More recently the STP processes have acknowledged a strengthened understanding of the need to align strategic decision making arrangements between health services and respective local authorities. Cabinet are being asked in this report, among other things, to strongly endorse that position in order to promote the importance of local authority care services and the democratic mandate that they bring through local government.

2.6 The HIOW STP has asked that all constituent organisations consider the proposals within the detailed briefing pack attached to this report – Appendix 1. The Health and Wellbeing Board and Health and Adult Social Care Select Committee (HASC) have previously received and generally supported a series of briefings on the HIOW STP and the proposals. The HASC has established a Member Working Group to oversee, influence and monitor the development of the system reform proposals from a political perspective.

2.7 The system reform proposals have been developed through much of 2018 and are designed to support the continued development of more integrated working arrangements and financial sustainability of NHS provision across the population of the HIOW STP footprint, while recognising the essential connections between NHS services and local government provision. These are ambitions of the HIOW STP, in common with all STP developments nationally.

2.8 The local authority remains financially and politically accountable for its care services and it is reasonable to note that because of particular complexities in this sub regional health economy the County Council with NHS agreement has been cautious to protect those accountabilities accordingly while doing all it can to support a joint strategy and progressive integration.

2.9 On that basis we are now at a point where Cabinet is asked to consider endorsing a direction of travel and confirm the basis by which future engagement is developed.

3. System Reform proposals in more detail

3.1 Alongside the development of these localised HIOW STP reform proposals consideration has been ongoing at a national level, in parallel, of NHS priorities and reforms over the next decade. These deliberations have manifested in the publication of the NHS long-term Plan on 7th January 2019. The NHS long-term plan seeks to prioritise investment and service delivery outcomes, based upon additional funding over the next five years and a clear focus upon prevention, locality based care through GP and community health delivery, as well as integration and simplification across and between health and care provision. Members will be aware that the important “partner” document to this plan will be the social care Green Paper which is anticipated for publication by Spring 2019.

3.2 To date, while actively engaged in the HIOW STP and its developments, Hampshire County Council has focussed upon the operational delivery and quality of its social care services, with particular regard to supporting people to appropriately and safely leave acute hospital settings in a timely way, whilst working to identify strategic opportunities with partners as to how services can better coalesce around the needs and outcomes of our population. Work is continuing to determine the potential shape of the STP as it seeks to progress, in due course, from an STP to become an ICS. Whilst this is primarily a consideration of the NHS constituent organisations the future role and importance of local government will be vital. This will be addressed in a subsequent report to be presented to Cabinet later in 2019.

3.3 However, for now, the determination of the shape of the Local Care System is a key issue for which this report seeks Cabinet's endorsement. The Hampshire Health and Wellbeing Board is addressing a series of strategic issues, based upon the needs of our whole population and upon a series of key priorities. This is actively being taken forward within the current re-fresh of its 5 year strategy. For example, Hampshire County Council has been able to support the provision of hospice provision across Hampshire through significant contributions toward capital programmes to local hospice providers – the scale and countywide leadership provided by Hampshire County Council enables such investments to the benefit of the whole Hampshire population. It is hoped that this consistent and countywide approach to supporting people at the end of their lives to die with dignity and with the care they need will shortly be endorsed as a key strategic element within the refreshed Health and Wellbeing Board's strategy.

3.4 This approach of whole population need, which is in common with the three other Health and Wellbeing Boards within the HIOW STP, is critical to political, clinical and operational alignment and has had the benefit of taking place alongside the development of the wider system reform proposals appended to this report. The Health and Wellbeing Boards will continue to ensure that they can more actively participate and influence the development of the STP as it seeks to progress toward becoming an ICS through both its own work and also through establishing a regularised way of engaging with the three other local Health and Wellbeing Boards. In due course the leadership of the STP / ICS whether it be chaired through a political, clinical, executive or lay member will a future issue to be presented to Cabinet.

3.5 Therefore, within the Hampshire Local Care System drive is being offered by the Health and Wellbeing Board. Alongside the Board is a structure of sub-groups, along with Hampshire County Council, the Clinical Commissioning Groups and a range of key partner organisations; NHS provider organisations, primary care, voluntary / community partners, Police, Fire and Rescue, district / borough and town and parish councils, housing and care providers, shaping the strategic, tactical and operational response to our populations needs. Cabinet is asked to confirm its support of this approach, as identified in Recommendation 1.1.

3.6 With regard to the HIOW STP system reform the core service delivery proposals are based on “locality clusters”. These are small, locality based arrangements for delivery of integrated care at the point of delivery. Such arrangements are also referenced in the NHS long-term plan. These locality ‘clusters’ are predicated on populations of between 30–50,000, although across the 35 clusters within the Hampshire and Isle of Wight area this population based care does inevitably vary above and below this figure. In Hampshire County there are 23 such proposed clusters.

3.7 Clusters are a natural and obvious way of ensuring that professionals and services are arranged around the needs of the people we serve and in this sense Cabinet is asked to endorse this approach as an operational service planning and delivery principle.

3.8 The geographic boundaries of such locality clusters remain emergent and need to be based upon ‘natural’ communities, rather than convenient arrangements for constituent organisations. Some services will need to operate locally at greater geographic footprints through combining the 23 ‘clusters’ into groups. For example, the County Council’s Children’s Services currently work across 8 geographies to support the 300,000 children in Hampshire. Generally, Children’s Services will need to relate to, but will not be part of the clusters.

3.9 Within Adults’ Health and Care different services will need to apply different arrangements, similarly to those of Children’s Services, given the nature of their services; for example, our learning disability and our mental health specialist services are small and relatively specialist in nature and will need to relate to the new clusters accordingly to support the community of people with learning disabilities / mental health needs in Hampshire; disaggregating the current operational arrangements to have a presence in all 23 clusters would not be viable. However, these local ‘cluster’ arrangements provide the local connection between people and services and as such will become the operational engines to maintain our population’s wellbeing and independence. Cabinet is asked to endorse an approach, as shown in Recommendation 1.4, which aligns services across and within these clusters in line with the needs and outcomes of the people of Hampshire in an appropriate and sustainable way.

3.10 These delivery units will need to be able to continue to come together around and within acute hospital footprints in order to ensure that, where needed, hospital based, specialist care is both equitable and accessible to people. Local Care Partnerships (LCPs) built around these acute hospital footprints represent the place to align and determine the tactical arrangements and deployment of community, primary and secondary care resources across populations of circa 500,000–600,000. This is the case with the Mid / North Hampshire LCP based around the footprint of the Hampshire Hospitals NHS Trust.

3.11 As these LCP arrangements can span local authority footprints (in the case of both the Portsmouth Hospital Trust and University Hospital Southampton acute catchments areas) and as such all organisations will need to operate in alignment across acute catchment areas, rather than develop reconstituted governance and become new statutorily responsible entities in their own right. Otherwise they run the risk of hiving-off elements of service, accountability and statutory duty. However, there is a difference between ensuring the convenience of acute footprints playing such a role and the strategic direction of all services being hospital-led. That direction sits with CCGs and local government and is the Local Care System.

3.12 Further consideration will be required in the coming months with regard to the Frimley STP. The Frimley system, of which we are part, was established as an early adopter to test out a range of different ways of working. However, the relationship between approximately 20% of the Hampshire population which looks to Frimley and the relationship overall between the Frimley STP and the Hampshire Local Care System will need to be confirmed. This situation is also the case with regard to Hampshire residents who look to both Bournemouth and Salisbury for acute health provision. Approximately 65% of the Hampshire population look to acute hospitals who are part of the HIOW STP, but a third look outside this arrangement. Development of the relationships between all these systems and the Hampshire Local Care System and the HIOW STP will be presented in the subsequent report to come to Cabinet later in this coming year. Cabinet is asked to endorse Recommendation 1.3 at this time.

3.13 Within each of these Local Care Partnerships, which we currently actively contribute to in terms of our everyday operational service delivery, subsidiarity to the statutorily responsible (political) organisations will be key. In the provision of social care services, whether that be for children and young people or adults, accountability will be to Hampshire County Council for the residents of the County of Hampshire. Up to now, in order to help facilitate progress in a complex context, the County Council has taken a deliberately cautious approach in its direct political engagement, relying on the mechanism through the Health and Wellbeing Board described above. As we enter this next crucial phase of the development of these arrangements the County Council's own democratic engagement, alongside that of the other upper tier authorities, will need to evolve accordingly as reflected in Recommendation 1.6.

3.14 It is important within any new operating model for the NHS, based upon the NHS long-term plan that Hampshire County Council continues to work across all NHS Commissioners and providers that our population is supported by. In that sense it is important we continue to develop an equitable and easy to access and navigate care offer for our residents. This will mean it will look and behave similarly across the whole of Hampshire, rather than be designed to conform with the multiple different health systems as they currently may apply to the residents of Hampshire. Whole population health, based upon investment in preventative services through building upon community / voluntary sector, district / borough, parish and town councils, housing and other partners will be vital. These ambitions are set out in the NHS Long-term Plan and Cabinet is asked to endorse these and the HIOW STP to fully include them as key elements of the system reform proposals, this is articulated in Recommendation 1.5.

4. Conclusions

4.1 Much work has taken place in developing these system reform proposals. To date Hampshire County Council has participated actively, with a particular focus upon operational service deliver improvements; for example, improving patient flow and onward care and reducing the number of people subject to a delayed transfer of care from an acute hospital setting. Hampshire County Council has also succeeded in sustaining and improving the quality of its adult care services throughout our transformation activity. It is in part the appropriate and absolute determination of the County Council to maintain this important priority and not, for example, to divest itself of these duties, which has meant our approach to the STP and related processes has been as it has.

4.2 The work that has been undertaken thus far of the Health and Adult Social Care Select Committee Working Group and Health and Wellbeing Board has been important in ensuring that the future shape of health and care services is being properly influenced and steered through appropriate levels of political accountability and ownership, further work is envisaged in the coming months to continue this.

4.3 In terms of health services specifically, this is more a matter statutorily of influence at this stage. With regard to care services that political accountability is of course far more profound. In endorsing the progress so far it is recognised that Cabinet will need to reassert the importance of political accountability and the democratic mandate that the local authority brings to these arrangements. As such it is recognised that substantial additional work will be required as these arrangements take shape, to strengthen and formalise the County Council’s political role, including through a strengthening function for the Health and Wellbeing Board.

4.4 Cabinet is asked to support the proposed direction, as set out in the recommendations of this report.

This page is intentionally left blank

NHS

Hampshire and Isle of Wight
Sustainability and Transformation Partnership

Hampshire and Isle of Wight System reform proposal

Statutory body pack

August 2018

MOVING FORWARD TOGETHER

Contents

MOVING FORWARD TOGETHER

Introduction and context

Purpose of this document

This document summarises the system reform proposal as developed to date through the work of the Hampshire and Isle of Wight Sustainability and Transformation Partnership's (STP) Executive Delivery Group (EDG) and informed by the broader health and care system leadership.

It forms the basis for NHS provider board, CCG governing body and local government cabinet consideration at their respective meetings in autumn 2018.

Context

The health and care system across Hampshire and the Isle of Wight has been working together to develop a response to the national ambition to improve the integration of health and care for the benefit of local people.

As the Care Quality Commission put it in its 2016/17 State of Care report:

"People should be able to expect good, safe care when they need it, regardless of how this care is delivered... It's clear that where care providers, professionals and local stakeholders have been able to do this – where they have stopped thinking in terms of 'health care' and 'social care' (or specialties within these) and instead focused their combined efforts around the needs of people – there is improvement in the quality of care that people receive. To deliver good, safe care that is sustainable into the future, providers will have to think beyond their traditional boundaries to reflect the experience of the people they support."

National context

The most recent mandate given by the Government to NHS England includes increasing integration with social care so that care is more joined up to meet physical health, mental health and social care needs. More recently, the House of Commons Health and Social Care Committee has expressed its support for improving integration of care, highlighting its potential to improve patient experience.

NHS England's policy goals in relation to this area have been clear for some time. NHS England's ambition to transform the delivery of care in this spirit was first described in 2014's Five Year Forward View (FYFV):

"The traditional divide between primary care, community services, and hospitals – largely unaltered since the birth of the NHS – is increasingly a barrier to the personalised and coordinated health services patients need. And just as GPs and hospitals tend to be rigidly demarcated, so too are social care and mental health services even though people increasingly need all three"

Case for change

What do our citizens and our staff tell us?

Our citizens have been consistent in telling us that…

- they want **better and more convenient access** to support to help them to live well for longer. We have diverse communities across Hampshire and the Isle of Wight and people want support better suited to their needs;
- **they value and have confidence in General Practice and the wider primary and community team,** but there is a bewildering array of teams who do not appear to communicate with each other. **People often have to repeat their story** multiple times, making accessing care a frustrating experience. So they want all of the clinicians and care workers involved in their care to know their care plan, to work together and to communicate with one another. Many people also want greater control of their care, from better access to their records through to personalised budgets;
- when they have an urgent care need, **rapid access to the right clinical advice and support** is the most important factor to them. They want the health and care system to make sure they know how to rapidly access a complicated and sometimes confusing system;
- when they are managing a long term physical and/or mental health condition they typically want continuity of relationship with a trusted clinician to support them; they want better support to understand and manage their condition; and they want to ensure that when they travel for specialist advice and support, then the journey is worthwhile. Currently **40% of people** whom have a long term condition tell us they **don't feel supported** to manage their condition.
- they are more **willing to travel a little further for specialist care** if the services they access will give them better outcomes. People also add however, that there is nowhere like home and that they would rather be there, than a hospital bed. Unfortunately a quarter of people in hospital still do not feel involved in decisions about getting them home.

Our workforce are telling us that:

- they are **under more pressure than ever** before. They often feel that there is not enough time in the day, with too many targets to reach and administrative tasks to perform, both of which take time away from patients;
- services are running on such **low staff numbers** that any unplanned sick leave or annual leave has a significant effect. Despite significant efforts of some providers, we continue to exceed our planned expenditure on agency and locum spend;
- care professionals want a means by which to **share information** with other professionals within the system. There is often a poor interface between primary, secondary and community care with time wasted trying to contact other care services;
- whilst it doesn't feel this way in general practice, and in the community and hospital services, our workforce has actually increased over the last few years. However so too has the number of people leaving within two years;
- many frontline staff have spent large parts of their professional careers **trying to integrate care for patients,** often working around policies that construct rather than remove barriers to integrated care at local level;
- they want **better career options** along with opportunities to improve their skills and expertise.

What does the data tell us?

We need to strengthen our approach to prevention, early intervention and supported self-management…

- We have a national reputation for developing innovative models of prevention, case finding and early intervention and supported self-management. However, we have not systematically implemented these innovative models. For example, within three years, 330 heart attacks and 490 strokes could be averted with improved detection and treatment of hypertension and atrial fibrillation. This represents a cost saving of up to £2.5m for heart attacks and £6.7m for strokes through optimal anti-hypertensive treatment of diagnosed hypertensives.
- For cancer services, for example, we have made real progress in improving the early diagnosis of cancers over the past 4 years, and are now are one of the best performing systems in the country. But we still only **diagnose just over half of cancers at stage 1 and 2**.
- The **life expectancy of people with serious mental illness is 15-20 years less** than the average life expectancy in Hampshire and the Isle of Wight, with two thirds of these deaths due to avoidable causes. And yet the number of health checks for people with severe mental illness in HIOW is below the national average.
- We are making improvements, but we are **not yet closing the inequalities gap -** the life expectancy gap (and disability-free years gap) across HIOW is not closing.

The complexity and fragmentation of our current system (including siloed budgets and payment systems) is currently holding back a system focus on this agenda.

We have a significant opportunity to improve discharge and flow across Hampshire and the Isle of Wight…

- Our citizens continue to **stay in hospital for a long time** even though many are medically fit to leave. As we know the longer people stay in hospital, the more likely they are to develop complications and reduced independence; and it is also expensive to keep someone in hospital unnecessarily.
- Our flow and discharge is noted as being in the **lowest performance quartile in the country**
- We continue to be the **second poorest performing system in the country** with regards to **delayed transfers of care**.
- **We are the second poorest performer** nationally with regards to **CHC assessments in the community**.
- Recent data positions us as having one of the greatest opportunities nationally to reduce **excess bed days** and super-stranded patients.
- There has been a relentless focus on improving discharge and flow across all of our systems and yet despite this the number of delayed transfers of care per 100,000 population remains at the same rate it did two years ago*

This data would indicate that continuing to operate as we have done in the past will not yield a different outcome. We need to reform the system in a way that best allows us to tackle the challenges we face.

* with the exception of the Isle of Wight which now operates with three times fewer delays as other HIOW systems.

What do we know about new models of care?

The past four years have seen significant progress in developing 'new care models' which are founded on integration between partners and a systematic focus on the whole population's needs. Nationally we have seen both Multispecialty Community Provider and the Integrated Primary and Acute Care Systems develop. More recently the Next Steps on the Five Year Forward View further articulated the ambition ***'to make the biggest national move to integrated care of any major western country'.***

Within our patch we are reporting very tangible benefits for our citizens as a result of health and care partners working together / integrating more effectively than we have seen before. In the most developed systems we are seeing:

- **1% reduced emergency admissions** compared to an average of 3.5% growth nationally;
- New models of care are successfully managing and treating people more effectively in the community **reducing potentially "avoidable" emergency admissions by 10%** on last year;
- **4% reduction in GP referrals** on last year;
- **Reduction in the number of people experiencing mental health crisis** / emergency admission to acute mental health beds as a result of enhanced support in the community
- **A&E attendances are holding at the same level** as last year compared to demographically similar systems which have increased activity on last year;
- Citizens engaging with integrated care teams are reporting **significant improvements in health status, personal wellbeing, experience and health confidence;**
- **Staff satisfaction rates significantly improving** where they are operating in integrated care teams.

These achievements are both important for citizens, staff and for the financial health of the system. We know that new models of care work, however, our integrated primary and community teams are at different stages of development and so too are their interfaces with local health and wellbeing footprints and the acute physical and mental health system.

Finance and efficiency

Increasing value for money

The current funding and budget systems make it hard to reallocate resources to where they are needed most. This can also be prohibitive to collaborative working between partner organisations. Frustratingly for all, the current payment systems can be unhelpful – rewarding activity rather than outcomes.

Our financial position is unsustainable. Hampshire and Isle of Wight NHS has forecast a 'do nothing' gap of £577million gap by 2020/21 (23% of our £2.5bn allocation) and in addition to this, the pressures in social care and local government more broadly are unprecedented. Whilst the required level of efficiency has been delivered to date we require a step change in productivity and cost reduction to ensure we meet our financial targets.

In many organisations too much resource and energy is focused on seeking to suppress expenditure in providers or generate additional income from commissioners, rather than work in partnership to focus on cost reduction, quality improvement and living within the system's finite resources. **We will require different approaches**, including **collaboration**, e.g. pathology, pharmacy distribution centres; scale, eg: collective procurement; **back-office optimisation**, eg: HR, finance; **greater partnerships**, eg: increasing retention of our workforce, reducing bank and agency costs; and **reduced unwarranted variation** in practice.

If we are to make the transformational changes required to improve outcomes, experience, satisfaction, quality, performance, financial sustainability and address our workforce challenges **we must radically enhance our functionality, removing obstacles to enable far greater collaboration and integration**. These radical changes will become a reality only if there is a collective commitment from all partners to transform and implement a new way of working.

Reducing complexity

- We have **21 NHS and local authority statutory partners** as signatories to our transformation partnership **and three non-statutory partners** (with leadership responsibilities around workforce, innovation and research).
- We have **grown our workforce by 4.5%** over the past three years. Too much of this growth has, however, been in non-clinical roles. One of the key drivers for this is the continuing burden of reporting, assurance and inter-organisational contract management.
- **We are a complex system.** Whilst there has been collaboration between provider, commissioner and regulatory partners, our system reform work over the past six months has demonstrated significantly greater opportunity to reduce system complexity; reduce the burden of assurance and reporting and ensure all partners collaborate towards clearer strategic goals;
- NHS England and NHS Improvement are currently undergoing a national and regional integration programme. The expectation is that locally the Hampshire and Isle of Wight system will develop **simpler but more effective self-regulation and assurance models** that will allow NHSE/I to work more strategically with the system.

The system reform programme is a means by which we can reduce this complexity and develop strong self-regulation and assurance models.

MOVING FORWARD TOGETHER

The proposed system

Our vision

“Our vision is to support citizens to lead healthier lives, by promoting wellbeing in addition to treating illness, and supporting people to take responsibility for their own health and care. We will ensure that our citizens have access to high quality consistent care 24/7, as close to home as possible.

MOVING FORWARD TOGETHER

Our vision – tomorrow's system

Supporting people to stay well

We are taking action to prevent ill-health and promote self care...

- Empowering citizens, patients, service users and communities
- Harnessing technology more effectively to support wellbeing

Joining up care locally

We are strengthening local primary and community care...

- Developing integrated health and social care teams designed to support the needs of the local communities they serve
- Ensuring a strong and appropriately resourced primary care workforce
- Providing care in the right place at the right time by reducing over-reliance on hospitals and care homes
- Using technology to revolutionise people's experiences and outcomes;

Specialised care when needed

We are improving services for people who need specialist care...

- Identifying, understanding and reducing unwarranted variation in outcomes, clinical quality, efficiency;
- Through consolidating more specialised care on fewer sites;

We will make intelligent use of data and information to empower citizens, patients, service users and support our workforce to be more efficient and effective in delivering high-quality care

Integrated care systems

The HIOW Executive Delivery Group (EDG) – representing the HIOW health and care system – recommend that to deliver our vision for health and care, we need to reform our system to ensure 'form follows function', signalling a shift from the separation of provision and commissioning to integrated planning and delivery. Nationally there is a similar realisation, which has led to the national guidance on Integrated Care Systems.

What is an integrated care system (ICS)?

NHS England defines ICS as those systems in which:

"Commissioners and NHS providers, working closely with GP networks, local authorities and other partners, agree to take shared responsibility (in ways that are consistent with their individual legal obligations) for how they operate their collective resources for the benefit of local populations".

What will an integrated care system do?

National guidance sets a number of expectations for ICS:

- ICS are expected to produce together a credible plan that delivers a single system control total, resolving any disputes themselves.
- ICS will assure and track progress against organisation-level plans within their system, ensuring that they underpin delivery of agreed system objectives.
- [ICS] will be given the flexibility, on a net neutral basis, and in agreement with NHS regulators, to vary individual control totals during the planning process and agree in-year offsets in one organisation against financial under-performance in another.
- NHS England (NHSE) and NHS Improvement (NHSI) will focus on the assurance of system plans for ICS rather than organisation-level plans.

There is an expectation that, over time, ICSs will replace STPs.

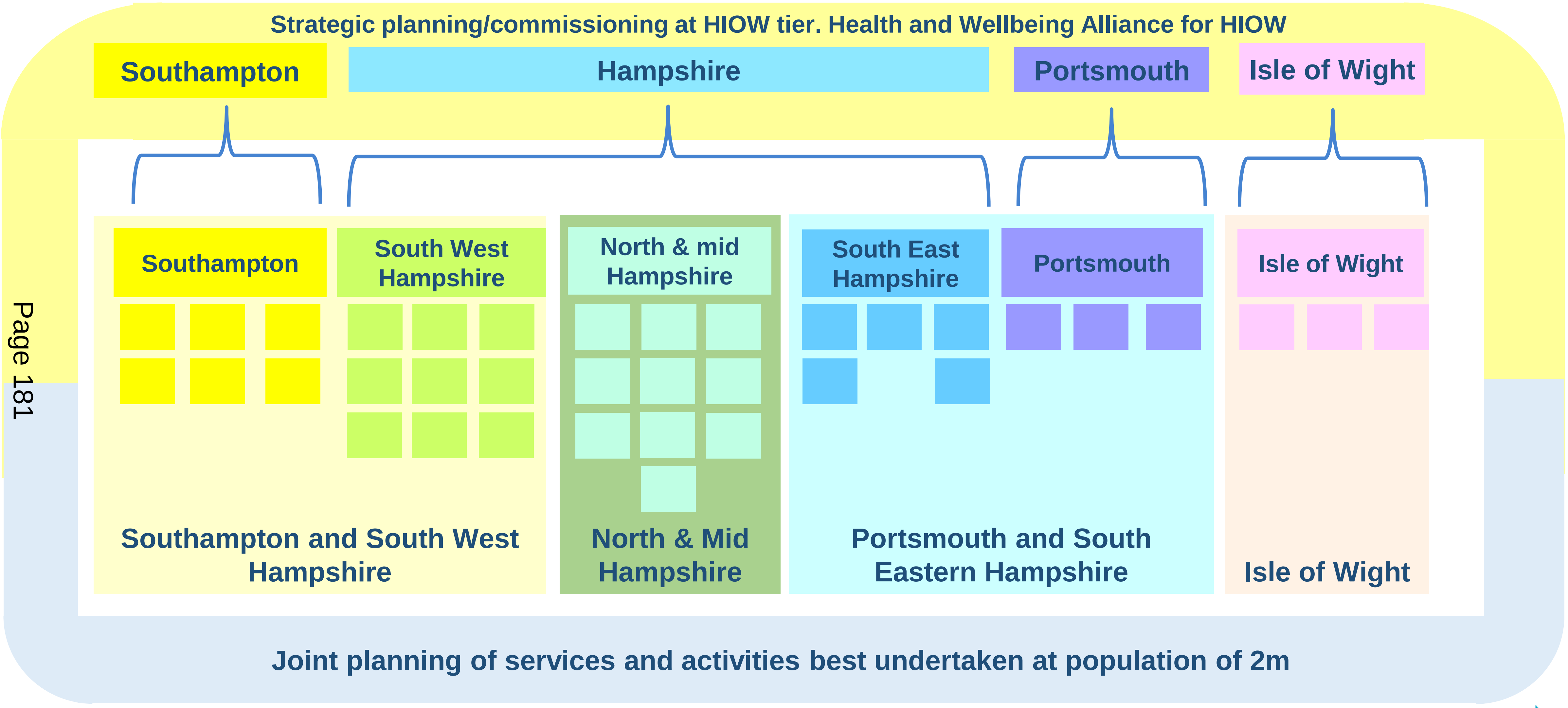
Benefits of ICS – the national view

- Creating more robust cross-organisational arrangements to tackle the systemic challenges facing the health and care;
- Supporting population health management approaches that facilitate the integration of services focused on populations that are at risk of developing acute illness and hospitalisation;
- Delivering more care through re-designed community-based and home-based services, including in partnership with social care, the voluntary and community sector; and
- Allowing systems to take collective responsibility for financial and operational performance and health outcomes.

Local alignment

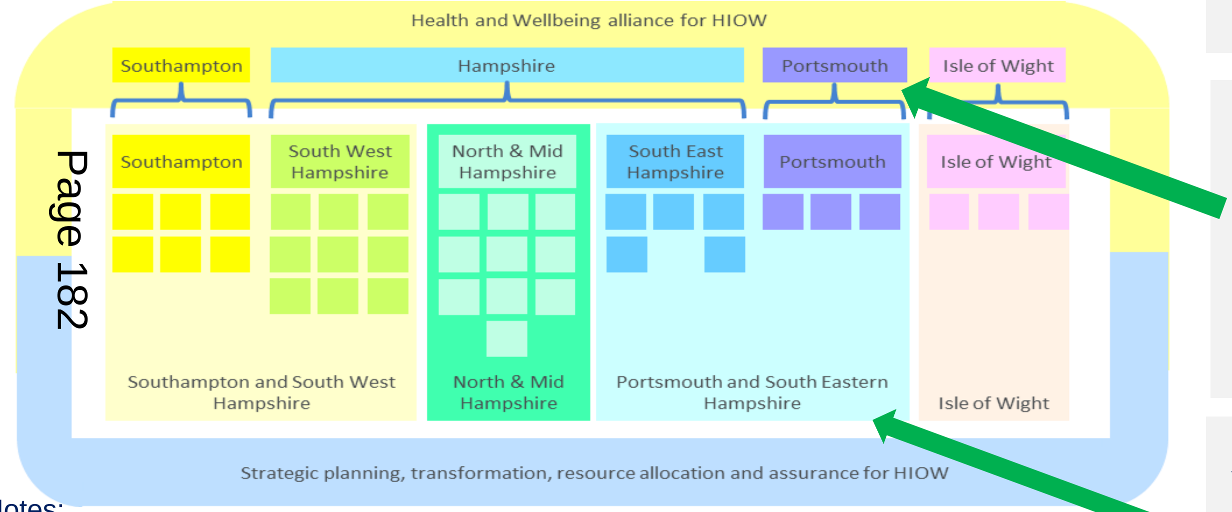
The EDG tasked a sub-set of its members, supported by others, to form a series of task and finish groups to develop the key elements of a proposal for moving the HIOW system towards ICS ("the system reform programme").

How could HIOW look in the future?



The proposed HIOW integrated care system:
A whole system planning, delivering and transforming in collaboration

The proposed reformed system envisages providers, commissioners and local authorities working in ever closer collaboration with each other and with citizens and voluntary sector organisations to address the case for change, empowering and supporting citizens to best manage their own health and wellbeing and frontline teams to provide and sustain the best possible services and care.



Notes:

1. The term ‘cluster’ is used for consistency to describe the foundation of the system where general practices with statutory and voluntary community health and care services work together in 20-100k populations to meet the needs of local residents. A variety of terms are currently used to describe this including localities, extended primary care teams, natural communities of care, neighbourhood teams.
2. Where HWB and integrated care partnerships are coterminous, activities are undertaken together. In areas where integrated care partnerships span more than one HWB footprint, the partners will work together to determine the most appropriate allocation of responsibilities between HWB area and the integrated care partnership to achieve the shared objectives.
3. The Hampshire HWB area also includes North East Hampshire, which is also part of the Frimley Integrated Care System and therefore omitted from the figure above

Component	Purpose and description
Accelerated implementation of 36 clusters Natural communities of 20-100,000 people	• The foundations of the reformed system • Strengthening primary care • Delivering integrated mental and physical health, care and wider services to cluster population • 36 clusters, aligned to ‘natural communities’. • Proactively managing the population health needs
Ongoing development of place based planning Existing Health & Wellbeing Board footprints	• Integrated local authority & NHS planning • Aligned to HWB (local authority) footprints • Health & LA aligned commissioning resource & agreed leadership/management models • Basis of the JSNA, means through which HWB exert tangible influence on the direction of health and care services for the population through health and care commissioning and wider determinants of health
Simplified structure of 4 integrated care partnerships populations of c600k served by acute partners	• Support the vertical alignment of care enabling the optimisation of acute physical & mental health services • Design and implement optimal care pathways • Support improved operational, quality and financial delivery
HIOW integrated care system Drawing together the above component parts, delivering some functions at a scale of 2 million population	• System strategy and planning • Implementing strategic change across multiple integrated care partnership footprints/places • Alignment of strategic health and LA commissioning • Provider alliances (acute physical & mental health) • Oversight of performance and single system interface with regulators

Conditions for integration

The development of an ICS for Hampshire and Isle of Wight has been based upon a variety of national guidance and evidence from around the country about best practice approaches. We have studied the work ongoing in Surrey Heartlands Dorset, Manchester and South Yorkshire and Bassetlaw and learnt from their experiences.

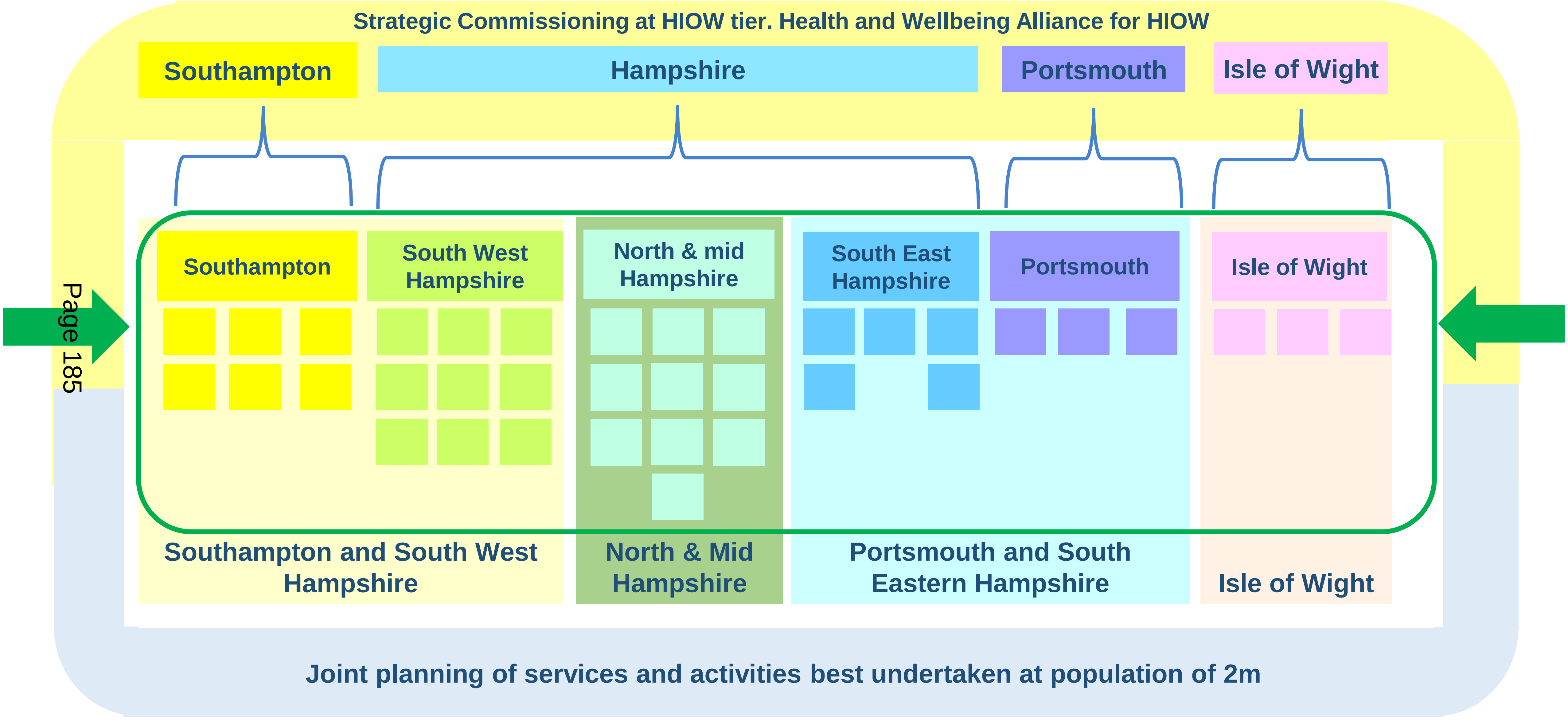
The work of the Kings Fund on integration is also helpful in setting out conditions which support greater integration. Their assessment is that current and future ICS must address the following development needs if they are to succeed in transforming health and care, building on new care models and related initiatives:

- Developing trust and relationships among and between leadership teams
- Establishing governance arrangement to support system working
- Committing to a shared vision and plans for implementing the vision
- Identifying people with the right skills and experience to do the work
- Communicating and engaging with partner organisations, staff and the public
- Aligning commissioning behind the plans of the system
- Working towards single regulatory oversight
- Planning for a system control total and financial risk sharing.

The work involved in addressing these needs is time consuming and cannot be rushed: ‘progress occurs at the speed of trust’, **collaborative rather than heroic leadership holds the key to progress.**

Components of the system

Clusters - integrated primary and community care teams



Clusters - integrated primary and community care teams

Clusters will be the bedrock of the reformed delivery system. The key purpose of our wider system reform arrangements is to support empowered clusters.

Role and benefits of clusters:

- Clusters will see health and care professionals, GPs, the voluntary sector and the community working as one team to support the health and care needs of their local community. They will focus on helping people to manage long term conditions and improve access to information about healthier lifestyles and improving/maintaining wellbeing.
- Evidence shows that the most successful work of this type will reduce the overall number of people who need to be cared for in hospital and improve the health and wellbeing of communities. Clusters will shift the pattern of care and services to be more preventative, proactive and local for people of all ages

Impact of clusters for people

- ✓ People are supported to stay well and take greater responsibility for their own health and wellbeing
- ✓ People can easily access support and advice that is timely, delivered close to home and with the right professional to meet their needs
- ✓ People with chronic or complex illness receive care that is consistent, joined up and centred around their needs and wishes, with fewer hand-offs and reduced duplication
- ✓ People are only in hospital for the acute phase of their illness and injury and are supported to regain/retain independence in their usual place of residence
- ✓ People have greater choice and control over decisions that affect their own health and wellbeing

Impact of clusters for HIOW system

- ✓ Increased capacity in primary and community care to manage local health and care needs
- ✓ Reduction in rate of acute mental and physical acute non-elective activity growth and demand for urgent care services
- ✓ Optimised resource utilisation as a result of better managed chronic conditions and reduction in preventable conditions
- ✓ Reduction in variation in access and outcomes
- ✓ Fewer permanent admissions to residential and nursing care
- ✓ Primary care is sustainable and supported leading to improving GP recruitment and retention rates
- ✓ Attract and retain right workforce in all sectors with particular emphasis on those sectors in greater need such as mental health
- ✓ More efficient bed use and fewer delayed transfers of care

Characteristics of clusters

Clusters will vary based on the needs of the communities they serve, but will be built on a common foundation and share common characteristics:

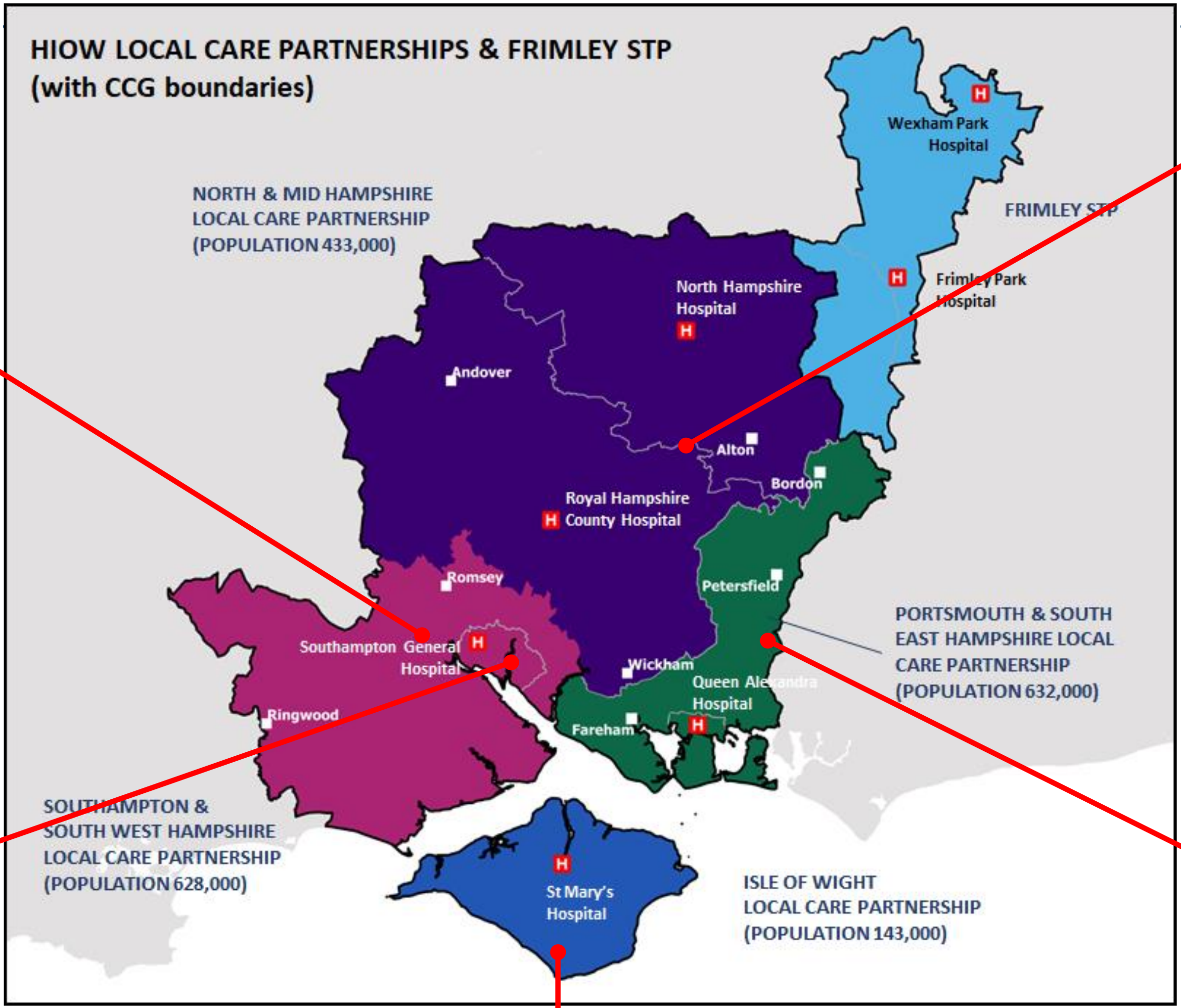
- Clusters will be empowered to innovate in order to best serve their populations. In order to facilitate this, they will work to a specification which is outcome-based, but which is common across HIOW. Developing this specification will be an early priority.
- Cluster footprints align to ‘natural communities of care.’ Areas must be meaningful to those they serve, as they provide the basis for community-focussed services. Clusters’ population range provides flexibility in cluster boundaries to ensure they align with both natural communities and GP registered lists.
- Clusters will include a range of mental and physical health, care and wider services in one place. Multi-professional working will be supported by multi-agency information sharing and, wherever possible, physical co-location.
- Co-ordinate services and teams from across organisations through alignment arrangements (MOU, alliance contract or joint venture) – allowing professionals to maintain their current employment status.
- Multi-professional (including clinical) leadership. Each cluster will have a named lead, and will be supported by a professional managerial team, who will be responsible and accountable for the performance of cluster services and the management of an indicative cluster budget. Clusters will manage their performance based on agreed datasets.
- GP federations will be vital in facilitating clinical leadership in clusters, as well as in leading the transformation of primary care, which will be vital to clusters’ capability.
- Clusters will identify, understand and reduce unwarranted variation between their practices. Colleagues and systems across the footprint of HWB and integrated care partnerships will support clusters in this, as well as identifying unwarranted variation between clusters (see below).
- Clusters and acute physical and mental health providers will work together in integrated care partnerships, to ensure alignment of pathways and integrate services to optimise the health and care support they provide, responsive to the populations they serve.

The 5 core functions of a cluster:

1. Supporting people to stay well
2. Improving on the day access to primary care
3. Proactively joining up care for those with complex or ongoing needs
4. Improving access to step-up and step-down care
5. Improving access to specialist care

MOVING FORWARD TOGETHER

36 clusters across HIOW (as at August 2018)



South West Hampshire

1. Eastleigh
2. Eastleigh Southern Parishes
3. Chandler's Ford
4. North Baddesley
5. Avon Valley
6. New Milton
7. Lymington
8. Totton
9. Waterside

Southampton

1. Cluster 1
2. Cluster 2
3. Cluster 3
4. Cluster 4
5. Cluster 5
6. Cluster 6

North and Mid Hampshire

1. Mosaic
2. Whitewater Loddon
3. Acorn
4. A31
5. Rural West
6. Andover
7. Winchester City
8. Winchester Rural North
9. Winchester Rural East
10. Winchester Rural South

Portsmouth and South East Hampshire

1. East Hampshire
2. Waterlooville
3. Havant
4. Fareham
5. Gosport

1. Portsmouth North
2. Portsmouth Central
3. Portsmouth South

Isle of Wight

1. North and East
2. West and Central
3. South Wight

Balancing autonomy and standardisation in clusters

A key test of this proposal overall is that cluster governance must accelerate and facilitate, rather than impede, local change and improvement. Therefore clusters will be encouraged to innovate and improve services for their citizens.

This innovation will be facilitated by both their contract /incentive structure and support from HWB and integrated care partnerships (see next slides).

HWB and partnerships will support clusters in identifying and reducing unwarranted variation, including striking the right balance between standardisation / consistency and local flexibility (ie. standardising only where this adds value).

Standardisation may apply across a HWB or partnership footprint, or more widely, as appropriate. We would expect some pathways, services, systems and processes to be standardised across HWB or partnership footprints, some to be standardised across the whole of HIOW. Elements not standardised will allow each cluster to take the approach which works best for them, but with encouragement and support to consider what other clusters are doing and the potential to spread best practice where it adds value (or reduces duplication of effort) to do so.

As part of this freedom to innovate, we recognise that clusters will continue to evolve. The current structure of clusters across HIOW (see next slide) may therefore change as clusters become established and take on an increasing role in service delivery.

Operationalising clusters is a key priority. This will include developing an outcomes-based cluster specification and providing management and development resources to clusters from CCGs

Accelerating the implementation of clusters

Every part of the HIOW system has confirmed the development of integrated cluster teams as a key priority for 2018/19, and every area has a change programme in place to deliver this.

- The 36 cluster teams across HIOW are at variable stages of development and maturity.
- The most established teams, formed under Better Care and Vanguard programmes, offer a wealth of evidence and learning about what works; however we are yet to effectively capitalise on this across HIOW.
- There are currently different names for cluster teams in each care system, reflective of evolutionary local plans.
- However, there are high levels of congruence in the overall description of the function and form of these teams across the system.

Therefore, the ambition for cluster development for 2018/19 is to:

- Accelerate and embed the infrastructure for all 36 cluster teams by March 2019
- Evidence impact on patient outcomes, primary care capacity, hospital admissions and system flow

Current thinking about the development of the clusters by March 2019 and March 2020 is described on the following page.

The developing role of clusters

	October 2018 – March 2019	By April 2020
Strategy and Planning	• Cluster priorities identified and delivery plan in place • Cluster level population data available and used to support priority setting and planning	• Longer-term cluster objectives being shaped, informed by data • Mechanism in place for co-production of plans and services with local people
Care Redesign	• Practices working together to improve access and resilience • Core cluster team membership defined • Integrated primary and community care teams in place with joint assessment and planning processes • Prototypes in place for highest risk groups • Gap analysis undertaken, end state defined for key functions	• Components of delivery model in place for each of key functions (minimum 50% completion) • Active signposting to community assets in place • Shift of specialist resources into cluster teams • Integrated teams fully functioning and include social care
Workforce development	• Cluster workforce plan defined with targeted action to support recruitment/retention of key roles • Cluster level OD/team development plan in place	• Development of new/extended roles in cluster teams to meet local need • Beginning to share workforce and skills within clusters
Accountability & performance management	• Information sharing agreements in place between all partners • Plan for shared care record confirmed • Cluster responsibilities documented via MOU/alliance agreement	• Data used to drive improvement and reduction in variation within and between clusters • Shared care record (health) in place • Cluster monitoring impact on key outcomes
Managing collective resources	• Cluster assets mapped to inform future planning (estate, back office, people, funding) • Resources identified to enable/support cluster plan delivery (eg change management) • Cluster level dashboard including outcomes in place	• Shift of specialist resources into cluster teams • Clusters have sight of resource use and can pilot new incentive schemes • Cluster level plan to optimise use of assets and early components in place
Leadership & governance	• Dedicated professional and operational leadership in place in each cluster • Governance arrangements in place in each cluster, eg cluster board • Cluster partners identified and engaged in the development and delivery of the cluster plan • Cluster engaged in integrated care partnership decision making	• Cluster leadership embedded with defined responsibilities for co-ordination of cluster responsibilities • Mechanism in place to share learning between clusters • Practices have defined how they wish to work together going forward • Cluster is full decision making member of integrated care partnership

Statutory bodies are asked to:

Endorse:

1. **The developing role of clusters as outlined on the previous slide**
2. **The recommendation that partners across HWB footprints and integrated care partnerships work together to define the resources required for cluster operation – a critical first step is establishing professional and operational leadership to drive cluster development**
3. **the proposed next steps for the cluster task and finish group which are summarised as follows:**

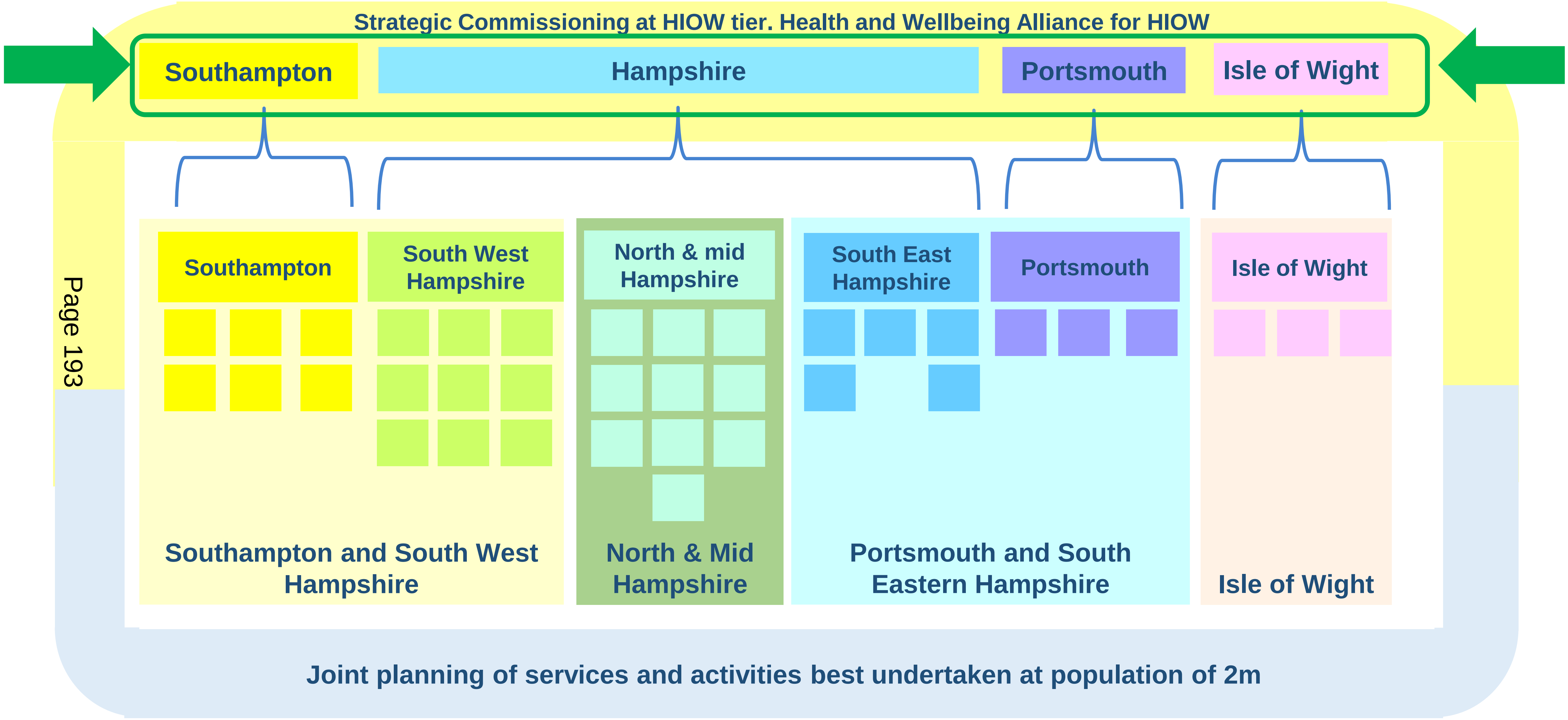
   a. Quantify the impact/expected outcomes of cluster teams (already in progress in most areas): defining outcome metrics for individual clusters and a small set of common metrics across whole HIOW

   b. Describe the support requirements and responsibilities to accelerate full cluster implementation

   c. Describe the proposed interplay between clusters and other components of the ICS, including governance and participation arrangements for clusters as part of HWB footprints and integrated care partnership structures

   d. Strengthen primary and social care involvement in this work at a Hampshire and Isle of Wight level (membership of the task and finish has already been extended to reflect this)

Integrated planning for a place: Health and Wellbeing Board footprints



Restating the function of Health and Wellbeing Board footprints within an integrated care system

Local government partners have convened to start work on restating the critical function of integrated health and care planning and delivery on a Health & Wellbeing Board (HWB) footprint.

An early draft definition of the function is summarised below:

HWB footprints will continue to be **the focus for place-based planning** (undertaking population needs assessment) and for aligning health, care and other sector resources to focus on delivering the improved outcomes for local people, building on the long-established integrated working arrangements, e.g. Better Care Fund, Section 75 arrangements, etc. Working in collaboration, partners will maximise the potential to further improve wellbeing, independence and social connectivity through the wider determinants of health including public health, housing, employment, leisure and environment.

The statutory role of the HWB with their political and clinical leadership, means that they should be central to the governance of health and care planning for a 'place'. The sustainability of the health and care system depends on public and political acceptability and support – as well as the right systems of design and delivery. So the active and effective democratic engagement at all levels (cluster through to whole HIOW) is vital. Strong and equitable relationships between NHS and local government will provide the necessary collective energy and focus required for system change. Furthermore, cross sectoral partnerships of public, private and voluntary and community organisations have important roles in all components of the system.

Much of our prevention and health improvement activities will continue to be designed and delivered in HWB footprints. We will use our ability to align / pool monies between NHS and local government partners to ensure that a clear focus for each HWB footprint is the resourcing of our 36 clusters (integrated primary and community care teams).

Our HWBs are based on local authority footprints. We will continue to integrate our CCG and LA teams focused on place-based health and care planning on these HWB footprints, reducing complexity and duplication. We will also be deploying some of our health (CCG) and care staff directly to support the operationalisation of our 36 clusters.

All four LAs have committed to meet with health provider and commissioner colleagues during August/September as a task and finish group to further develop the above definition and proposed next steps (see more detailed recommendation on the next page).

Statutory bodies are asked to:

Endorse the following recommendations from the EDG, informed by the task and finish group work to date:

1. **The emerging 'restatement' of the function of partnership working on a HWB footprint as described on the previous slide**

2. **The proposed next steps for a task and finish group by the end of September, which are to:**

a. define the common functions of the role of HWB footprints in an integrated care system

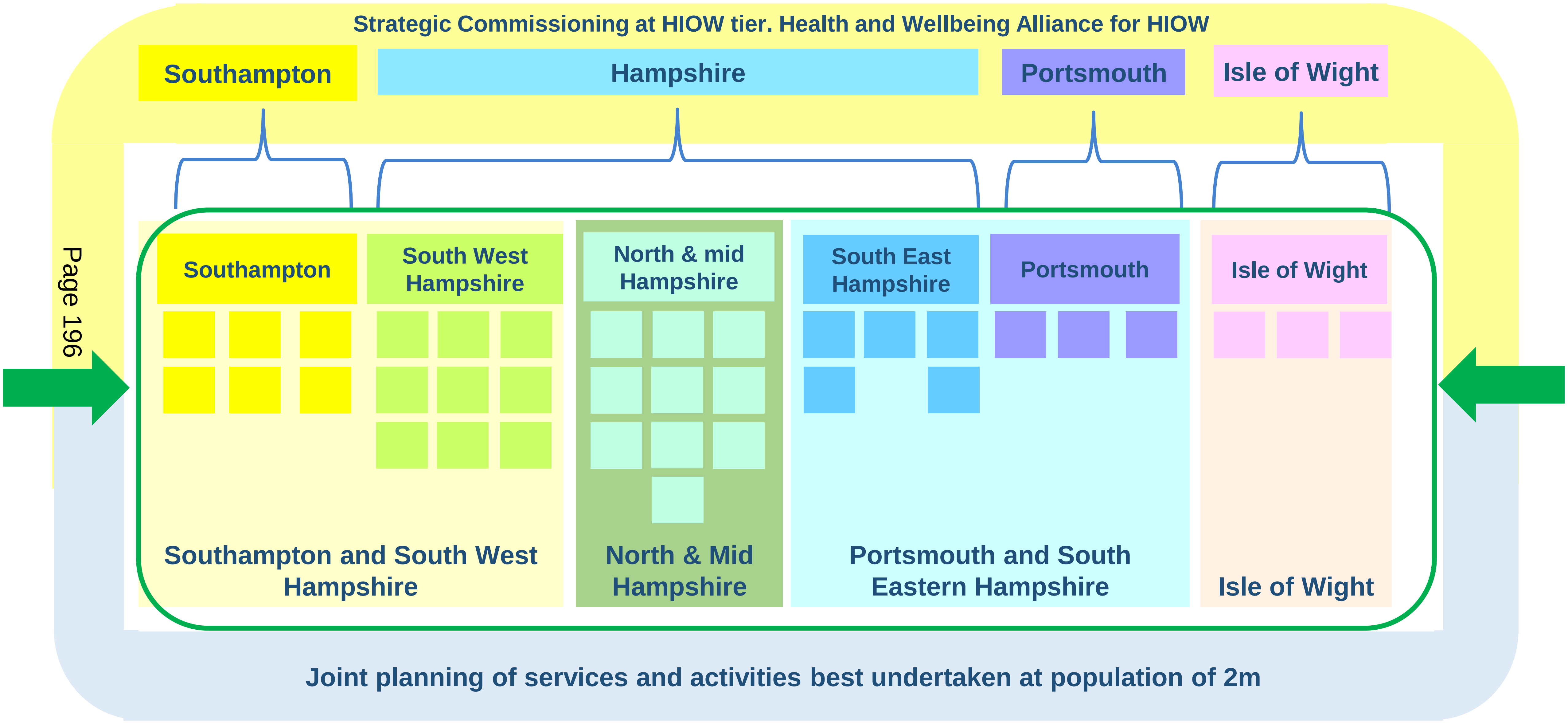
b. clarify the relationship between this and the other component parts of the proposed Hampshire and Isle of Wight Integrated care system

c. set out a mechanism for achieving 'active and effective democratic engagement at all levels' across the Hampshire and Isle of Wight integrated care system (including the role of HWB)

Leads from the other Hampshire and Isle of Wight task and finish groups on integrated care partnerships, strategic commissioning and clusters will be involved in developing this thinking.

MOVING FORWARD TOGETHER

Integrated care partnerships



Integrated care partnerships

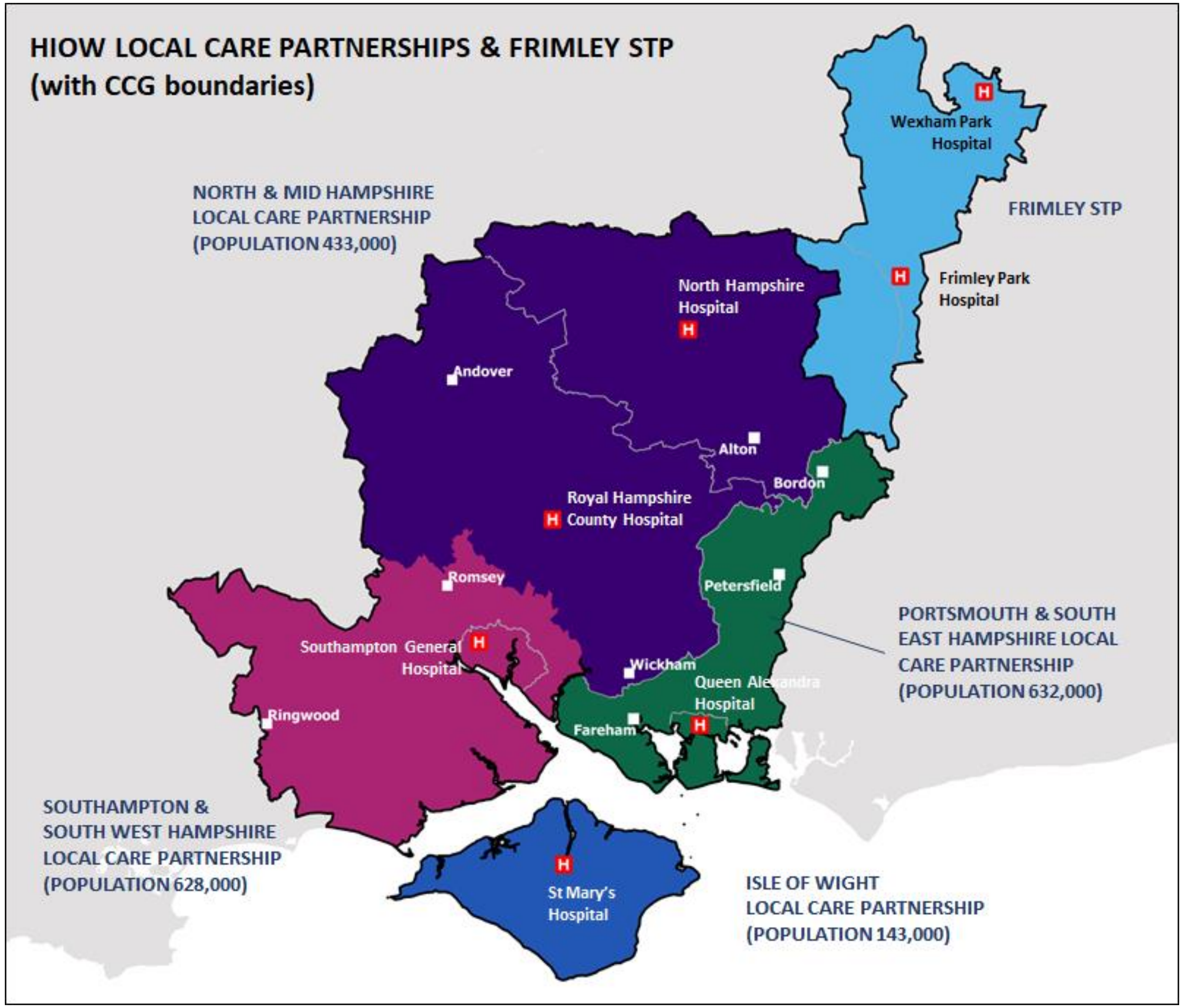
Integrated care partnerships are where we align the work of the local clusters, community services, acute and specialised physical and mental health services, for the benefit of the local population.

Providers of mental and physical health and care services including general practice, NHS commissioners, local authorities and voluntary sector organisations come together in geographies based on the local catchments of acute hospitals to benefit their local population.

The term 'integrated care partnership' [ICP] is being used to describe the collaboration of partners on these geographies.

The ICPs across HIOW will reflect local needs and will differ in the extent of their focus and work programme. For some, the focus may be predominately on improving operational ED performance. In others there is already an intent to work together on a more comprehensive basis with established governance structures to deliver agreed improvement programmes.

The balance and focus of the planning and delivery that takes place in HWB footprints and integrated care partnerships will vary in each part of HIOW.



What could integrated care partnerships look like?

The nature of Integrated Care Partnerships [ICPs] will vary according to local circumstances, challenges and opportunities. For some the arrangements will mirror current state. For others their development is such that by **April 2020, integrated care partnerships could be working together to:**

- implement a integrated care partnership delivery plan which sets out the collective priorities of the integrated care partnership, over the medium term (3-5 years) and in the short term (1-2 years) [noting that as previously alluded to, the balance and focus of planning and delivery that takes place in integrated care partnerships is likely to vary in each part of HIOW]
- design and implement optimal care pathways, and to identify, understand and reduce unwarranted clinical, operational and service variation
- make the best use of the collective resources of the integrated care partnership, including workforce, financial resources and estate, maximising system wide efficiencies and encouraging resources to flow to address the key risks facing the partnership
- support the ongoing development of the integrated care partnership:
    - progressively building the capabilities to manage the health of the population, to keep people well and to reduce avoidable demand
    - supporting the ongoing development of clusters, as the bedrock of the local health and care system
    - in some areas, potentially managing the transition to evolved organisational form arrangements that enable members of the integrated care partnership to sustainably meet the population needs

An integrated care partnership board could lead the partnership, providing strong system leadership, actively breaking down barriers that hinder progress in the delivery of integrated care, building trust and acting together to deliver improvements for citizens, for the system as a whole and through which partners hold each other to account for delivery of the shared priorities.

In integrated care partnerships, NHS providers including primary care, commissioners and local authorities work to overcome the barriers to collaboration associated with the separation of provision and commissioning. Whilst recognising the important individual statutory responsibilities of each partner, it is envisaged that:

- CCGs will deploy their people and resources to work collaboratively with other CCGs in the integrated care partnership, focussed on implementation of the integrated care partnership delivery plan – improving services, improving operational performance and delivering cost reduction.
- NHS providers will work together to make strategic and operational decisions that are in the best interest of the integrated care partnership.
- Where possible, in order to reduce duplication and bureaucracy, CCGs, NHS providers and if relevant local authorities, will seek opportunities to optimise corporate support services and infrastructure such as finance, quality, communications and governance teams.

Current thinking about the development of integrated care partnerships by March 2019 and March 2020 is described on a subsequent slide.

ICPs: an example of a different approach

We anticipate seeing:

- CCGs deploying their people and resources to work collaboratively with other CCGs in the local care system and with providers
- Providers making decisions and delivering care together – provider alliances
- CCGs, NHS providers and potentially local authorities sharing corporate support services and infrastructure?
- Over the next 18 months, working through together the impact on financial flows, contractual models and organisational forms (drawing national models such as the ICP contract consultation)

Enabling us to have:

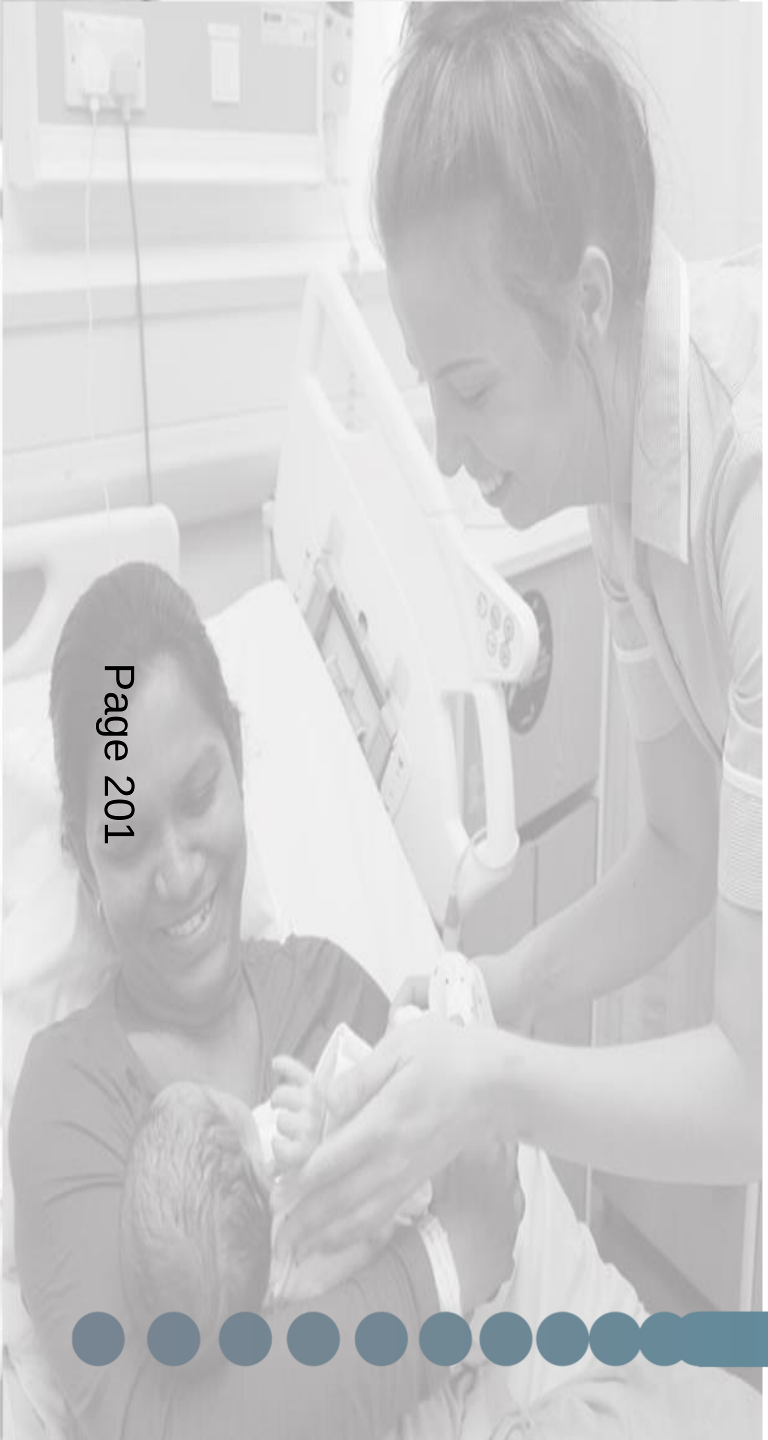
- Better grip on improving the money, performance and quality
- Integrated care partnerships supporting clusters to develop and thrive
- Whole system implementation of improved care pathways, and reduction in unwarranted clinical, operational and service variation
- Collective support for all services in the integrated care partnership to meet operational performance and quality standards
- Reduced transaction costs

The ICP Task and Finish Group has been developing a vision of how the future might look. Each ICP will develop proposals that reflect their local context, challenges and opportunities

MOVING FORWARD TOGETHER

A potential timeline for the development of ICPs

	October 2018 – March 2019	By April 2020
Strategy and Planning	• Develop and agree plan to make optimal use of acute and specialised physical and mental health services • Aligning the work of clusters at HWB footprint with community and acute physical and mental health services	• Agreed single strategy and operational plan for the integrated care partnership describing collective priorities and how those priorities will be delivered • Planning undertaken jointly by CCGs, providers and LAs
Care Redesign	• Implementing Urgent & Emergency Care priorities for the integrated care partnership • Developing optimal care pathways across the integrated care partnership • Agreed plan to support the development of clusters • Engaging staff and local communities in redesign	• 100% of clusters thriving, with lower mental and physical acute care demand as integrated teams support people to stay well at home • Managing a comprehensive programme of service improvement to address the integrated care partnership priorities • Population groups with high service utilisation or unmet need identified and action agreed
Workforce development	• Understanding the workforce issues for the integrated care partnership	• Securing the right workforce, in the right place with the right skills in the integrated care partnership, and ensuring the wellbeing of staff
Accountability & performance management	• Working together to monitor and improve delivery of constitutional standards	• Instigating clinically led quality improvement • Extensive use of data to drive improvement • Oversight of delivery in clusters • Leading recovery of standards without outside intervention
Managing collective resources	• Understand current resource use in the integrated care partnership • Working together to make the best use of the collective resources (workforce, estate, financial) in the integrated care partnership • Test new approaches to manage funding flows (e.g. DTOC) • Maximising system wide efficiencies	• Managing the collective resources of the integrated care partnership • Capable of taking on a delegated budget • Directing resources to address the key integrated care partnership risks • Shared corporate support services • Shared medium term financial plan including efficiencies
Leadership & governance	• Understanding the context, ambitions and challenges of each member of the integrated care partnership, building trust, acting together • Governance structure in place to enable collaboration • Cluster leaders engaged in integrated care partnership planning and decision making • Members of the integrated care partnership working together to agree any changes required to organisational structures	• Joint provider, CCG and LA leadership to enable planning and delivery in the integrated care partnership • Care professionals leading service integration • Governance mechanisms in place to enable decisions to be made in the best interests of the system and residents • Implementing agreed changes to organisational structures to better enable delivery in the integrated care partnership

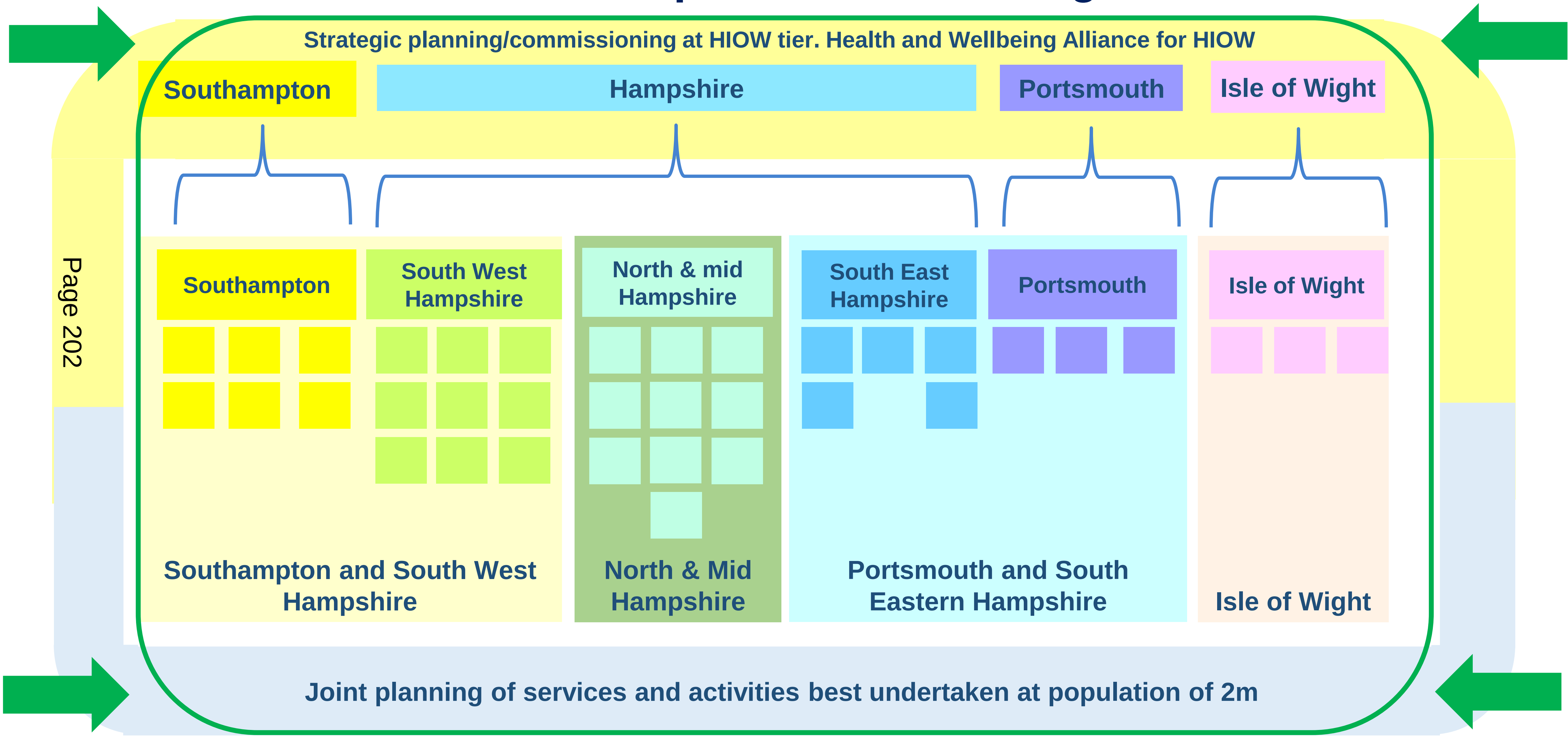


Statutory bodies are asked to:

Work with geographically aligned partners within the identified four ICP footprints to:

1. Discuss and agree the remit and focus of the ICP;
2. By October 2018 prepare a Memorandum of Understanding [MoU] that sets out the remit, focus and the leadership / governance / decision making arrangements of the ICP and how the local Health and Wellbeing Boards (Care systems) and the ICP interface with one another - the balance and focus of each;
3. Set out the key milestones for the ICP for April 2019 and April 2020.

Strategic planning, transformation, resource allocation and assurance at the scale of Hampshire & Isle of Wight



Strategic planning, transformation, resource allocation and assurance at the scale of Hampshire & Isle of Wight

In order to support and add value to the work of clusters, HWB footprints and integrated care partnerships, it is envisaged that providers, commissioners and local authorities will work together to undertake strategic planning, transformation, resource allocation and oversight activities at HIOW level.

This could be achieved, by April 2020, through a single entity for HIOW which, in its mature form, would develop strategy, set priorities and provide strategic leadership and direction to the HIOW integrated care system.

The strategic planning and transformation function in the HIOW integrated care system would:

- include the input and expertise of providers, CCGs and local authorities
- programme manage the implementation of HIOW level transformational change (change that spans more than one integrated care partnership or which is most appropriately managed at HIOW system level)
- proactively support the development of integrated care partnerships
- manage the specialised commissioning budget for HIOW
- align the resources coming into HIOW from a wide variety of sources around the delivery of the agreed strategic priorities, in order to increase the impact for populations
- act as the assurance body for HIOW, providing oversight of operational, quality and financial performance, and enabling the HIOW integrated care system to take action to improve performance without the need for outside intervention.

Whilst recognising the important role of external regulation, it is anticipated that the integrated care system will increasingly develop the capacity and capability to role-model 'self-regulation' – where robust processes are in place to ensure that action is taken to identify issues and improve performance without the need for outside intervention.

Creating this strategic planning and transformation function for the HIOW, which involves providers, CCGs and local authorities, is an opportunity to bring together in one place a number of functions including: those CCG functions best undertaken at HIOW level, STP functions, functions currently undertaken by the Director of Commissioning Operations, NHS England/NHS Improvement regulatory functions, specialised services commissioning and potentially other NHS England direct commissioning activities; HIOW clinical networks.

Current thinking about the transition towards this new way of working, by March 2019 and March 2020, is described on a subsequent page.

The characteristics of the HIOW integrated care system

It is proposed that, based upon national ICS, national guidance and evidence of best practice, an entity operating at the scale of HIOW could display the following characteristics:

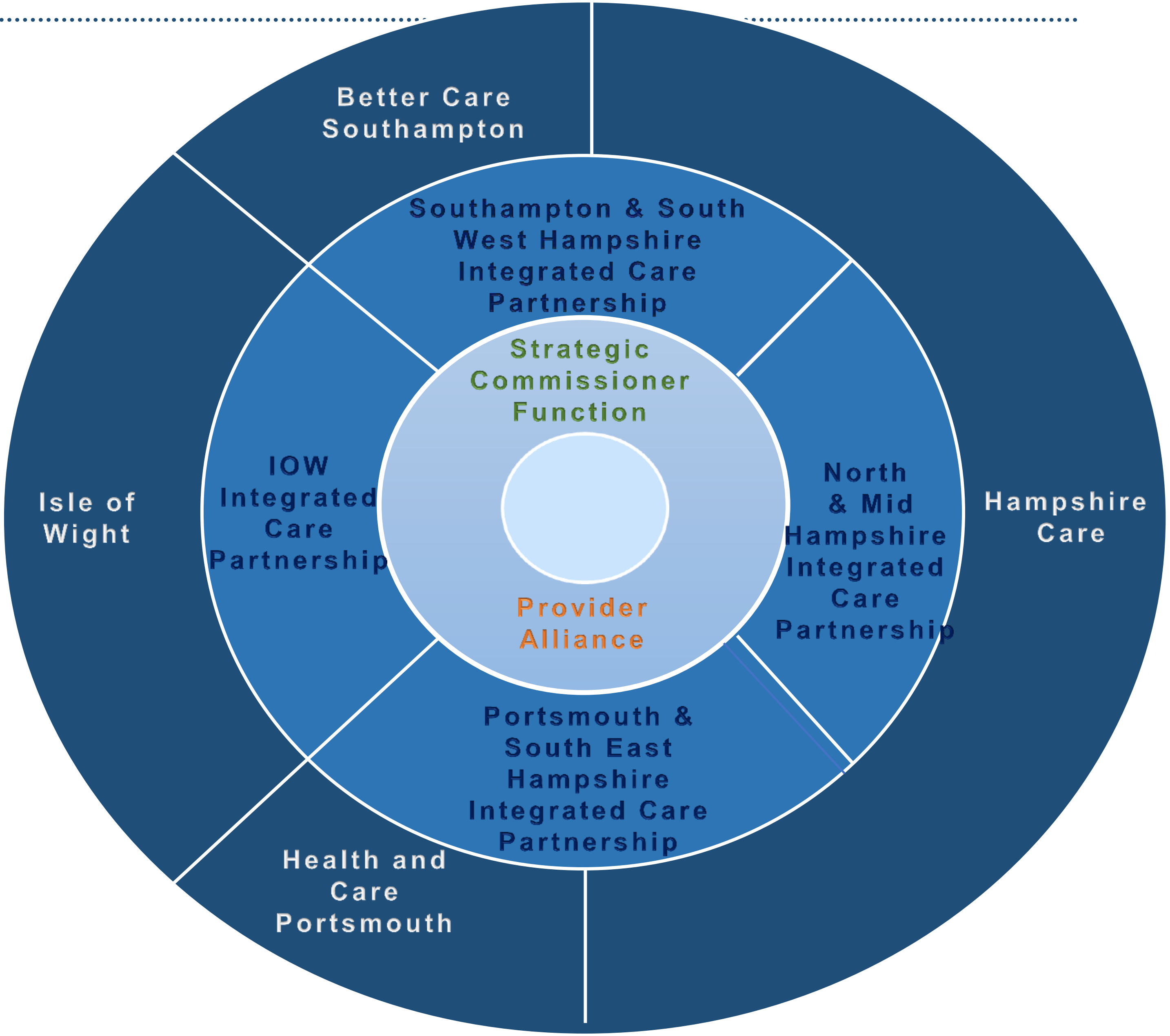
Subsidiarity: only undertaking functions that for reasons of cost or complexity need to be undertaken at the scale of 2m+ population. Unnecessary complexity and bureaucracy are stripped out with 80% of the transformation process led by local place-based teams;

Inclusive: national models / guidance show that prospective ICSs are founded on partnership; for HIOW this would draw together:

- A newly established strategic commissioning function
- the four HWB footprints
- the four integrated care partnerships
- provider alliance

Founded on self-regulation: all components of reformed systems have effective self-regulation and enable a model of collective assurance at the scale of the ICS. This allows NHS England and NHS Improvement to deploy resource into the ICS and have a single touch point on delivery to the newly reformed regional and national infrastructure;

Politically-led: prospective ICS all demonstrate strong political leadership and close connection with Health and Wellbeing Strategies and Boards.



Strategic planning/commissioning at the scale of HIOW

As an immediate next step in the transition to this future system model, it is proposed that HIOW CCGs and local authorities establish a strategic planning/commissioning function during Q3 2018/19.

By working together at HIOW level, CCGs and local authorities expect to be able to reduce fragmentation and bring the following immediate benefits:

- stronger alignment of health and local authority commissioning
- the development & agreement of consistent whole system strategic priorities for HIOW
- improved and simplified commissioning decision-making for HIOW wide issues.

The functions of the strategic planning/commissioning function in its initial form would include:

- Setting consistent commissioning strategy and strategic priorities for HIOW
- Managing whole system resilience at HIOW level
- Management and deployment of supra-allocation resources (including capital)
- Demand and capacity planning and commissioning decisions about the future configuration of acute physical and mental health services for the 2 million population of HIOW
- Oversight of NHS constitutional standards, financial performance and quality improvement – with work to be done to ensure this activity isn't duplicated elsewhere
- Work with specialised commissioners, understanding current activity flows and costs, inputting to and aligning decision making
- It is also proposed that the strategic planning/commissioning function incorporates the transformation programme function of the HIOW Sustainability and Transformation Partnership.

Proposed governance:

- Established through a joint committee, in the first instance, during Q3 2018/19
- Members include CCGs, NHS England (specialist commissioning and Regional Director of Commissioning) and local authorities
- Joint committee will have delegated authority to make binding decisions in relation to the in-scope functions and responsibilities
- Expect by April 2019 the governance and organisational arrangements evolve further

The strategic planning/commissioning function is a mechanism through which commissioners can pool skills, expertise, resources and accountability to deliver transformation at HIOW level. There is a strong desire to create a new way of working, rather than add layers to existing ways of working.

The developing functions at a scale of HIOW

	October 2018 – March 2019	By April 2020
Strategy and Planning	• Clear commissioning priorities agreed for HIOW • HIOW system strategy and priorities being refreshed/updated • Demand and capacity planning for HIOW acute services • Agree aligned planning process for 2019/20-2020/21	• CCGs, providers & LAs setting shared strategy & priorities for HIOW with aligned health & LA planning processes • Fully own a single HIOW system operating plan that brings together plans of constituent parts of the system
Care Redesign	• Decisions being made about future configuration of acute physical health and mental health crisis and acute care • Leadership of plans to improve urgent care for HIOW, including oversight of delivery of the Integrated Urgent Care Plan • Decisions about community services provision for Hampshire	• Well developed plans being enacted to support the development of integrated care partnerships • Programme managing the implementation of HIOW level strategic change programme • Leading on implementation of acute service and estate reconfiguration
Workforce development	• Understanding the workforce issues for the system • Influencing the addressing of key workforce issues	• Strategic workforce plan in place and being implemented • Influencing future workforce supply and training requirements
Accountability & performance management	• Oversight of HIOW winter resilience and preparedness • Oversight of delivery of integrated urgent care plan • Acting as interface with assurance bodies for HIOW	• Collective oversight of quality, operational performance and money • Acting as the assurance body for HIOW – supporting the system to take action to improve performance and address challenges without the ned for outside intervention
Managing collective resources	• Agree system wide capital and estate priorities and sign off wave 4 capital allocations • Develop understanding of whole system financial plans and financial risks • Plan for aligned management of specialised commissioning	• Take accountability for a HIOW system control total • Managing collective finances & risk openly and as a system • Aligning resources flowing into HIOW to achieve priorities • Support integrated care partnerships to take delegated budget • Managing the specialised commissioning budget
Leadership & governance	• CCGs operating with a single decision making committee for HIOW level commissioning business • All STP partners involved in the design of the future HIOW level system strategic planning, implementation and assurance function • STP partners providing leadership to strategic change programmes	• A single coherent entity in place that brings together HIOW level CCG functions, STP and NHSE/I functions • Strategic alignment of providers, commissioners and local authorities around the system strategy and priorities • Clear clinical leadership for the system and input from HWB footprints and integrated care partnerships in decision making

Statutory bodies are asked to:

Endorse the recommendations of the EDG, informed by the work of the strategic commissioning task and finish group, that:

1. The strategic commissioning task and finish group further develop the proposal with an aim to establish a strategic commissioning function by October 2018, initially through a joint committee which will have delegated authority to make binding decisions in relation to its in-scope functions and responsibilities.

2. That a new task and finish group is convened including providers, commissioners, local authorities, and NHS England and NHS Improvement, to work together and take responsibility for the development of the next phase of the work to build the strategic planning, transformation, resource allocation and assurance function for HIOW, constructing ICS governance that supports our approach.

MOVING FORWARD TOGETHER

Summary of recommendations

In summary, the governing bodies and boards of statutory organisations are asked to endorse the following recommendations from the EDG, informed by task and finish group work to date:

Clusters

1. **The developing role of clusters as outlined earlier**
2. **The recommendation that partners across HWB footprints and integrated care partnerships work together to define the resources required for cluster operation – a critical first step is establishing professional and operational leadership to drive cluster development**
3. **The proposed next steps for the cluster task and finish group which are summarised as follows:**
   a. Quantify the impact/expected outcomes of cluster teams (already in progress in most areas): defining outcome metrics for individual clusters and a small set of common metrics across whole HIOW
   b. Describe the support requirements and responsibilities to accelerate full cluster implementation
   c. Describe the proposed interplay between clusters and other components of the ICS, including governance and participation arrangements for clusters as part of HWB footprints and integrated care partnership structures
   d. Strengthen primary and social care involvement in this work at a Hampshire and Isle of Wight level (membership of the task and finish has already been extended to reflect this)

Health and Wellbeing Board Footprints

1. **The emerging 'restatement' of the function of partnership working on a HWB footprint as described earlier in the document**
2. **The proposed next steps for the task and finish group by the end of September, which are to:**
   a. define the common functions of the role of HWB footprints in an integrated care system
   b. clarify the relationship between this and the other component parts of the proposed Hampshire and Isle of Wight Integrated care system
   c. set out a mechanism for achieving 'active and effective democratic engagement at all levels' across the Hampshire and Isle of Wight integrated care system (including the role of HWB)

Integrated care partnerships

Work with geographically aligned partners within the identified four ICP footprints to:

1. Discuss and agree the remit and focus of the ICP;
2. By October 2018 prepare a Memorandum of Understanding [MoU] that sets out the remit, focus and the leadership / governance / decision making arrangements of the ICP and how the local Health and Wellbeing Boards (Care systems) and the ICP interface with one another - the balance and focus of each;
3. Set out the key milestones for the ICP for April 2019 and April 2020.

Strategic commissioning

1. The strategic commissioning task and finish group further develop the proposal with an aim to establish a strategic commissioning function by October 2018, initially through a joint committee which will have delegated authority to make binding decisions in relation to its in-scope functions and responsibilities.
2. That a new task and finish group is convened including providers, commissioners, local authorities, and NHS England and NHS Improvement, to work together and take responsibility for the development of the next phase of the work to build the strategic planning, transformation, resource allocation and assurance function for HIOW, constructing ICS governance that supports our approach.

MOVING FORWARD TOGETHER

Next steps

System reform programme next steps

A number of recommendations have been set out linked to each component of the proposed ICS. In addition to those associated with the specific components of the proposal, there are a number of overarching 'implementation programme deliverables', some of which will result as a coming together of the outputs from the various task and finish groups. These include:

- System reform implementation programme plan
- Structure and leadership plan – transitionary and end state
- Development and implementation of a communications and engagement plan
- Request for support (endorsement , agreement in principle, technical and financial) from NHS England , NHS Improvement and other arms length bodies such as the Local Government Association, NHS Leadership Academy, Health Education England
- Proposals to replace STP infrastructure (inc. Chair & SRO) to align with future form
- Organisational change plan and talent management plan
- HIOW ICS Chair and relevant leadership appointments
- Indicative budgets and financial framework for all components of the ICS
- Three year financial plans

It is recommended that a working group is formed, reporting to the EDG, to support the development of the above. Members of EDG are asked to nominate a representative to represent the interests of their part of the system.

Glossary

Glossary of terms

Clusters - also referred to locally and nationally as neighbourhoods, localities, primary care networks. Multi-disciplinary teams delivering integrated health, care and wider services to cluster populations based on natural communities of 20-100,000 people.

Health and Wellbeing Board (HWB) footprints – also known as care systems and are based on local authority footprints. The basis of the joint strategic needs assessment (JSNA), means through which HWB exert tangible influence on the direction of health and care services for the population through health and care commissioning and wider determinants of health. Locally the HWB footprints come under the guise of Better Care Southampton, Health and Care Portsmouth, Hampshire Care and the Isle of Wight Care Board.

Integrated care partnerships – also know as local care partnerships and are based on acute (physical) hospital footprints. Integrating care delivered in clusters with broader community and acute physical and mental health services; optimising the utilisation of acute services; designing and implementing optimal care pathways.

Integrated care system - the Hampshire and Isle of Wight health and care system, serving a population of 2 million citizens.

NHS England defines ICS as those systems in which:

“Commissioners and NHS providers, working closely with GP networks, local authorities and other partners, agree to take shared responsibility (in ways that are consistent with their individual legal obligations) for how they operate their collective resources for the benefit of local populations”.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	1 February 2019
Title:	Referral of Motion from County Council on 29 November 2018
Report From:	Chief Executive

Contact name: Barbara Beardwell

Tel: 01962 845157 **Email:** barbara.beardwell@hants.gov.uk

1. Recommendation

1.1. That Cabinet consider the way forward in respect of this referral from the County Council.

2. Executive Summary

2.1. A Notice of Motion ('Motion') proposed by Councillor Gavin James and seconded by Councillor Martin Tod was submitted in accordance with Standing Order 18.1 to a meeting of the County Council held on 29 November 2018. A copy of the Motion is attached to this report as Appendix 1.

2.2. In accordance with Standing Order 18.4 the Council referred the Motion to Cabinet for consideration. Cabinet is accordingly requested to consider the Motion and report back to the County Council.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the matter has been referred by the County Council to Cabinet in accordance with Standing Orders.

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.)

Document	Location
None	

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

1.2. **Equalities Impact Assessment:**

No direct impact on equalities is anticipated as a result of Cabinet's consideration of the Motion.

2. Impact on Crime and Disorder:

2.1. No direct impact on **crime and disorder** is anticipated as a result of Cabinet's consideration of the Motion.

3. Climate Change:

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

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

3.1. No direct impact on climate change is anticipated as a result of Cabinet's consideration of the Motion.

COUNTY COUNCIL – 29 November 2018

NOTICE OF MOTION

ITEM 11

NOTICE OF MOTION SUBMITTED IN ACCORDANCE WITH STANDING ORDER 18.1

Proposed by Councillor Gavin James, seconded by Councillor Martin Tod:

"Council notes that it is now more than two years since the Referendum and the Government still has no coherent Brexit plan that has the support of a majority in Parliament. Since the vote in 2016:

a) The performance of the UK economy has fallen behind. It is now the slowest growing economy in Europe with productivity slipping further and competitiveness reliant on the declining value of the Pound;

b) Hampshire residents – particularly those on lower incomes – are being hit hard by rising inflation and squeezed pay rates;

c) Confidence among investors and established businesses is ebbing with jobs moving away from the UK;

d) Many non-UK EU nationals resident in the county have had their lives, and those of their UK-national families, destabilised by the uncertainty of Brexit. On top of the social impacts, local businesses and, above all the NHS are losing vital staff;

e) New investment, which Hampshire relies on for future prosperity, is being jeopardised and new job opportunities are being lost;

Council believes that a 'hard' or 'no deal' Brexit will seriously harm the long-term prosperity of all Hampshire residents. With only 20 weeks to go before the UK leaves, it is vitally important that Hampshire County Council speaks up on their residents' behalf.

Council calls on the government to abandon plans for a hard Brexit and to give the people of Hampshire a vote on the final deal, along with the opportunity to vote on keeping the irreplaceable benefits Britons currently enjoy by staying in the European Union."