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NOTICE OF MEETING

Meeting	Policy and Resources Select Committee
Date and Time	Thursday, 23rd November, 2017 at 10.00 am
Place	Wellington Room, Elizabeth II Court South, 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 the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Non-Pecuniary interest in a matter being considered at the meeting should consider whether such interest should be declared, and having regard to Part 5, Paragraph 2 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. **MINUTES OF PREVIOUS MEETING** (Pages 3 - 6)

   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. **CRIME AND DISORDER ANNUAL SCRUTINY - HAMPSHIRE SUPPORTING (TROUBLED) FAMILIES PROGRAMME** (Pages 7 - 16)

To consider a report providing an update on Phase Two (2015-20) of Hampshire's Supporting (Troubled) Families Programme (STFP). The programme serves as a key element of the County Council's work with partners to address crime and disorder.

7. **MEDIUM TERM FINANCIAL STRATEGY** (Pages 17 - 104)

To consider a report covering the latest Medium Term Financial Strategy, for the Select Committee to fulfil it's role to scrutinise 'Relevant Financial Management (e.g. budget setting and monitoring final accounts, capital programme, capital receipts)'.

8. **APPROVAL OF TASK & FINISH GROUPS** (Pages 105 - 116)

To approve the initiation of two Task & Finish Working Groups by the Health and Adult Social Care Select Committee.

9. **WORK PROGRAMME** (Pages 117 - 124)

To review the work programme of topics to be considered by the Select Committee in future.

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 Policy and Resources Select Committee of HAMPSHIRE COUNTY COUNCIL held at The Castle, Winchester on Friday, 22nd September, 2017

Chairman:
a Councillor Jonathan Glen

Vice Chairman:
p Councillor Keith Evans

p Councillor Ray Bolton
Councillor Adam Carew
p Councillor Adrian Collett
p Councillor Judith Grajewski
p Councillor Edward Heron
a Councillor Keith House
p Councillor Roger Huxstep
p Councillor Peter Latham
p Councillor Anna McNair Scott
p Councillor Floss Mitchell
p Councillor Bruce Tennent
p Councillor Michael Westbrook

Also present with the agreement of the Chairman: Councillor Keith Mans, Deputy Leader

(Cllr Keith Evans in the Chair)

10. **APOLOGIES FOR ABSENCE**

Apologies for absence were reported on behalf of Cllr Glen and Cllr House. Cllr Carter, as conservative substitute, was in attendance on behalf of Cllr Glen.

11. **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 Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 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.

12. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed.

Under Matters Arising:

Minute 7 – 2016/17 End of Year Financial Report and Transformation to 2019: The Select Committee made a recommendation to Cabinet regarding making representations to central government regarding the impact of austerity on local government finance and ability to provide public services. It was reported that Cabinet had accepted this recommendation and written to central government to this effect.

Minute 8 – End of Year Performance Report: Members queried what the measure for road deaths included. The answer was circulated by email following the meeting: Statistics are only for county roads for which the County Council is the Highway Authority. Motorways and trunk roads are not included as Highways England is the Highway Authority for motorways and trunk roads. The County Council reports on the personal injury accidents that occur on our network whether the injured party is a resident of Hampshire or not.

Members also queried how some delayed discharges from hospital are attributed to the Local Authority and some to the NHS. Further detail about delayed discharges had been circulated. A needs assessment is undertaken of individuals to assess what support they need on leaving hospital. That support may include social care services and may include NHS services. Arranging that support can cause delays. If it's social care support the delay is attributed to Local Authorities, and if it's NHS care the delay is attributed to the NHS.

13. **DEPUTATIONS**

No deputations were received at this meeting.

14. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman provided an update regarding Hampshire Association of Local Councils: Last year, this Select Committee received a presentation from Hampshire Association of Local Councils, and as a result made a recommendation to the Executive Member for Policy and Resources that the partnership agreement with HALC and level of grant awarded be reviewed.

A 3 year agreement with HALC came to an end in April 2017. In March, the Executive Member for Policy & Resources approved a 1 year extension to this agreement and a grant payment to HALC for one year for 2017/18, with a 10% reduction compared to the previous year. In June, Cabinet agreed a recommendation to negotiate a new 3 year grant agreement for HALC, to enable them to provide full and ongoing support for the devolution and locality working agenda in partnership with Hampshire County Council.

15. **TRANSFORMATION TO 2019 - REVENUE SAVINGS PROPOSALS**

The Select Committee received a presentation on behalf of the Chief Executive, Director of Corporate Resources, Director of Transformation and Governance, and Director of Culture Communities and Business Services, in summary of a report regarding the Transformation to 2019 Revenue Savings Proposals for the Policy and Resources Budget (see Item 6 in the Minute Book).

Members were reminded of the overall financial position of the County Council and the savings already made under the ‘Transformation to 2017’ programme. This included a reduction in Member grants to £5,000 per Member per year. It had been agreed to top this up to £8,000 per Member per year for 2017/18 and 2018/19, so the reduction would apply from 2019/20.

Consultation had been undertaken on the opportunities to balance the budget, which showed support for the current financial strategy. It was noted that the savings target for the Policy and Resources budget was £15 million under the ‘Transformation to 2019’ programme. Where savings proposals directly impact the public, further consultation would be undertaken on the specific proposals prior to decision on how those savings would be implemented. The majority of savings under the Policy and Resources budget would come from reducing demand, reducing staff, efficiencies and generating income.

Members asked questions to seek clarification and debated the proposals. Members queried how savings could be made in IT when other departments were reliant on support from IT to achieve other savings. It was reported that the Cabinet was due to consider a revised Medium Term Financial Strategy, and any additional one off investment in IT to fund transformation programmes would be considered within this report. However, there remained opportunities to make efficiencies in ongoing IT costs.

Regarding making savings through ‘channel shift’, it was confirmed that it would remain possible to contact the Council by phone, however it was intended to reduce the volume of calls by diverting some users to accessing help online instead.

Regarding savings in Trading Standards, it was noted that this may include stopping or changing non statutory services, or generating income from discretionary services. Members expressed interest in scrutinising the proposals affecting trading standards, once further detail had been worked up.

Regarding non-departmental budgets, the proposed position was to avoid further reducing the funding available for member grants and grants to voluntary sector infrastructure organisations. It was proposed to provide the savings in this budget area through reducing the contribution to the corporate policy reserve.

Regarding the opportunity to avoid the need for savings by raising Council Tax instead, it was noted that a 1% increase in Council tax would provide around £5.7 million in revenue, therefore in order to meet the £140 million budget gap Council Tax would need to increase by 30%.

It was noted that the budget planning included an assumption of a 1% growth in the salary budget up to 2019/20 and an allowance of £5 million to accommodate the impact of the national minimum wage.

After each Select Committee had considered the proposals for the budget within their remit, the proposals would be considered by the relevant Executive

Members. Then the combined proposals would be considered by Cabinet in October, and then put forward to full Council for decision on 2 November 2017.

Following the debate, the Chairman proposed the recommendation, which was put to the vote and carried (with 3 against).

RECOMMENDED:

That the Policy and Resources Select Committee support the submission to Cabinet of the proposed savings options contained in the report and its Appendix 1.

16. **WORK PROGRAMME**

The Chairman presented the proposed work programme for the Select Committee, as updated since the last meeting (see Item 7 in the Minute Book).

It was agreed to request an item on the Medium Term Financial Strategy for the November meeting.

It was also requested that the Select Committee have the opportunity to scrutinise in further detail the savings proposals under Transformation to 2019 affecting Trading Standards and IT.

RESOLVED:

That the Work Programme is agreed, subject to any amendments agreed at this meeting.

Chairman,

HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Policy and Resources Select Committee
Date:	23 November 2017
Title:	Crime and Disorder Annual Scrutiny – Hampshire Supporting Families Programme
Report From:	Director of Children's Services

Contact name: Ian Langley, Lead for Hampshire Supporting (Troubled) Families Programme, Children's Services

Tel: 01962 845122 **Email:** ian.langley@hants.gov.uk

1. Executive Summary

1.1 This report provides the Policy and Resources Select Committee with an update on Phase Two (2015-20) of Hampshire's Supporting Families Programme (SFP), part of the national Troubled Families Programme. The Programme serves as a key element of the County Council's work with partners to address crime and disorder.

2. Background to the Hampshire Supporting Families Programme

Phase One of the national Troubled Families Programme (2012-21015)

2.1 "Troubled Families" is a programme of targeted intervention for families with multiple problems. Phase One of the national Troubled Families Programme was targeted at supporting 120,000 families comprising children with poor school attendance, young people who are offending, and family members committing anti-social behaviour or claiming out of work benefits.

2.2 Local authorities identify 'troubled families' in their area who can benefit from support to turn their lives around, with a key principle being to assign a key worker who the family trust. Central Government pays local authorities by results for each family that meet set criteria or move into continuous employment.

2.3 The Programme has been led by the Department for Communities and Local Government. £448 million was allocated nationally to Phase One of the programme, which ran from 2012 to 2015.

2.4 This County Council's implementation of the programme has become central to how it works with partners in local communities to identify, engage and support families whose members may be at risk of poor outcomes.

2.5 The criteria for targeted families includes factors directly related to crime and disorder and factors which indicate that family members may be at risk of offending or becoming a victim of crime and disorder.

2.6 In December 2012, the County Council commissioned the University of Portsmouth to undertake an independent evaluation of the Phase One of the programme in Hampshire. This evaluation has demonstrated good evidence of a transition to *whole family working* – a key principle of the programme – as well as significant savings and cost avoided to the public purse (see also 4.1).

Phase Two of the national Troubled Families Programme (2015 – 2020)

2.7 In 2014, the Government announced Phase Two of the programme up to 2020. This increased the number of families nationally to be targeted for support from 120,000 (Phase One) to 400,000 families in Phase Two. The Phase Two criterion for identifying families was also extended to include families with children who need help, and those experiencing domestic abuse issues or health problems.

2.8 As a result of this broadened criteria, the target number of families in Hampshire to be identified, engaged and where possible 'turned around' by 2019/20, increased to 5,540. This challenging target represents 1,108 families on average per annum, which is over double the Phase One average of 530 families each year.

2.9 In Phase Two, the largest proportion of targeted families has been nominated on the basis of meeting the mental health criteria (63%). Significant numbers of families have also nominated under the criteria of poor school attendance, early help and being in receipt of out of work benefits criteria.

2.10 Specifically, a significant number of families have been nominated for anti-social behaviour, rent arrears/financial difficulties and domestic abuse issues. However, the proportion of families identified with domestic abuse issues is lower in Hampshire compared with other areas. The Police secondee to the SFP central team is strengthening links/processes within Hampshire Constabulary to ensure that families experiencing domestic abuse, but who are below the threshold for statutory intervention, are not missed where they would benefit from the programme.

2.11 To date, few families with adult offenders have been nominated to the programme. Three SFP events for Hampshire Community Rehabilitation Company (HCRC) front line staff took place in May/June 2017 to raise the profile of the programme. Materials have also been developed to support HCRC staff to increase the numbers of families coming into the programme who include adult offenders with parenting responsibilities.

2.12 Links have also been developed with HMP Winchester as the new Governor is keen to develop support for men in custody and their families. An example of such support is to allow an additional visit for families whose children have improved school attendance following support from their male relative in custody, which might include the male in custody reading with their child.

3. Finance

3.1 The University of Portsmouth evaluation of Phase One of the Hampshire Supporting Families Programme provided a calculation that the programme had potentially avoided/saved costs of £2.4m per annum broken down as follows:

Impact	Potential costs avoided/ saved
	£ ‘000
Reduced child care placements	667
Reduction in Children in Need	69
Reduction in persistent school absence	57
Reduced incidents involving the police (arrests, ASB, criminal damage, shoplifting)	248
Reduced benefit claims	1,357

3.2 Notably this calculation does not include health or housing costs so is likely to be an underestimate of the overall impact.

3.3 In Phase Two attachment fees for working with families fell to £1,000 per family with a reward payment of £800 available for ‘turning around’ families against up to six criteria that may apply. This has made the claiming of Central Government payment by results grant funding more complex.

3.4 In 2016/17 Hampshire fell short of the DCLG target for identifying/engaging the target number of families by 170 families (see 4.2). There is a low risk that DCLG could claw back £170,000 of attachment fees under their Financial Framework for the Programme. To date DCLG have not indicated any intention to do this.

3.5 Cautious budgeting has ensured there is no financial risk to the programme in 2017/18. During the last two financial years of the programme (2018-20) DCLG targets for Hampshire fall significantly from the present level of 1,413 families in 2017/18 to 1,093 families in 2018/19 and 276 families in 2019/20. It is expected that an increased monthly number of family nominations will be maintained which will make up for the lower earlier nominations (see 4.3 below). This will reduce or eliminate any financial risk to the remainder of the programme.

4. Performance

Number of families identified and engaged in the programme

4.1 By the end of Phase One (2012-15) Hampshire had exceeded the DCLG target (1,590) by identifying/engaging with 1,972 families. This gave Phase Two a head start as 382 families were rolled across into the new phase, enabling the County Council and its partners to exceed DCLG targets in the first year of Phase Two (2015/16).

4.2 During the second year of Phase Two (2016/17) there was a significant slowdown in family nominations - a 9.5% fall compared to the previous year, although activity was still significantly higher that it was in Phase One. This period coincided with the restructure of the Family Support Service across the county.

4.3 In 2017, the number of families nominated has resumed an upward trajectory, which has coincided with the commencement of the new Family Support Service. In July 2017, 122 families were identified or engaged, representing the highest monthly total to date. August 2017 saw 94 families nominated, the highest number for that month to date. This gives some encouragement that the increased DCLG target (1,413) for 2017/18 can be met.

4.4 Action continues to be taken by the STFP central programme team to increase awareness of the programme and nominations from key professionals, such as health, housing, probation, social care and education.

4.5 **Positive family outcomes achieved**

4.6 The success threshold in Phase Two is higher compared to Phase One since positive family outcomes must be sustained for at least six months (an academic year for school attendance) against all of the family issues that apply (up to six rather than two or three in Phase One). The only exception remains where a family member claiming an out of work benefit enters and sustains employment for a least 6 months, enabling a claim to be made in its own right.

4.7 By the end of 2016/17, positive family outcomes for 271 families had been registered with DCLG for the payment of reward grant to the County Council. In October 2017, a claim for a further 107 families has been submitted, which if accepted by DCLG will bring the total to 378.

4.8 All the positive family outcomes submitted to DCLG by Hampshire have been scrutinised by the County Council's internal auditors. In September 2016, DCLG undertook a spot check of reward claims and provided largely positive written feedback on the quality of data and the validity of claims made.

5. Strategic Partnership and Commissioning

5.1 The SFP is led by the County Council which convenes a Strategic Programme Board to involve partners and stakeholder in the development and delivery of the programme and to monitor and manage performance. There is a multi-agency central programme team and a network of identified Senior Responsible officers for each district whose role is to co-ordinate the identification of local nominations for the programme and to co-ordinate interventions with families, involving relevant local partners. This is supported by a multi-agency shared information and case management system.

5.2 The County Council commissioned an intensive family support service from 1 April 2013 to 31 March 2017 to work with 250 families each year nominated under the programme. The commission was in three geographic lots and the provider was Transform - a voluntary sector consortium led by Barnardos working with local voluntary organisations.

5.3 Following consultation with key stakeholders (in particular borough and district councils) and with Executive Member approval, a contract for the new Supporting Families Intensive Support Service between 1 April 2017 and 31 March 2020 was commissioned on the basis of a range of approved contracted providers under a single framework.

5.4 The new framework contracts provide greater flexibility than previously, with several providers in each of the ten lot areas (based on district and borough council areas, with Hart and Rushmoor combined), and a minimum of two providers in each district. If a provider in any district reaches capacity with the number of families they could support at particular time, there is at least one more provider in each district to whom families could be nominated.

5.5 Due to increased competition in the market, the unit cost per family has fallen since the service was originally commissioned in 2013. This has enabled both a reduction in the cost of the contract and an increase in capacity to support the 376 families each year.

5.6 The move from the contract with the *Transform* consortium to the providers on the new framework contract has taken place smoothly. The transition was assisted by the fact that two of the former *Transform* consortium (Family Lives and Motiv8) were successful in becoming providers under the new framework contract and retained their existing staff and expertise. Two additional new providers - CSW Ltd and MIND - have also made a good start to delivering intensive support to families in Hampshire.

6. Future direction for the Hampshire Supporting (Troubled) Families Programme

6.1 The original transformational ambition of the programme remains steadfast; to acquire learning and implement improvements to the way way agencies work together with families. This includes working with the whole and extended family rather than different agencies working with individual members of the family in isolation. This is reinforced by the County Council working with partners to apply DCLG's Service Transformation and Maturity Model. This model and toolkit supports local areas to address meaningful cultural and system change and to assess how they are performing in transforming their services working with all partners and more can be achieved.

6.2 Much of the learning from the Phase One evaluation (see 3.4 & 4.1) has been fed into the Maturity Model. In order to build on the learning and to further assess the impact and outcomes of the STFP an independent academic evaluation of Phase Two has been commissioned from Southampton Solent University (SSU). An interim report will be provided in early 2018 with the final report a year later. The evaluation (which will endeavour to include health and housing costs) will support the development of the business case for future investment in the programme post 2020.

6.3 DCLG are currently inviting expressions of interest for an 'Earned Automony' model of funding for the last two years of Phase Two (2018-20). Under this model, public sector organisations that have demonstrated consistently high standards of quality provision, can 'earn' the right to manage their own budgets as they think best for their service users, without the constraints of centrally controlled audits and inspections. Given Hampshire's strong commitment to service transformation, an expression of interest has beeng submitted and if successful would lead to an invitation to submit a full bid in January 2018.

6.4 A Full Members' briefing about the Hampshire Supporting (Troubled) Families Programme has been arranged for the 23rd January 2018 which will provide a further update on progress.

7. Recommendation(s)

7.1 The Policy and Resources Select Committee is asked to:

- note the continuing work of the Supporting Families Programme
- consider the positive outcomes being achieved through the programme for families in Hampshire as a significant contribution towards preventing crime and disorder and associated risk factors
- note the future direction and next steps

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:	no
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:

Title	Reference	Date
Supporting (Troubled) Families Programme	4382	29/10/12
Supporting (Troubled) Families Programme update.	5050	22/7/13
Supporting Troubled Families in Hampshire Programme Update and Preparations for Phase Two	6028	14/12/14
Supporting (troubled) Families Programme (STFP) update report		26/7/17

Direct links to specific legislation or Government Directives

Title	Date
DCLG Financial Framework for the Expanded Troubled Families Programme https://www.gov.uk/government/publications/financial-framework-for-the-expanded-troubled-families-programme	April 2015
DCLG Supporting disadvantaged families Troubled Families Programme 2015-20: Progress so far https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/611991/Supporting_disadvantaged_families.pdf	April 2017

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
Hampshire Supporting Troubled Families Final Evaluation Report Phase One, Professor Carol Hayden, university of Portsmouth 2015	Children's Services STFP Central Team

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.

Equalities Impact Assessment:

1.2. An equalities impact assessment was completed by the STFP central team as part of the initial programme planning in October 2012. This highlighted that the programme may disproportionately impact upon families within particular age groups and families with women in the household due to the restrictive DCLG definition of a troubled family in Phase One. The extended DCLG criteria used to identify Phase Two families means this is no longer the case.

1.3 This is a positive programme designed to improve the lives of some of Hampshire's most troubled families and communities, and therefore the impacts are likely to be positive.

2. Impact on Crime and Disorder:

2.1. A key objective of the programme remains to reduce offending and anti social behaviour amongst families targeted for support.

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption? Not applicable

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? Not applicable

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HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Policy & Resources Select Committee
Date:	23 November 2017
Title:	Medium Term Financial Strategy
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Rob Carr, Head of Finance

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

1. Purpose of Report

1.1. For the Policy & Resources Select Committee to fulfil it's role to scrutinise 'Relevant Financial Management (e.g. budget setting and monitoring final accounts, capital programme, capital receipts)' (as per the scrutiny responsibilities outlined in Part 2 Chapter 5 of the Constitution).

2. Contextual Information

2.1. Attached is a report on the Medium Term Financial Strategy (and Transformation to 2019 Savings Proposals) which was considered by Cabinet on 16 October 2017 and County Council on 2 November 2017. County Council approved the recommendations set out in section 1 of the Council cover report, along with the following additional resolution:

2.2. 'That Hampshire County Council calls on the Government to permit Councils responsible for administering the national Concessionary Travel Scheme, to levy modest charges on older persons' passes, e.g. 50p for each use and £10 for issuing and renewing permits, with the balance of revenue raised after costs to be used to support uncommercial, public or community transport services serving vulnerable or disadvantaged residents or areas.'

3. Recommendation

3.1. That the Policy and Resources Select Committee note the Medium Term Financial Strategy.

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COUNCIL MEETING, 2 NOVEMBER 2017

REPORT OF

Cabinet

PART I

1. MEDIUM TERM FINANCIAL STRATEGY AND TRANSFORMATION TO 2019 SAVINGS PROPOSALS

1.1 At its meeting on 16 October 2017, Cabinet considered the medium term financial strategy and transformation to 2019 savings proposals.

1.2 The report considered by Cabinet presented detailed savings proposals from Departments as part of the Transformation to 2019 Programme, it set out the financial context, including the Council's approach to commercial activity and detailed the outcomes of the Serving Hampshire – Balancing the Budget public consultation. It also included an Equality Impact Assessment for each saving proposal.

1.3 The report also examined the medium term financial prospects for the County Council to 2020/21 and took the opportunity to update Cabinet on the financial monitoring position for 2017/18. In addition, the report considered a number of items that are linked, both directly and indirectly, to additional capital investment and economic growth and also to managing risk, particularly in response to growing demand pressures across children's social services.

1.4 The report considered by Cabinet is attached, in full, as an Annex to this Council report.

1.5 In addition to a number of recommendations to Council, set out below, Cabinet resolved to:

i. Note and endorse the County Council's current approach to commercialisation as outlined in Section 3.

ii. Note the current position in respect of the financial resilience monitoring for the current financial year.

iii. Confirm that in the absence of further information, which may be contained in the Budget in the autumn, the current planning assumption that council tax will increase by the maximum permissible without a referendum, in line with Government policy, will continue.

iv. Approve the recommended approach to dealing with the anticipated £140m budget deficit.

v. Approve, subject to further consultation and executive decision making where necessary, the savings proposals in Appendix 3 after taking due regard of the consultation feedback and Equality Impact Assessments.

vi. Approve further service specific consultations, where necessary, on the savings proposals set out in Appendix 3 prior to final decisions being made by Executive Members.

vii. Endorse the principle that should any savings proposal be rejected that alternative options to the same value will need to be developed by the appropriate department.

viii. Approve an additional £6.1m of one-off funding to meet the balance of funding for the overall IT Programme supporting the delivery of Tt2019, to be met from the savings in non-departmental budgets in the current year as identified in Section 4.

ix. Approve one-off amounts of £1.7m and £315,000 in 2017/18 to fund the part year costs of increased social workers and payments for Special Guardianship Orders, respectively, to be met from the savings in MRP.

x. Approve an initial sum of £100,000 in 2017/18 and a recurring increase of £320,000 from 2018/19 onwards to provide dedicated resources to analyse data and undertake remedial actions associated with water bacteria risk management.

xi. Approve an initial one off sum of £500,000 to support joint initiatives with Town and Parish Councils, the details of which will be subject to approval by the Executive Member for Policy and Resources.

xii. Require that officers, as specific decision making processes move forward, continue to explore all viable options to revise or refine these proposals with particular regard to service continuity in areas such as community transport, school crossing patrols and waste and recycling centres, in consultation with partners and stakeholders as appropriate, while recognising that any modification to any proposal must be consistent with the financial and time imperatives of the overall programme.

RECOMMENDATIONS

With reference to the report annexed to this Council report, Council is recommended to approve:

a) The mid-year report on treasury management activity at Appendix 2 and note potential impact on the investment strategy of defaulting to a retail client with effect from 3 January 2018.

b) The immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the County Council can continue to implement an effective investment and acknowledge that in electing for professional client status the County Council are agreeing to forgo the protections available to retail clients attached at Annex 1 of Appendix 2.

c) That responsibility be delegated to the Section 151 Officer (the Director of Corporate Resources) for the purposes of completing the applications.

d) The savings proposals in Appendix 3, subject to further consultation and executive decision making where necessary.

e) The remainder of the spending required, totalling £22.5m, to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year

f) Recurring funding from 2018/19 onwards of £10.25m to cover the increased costs of social workers, Home to School Transport and payments for Special Guardianship Orders.

g) A one-off sum of £1.4m from the Invest to Save Reserve to fund additional resource within the in-house Transformation Team until the end of 2019/20.

h) Up to £35m of capital spend (funded through prudential borrowing) to invest in the purchase of land and development of the Manydown site.

i) An initial sum of £3m is transferred from capital to revenue between the County Council and Enterprise M3 LEP as outlined in this report and that delegated authority be given to the Director of Corporate Resources to agree further transfers if required.

j) Capital spend of £1.23m to implement improvements whereby specialist equipment will be installed to improve the quantity and quality of data collection and monitoring in relation to water bacteria risk management. To be funded from the savings in non-departmental budgets in the current year as identified in Section 4.

k) An increase in the capital programme of £1m per annum from 2017/18 to raise the provision for the general replacement of and additions to the fleet managed by HTM to £3m per annum, to be funded through prudential borrowing.

l) The addition of schemes associated with the development of land at Woodhouse Lane to the value of £41.695m to the capital programme as outlined in paragraph 11.10.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

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

Contact name: Carolyn Williamson

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

1. Executive Summary

1.1. The purpose of this report is to present the high level outcomes from the public consultation exercise on balancing the budget and to consider the overall financial strategy for dealing with the budget gap to 2019/20 in light of the various options available to the County Council.

1.2. As part of that overall consideration, this report details savings proposals that have been submitted by Executive Members in meeting their initial savings targets as part of the Transformation to 2019 (Tt2019) Programme.

1.3. The report also examines the medium term financial prospects for the County Council to 2020/21 and takes the opportunity to update Cabinet on the financial monitoring position for 2017/18.

1.4. The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of austerity is well documented. It involves planning ahead of time, making savings in advance of need and using those savings to help fund transformational change to generate the next round of savings.

1.5. In line with this strategy, the proposals in this report are being presented at this stage (together with a summary of the results of the *Serving Hampshire – Balancing the Budget* public consultation carried out over the summer) in order to allow more time for delivery of the savings; including the requirement to undertake a second stage of service specific consultations where necessary.

1.6. The County Council's approach to making savings has always been to minimise the impact on services, by making efficiencies wherever possible, maximising opportunities for investment and the generation of income or expanding its traded services with other organisations. This remains the case for the new savings programme which will benefit from the previous approach.

1.7. A key element of the discipline that has been applied to this and previous savings programmes is the need to identify alternative savings within the Department should any of the current proposals be rejected. In most cases this would require the consideration of options that are potentially more difficult than those presented in these papers.

1.8. The financial position to 2019/20 was heavily impacted by the Local Government Finance Settlement for 2016/17 which changed the methodology for distributing grant and reversed the Government's previous policy on council tax increases. In February 2016 it was reported to Cabinet and County Council that savings in the order of £140m would be required and this has been reflected in all financial updates since that date, leading into the Tt2019 Programme.

1.9. The Tt2019 Programme is progressing well, but it is clear that a further £140m of savings will be extremely difficult to achieve, will take significantly longer to deliver to avoid service disruption and must be underpinned by one-off investment in Digital and IT solutions, which are outlined in this report, and which total £38.6m.

1.10. The County Council's ability to continue to provide resources to invest in specific priorities, in line with the County Council's focus on service improvement, and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.

1.11. In this context the report also considers a number of items that are linked, both directly and indirectly, to additional capital investment and economic growth and also to managing risk, particularly in response to growing demand pressures across children's social services. Overall there remains limited scope to add new schemes to the overall Capital Programme and to fund new revenue pressures. This has required a re-think of the current financial strategy in order to free up the necessary resources.

1.12. The report extends the financial planning period to 2020/21, recognising the uncertainty that exists beyond the period covered by the current spending review which runs to 2019/20. No further settlement figures are available after 2019/20 and there remains uncertainty nationally around the Fair Funding Review and the future of 100% Business Rate Retention.

1.13. The County Council's gross expenditure continues to be in the region of £1.9 billion (including schools) and the authority remains in a very strong financial position. However, this report outlines that in an environment of continuing austerity, ongoing social care and inflationary pressures, and given the current referendum limits for council tax increases, the financial outlook remains very challenging.

1.14. The MTFS update this year contains a number of complex and linked issues and a table of contents has been provided below to aid navigation through the report:

Section 1 – Executive Summary

Section 2 – Contextual Information

Section 3 – Commercialisation in Local Government

Section 4 – 2017/18 Financial Monitoring

Section 5 –*'Serving Hampshire – Balancing the Budget'* Consultation – Feedback

Section 6 – Equality Impact Assessments

Section 7 – Savings Proposals

Section 8 – Transformation to 2019 Programme

Section 9 – 2018/19 Budget Setting

Section 10 – Capital Investment and Economic Growth Priorities

Section 11 – Capital Strategy

Section 12 – Reserves Strategy

Section 13 – Medium Term Forecasts – Beyond 2019/20

Section 14 – Recommendations to Cabinet and County Council

Appendix 1 – Children's Services Financial Resilience to 2020/21

Appendix 2 – Treasury Management Mid-Year Monitoring Report 2017/18

Appendix 3 – Proposed Savings Options

Appendix 4 – Equality Impact Assessments – Adults' Health and Care

Appendix 5 – Equality Impact Assessments – Children's Services

Appendix 6a – Equality Impact Assessments – Economy, Transport and Environment

Appendix 6b – Equality Impact Assessment – Economic Development

Appendix 7 – Equality Impact Assessments – Policy and Resources (P&R)

Appendix 8 – Reserves Strategy

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

Capital Approvals

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

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

Revenue Approvals

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

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

2. Contextual information

2.1 It is normal practice to provide Cabinet with an update on the Medium Term Financial Strategy (MTFS) in July each year in order to inform and direct work on detailed budget setting that will take place over the summer.

2.2 The position is somewhat different this year since the main focus is to approve the strategic plan to deliver the savings required up to 2019/20 and to approve detailed savings proposals that will be pursued as part of the Transformation to 2019 (Tt2019) Programme. Further information in respect of the budget setting process for 2018/19 will be provided in December, which will support the setting of the precept in February 2018.

2.3 Members will be fully aware that the County Council has been responding to reductions in public spending, designed to close the structural deficit within the economy, since the first reductions to government grants were applied in 2010/11 and then as part of subsequent Comprehensive Spending Reviews (CSRs).

2.4 Whilst the County Council understands the wider economic imperative for closing the structural deficit, the prolonged period of austerity has led to significant reductions in government grant for the County Council at a time when it has also had to respond to inflationary and growth driven increases in costs across all services, but in particular adults' and children's social care.

2.5 Reductions in government grant together with inflationary and service pressures highlighted above have created an average budget gap of around £50m per annum, meaning that around £100m has needed to be saved every two year cycle since 2011.

2.6 This position has been exacerbated following the changes announced in the Local Government Settlement in February 2016 which provided definitive figures for 2016/17 and provisional figures for the following three years to 2019/20. The settlement included a major revision to the methodology for distributing Revenue Support Grant (RSG) which had a major impact on Shire Counties and Shire Districts and also reflected a clear shift by the Government in council tax policy.

2.7 The impact on Shire Counties of a significant unexpected reduction in grant at a time of growing demand and cost pressures in the services they provide has affected the short term financial viability of some County Councils, with Surrey previously considering a 15% council tax increase and Northamptonshire writing to the Government about the difficulties of balancing its budget.

2.8 Whilst Hampshire's forward planning and successful delivery to date have placed it in a strong position, the impact of the 2016/17 settlement has significantly increased the challenge for the two years to 2019/20. In response to representations from Shire Counties and Districts, the Government has provided some transitional grant over two financial years to those who lost the most (£18m for the County Council) and there are calls for this to be extended to 2019/20 to give those authorities a longer period to deliver their savings programmes.

2.9 In overall terms, even after allowing for council tax increases over the settlement period, an anticipated budget gap of £140m was predicted by 2019/20 and savings targets of £120m, based on a reduction of approaching 19% in cash limited spend, were allocated to departments as part of the Tt2019 Programme. The remaining £20m was to be secured from corporate "housekeeping" resulting from changes in accounting practice in respect of depreciation and minimum revenue provisions (MRP) and also the management of debt, inflation allowances and reserves.

2.10 Over the past nine months, early opportunity assessment work in respect of Tt2019 has been progressed by departments alongside the delivery of remaining Transformation to 2017 (Tt2017) changes and savings.

2.11 The early opportunity assessment work was summarised in the first Tt2019 report to Cabinet in June 2017 and featured in the *Balancing the Budget* public consultation exercise that was carried out over the summer of this year. The consultation, on high level options for balancing the County Council's budget, was held to inform and shape the final savings proposals that would be presented to Executive Members, Cabinet and County Council over the autumn. The consultation was scheduled in order to provide sufficient time and capacity to implement the proposals as far as possible before April 2019 following further consultation where necessary.

2.12 The anticipated delay in some elements of the delivery of cash savings for the Tt2019 Programme has also had to be factored into the medium term forecasts to ensure that sufficient one off funding exists both corporately and within departments to meet any potential gap over the period. At this stage, there is a high degree of confidence that this can be covered but this change in the profile of the delivery of savings does indicate that we are now beginning to be 'behind the curve' rather than in front of it and this will inevitably impact on our ability to respond to further financial pressures after 2019/20.

3. Commercialisation in Local Government

3.1 The County Council's approach to the delivery of successive savings programmes has in the main focussed on maximising efficiencies in service delivery and implementing changes to operating models and technology that mean that services can be provided in a cheaper but more effective way.

3.2 Alongside this, the County Council has also examined areas where it can generate more income in order to reduce the direct impact on services, either through charging for services or through the expansion of traded services to other organisations.

3.3 In addition, as part of the strategy for making 'housekeeping' savings a revised approach was adopted for the investment of surplus cash, that has generated significant returns as part of a balanced portfolio.

3.4 This approach has continued into the Tt2019 Programme and as part of the *Serving Hampshire – Balancing the Budget* consultation feedback, generating additional income was the most preferred option for helping to close the budget deficit.

3.5 The purpose of this section is to outline, as part of the wider MTFS, the County Council's approach to commercialisation and explain some of the risks and issues associated with certain options, some of which have received recent national press coverage.

3.6 There are four main areas where the County Council can seek to generate additional income to help close the budget deficit:

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

3.7 The following paragraphs explore what the County Council has been doing in each of these areas as part of its longer term financial strategy.

Charging users for the direct provision of services

3.8 Many of the potential areas for charging for services at a county level are governed by statute and by far the biggest area is charging for the provision of adult social care services which generates around £60m of income that is vital in maintaining services in the face of growing demand.

3.9 Income generation through fees and charges in other departments (excluding schools) accounts for a further £38m, much of which sits within Culture, Communities and Business Services, for goods and services that people use more of a matter of choice than out of necessity.

3.10 This £98m of fees and charges income is already built into the base budget and it is only any marginal net increases that can be achieved on this figure that would help the County Council close the predicted budget gap. In terms of scale therefore, whilst income generation is of a significant value, against a savings target of £140m it does not represent a significant proportion of the County Council's budget.

3.11 The range of income generating activities that the County Council can enter into is also very different to that of district councils who are able to introduce smaller scale but localised services that may generate a net return. Some examples of areas that have been introduced include:

- Car washing services in council owned car parks.
- Garden waste collection.
- Cleaning services.

- Gardening services.

3.12 In these instances, it is important to remember that the net marginal return against the costs of providing the services tends to be fairly small. Therefore a significant volume of activity needs to be undertaken to generate anything that will have a material impact in budgetary terms, given the size and scale of the County Council and the scope for the sorts of areas highlighted above is limited. On top of this of course, there is also the potential for the venture to be loss making, given that some ventures are not necessarily in areas where the councils have the right expertise.

3.13 The County Council has quite rightly concentrated on areas where it already has experience in providing the services and has built commercial models around these that also improve and enhance the user experience at the same time.

3.14 An excellent example of this is the programme around our country parks, where capital investment is being used to improve facilities and options for users and new income generation strategies are being put in place around catering, activities and car parking with the aim of making the country parks financially self sufficient over the longer term.

3.15 This approach builds upon our existing service base, is more aligned to the types of services the County Council provides and better reflects the scale at which we work, rather than choosing new or more speculative ventures to launch into.

Investing money or using assets to generate a return

3.16 The County Council holds reserves for a number of purposes which are explained in more detail in the Reserves Strategy in Appendix 8. The level of the reserves, together with the normal cash flow patterns throughout the year mean that there are significant opportunities for investing surplus cash to make a financial return.

3.17 However, it is important to note that the nature of these investments is very different to those that are undertaken on behalf of the Pension Fund which are very long term investments that focus on return as one of the primary objectives, with a value in excess of £6 billion. For shorter term cash balances, the County Council follows Chartered Institute for Public Finance (CIPFA) and Department for Communities and Local Government (DCLG) guidance, which emphasises prudence and specifies the priorities for investment decisions (in order of importance) as security, liquidity and finally yield.

3.18 The County Council is faced with a historically low interest rate environment. Following the UK's referendum decision in June 2016 to leave the EU the Bank of England cut interest rates to 0.25%. Recent news suggests a rise is imminent, albeit it is likely to be a small one and the pace of change of any future increases is likely to be slow and steady, thereby continuing the low interest rate environment for some time to come. Since a large proportion of the surplus cash balances are invested in short term deposits, low interest rates reduce the income the County Council earns on its investments and may worsen the County Council's overall budget position.

3.19 As part of the 2014/15 strategy the County Council decided to earmark £90m of its cash balances for investments appropriately targeting a higher yield. This was in addition to the £15m of long term investments that had been made for the Street Lighting PFI scheme. The County Council has now agreed to increase this amount to £200m.

3.20 Higher yields can be accessed through investments in assets other than cash, such as equities, bonds and property. The County Council has made investments in property, equities and government bonds, as well as long term investments with other Local Authorities as shown in the following table which also provides an analysis of the remaining portfolio to highlight the differences in return:

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

3.21 The returns shown are those reported for the Treasury Management activity undertaken in 2016/17 and the first five months of the year for 2017/18, more detail about which is set out in Appendix 2. The average yield listed for pooled equity and multi-asset funds in 2016/17 is the total net income return for the partial year that the County Council had been investing in these funds after allowing for initial joining fees. The returns shown in 2017/18 are more typical of those expected for the performance of these funds.

3.22 The County Council is targeting a return of around 4% from higher yielding investments, which is significantly above any short or long term cash investments as highlighted in the above table. It is important to note that the £120m of higher yielding investments is helping to increase the County Council's overall average investment return, which is adding £3.9m to its income based on current average balances and yields for 2017/18. By increasing higher yielding investments to £200m and investing in, for example, pooled property funds, this could yield potentially another £3.6m per annum going forward, taking the total to circa £7.5m on a £200m investment (3.75%).

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

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

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

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

Direct or pooled investments

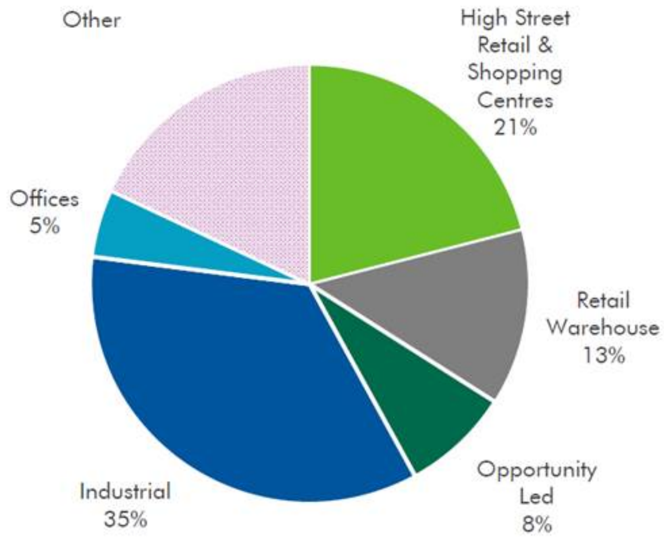
3.26 The County Council utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select the particular investments and then manage them, for example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

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

Comparison of property funds

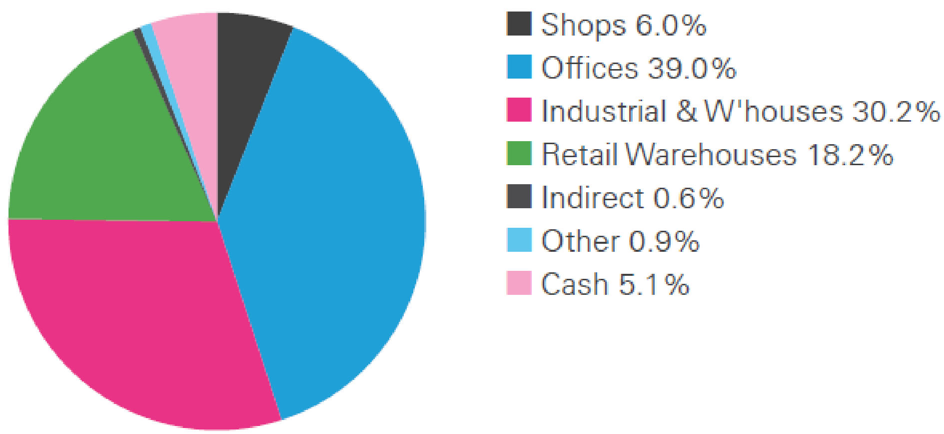
Pension Fund direct portfolio – Investment manager: CBRE

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



Pooled Property Fund

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



3.28 The County Council could attempt to build a sub-scale direct portfolio, but this would add significant risk to the Council which would not align with its investment objectives. Without sufficient diversification the County Council would be exposed to too great an impact from a single property it had invested in. Through its experience with the Pension Fund the County Council has seen a property fall vacant at an inopportune time and remain vacant for a significant period of time. This risk can be mitigated in a large diversified portfolio, such as the Pension Fund's, but this is beyond the reach of the County Council, the majority of whose balances are not available for this sort of investment.

3.29 Recent local examples would also suggest that as a pure investment opportunity the returns are limited. Southampton City Council have recently invested £65m to earn a £1m or 1.54% net return. Whilst this might be part of a wider programme either for economic development or future major development opportunities, the reality is that had they invested £65m into a pooled property fund, they could have earned over £2.5m per annum based on the 3.85% earned last year.

3.30 Similarly Eastleigh Borough Council has just released details of its property investment strategy, which now has a portfolio of £250m underpinned by prudential borrowing of £120m that yields a net return of £5.5m per annum. This is a net return of 2.2% overall, which does not compare favourably with the near 4% rates that the County Council is achieving through its pooled property funds. A return which is generated without the same level of risk exposure and without having to service any long term debt, which could be a significant burden if investment returns were to reduce during an economic downturn.

3.31 At a national level there is much press coverage about the property investment 'bubble' being created by local government on the back of cheap borrowing from the Government and the financial risks that this poses and there is speculation that the Government may move to limit this type of activity in the future. The County Council's approach of investing in pooled property funds is already providing significantly higher returns (4.10% this year) without the need to prudentially borrow, without the risk of owning individual properties itself and with the security of a much larger and diverse portfolio than could be achieved on its own, even with our scale of investments.

Utilising Property Assets

3.32 The County Council is utilising its own property to make a return. In areas where we already own buildings we are working with partners to utilise this space more effectively from a joint service provision point of view and at the same time making a return on the space we have provided.

3.33 A recent example of this is shared space between Adult's Health and Care and CCG partners within EII Court West that will improve joint working at the same time as providing a contribution to our direct costs and overheads.

3.34 Further work is being undertaken to maximise the usage of space in existing buildings with a view to potentially offering whole buildings, such as Athelstan House on the commercial market for lease. Once again this is the County Council using its existing assets to generate income with minimal risk, compared to buying up property using prudential borrowing purely to try to make a financial return.

Expanding traded services to other organisations

3.35 The County Council has an established record of traded services, predominantly with schools and other public sector partners. These include local partners such as Hampshire Constabulary and the Fire and Rescue Service, and out of county organisations such as Oxfordshire County Council. External trading is conducted through a range of different arrangements, from direct trading with business units to subscription models, Service Level Agreements and joint working partnerships.

3.36 Trading already makes a significant contribution to the County Council's finances. Income from external trading supports service budgets as well as enabling them to make departmental contributions. Analysis of traded services for last year assessed that the 42 trading areas with the highest income were generating combined revenue of £133.9m.

3.37 In net terms, this level of trading activity made a contribution of £13.7m or 11.4% to the cost of direct and indirect overheads, many of which would still be incurred even if the trading activity did not take place. At the end of 2016/17 total departmental trading reserves stood at £12.7m, representing 3.4% of the Council's total earmarked revenue reserves.

3.38 It is important, however, that we distinguish between the income generated through trading activity, which is noteworthy, and the surplus that activity generates, which is considerably smaller. Indeed, the benefits the County Council obtains from external trading are largely non financial. Trading enables us to maintain capacity and capability within the workforce; helping us to attract and retain high calibre staff. This shores up the quality of our service provision to Hampshire residents and at the same time, enables us to make a contribution towards our organisational overheads.

3.39 Trading also delivers a number of wider benefits within Hampshire. Providing local employment through trading is an economic benefit to the County. The role our services play in moderating the external market and in ensuring that public value is a core principle in service delivery (as opposed to purely profit driven private sector provision) brings quality to the areas in which we trade, providing positive reputational benefits through the value we add.

3.40 The County Council's scale and its ability to maintain capacity across a wide range of services during this period of austerity has also opened up new opportunities as other organisations have divested themselves of their technical, professional or back office expertise. Over the last ten years the County Council has:

- Expanded its Property Services function, entering into a partnership with Reading Borough Council and undertaking work on behalf of the Isle of Wight Council and the Education Skills and Funding Agency.
- Created a shared services partnership with Hampshire Constabulary and Hampshire Fire and Rescue Authority which now provides services to Oxfordshire County Council and will soon 'on-board' the London

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

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

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

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

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

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

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

Case 1 – Manydown, Western Basingstoke.

3.45 In the case of Manydown, in May 2016 the County Council, along with joint landowner Basingstoke and Deane, secured the allocation of the initial Manydown Phase 1 development for 3,200 homes to be provided in the period up to 2029. Following public consultation that has enabled the finalisation of a development masterplan, this will now form the basis of an outline planning application due to be submitted in 2017 with a view to commencing on-site development in 2018/19.

3.46 In addition, following the consideration of alternative methods of delivery, control, risk and finance via the Manydown Business Plan, the Executive Member for Policy and Resources (EMPR) has approved a Private Sector Master Developer Joint Venture approach. This enables the procurement of a major Private Sector Partner (PSP) who will work with both landowners as co-developers of Manydown. This procurement process will be completed later this year and enable the final Detailed Manydown Business Plan to be brought to EMPR for approval.

3.47 The Plan proposes the creation of a 50/50% Limited Liability Partnership between the two landowning authorities in the form of 'Top Co.' In turn, 'Top Co.'' will enter into a 50/50% Limited Liability Partnership Development Company ('Dev Co.') with the procured PSP. 'Dev Co.' will bring together the land, staff expertise and capital investment of the two authorities with the Master Developer expertise and finance of the PSP to enable the commencement of homes and infrastructure on site in 2018/19. In addition, this arrangement will also look to attract appropriate government and Enterprise M3 (EM3) LEP infrastructure grant funding and planning obligation funding into the development.

3.48 As part of the above, the County Council will actively participate in the provision of private housing for sale or rent and also affordable house building for sale and rent within its 'Dev Co.' role. As a result of this, it will be in a position to decide if it wishes to receive either capital or revenue benefits from its involvement. In addition, this model, without the involvement of Basingstoke and Deane, might be further considered for its wider Strategic Land Programme across the county.

3.49 In addition to 'Dev Co.', a further arrangement would be put in place by the two landowning authorities to hold any retained private or affordable homes for rent which at this stage is termed 'Invest Co.'. This could also be used to retain and hold potential commercial assets that also were being held for the purposes of revenue income. In turn, 'Invest Co.' would be supported by another creation of the two authorities, 'Manage Co.' This would provide the day to day running, management and maintenance etc of any retained assets. Both 'Invest Co.' and 'Manage Co.' would be able to utilise the existing officer and consultant partner skills and expertise that the two authorities already make use of in their day to day business as usual.

Case 2 – Swing Swang Lane, Basingstoke.

3.50 In this second case, as of May 2016 the County Council has again secured an allocation of this site for 100 new homes in the Basingstoke and Deane Local Plan to 2029. On this basis the site was in a position to secure an outline planning approval and bring it to the house building market for disposal for capital receipts in the usual manner.

3.51 However, whilst this remains an option, the opportunity has recently been taken to consider and compare an alternative approach. This proposes that instead of the County Council receiving a capital receipt for the site, it keeps an interest in a number of the completed homes that are provided by the development partner that is eventually secured for the site. These would be private homes for rent and be managed by the development partner in order to generate a revenue income, from which the County Council will benefit.

3.52 The model being explored is that the homes would be retained for an initial ten year period to coincide with the benefits of any house builder guarantees and then probably disposed of to a housing association or other interested party. Thus, a financial comparison can be made between the taking of a capital receipt and its investment over a ten year period or the retaining of residential assets, their net revenue income over this period and their eventual capital realisation at the end of the ten year period.

3.53 This model has recently been taken to the development and house building market via an "Expression of Interest" exercise and the outcomes are currently being analysed for a report to EMPR in the new year. This has generated a high amount of interest and responses. However, an interesting issue that has emerged is that by not being required to raise finance to undertake an initial up-front purchase of land from the County Council, the eventual asset value of housing that could be transferred to the County Council appears to be greater than a potential straight forward capital receipt. In addition, this approach has generated a strong response from housing associations who are looking to build more private homes for sale and rent. Such partners could also offer the management role that the County Council would be looking for. Again, this approach could be considered in whole or part or in combinations across the Strategic Land Programme.

Relationships with Contractors and Partners

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

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

Commercialisation in Local Government – Conclusions

3.56 This section has demonstrated that by building on its existing strengths, at the same time as looking for innovative (but low risk and sustainable) options for investment and utilisation of assets, the County Council has radically shifted its approach to income generation and the pursuit of commercial opportunities during the period of austerity.

3.57 The success of the County Council's approach now means that we:

- Will be generating fees and charges income of around £100m by 2019/20.
- Will increase gross trading services as part of Tt2019 to £150m, generating a potential net contribution in the order of £19.5m.
- Have increased investment returns on cash balances from £3.5m per annum in 2011/12 to over £9m in the current year.
- Will start to generate longer term savings through property development and joint ventures with partners that will contribute to future savings programmes.

3.58 Total commercial based activity will contribute around £130m net to supporting the County Council's bottom line and to helping maintain high quality services, staff capacity and the retention of skills and technical expertise.

3.59 This has all been achieved through the pursuit of a range of initiatives targeting increased income generation but without over exposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.

3.60 While the organisation should and will continue to explore all further opportunities to extend these net incomes and identify new ones, it would be a grave error to reduce our planned savings for Tt2019 on the back of over ambitious or unsustainable income targets that would build significant risk into future financial plans.

4. 2017/18 Financial Monitoring

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

4.2 2017/18 represents a further milestone in this journey, given that a further £98m has been removed from budgets, taking the total to £340m since the grant reductions began.

4.3 This further level of reduction obviously increases the risk within the budget, and strong financial management is critical to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that approved savings programmes are delivered.

4.4 In recognition of this risk 'financial resilience' reporting presented to the Corporate Management Team (CMT) has evolved to look not only at the regular financial reporting carried out in previous years but also to focus on potential pressures in the system and the continued monitoring of the implementation and delivery of the Tt2017 Programme; primarily within Adults' Health and Care where slipped delivery was agreed by Cabinet.

4.5 The table below summarises the latest forecast position for each department as at the end of August (Month 5), and shows that overall there is good delivery of savings and management within the budget and that where there are issues, these have mostly been anticipated and can be accommodated on a one-off basis from departmental cost of change (and other) reserves alongside approved corporate support:

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

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

4.7 As we move towards the end of the year it is anticipated that this position may improve through a combination of continued positive management action in the pressure areas, under spends elsewhere in Children's Services and the use of corporate contingencies as appropriate.

4.8 The pressures within Children's Services and the exhaustion of the Department's cost of change reserves was anticipated in the medium term through the monitoring completed in 2016/17.

4.9 Nationally there is growing attention being focused on the pressures facing children's services and analysis by the Local Government Association (LGA) published in the summer highlighted that growing demand for support is leading to over spends in an increasing number of authorities.

4.10 The LGA is warning that the pressures facing children's services are rapidly becoming unsustainable, with a £2 billion funding gap expected by 2020. Unless urgent action is taken to reduce the number of families relying on the children's social care system for support, the LGA have warned that this gap will continue to grow.

4.11 The huge financial pressures councils are under, coupled with the spike in demand for child protection support, mean that the limited money councils have available is increasingly being taken up with the provision of urgent help for children and families already at crisis point, leaving very little to invest in early intervention.

4.12 Last year work was undertaken within the County Council by Finance staff and Children's Services colleagues to critically review the forward projections for Children's, in particular the relationship between Children Looked After (CLA) numbers (and in turn the knock on impact for care leavers) and the financial impact of any increase, or decrease, which is a complex picture.

4.13 These projections indicated that there was growing financial pressure which in 2017/18 was anticipated to reach £9.5m then increasing by circa £3m per annum. Funding has been set aside within contingencies to meet these forecast pressures but it was recognised that the forecast was based on a wide range of assumptions and predictions and given the volatile nature of these areas, a requirement to continue to monitor activity and spend closely was recognised.

4.14 The additional £9.5m was based on forecasts that were produced in December 2016. It is very difficult to accurately predict the future change and cost of CLA and care leavers due to the complex mix and number of variables. Recent trends indicate that the total additional cost in 2017/18 may be higher than anticipated but recent months have also seen a reduction in base line numbers after adjusting for Unaccompanied Asylum Seeking Children (UASC), who attract some Government funding and children placed at home (which register as a CLA but have no direct cost attached). At this stage of the year therefore it is not felt necessary to alter the previous medium term forecasts.

4.15 It was recognised that the pressures within Children's Services also extended to other service areas, in particular Home to School Transport (HtST) and the costs of agency social workers, and further work has been completed as planned to understand some of the reasons for the underlying pressures.

4.16 HtST has been the subject of specific further analysis to consider how best to respond to and plan financially for recent and anticipated future growth in demand due to increased pupil numbers, particularly relating to children with special educational needs and growth in secondary school pupil numbers.

4.17 Similarly, a review of social worker resources has been carried out to examine the potential links between case load levels, staff turnover and the knock on impacts on the number and cost of agency workers. This will also feed into the Tt2019 Programme which is looking at creating extra social work capacity to move children out of care and back into their family homes.

4.18 More detail of the work undertaken and the findings of these pieces of analysis is set out in Appendix 1.

4.19 The current position for HtST indicates that over the last three years, there has been demographic growth and increases in the cost base which gives a cumulative financial pressure in 2017/18 of £2.4m. Projecting this forward, the demographic impact is expected to increase costs by around £0.9m per annum from 2018/19 onwards.

4.20 In terms of the investment in social workers, it is considered essential at this stage to inject significant resources into this area in order to reduce overall caseloads, with the service and staff retention benefits this will have and importantly to provide the capacity to achieve the significant reduction in CLA numbers required as part of the Tt2019 Programme.

4.21 It is proposed that a sum of £6.6m per annum (with a part year impact of circa £1.7m in 2017/18) is provided to grow social worker numbers during the Partners in Practice period and the position will be reviewed after three years in light of the circumstances at this time. It is anticipated that this investment will help to reduce the cost of agency spend that is currently showing as a pressure within the Children's Services budget.

4.22 In addition to these pressure areas, the financial resilience meetings held between the Director of Children's Services and the Director of Corporate Resources have been reviewing other areas that impact on costs and social worker activity.

4.23 These meetings highlighted that our current financial policy around Special Guardianship Orders (SGOs) should be reviewed. SGOs are granted where a family member agrees to look after a child who has been taken into care. SGOs tend to be very effective, since the child is placed in a family setting with which they are already familiar. Payments for SGOs are currently made to the family below the rate that is received by foster carers, making this a less attractive option.

4.24 Children who are covered by an SGO do not have the same level of social worker intervention as those who are with non-family member foster carers, however some families choose not to apply for an SGO as they then receive the higher value of foster care payments. In these cases the families still receive the same social worker interventions as with other foster carers.

4.25 The policy review in this area has highlighted a number of potential items that it is felt will be beneficial in the longer term if the County Council were to decide to increase the payments to families with SGOs to the full foster carer rates, namely :

- Existing families with SGOs will be better recompensed for the care that they provide.

- Existing foster carers are likely to convert to SGOs, since they will receive the same level of payments without having the social worker interventions. This will help to release further social worker capacity to reduce caseloads and to concentrate on getting other children out of care and back with their families in line with the proposals for Tt2019.
- Other children who are already in a care setting or may come into care in the future could be placed with existing family members under an SGO rather going into a much more expensive care setting.

4.26 The long term service and financial benefits of this change in policy could be significant, but initially, there will be an additional cost of increasing the payments to those families with existing SGOs. The full year impact for 2018/19 has been forecast at £1.25m and, on the assumption that the increase in allowances starts on 1 January 2018, there will be a cost of around £315,000 in the current financial year.

4.27 These amounts, together with funding for growth in CLA numbers (and in turn the knock on impact for care leavers) already provided for alongside continued management focus on the other pressure areas, will ensure that the Department operates from a firm financial base as attention turns to the next transformation programme.

4.28 The ongoing provision for HtST can be accommodated within the current allowances for growth and inflation in future years. However, the base adjustment of £2.4m in this area together with a further £6.6m for social workers and £1.25m for SGOs gives a pressure of £10.25m that was not factored into the previous MTFS.

4.29 It has therefore been necessary to re-look at the strategy to 2019/20 to examine ways in which this additional funding can be accommodated. As part of the strategy, a recurring provision of £15m was factored in to meet the costs of prudential borrowing for the balance of funding for additional secondary school places totalling £155m.

4.30 At the time, it was recognised that this funding was front loaded, given that the capital spend was spread over ten years and that it represented the maximum that the County Council would contribute. To minimise the contribution, it was agreed that the County Council would:

- Pursue free schools where appropriate as an alternative to more traditional routes.
- Seek to maximise developers' contributions wherever possible.
- Lobby the government for additional funding to meet the growth in places.
- Adopt a different approach to the design and build of new schools.

4.31 Over the last two years the County Council has been pursuing this strategy and furthermore, recent projections have also indicated that the speed and cost of growth in required school places is not as great as anticipated.

4.32 A major review of the Children's Services capital programme was undertaken over the summer and it is currently projected that by 2021/22 there will be an overall shortage of funding in the total programme (mainly related to the provision of school places) of £55m, albeit that further steps will be taken to minimise this wherever possible.

4.33 It is therefore proposed that of the original £15m a sum of £5m is set aside to meet the potential borrowing costs of the £55m shortfall and that the balance of £10m is used to meet the additional recurring costs highlighted in paragraph 4.28 above. The shortfall of recurring funding of £250,000 can be accommodated from existing contingencies

4.34 This change in strategy reflects the need to respond to revenue pressures and policy changes over the medium term and takes advantage of a longer delivery time of secondary school places. However, this will mean that the financial strategy from 2021/22 onwards will need to provide for the slipped delivery of the school places although the impact of continuing to pursue the measures outlined in paragraph 4.30 will mean that the total required will be less than originally anticipated.

Non-Departmental Spending

4.35 As part of the budget monitoring process, a review has been carried out of the non-departmental areas within the revenue budget, in particular, the provisions for contingencies and the estimates for treasury management activity.

4.36 It has been concluded that at this stage of the year it is too early to release any significant level of contingencies associated with adults' and children's social care (other than that mentioned for SGOs in paragraph 4.33) or centrally held provisions for items such as waste disposal, price inflation and other sums set aside for income risk and general risk.

4.37 However, within Treasury Management, the change in policy on MRP (see paragraphs 7.14 to 7.17) means that it is possible to release resources totalling £10.5m in 2017/18.

4.38 This therefore gives a one off sum that can be used to fund transformation activity, revenue pressures and investment requirements outlined in this report, including the requirement for funding the part year impact of investment in social workers and payments for SGOs in 2017/18 of £2.015m (as set out in paragraphs 4.21 and 4.26).

Treasury Management Mid-Year Report

4.39 The CIPFA Code of Practice on Treasury Management recommends that treasury management activity should be reported on at least twice a year against the strategy that has been approved.

4.40 Attached at Appendix 2 is the mid-year monitoring report for 2017/18 that sets out the borrowing and investment activity that has been undertaken to date and how this compares to the prudential indicators that were set for the year.

4.41 Cabinet is asked to approve the report and recommend approval to full County Council, in line with the requirements of the Code of Practice.

4.42 The European Union, through its Market in Financial Instruments Directive (MiFID II), is aiming to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. This changing of rules will impact how local authorities can access regulated financial services and although the UK has voted to leave the EU, MiFID II will still be implemented in the UK on 3 January 2018.

4.43 Local authorities are currently treated by financial services firms as “professional clients”, the middle of three categories, and the same as similar-sized companies. However, from January 2018, the default position will be that local authorities are to be treated as “retail clients”, the same as individuals and small and medium-sized enterprises, which will entail some increased protection, but at the expense of higher fees, increased paperwork and reduced market access.

4.44 The County Council should be able to opt up to professional client status to maintain the most favourable investment position possible and to enable the opt-up process a number of recommendations have been included. More detail about MiFID II is set out in Section 6 of Appendix 2

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

5.1 The public consultation, which was similar in nature to an exercise completed two years ago ahead of Tt2017, sought residents’ and stakeholders’ views on options for managing the anticipated budget shortfall. The options necessarily extended beyond cost reduction and income raising possibilities to areas such as council tax increases, possible legislative changes and the organisation (structure) of local government in Hampshire.

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

5.3 The headline findings of the consultation were provided to Executive Members and Directors during September, to inform departmental savings proposals which are shown at Appendix 3. Equality Impact Assessments (EIAs), in the attached appendices, set out where Stage 2 consultations are required on specific proposals.

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

Headline Findings

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

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

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

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

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

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

5.8 **Generating additional income** – The departmental savings proposals set out in Appendix 3 include options for generating additional income. In some areas such as country parks, the long term aim is to make these self sustaining by increasing charges to service users. For professional and back office services (such as property services, scientific services and corporate services) new business is actively being pursued to increase income to meet the savings targets that have been set.

5.9 One of the largest current income areas is the charges for adult social care services. This area is heavily regulated in terms of who and what can be charged and whilst some changes to the contributions policy are proposed the total amount generated is not significant in overall terms.

5.10 Opportunities for generating additional income already form part of the savings proposals being put forward by departments to meet the £140m gap and are not therefore an alternative to the savings proposals but rather an integral part of them.

5.11 **Increasing council tax** – Around half of respondents supported the County Council's planned strategy to continue with council tax increases in line with current government policy. Using council tax to bridge the overall budget deficit was respondents' second most preferred option overall.

5.12 In 2016/17 the Government implemented a clear shift in council tax policy and assumed that local authorities would put up their council tax by the maximum allowed each year in the period to 2019/20. For Hampshire County Council this was 3.99% per annum, which included an extra 2% flexibility to pay for the increasing costs of adults' social care. Further flexibilities were announced subsequently to give authorities the flexibility to bring forward some of this increase and to raise the precept by 3% in 2017/18 and 2018/19 within the cap of 6% over the next three years to 2020.

5.13 The County Council increased council tax by 3.99% in 2017/18, and took up the further flexibility granted by the Government of an additional 1% increase in recognition of the pressures facing local authorities due to the growing cost of adult social care.

5.14 Although consultation responses indicated some support for increasing council tax further to help balance the budget, any council tax rise above the limit set by central government would require a public referendum. For every 1% increase in council tax, the County Council would receive approximately £5.7m per annum and to close the predicted budget gap of £140m through council tax alone would require an increase of approaching 30% in total; including the planned 4.99% increase for 2018/19.

5.15 The County Council, has along with other councils, lobbied the Government to provide more flexibility for increasing council tax in the future, either by increasing or removing the referendum limit. This would require regulatory change and in light of the BREXIT negotiations, is unlikely to gain much traction in the very near future. In the absence of this change, the County Council would need to undertake a public referendum, which could cost up to £1.5m. Only one referendum has been held to date, by the Police and Crime Commissioner for Bedfordshire and only 30.5% of voters supported the 15.8% increase proposed. Given this position, and taking into account the result of the Consultation it is considered that a referendum seeking a council tax increase above the maximum currently allowed is unlikely to be successful.

5.16 In any event, the County Council must also take into account the wider financial and non-financial issues and the impact on council tax payers of any increase. Other factors which would argue against a referendum at this stage are:

- Committing to a high council tax increase through a referendum at this stage for all intents and purposes reduces the ability to consider this at a later date should the financial position worsen; for example due to adverse impacts from future funding arrangements.
- The economy is still recovering and there is heightened uncertainty as a consequence of BREXIT. An increase in council tax tends to disproportionately hit the low paid at a time when the Government continues to reduce spending on welfare services, impacting on those same people.
- Billing authorities continue to change their Council Tax Support Schemes (which replaced council tax benefit) in a way that impacts on the lower paid / those on welfare benefits.

5.17 Decisions on council tax increases are made by full County Council in February each year but at this stage, given the points set out above, it is recommended that the County Council works on the assumption that the planned approach for council tax increases (broadly supported by the consultation results) will continue in 2018/19 (4.99%) and 2019/20 (1.99%) with the County Council increasing council tax by the maximum permissible without a referendum in line with government policy.

5.18 This position will be reviewed following the Budget in the autumn and in light of any other national or regulatory changes, before the formal council tax setting process in the new year. However, the current position and associated timescales, mean that predicating delivering a balanced budget for 2019/20 on further council tax increases above those currently planned is not considered to be a viable option.

5.19 **Introducing and increasing charges for some services** – The range of services that County Councils are able to charge for are in the main governed by legislation. However, in most cases there is local discretion as to how those charges are applied and the level of charge set.

5.20 Whilst the County Council could look to introduce and increase charges for some services it has to take into account the potential impact on service users and the fact that the majority of users already pay for many council services through their council tax. The savings proposals already include some recommendations for increasing charges, but in order to extend charging to some of the new areas identified by departments, legislative change would be needed.

5.21 The County Council is currently lobbying the Government to allow greater freedoms and flexibilities to levy charges in the areas of:

- Home to School Transport – The legislation and criteria for local authorities, which dates back to the 1940's, does not take account of modern living and is not means tested in any way.

- Household Waste Recycling Centres (HWRCs) – The Government legislated to stop councils from charging for the general use of HWRCs, albeit that some charges can be levied for certain waste such as building materials. However, previous consultation with residents suggested that they would be prepared to pay a nominal charge if this helped to maintain the number of centres across the county.
- Concessionary Travel – The ability to charge a nominal sum to service users would enable the County Council to increase access to public transport at the same time as making financial savings.

5.22 The potential additional income that could be generated from being able to charge in these areas is significant, but this is not currently possible without changes in legislation which may be difficult to achieve during BREXIT even if the Government supported the proposals.

5.23 While the County Council will continue to pursue these options, at this stage, other than those proposals already contained in Appendix 3, this option does not provide an alternative solution for closing the budget gap.

5.24 **Lobbying central government for legislative change** – The County Council is already actively pursuing this option and some of the key items are outlined in paragraph 5.21 above.

5.25 In addition to these proposed areas for new charges, the County Council is also lobbying for changes to the regulatory framework around the way certain services must be provided. This includes:

- A more flexible, risk based approach to children's social work activity.
- Changing some of the mandatory elements of the Public Health service which could also include charging for some services previously provided by the NHS.

5.26 As outlined above, these only offer a viable alternative option to the current plans for meeting the budget deficit if and when the changes in regulation take place, at which point the financial strategy can be reviewed.

5.27 **Changing local government arrangements in Hampshire** – In 2016, following devolution discussions across the county, the County Council commissioned an independent piece of work to look at the potential options for unitary local government across the whole of Hampshire and the Isle of Wight. This would in effect remove the district and county tiers of local government and replace them with a single unitary authority, or multiple unitary authorities, (like Southampton and Portsmouth) responsible for all local government services across Hampshire.

5.28 A number of options were considered ranging from having five separate unitary authorities to a single county unitary that would cover the whole of Hampshire and the Isle of Wight including the existing unitary councils.

5.29 The report outlined the benefits and dis-benefits of the different options but concluded based on a range of criteria that a county unitary covering the existing administrative boundary of Hampshire County Council and the 11 Districts was the best option in governance, service and financial terms. Clearly the implications of such a change would be significant both for the

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

5.30 In summer 2016, the County Council asked residents for their views on options for possible local government reorganisation in Hampshire. Responses to the consultation, detailed in the final report, indicated that views were divided on the principle of replacing the current council structure in Hampshire with a model of unitary government. Marginally, a greater number of respondents wanted to retain the status quo (51%) than move to one of the unitary options presented (42%), slightly more stated a preference for a single unitary (25%) than a multiple unitary option (17%).

5.31 In view of this feedback the County Council decided not to actively pursue local government reorganisation at the time. Moreover, devolution and reorganisation proposals across the country were either stalling or failing and there did not seem to be a clear policy direction from the Government in this area. More recently other areas have submitted formal proposals for County Unitaries (such as Buckinghamshire and Oxfordshire) and the Government has also promised additional guidance in this area (which is yet to be released).

5.32 As part of the *Balancing the Budget* consultation, the County Council stated that its preferred position was to continue to avoid re-organisation, if possible. However, recognising that the County Council could be subject to external factors, and that restructuring local government remains a means of saving money in the longer term, residents were asked their views on this option as part of the *Balancing the Budget* consultation. More than half of those who responded (64%) agreed that the County Council should explore this option further – although it was ranked the fifth most preferred option overall.

5.33 In view of this feedback the County Council could still pursue this option. However, it has become increasingly clear in recent times that the Government is not prepared to support any reorganisation proposals that do not have significant local support. As there is currently no consensus in Hampshire on the best way forward for local government reorganisation it is considered that a bid to the Government at this stage proposing structural change in Hampshire would be unlikely to be successful.

5.34 In addition, the scale of the changes required to implement such a reorganisation means that it would be very unlikely that any significant savings would be generated by 2019/20. In fact, the costs of reorganisation would place an additional burden on resources in the interim period.

5.35 The County Council would also need to prepare and submit an application to the Government, which it could only do after further consultation with the public on the detailed proposals for reorganisation. The current legislation that allows for expedited local government reorganisation proposals across a locality is time limited to 31 March 2019. Given the lack of consensus in Hampshire the County Council is unlikely to be able to submit a formal application within a timescale that would enable it to be acted upon by government in advance of the 31 March 2019 deadline.

5.36 At this stage therefore, given the limitations outlined above, local government re-organisation in Hampshire is not considered to be a viable option for closing the budget gap to 2019/20, but does remain as an option for longer term savings and the County Council will continue to engage with other local authorities in Hampshire to seek the best outcome for Hampshire residents.

5.37 **Using the County Council's reserves** – The majority of respondents (56%) agreed that the County Council should not use reserves to plug the budget gap. Respondents ranked this as their second least favoured option. This feedback reflects the County Council's current financial strategy which is not to use reserves as a means of closing the budget gap.

5.38 Such an approach would not be sustainable as recurring savings are required to bridge the budget gap over the long term. Instead, the County Council is using its reserves prudently to invest in transformation and service change and to give sufficient time to implement savings in a planned and sensible way as outlined in Section 12 of this report and the reserves strategy contained at Appendix 8.

5.39 **Reducing and changing services** – Respondents were relatively evenly split between those who tended to support changes to local services and those who did not. Overall, however, this was respondents' least preferred option, which reflects the fact that most residents value the services they receive from the County Council and do not wish to see them reduced or changed.

5.40 As the other options for saving money at this level, outlined above, do not provide viable options that would enable the County Council to plan with certainty to meet the projected deficit, further funding reductions on the scale required within the Tt2019 Programme inevitably have to lead to reductions and changes to services. This is because local services represent the totality of spend within the County Council.

5.41 Reductions in services are a last resort and, wherever possible, the County Council seeks to limit the impact of any reductions on service users, although in some areas this can be difficult to achieve. Changes to services, even where they save money, can often be beneficial to service users through, for example, improvements in technology, new ways of accessing services and more efficient processes or systems which mean that more can be done but for less money.

Summary

5.42 As discussed above it is therefore recommended that the County Council's strategy for dealing with the £140m deficit should be to:

- Continue to develop income generating opportunities to mitigate against service change and reductions.
- Maintain planned council tax increases to the maximum allowed by government (reviewing as necessary).
- Introduce sensible and proportionate charges for County Council services where possible.
- Lobby the Government for legislative change in the areas identified.

- Continue to engage with other local authorities in Hampshire on the issue of local government reorganisation in the context of the lack of consensus that currently exists.
- Reduce and change services in the ways set out in Appendix 3.

5.43 The savings proposals put forward by departments are therefore submitted for consideration by Cabinet who are asked to make final recommendations to full County Council on these and the overall MTFS outlined in this report.

5.44 Authority is also requested to undertake any Stage 2 consultations where necessary prior to final decisions being made by Executive Members on these proposals.

6. Equality Impact Assessments

6.1 In addition to the public consultation process outlined above, a separate key part of the Tt2019 Programme is ensuring that the County Council understands and gives due regard to the impact of the Tt2019 savings proposals on people with protected characteristics.

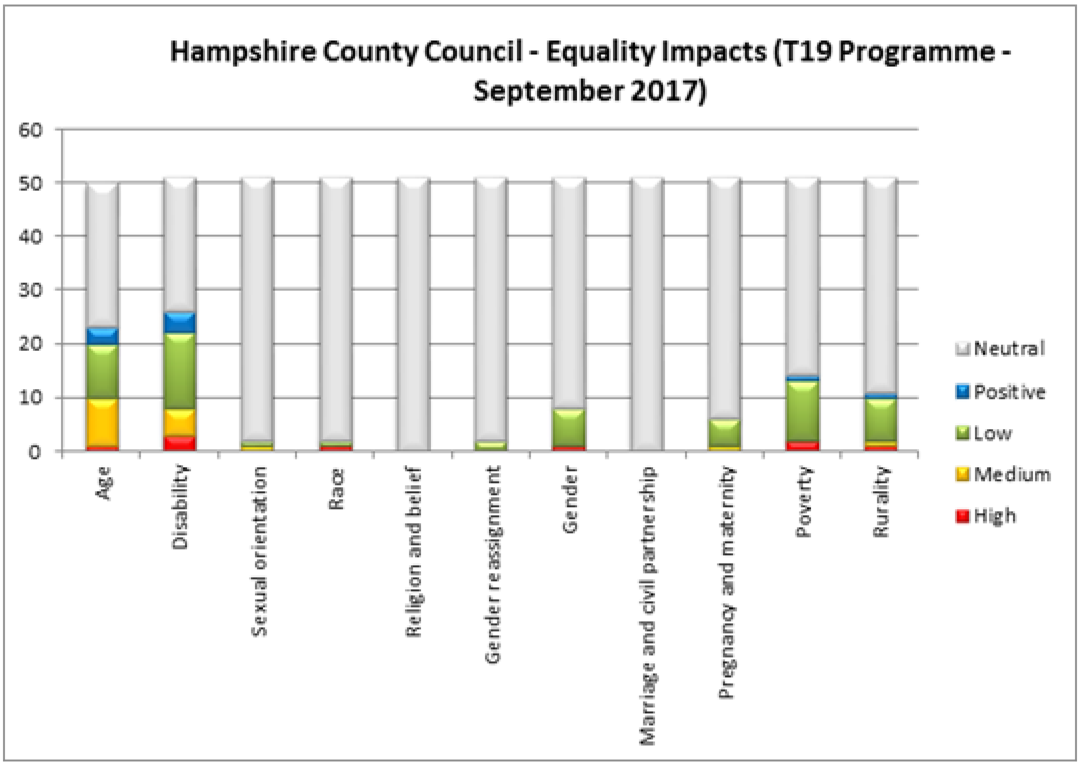
6.2 The County Council has produced EIAs on all proposals for change that it is considering implementing, which are taken into account as part of the decision making process. This year, to aid transparency, the EIAs for all of the savings proposals were again published as part of the Executive Member reports and are also repeated in this report for completeness. Due to the number of pages involved these have been added in separate appendices as follows:

- Appendix 4 – Adults' Health and Care
- Appendix 5 – Children's Services
- Appendix 6 – Economy, Transport and Environment (ETE)
- Appendix 7 – Policy and Resources (P&R)

6.3 By the very nature of the services that the County Council provides, there are inevitably things that impact on those people with protected characteristics. Whilst this does not mean that a proposal cannot be implemented, it does mean that the County Council needs to have an understanding, both individually and collectively, of the impact on those groups of people and look at ways of mitigating that impact.

6.4 For proposals where a Stage 2 consultation is requited the EIAs are preliminary and will be updated and developed following this further consultation when the impact of the proposals can be better understood. Due regard will be given to the equality impacts identified as part of the Executive decision making process to decide whether or not to implement the detailed proposals.

6.5 An analysis of the current impacts contained within the individual EIAs is shown in the following chart:



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

7. Savings Proposals

Departmental Savings

7.1 The savings proposals that have been put forward by departments as part of the Tt2019 Programme and have been recommended for submission to Cabinet and County Council by Executive Members are contained in Appendix 3 and reflect the feedback from the consultation and content of the EIAs where applicable.

7.2 Cabinet will be aware that the target for the departmental savings is £120m with the balance of £20m coming from ‘housekeeping’ savings, outlined in the next section. The total savings targets for each department, compared to the proposals that are expected to be delivered (in cash terms) in 2018/19, 2019/20 and the full year impact, are as follows:

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

7.3 Where there is a shortfall in savings proposals against the target in 2019/20 this has been explained in more detail in each of the individual Executive Member reports, and represents for the most part a time delay in achieving the full amount of the saving. Where this is the case any shortfall will be met from departmental cost of change reserves, which have been built up in part to cover this eventuality, apart from Children's Services, the position for which is discussed in more detail in the next section.

7.4 Members will note that all departments are predicting full year savings equivalent to their savings targets, but the timing of delivery varies from department to department, with savings for some proposals not expected to be fully delivered in Children's Services until 2022/23 for example due to the longer term nature of the changes being implemented.

7.5 The estimated cash flow position of savings in each of the years is outlined in the table below. It shows that the shortfall against the £120m target in 2019/20 and 2020/21 is already significant and experience would indicate that this programme may slip further as difficulties arise during implementation. This emerging position will need close monitoring by CMT to ensure that the delivery of savings remains on track as far as possible.

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

7.6 In most cases, it is currently anticipated that the early achievement of savings by departments will provide sufficient funding to cash flow the slipped delivery of savings in future years, with the exception of Children's Services where corporate support to meet the later delivery of savings has been factored into this MTFS.

7.7 Delivery of the savings will also impact the County Council's workforce, and where applicable the proposals in Appendix 3 indicate the estimated number of staff that may be affected by the change in service. In Children's Services the impact is less clear, so individual figures have not been provided, however, the overall impact on the Department is forecast to be between 80 and 140.

7.8 In total, this would mean that the Tt2019 Programme could impact on between 445 and 684 full time equivalent roles across the County Council. Whilst this is a significant number it needs to be considered against the total savings programme of £140m, which even at an average salary plus on-costs of £45,000 would require the loss of over 3,100 jobs to meet the full target.

7.9 The County Council has an excellent track record for handling reductions in staffing numbers in a sensitive and planned way, through voluntary redundancy schemes, which have helped maintain staff morale and natural turnover (which for Hampshire averages between 12% to 15% per annum) and this will continue as part of the Tt2019 Programme. The County Council has also been successful in looking at options for re-deployment of staff as it grows its businesses in other areas and increases in the workforce are required.

7.10 In the past, any voluntary redundancy costs have been met by departments, up to the value of compulsory redundancy costs, with any enhancement being met from the Organisational Change Reserve (OCR). The OCR currently stands at £2.9m and at this stage it is not possible to determine whether this will be sufficient to cover any additional costs arising from the revised voluntary redundancy scheme. This will be reviewed at the end of the financial year when more information is known and can be topped up at this stage if required.

7.11 Cabinet is requested to consider and approve the savings proposals detailed in Appendix 3 for submission to the County Council, having given due regard to the consultation feedback and the EIAs.

Housekeeping Savings

7.12 Members will be aware that as part of the overall Tt2019 Programme a target of £20m was set for corporate 'housekeeping' savings targeted mainly at inflation and treasury management savings. This reflected the fact that it is possible to make savings in these areas, given the scale of the numbers involved and importantly any contribution reduces the impact on services provided by departments.

7.13 In the main this will result from changes in accounting practice in respect of depreciation and MRP but this will also cover management of debt, inflation allowances and reserves.

7.14 In December 2015 Cabinet approved a change in MRP policy and as a result of this the amount which must be set aside for repaying external loans and meeting other credit liabilities has reduced.

7.15 Prior to 2015/16 the County Council calculated MRP for supported borrowing on a 4% reducing balance basis (which technically means it is never paid off). It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a 50 year straight line basis. To be more prudent the 50 years has been started from 2008 and the actual calculation is 1/43's. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £68m less in MRP payments by 31 March 2016.

7.16 This 'overpayment' means that technically, the County Council can take a 'holiday' from MRP payments, and therefore, starting in 2016/17, the County Council paused making MRP payments on supported borrowing until it has realigned the total amount of MRP payments with the new policy, which will be during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis.

7.17 The introduction of these changes will generate net savings of £10.5m per annum in advance of April 2019 which can be utilised to provide vital investment for a range of key initiatives that will support Children's Services and underpin the Tt2019 Programme and also to contribute to the Grant Equalisation Reserve (GER) to begin to make provision for the future.

8. Transformation to 2019 Programme

8.1 One of the key features of the County Council's well documented financial strategy and previous savings programmes has been the ability to plan well in advance, take decisions early and provide the time and capacity to properly implement savings so that a full year impact is derived in the financial year that they are needed.

8.2 This approach has also meant that savings have often been implemented in advance of need and this has provided resources both corporately and to individual departments to fund investment in capital assets and to fund further change and transformation programmes to deliver the next wave of savings.

8.3 Whilst this has been a key feature of previous cost reduction programmes it was recognised without doubt that the Tt2019 Programme, the fourth major cost reduction exercise for the County Council since 2010, would be significantly more challenging than any previous transformation and efficiency programme against the backdrop of a generally more challenging financial environment and burgeoning service demands.

8.4 Departments have looked closely at potential opportunities to achieve the required savings and unsurprisingly the exercise has been extremely challenging because savings of £340m have already been driven out over the past seven years. The sheer size of the 19% target requires a complete "re-look"; with previously discounted options and more radical changes having to be considered. It has been a significant challenge for all departments to develop a set of proposals that, together, can enable their share of the Tt2019 Programme target to be delivered.

8.5 The opportunity assessment and planning work has confirmed the sheer complexity and challenge behind some of the proposals as a consequence of which, in a number of areas, significantly more than two years will be required to develop plans and implement the specific service changes.

8.6 The cashflow support required to manage the extended delivery timetable will in the most part be met from departmental cost of change reserves, which will be boosted by some early delivery in 2018/19. Further contingency will be held corporately to cover any remaining shortfall, which is currently forecast to be required only by Children's Services, but given the unprecedented challenge presented by Tt2019 it would be prudent to allow a contingency sum of 20% in 2019/20 and 10% in 2020/21 to manage this potential risk (£24m and £12m).

8.7 The scale of the challenge for Tt2019, increases the risk to the timely delivery of the savings and given this position, CMT will carry out a peer review and challenge process on the higher risk elements of the programme, the results of which will be reported to Cabinet in December 2017 at which point the contingency amounts mentioned above can be reviewed as appropriate.

8.8 Whilst Tt2019 represents an immense challenge, the County Council does have significant capacity, capability and experience to tackle the task, highlighted by its track record to date. As tough as the forward agenda is, we know that the County Council is as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector and crucially to make the necessary investment required, some of which is discussed further below.

Transformation Team

8.9 The County Council has previously made use of external technical and professional expertise to help deliver its transformation and IT programmes and will continue to do so where the appropriate internal skills are not available. Part of the long term aim was also to ensure that internal resources learned from the private sector in supporting the achievement of savings. Building on this learning, the County Council's in-house Transformation Team is now well established, and the team are fully deployed mostly against Adults' and Children's priority transformational projects.

8.10 The T2019 Programme planning phase has identified additional requirements for specialist support from the Team through the delivery phase, especially earlier on where there is more certainty and clarity needed regarding the work ahead. These additional requirements mean that demand on the Team is now much greater than the ability to supply the required levels of support and there is a risk that without action, early traction in the savings programme will be compromised.

8.11 The one-off investment required to fund this expansion up to the end of 2019/20 over and above that already agreed is £1.4m and it is requested that this amount, to be met from the Invest to Save Reserve, is approved by Cabinet. Whilst this is a significant sum it compares very favourably to the costs of bringing in external expertise to support the programme.

8.12 It is currently anticipated that by the end of 2019/20 the Team will be able to reduce in size to match the ongoing funding available, as the majority of the Tt2019 Programme will be delivered. It is recognised that much will depend upon progress and any unforeseen demands, but this will be closely monitored and reported to CMT on a monthly basis.

IT Investment

8.13 There will be a significant IT enabling requirement before many of the different opportunities can be delivered. This will provide real service redesign opportunities to be pursued and will result in different types of public interaction and greater levels of self service. These enhancements to the way business is currently conducted will mean, after an initial one-off outlay, that the Council will be able to operate at lower cost in the future and will help to optimise the Council's already substantial investment in new digital capabilities. The programme of work will be extensive, initially costly and not without risk.

8.14 It was anticipated that a key theme running through the programme would be the exploitation of digital capability and the investment required was highlighted and funding identified in the 2016/17 End of Year Financial Report presented to Cabinet in June 2017.

8.15 At that stage it was estimated that up to £23m of investment in resourcing would be required for enabling IT for the Tt2019 Programme and an initial sum of £7.5m was approved by County Council in July 2017 to plan, scope, design and deliver projects; subject to business cases being approved by the Director of Corporate Resources. Funding was also approved for the Digital 2 Programme and a Corporate Wi-Fi Refresh. The programmes of work associated with Tt2019 are now more developed and an updated position is provided later in this report.

8.16 Over the summer, initial work was also being undertaken to scope the potential costs associated with the Enabling Productivity Programme (EPP) with a view to giving an update on the overall IT programme supporting the delivery of Tt2019.

Enabling Productivity Programme

8.17 The Tt2019 Programme will challenge our leaders, senior managers and operational staff. Optimising productivity, partly through agile and mobile working will be a necessity and making the best use of technology will be critically important for our staff so that we can redesign services and processes for the benefit of residents. By strategically combining these two important cost reduction enabling themes the Council will operate at lower cost with less staff, from fewer fixed points, thus requiring less office space.

8.18 Changes to accommodation and devices and applications used by staff are in some respects the easier parts of the programme to achieve, what is more fundamental is the business and process change that must be implemented at the same time in order to maximise productivity. For field workers, this may include mobile access to line of business systems, logistics planning to minimise wasted time travelling between visits, new software to capture information or evidence and writing up notes on the device; including the ability to record signatures electronically.

8.19 New mobile devices have just been rolled out to social workers and other staff as part of an early pilot within Children's Services which will help the teams work smarter, leaving more time for client contact and working with families to ultimately reduce the number of children in care.

8.20 Many of these change programmes already form part of existing departmental Tt2019 savings proposals and the purpose of the EPP is to enable the changes to be underpinned by supporting technological or other enablers. The main cost therefore is the cost of devices and the resources required to ensure the relevant systems and software are fit for purpose for the new working arrangements and technology.

8.21 A detailed exercise was undertaken across the County Council to determine the extent to which staff under future operating models would be:

- **Fixed – high degree of time and location dependence:** Staff tend to work at a single location with little or no requirement to work away from their base.
- **Flexible – varying mobility requirements:** Staff work at a single base (desk) for less than 50% of their working time, perhaps working at multiple (council) locations or flexing between meetings. These staff might not have a requirement for a fixed base and could work from home, or remotely.
- **Field – staff with high degree of time and location mobility:** Staff spend more than 50% of their time away from the office (home-based; client-facing) and will not have a fixed location.

8.22 The results of this analysis have been shared with our current equipment provider for them to provide an indication of the likely cost of moving to this type of IT estate compared to the current desktop estate which is Citrix client based and is therefore relatively cheap to maintain and refresh, but is fixed and immobile and not flexible enough for today's modern working practices. Mobile equipment by its very nature does not last as long as fixed terminals and is more expensive, therefore it is expected that the one off and future costs of refresh will be much greater than the current £0.7m per annum that is built into the IT Services budget. However the service and efficiency benefits they underpin are so significant and fundamental to the future operating models across the County Council it is felt that this investment is critical.

8.23 Initial figures back from the provider are still being analysed and further negotiation will continue to take place, but based on those figures it is estimated that a one off up-front cost in the order of £7.0m will be required, which is £1m higher than the initial provision allowed for in the estimates in June, albeit that no details of the programme existed at that point.

8.24 In addition, given the change in the type of equipment being purchased, the annual refresh budget will need to increase from 2018/19 from its current level of £0.7m per annum. Further work is currently being undertaken to assess the annual amount that will be required, but this will be subject to further negotiations with the equipment provider and the model of deployment that the County Council chooses (for example we could consider a managed service option which will have a different cost profile). More detail on this will be provided as part of the budget setting process for 2018/19.

8.25 At this stage the resource implications for implementing the new systems and software associated with the EPP is less clear, but initial indications are that this may be able to be contained within the upper end of the existing resourcing estimates provided for the Tt2019 Programme.

8.26 As the programme develops and we gain a better idea of the scale and complexity of the individual departmental requirements, this position will be reviewed and it may be necessary to consider providing additional resources, although this may depend to a large extent on the timing of the roll out of the entire IT programme.

8.27 The table below sets out the total IT programme and funding position that was presented in June and compares it to the current estimates:

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

8.28 Cabinet is requested to approve the balance of funding of £6.1m, to be met from the savings in non-departmental budgets in the current year as identified in Section 4. Cabinet is also requested to recommend that County Council approve the remainder of the spending required (totalling £22.5m) to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year.

8.29 Although this expenditure does represent a significant one-off investment, it should be borne in mind that this underpins the delivery of around £62m of the Tt2019 Programme and reflects the increasing difficulty and complexity of delivering successive transformation programmes.

8.30 It is clear that there are few local authorities in the country that could deliver and fund IT enablement of this scale and complexity and it is testament to Hampshire's planning, professional capacity and good financial management that change of this pace and scale is being considered.

9. 2018/19 Budget Setting

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

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

9.2 Following acceptance by the DCLG of the County Council’s Efficiency Plan for the period to 2019/20, the expectation is for minimal change for 2018/19.

9.3 This along with the fact that the financial strategy that the County Council operates is on the basis of a two year cycle of delivering departmental savings means that there is limited activity at this stage associated with the development of the 2018/19 budget.

9.4 The process will follow the normal budget setting pattern as in previous years, in that a further technical report on the 2018/19 budget will be presented in December this year that will provide departments with provisional cash limits against which they can prepare their detailed budgets that will be reported through to Executive Members, Cabinet and County Council.

9.5 Members will recall that the financial strategy assumes a significant draw from the GER in 2018/19 in order to give the County Council the time and capacity to properly deliver the Tt2019 Programme.

9.6 It is anticipated that the current cycle of decision making concludes the savings planning aspect of the MTFS including the working assumption within this report that council tax will increase by the maximum permissible in line with government policy. This therefore moves the Tt2019 Programme from planning into implementation.

10. Capital Investment and Economic Growth Priorities

10.1 In past years it has been possible to add significant additional schemes to the Capital Programme using surplus revenue funding generated by the early achievement of savings. As the financial strategy has evolved and savings have been required to meet successive budget deficits, there is less ability to do this above and beyond the use of specific capital resources that come from government or developers.

10.2 However, the County Council’s ability to continue to provide resources to invest in specific priorities in line with the County Council’s focus on service improvement and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.

10.3 In this context there are a number of specific opportunities that it is timely to address as follows.

Manydown

10.4 As outlined in Section 3, Hampshire County Council, together with Basingstoke & Deane Borough Council, jointly owns a long lease with the option to purchase a site west of Basingstoke - Manydown. The site is included in the Local Plan for a development allocation of around 3,200 dwellings, three primary schools, a secondary school site, local and district centres and open space as well as a new country park.

10.5 Earlier in the year additional funding was approved to support the achievement of ongoing capital receipts and this funding was in part to support the submission of an Outline Planning Application at Manydown. At that time it was flagged that a further separate case for Manydown revenue resource funding would be brought forward later in 2017 on the back of a detailed business case which could lead to capital and revenue financial returns from the intended joint venture delivery 'vehicle' (as opposed to traditional capital receipts) of up to £50m over an extended period.

10.6 A joint venture with a private sector partner to develop and deliver the site, has been agreed as the best option on the basis that this provided the opportunity to make the best long-term returns whilst maintaining strategic control of the site. It is recommended that the Council earmarks up to £35m of capital funding to invest in the development of the Manydown site.

10.7 The joint venture structure is complex as are the proposals from the potential development partners. The dialogue stage of the procurement process is due to close imminently prior to the submission of the best and final offers from the prospective development partners. A more detailed report will be submitted to EMPR when the outcome of the procurement process is known, but for now high level approval must be given for the capital spend contained within the overall deal which commits the County Council for up to £35m of spend in order to acquire the land for development.

10.8 Should the land cost less than this then the County Council could choose to invest the balance of funding in other infrastructure works on the site, which will attract a financial return in line with the finally agreed proposal. Options for further investment can also be considered but all of this will be subject to later decisions.

10.9 Given the long term nature of the project, it is recommended that the £35m is funded through prudential borrowing to avoid tying up other capital resources in the meantime.

Enterprise M3 Local Enterprise Partnership (LEP) Funding

10.10 The County Council works closely with both its LEP partners to ensure that the use of resources are maximised in pursuing LEP and County Council priorities. For the EM3 LEP, the County Council also acts as the "Accountable Body", providing strategic advice and assurance both to the LEP and back to government on the use of public funding.

10.11 LEPs for the most part only receive capital funding, together with a small revenue allowance for running costs and other specific revenue projects (for example Growth Hubs). Since LEPs are governed by the same accounting rules as local authorities, capital spend is very tightly defined and Hampshire as the Accountable Body must verify that capital spend meets this definition.

10.12 In the normal course of LEP business however, there are many costs that cannot be treated as capital, such as due diligence work carried out to assess bids from third parties and other specialist advice. Feasibility studies depending on their nature cannot always be charged to capital and the availability of revenue funding is now a major issue in supporting the smooth and effective running of LEP business.

10.13 Other LEPs across the country have agreed with their accountable bodies to do a capital to revenue transfer. This involves the accountable body using LEP capital grant to meet its own capital expenditure (for example for a highway scheme) and giving back revenue resources to the LEP which have previously been allocated to funding the capital programme.

10.14 This report recommends that an initial sum of £3m is transferred in this way and also recommends that delegated authority be given to the Director of Corporate Resources to agree further transfers if required. There are no financial implications for the County Council in pursuing this course of action.

Town and Parish Council Fund

10.15 The county of Hampshire is served by 263 parish and town councils (PTCs) which operate across much of Hampshire and fulfil an important function in addition to those of the county and district / borough councils.

10.16 The County Council has supported PTCs over many years through an annual grant to Hampshire Association of Local Councils (HALC); currently £63,000 for the year 2017/18, to support its running costs. This core funding is complemented by a series of wider project and activity specific grant opportunities, linked to the delivery of County Council services or priorities, and which are made available to local communities and organisations across the county.

10.17 A report to Cabinet in June entitled 'Working Better Together'- Next Steps In Developing Hampshire County Council's Relationships with Parish and Town Councils set out:

- An overview of the engagement Hampshire County Council had undertaken with parish and town councils (PTCs); building upon the key themes that emerged from workshops held.
- Proposed joint initiatives, working with HALC and PTCs, to address some of the key feedback from the workshops and further discussions.
- Opportunities to provide support for the development and capacity building of PTCs who wish to contribute actively to a locality focused approach

10.18 It was acknowledged at that time that following further scoping work the level of potential support and investment required from the County Council would be considered. At this stage, discussions are still being held across the sector, but it is proposed to provide one off funding of £250,000 as part of this report to allow any policy development and initiatives to progress once they are finalised This approval will also provide pump priming funding for targeted, joint initiatives aimed at improving local services.

10.19 Approval of specific initiatives will be taken through the EMPR with the funding being met from the Corporate Policy Reserve. If necessary this can be topped up with further funding if the programme requires it in the future.

Water Quality Monitoring

10.20 Given the size of the County Council's built estate, particularly within schools, water bacteria represents a small risk in terms of likelihood, but with significant implications should a water bacteria related incident occur. It should be pointed out that there has not been an issue relating to water bacteria levels within a County Council property in at least the last 20 years.

10.21 Property Services in liaison with the Corporate Health and Safety Officer carried out a review of our arrangements for managing water bacteria risk and remedial works associated with the initial findings have already been completed.

10.22 However, it is proposed to enhance the current arrangements for collecting data for the management of water bacteria risk. At the moment, responsibility for collecting and returning data rests with staff based at the locality (for example caretakers). This is often not a straightforward task and the accuracy of information can vary depending on the understanding and methodology applied by the individual (even though training is provided to them).

10.23 It is therefore proposed to implement improvements whereby specialist equipment will be installed at each site, which simply require the staff to take a reading and return the information to Property Services. The readings will be more accurate and the process much simpler to complete, meaning that the quantity and quality of data will be much improved.

10.24 In addition, it is proposed to create a small ongoing revenue budget that will be used to pay for staff to analyse the data collected effectively and for any remedial actions to be undertaken. At the present time remedial works are paid for by the general repairs and maintenance budget and it is felt that dedicated resources would be more appropriate for managing this risk.

10.25 In total therefore a one off capital sum of £1.23m is requested together with a £100,000 revenue budget for 2017/18 and a recurring increase in the revenue budget of £320,000 from 2018/19 onwards. It is considered that this capital and revenue spend is commensurate with any potential risk that the County Council faces in the ongoing management of water quality.

Skanska Contract and Fleet Management

10.26 Where an urgent financial decision is required that falls outside of the defined process or limits within Financial Regulations or Financial Procedure Rules, but is felt to be in the wider interests of the County Council, the Chief Financial Officer in consultation with the Chief Executive and the Leader can make the decision subject to it being reported back to the appropriate decision making body.

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

10.28 It was also not possible to include the £9.5m capital allocation in the Capital Programme report to the meeting of the County Council on 16 February 2017 because the ‘standstill period’ for the award of the HHSC did not end until 9 February 2017 and no assumptions could be made in advance of this date on who the successful contractor would be. Furthermore, no further discussions on the types of services required from HTM could be held with the successful contractor until after the end of the ‘standstill period’ at the earliest. In fact, in order to mitigate the risks to the County Council, HTM would not enter into any firm supply commitments with the successful contractor until the HHSC was formally signed by both parties and this took place on 28 February 2017.

10.29 After this point it was necessary to progress and so an urgent officer decision was made by the Director of Corporate Resources (as Chief Financial Officer), in consultation with the Chief Executive and the Leader of the County Council to add £9.5m to the 2017/18 Capital Programme to enable the supply of approximately 160 vehicles and 61 items of plant and equipment to be purchased and in accordance with Financial Regulations this is now being reported to the County Council.

10.30 In addition, within the Capital Programme there is ongoing provision for up to £2m per annum to allow for the general replacement of and additions to the fleet managed by HTM and approval to increase this to £3m from 2017/18 is requested. This is to enable HTM to respond to growing business especially with schools and colleges looking for an environmentally friendly fleet alongside an upsurge in customers reviewing their fleets again considering environmental credentials alongside potential efficiencies. All of this capital expenditure is funded through prudential borrowing the cost of which is included in the regular charges to customers for the use of the vehicles.

11. Capital Strategy

11.1 The County Council’s capital programme has been maintained and expanded over recent years, continuing the trend of ensuring that we invest wisely in maintaining and enhancing our existing assets and delivering a programme of new ones.

11.2 The Capital Programme is reviewed and agreed annually. This sets out the levels of capital expenditure for each service and the main expectations of where the money will be spent, a large proportion of which is in relation to schools, including the provision of school places.

11.3 The County Council’s capital aspirations are dependent upon finance being available and the sources of finance to support the capital programme are as follows:

- Government capital grants – The Government has issued all of its support for local authorities’ capital expenditure from 2011/12 onwards in the form of capital grants and not as borrowing allocations.

- Prudential borrowing – Loans that the County Council may decide to raise in the knowledge that it will have to meet the principal repayment and interest charges from its own resources without any additional support from the Government. The County Council has to consider the impact of such loans on the revenue budget and prudential indicators.
- Contributions from other bodies, which can include developers, the health service, other local authorities and the national lottery.
- Capital receipts from the sale of land, buildings and other assets.
- Contributions from the revenue budget including those held in the capital reserve.

11.4 There is an interrelationship between capital and revenue both directly and indirectly. Capital expenditure may be funded directly from revenue however the general pressures on the Council's revenue budget and council tax levels limit the extent to which this may be exercised as a source of capital funding.

11.5 Prudential borrowing does provide an option for funding additional capital development but one which then results in costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.

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

11.7 Service improvement is at the heart of everything the County Council does and it is also important in the current financial climate that key services are able to continue and prosper. Therefore, whilst it is recognised that prudential borrowing and the resultant impact on revenue must be a key consideration, where there are specific priorities in line with the County Council's focus on service improvement then the programme will continue to be expanded where it is affordable to do so and delivers measurable revenue savings.

11.8 Given the link with revenue, as part of the Tt2019 Programme a review of the capital programme (and associated funding) will explore any avenues that would result in a positive impact on the revenue position and any net benefit could be applied as a justified and logical way to reduce the remaining savings required from departments. The review will also include consideration of the wider capital requirements facing the County Council.

11.9 The review is being conducted by an existing cross departmental officer group called the Corporate Infrastructure Group (CIG) chaired by the Director of Economy, Transport and Environment. A summary of the review together with a revised capital strategy will be reported as part of the budget setting process for 2018/19.

11.10 In the meantime however, the CIG have been co-ordinating the necessary infrastructure associated with the development of land to the West of Woodhouse Lane in Botley, which was outlined in a separate report to

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

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

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

12. Reserves Strategy

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

12.2 Reserves are available to support:

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

12.3 The County Council has made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of austerity, although it was always recognised that the eventual planned use of the reserves would mean that a tipping point would come and we would expect to see reserves start to decline as they are put to the use in the way that they were intended as part of the wider MTFS.

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

13. Medium Term Forecasts - Beyond 2019/20

13.1 The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the GER and early achievement of savings proposals retained by departments to use for cost of change purposes or to offset service pressures.

13.2 The County Council's early action in tackling its forecast budget deficit over the prolonged period of austerity and providing funding in anticipation of further reductions, has placed it in a very strong position to produce a 'steady state' budget for 2018/19, giving itself the time and capacity to develop and implement the Tt2019 Programme to deliver the next phase of savings totalling £140m.

13.3 Following acceptance by the DCLG of the County Council's Efficiency Plan for the period to 2019/20 the expectation is for minimal change for 2018/19 and 2019/20. No figures have been published beyond this date.

13.4 Whilst, following the Queen's speech to Parliament in June this year, the planned changes to implement 100% Business Rate Retention by 2019/20 are effectively suspended with no indication of when this might be resumed, work to carry out a Fair Funding Review, is set to continue as it does not require legislation but it increasingly unlikely that this will be in place for 2019/20.

13.5 Although the wider 100% Business Rate Retention work has stalled, the Government have just sought applications for 100% business rate pilots for 2019/20 that must be submitted by 27 October this year. Further information through seminar sessions was provided during September and initial discussions about the potential for a pilot within Hampshire were held at the September HIOWLGA meeting and will be taken forward by the Chief Executives.

13.6 The Budget in November may contain some additional information that could impact our planning assumptions, for example around public sector pay and council tax referendum limits, and the County Council will have to wait until that point to revisit the assumptions built into the MTFS.

13.7 The financial pressures facing the County Council, to date, notably in relation to adults' social care have been clearly described and the current strategy allows for ongoing growth in adult social care funding of £10m per annum, and also for price inflation. However, whilst there is still some uncertainty over the next couple of years, the period beyond 2019/20 is significantly more uncertain. Some of the major issues that may impact on the County Council are outlined below.

Adults' Social Care

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

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

- Additional flexibility with the adult social care precept.
- An additional one off grant in 2017/18.
- An additional non-recurrent Improved Better Care Fund (IBCF) allocation to be received over three years commencing in 2017/18 as announced in the Chancellor's Spring Budget.

13.9 Taking up the council tax flexibility will yield, on a one off basis, additional income of £16.6m for the County Council in the current and next financial year to put towards meeting the pressures facing adults' social care whilst not fundamentally changing the underlying longer term council tax position. There is no stated position at this point about the Government's intention beyond the current parliament in respect of council tax increases.

13.10 Additional funding in the form of the increased IBCF together with previously announced BCF allocations makes provision in the period to 2019/20 for adults' social care.

13.11 These measures represent the Government's response to growing calls for additional resources to meet the increasing cost pressure facing local authorities who provide adults' social care, in advance of the previously planned funding which was weighted towards the end of the decade.

13.12 Whilst welcome, the measures described above do not address the long term increase in demand as they are all only one off increases in funding. Combined, they do provide the opportunity to invest in transformational programmes to reduce costs in the long term to provide some mitigation. This is still unlikely to be sufficient, on its own, to off-set both the increase in demand and support the achievement of the Department's savings necessary as part of the Tt2019 Programme. For this reason the adults' social care budget, in the medium term, remains reliant on corporate support which has been provided for within the MTFS.

13.13 The Adults' Health and Care Department face, in addition to the Tt2019 budget reduction of £55.9m, a further £4m recurring of Public Health savings which need to be achieved by 2019/20. By 2019/20 the County Councils' Public Health grant will be £49.5m after total cash reductions of £8.3m since 2015/16. These budget reductions are being taken forward on a different timescale from Tt2019 and will report to the Executive Member for Public Health.

13.14 Beyond 2019/20, in the absence of any government grant figures or a long term solution to the funding of adults' social care, there is the potential for a funding 'cliff edge' in this area that could have a very significant impact on the County Council's finances.

Children's Services

13.15 Within Children's Services, the pressure of increasing CLA is well documented and additional resources have been provided in this year's budget and future years to tackle these and the increasing costs of care leavers, although the volatility in this service area makes accurate predictions difficult.

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

National Living Wage and Pay

13.17 Whilst the major impact of the implementation of the National Living Wage (NLW) is contained within the additional cost of purchasing external social care provision (which has been factored into the current MTFS) there is also an impact on pay for County Council staff.

13.18 An original provision of £5m was included in the MTFS for this, but recent national modelling work on the assimilation of the NLW into existing pay scales and the development of a new pay framework indicates a potential 4% to 6% cost increase over two years, based on the current public sector pay restraint assumptions. For the County Council this could mean that an additional cost of up to £5m will be incurred. More detailed work on the potential impact for the County Council is currently being modelled however, the outcome of any national decision remains at this stage unclear and uncertain.

13.19 Another major factor that could affect forecasts to 2019/20 and beyond is the recent announcement from the Government that a more flexible approach to public sector pay will be adopted from 2018/19. This follows growing speculation that the public sector pay cap would be lifted given increasing pressure to remove (or at least relax) the current public sector pay restraint.

13.20 During the period of austerity, pay has been frozen or limited to increases of 1% within local government and it had previously been announced that this would continue at least until 2019/20. On 12 September 2017 the Government confirmed police and prison officers pay awards for 2017/18 that exceed 1% and that these will need to be funded within existing budgets and signalled that the approach to other sectors of the workforce will be considered in the coming months.

13.21 Whilst a proper pay and reward strategy is key to attracting and retaining the right calibre of staff, any public sector pay awards above the 1% allowed for would put further pressure on our forecasts (each 1% adds about £2.5m to the pay bill based on 2017/18 figures).

The Planning Horizon

13.22 Good forward financial planning is a key factor in ensuring that the County Council retains its strong grip of financial management and can respond to the future pressures that it faces. However, in the absence of any government grant figures beyond 2019/20 and the need to keep a relentless focus on the delivery of the Tt2019 Programme, it is not proposed to provide any definitive future forecasts at this stage.

13.23 In general terms, reductions in government grant together with inflationary and service pressures, notably within social care areas, have created an average budget gap of around £50m per annum during the period of austerity, meaning that circa £100m has needed to be saved every two year cycle. Council tax at 1.99% reduces this to £39m per annum.

13.24 It is likely therefore that any position beyond 2019/20 will not see a return to stability and we will therefore continue to review our assumptions on an ongoing basis in light of information that is made available.

13.25 It is critical that during the next two years the County Council is not distracted from delivering the Tt2019 Programme, irrespective of the financial outlook in the years beyond 2017/18. Any failure to deliver recurring sustainable savings for 2019/20 will only serve to worsen the position. The intention is therefore to continue the well tested strategy of meeting any anticipated gap in 2020/21 from one-off resources which will be built up in the GER in the intervening period.

13.26 The time to consider the wider strategy for tackling the next phase of savings beyond 2019/20 will be when we consider there is sufficient traction and delivery on the Tt2019 Programme, since achievement of that programme is crucial to the financial position of the County Council.

13.27 Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

13.28 In the current environment in which local authorities are operating, achieving financial resilience is a challenge for all and CIPFA have called on councils to watch out for signs of financial stress. In its report entitled “Building Financial Resilience” CIPFA identified five key ‘symptoms’ of financial stress as follows:

- Running down reserves / a rapid decline in reserves. By definition, using up reserves to avoid cuts can only provide temporary relief.
- A failure to plan and deliver savings in service provision to ensure the council lives within its resources.
- Shortening medium term financial planning horizons, perhaps from three or four years to two or even one. A failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions.
- A lack of firm objectives for savings - greater ‘still to be found’ gaps in saving plans. Now, not only are planning horizons shortening, but some authorities have only specified how savings will be achieved for the next financial year and even then there may be some with targets rather than firm plans.
- A growing tendency for departments to have unplanned over spends and / or carry forward undelivered saving into the following year. As well as creating a need for greater cuts in subsequent years, unplanned

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

13.29 CIPFA have highlighted key areas of focus to support financial resilience and these echo the approach taken to date by the County Council and continued in the plans to take us to 2020/21. These include getting routine financial management right, having clear and realistic plans for the delivery of savings which are monitored and underpinned by adequate investment and managing reserves sensibly to 'cushion' the delivery of a transformation programme over the medium term.

13.30 In addition, the report highlights the danger, in the relentless search for savings, of focusing on the "gap" still to be found while failing to take the actions necessary to ensure all the agreed savings have been delivered. The County Council is alert to this potential danger and for Tt2017, and to an even greater extent Tt2019, has taken a very measured approach to the timing of moving focus from one transformation programme to the next.

13.31 Despite the relentless financial pressure and need to deliver savings, the County Council has shown year after year its ability to not only follow through on its agreed strategy but also to respond to unforeseen pressures and invest in service improvements and capital spending where it is felt necessary (this report being a prime example of all of these things).

13.32 At the same time the County Council must not become complacent and must maintain its financial discipline both within the current year and in developing and delivering savings for the future.

14. Recommendation(s)

It is recommended that Cabinet:

14.1 Notes and endorses the County Council's current approach to commercialisation as outlined in Section 3.

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

14.3 Confirms that in the absence of further information, which may be contained in the Budget in the autumn, the current planning assumption that council tax will increase by the maximum permissible without a referendum, in line with Government policy, will continue.

14.4 Approves the recommended approach to dealing with the anticipated £140m budget deficit.

14.5 Approves, subject to further consultation and executive decision making where necessary, the savings proposals in Appendix 3 after taking due regard of the consultation feedback and Equality Impact Assessments.

14.6 Approves further service specific consultations, where necessary, on the savings proposals set out in Appendix 3 prior to final decisions being made by Executive Members.

14.7 Endorses the principle that should any savings proposal be rejected that alternative options to the same value will need to be developed by the appropriate department.

14.8 Approves an additional £6.1m of one-off funding to meet the balance of funding for the overall IT Programme supporting the delivery of Tt2019, to be met from the savings in non-departmental budgets in the current year as identified in Section 4.

14.9 Approves one-off amounts of £1.7m and £315,000 in 2017/18 to fund the part year costs of increased social workers and payments for Special Guardianship Orders, respectively, to be met from the savings in MRP.

14.10 Approves an initial sum of £100,000 in 2017/18 and a recurring increase of £320,000 from 2018/19 onwards to provide dedicated resources to analyse data and undertake remedial actions associated with water bacteria risk management.

14.11 Approves an initial one off sum of £250,000 to support joint initiatives with Town and Parish Councils, the details of which will be subject to approval by the Executive Member for Policy and Resources.

14.12 **Recommends to County Council that:**

a) The mid-year report on treasury management activity at Appendix 2 be approved.

b) The potential impact on the investment strategy of defaulting to a retail client with effect from 3 January 2018 be noted.

c) The immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the County Council can continue to implement an effective investment strategy be agreed.

d) In electing for professional client status the County Council acknowledges and agrees to forgo the protections available to retail clients attached at Annex 1 of Appendix 2.

e) Responsibility be delegated to the Section 151 Officer (the Director of Corporate Resources) for the purposes of completing the applications.

f) The savings proposals in Appendix 3 be approved, subject to further consultation and executive decision making where necessary.

g) The remainder of the spending required, totalling £22.5m, be approved to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year.

h) Recurring funding from 2018/19 onwards of £10.25m is approved to cover the increased costs of social workers, Home to School Transport and payments for Special Guardianship Orders.

i) A one-off sum of £1.4m is approved from the Invest to Save Reserve to fund additional resource within the in-house Transformation Team until the end of 2019/20.

j) High level approval be given for up to £35m of capital spend (funded through prudential borrowing) to invest in the purchase of land and development of the Manydown site.

k) An initial sum of £3m is transferred from capital to revenue between the County Council and Enterprise M3 LEP as outlined in this report and that delegated authority be given to the Director of Corporate Resources to agree further transfers if required.

l) Capital spend of £1.23m be approved to implement improvements whereby specialist equipment will be installed to improve the quantity and quality of data collection and monitoring in relation to water bacteria risk management. To be funded from the savings in non-departmental budgets in the current year as identified in Section 4.

m) An increase in the capital programme of £1m per annum from 2017/18 onwards to raise the provision for the general replacement of and additions to the fleet managed by HTM to £3m per annum, to be funded through prudential borrowing be approved.

n) Schemes associated with the development of land at Woodhouse Lane to the value of £41.695m are added to the capital programme as outlined in paragraph 11.10.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

a) The mid-year report on treasury management activity at Appendix 2 and note potential impact on the investment strategy of defaulting to a retail client with effect from 3 January 2018.

b) The immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the County Council can continue to implement an effective investment and acknowledge that in electing for professional client status the County Council are agreeing to forgo the protections available to retail clients attached at Annex 1 of Appendix 2.

c) That responsibility be delegated to the Section 151 Officer (the Director of Corporate Resources) for the purposes of completing the applications.

d) The savings proposals in Appendix 3, subject to further consultation and executive decision making where necessary.

e) The remainder of the spending required, totalling £22.5m, to complete the IT enabling and EPP programmes, following the £16.1m that was approved in July this year

f) Recurring funding from 2018/19 onwards of £10.25m to cover the increased costs of social workers, Home to School Transport and payments for Special Guardianship Orders.

g) A one-off sum of £1.4m from the Invest to Save Reserve to fund additional resource within the in-house Transformation Team until the end of 2019/20.

h) Up to £35m of capital spend (funded through prudential borrowing) to invest in the purchase of land and development of the Manydown site.

i) An initial sum of £3m is transferred from capital to revenue between the County Council and Enterprise M3 LEP as outlined in this report and that delegated authority be given to the Director of Corporate Resources to agree further transfers if required.

j) Capital spend of £1.23m to implement improvements whereby specialist equipment will be installed to improve the quantity and quality of data collection and monitoring in relation to water bacteria risk management. To be funded from the savings in non-departmental budgets in the current year as identified in Section 4.

k) An increase in the capital programme of £1m per annum from 2017/18 to raise the provision for the general replacement of and additions to the fleet managed by HTM to £3m per annum, to be funded through prudential borrowing.

l) The addition of schemes associated with the development of land at Woodhouse Lane to the value of £41.695m to the capital programme as outlined in paragraph 11.10.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

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

Direct links to specific legislation or Government Directives	
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:

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:**

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

2. Impact on Crime and Disorder:

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

3. Climate Change:

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

Not applicable

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

Not applicable

Children's Services Financial Resilience to 2020/21

1. Introduction and Context

1.1 The cost pressures within Children Looked After are well documented and part of the increasing trend in numbers is simply down to demographic factors as the number of children in Hampshire increase either through the birth rate or through inward migration.

1.2 These increases are putting ever more pressure on social worker resources, increasing case loads and affecting long term recruitment and retention, which means that more agency workers are being used to increase capacity.

1.3 These demographic increases are also having an impact on other service areas, in particular Home to School Transport (HtST) where forecast spend is well above budget in the current year.

1.4 This briefing note outlines a number of measures that are aimed at tackling some of the pressures that are threatening the service and financial resilience of the Children's Services Department.

2. Social Worker Investment

Context

2.1 Children's social workers, particularly those on the front line, deal with some of the most disadvantaged, at risk and vulnerable children and families in our society. Social workers intervene with families to help them create the change needed to reduce risks to children and ensure that they receive the support and intervention they require, thus building resilience within individuals and families, thereby not requiring high cost specialist social work services. As such, there is a need to ensure that caseloads are manageable so that social workers have the time to deliver quality interventions.

2.2 We have seen a continued steady rise in demand across social work services in line with the national picture, which is increasing the caseloads of our social workers and they are now at the point where they are higher than Ofsted would consider manageable.

2.3 Ofsted describe what they consider to be manageable caseloads as between 15 and 20 and consider there is a direct correlation between the average caseload of a social worker and the quality of social work practice offered. The new framework for the inspection of social care being introduced in early 2018, will focus almost entirely on the quality of social work practice with the leadership, management and governance aspect looking at whether senior leaders 'create the conditions' so that social workers are enabled to perform to their optimum.

2.4 The annual workforce statistics produced by the Department for Education (DfE) in September 2016 included details, for the first time, of average children's social worker caseloads in each of the 152 local authorities. Based on these statistics, the average caseload for England has been calculated as 16.1 cases per social worker. The average 'front line' social worker caseload is said to be slightly higher at 16.8. Only eleven authorities (Hampshire being one of them), reported average caseloads of 25 or higher, but unlike Hampshire the majority of this last cohort of authorities were graded as 'requires improvement.'

2.5 The numbers of Children in Care (CiC) within Hampshire Children's Services has also steadily increased over the last two years. As of 30 June 2017, the number of CiC rose to 1,475; a net increase of 147 since September 2015 (although this does include a net 45 Unaccompanied Asylum Seeking Children (UASC)). This total translates to 45 CiC per 10,000 children in Hampshire compared to the average rate of 43 for Hampshire's statistical neighbours.

Rationale

2.6 The rationale for an investment in social workers is based on the following imperatives.

2.7 **The practice imperative** – In order to continue to deliver a high quality service to our most vulnerable children, social workers need the capacity to do this. Lower and more manageable caseloads will support staff to develop better relationships with the children and families with whom they work, they will have more time to complete robust, timely assessments and deliver an enhanced quality of social work support and intervention.

2.8 **The financial imperative** – The cost of agency social workers is a significant burden to the Council, with forecast agency spend of £4.4m in 2017/18. These agency social workers only cover existing vacancies. High cost in this context does not always equate to high quality and there are regularly concerns raised about the ability of agency social workers to reach the high standard Hampshire expect.

2.9 Hampshire Children's Services will support any child or young person who needs to be looked after, but it is essential that we only bring into care those children who really need such an intervention and that they stay as looked after children only for as long as is absolutely necessary. When caseloads are higher, social workers often do not have enough time to fully explore alternative options for children. Furthermore, social workers sometimes do not have the capacity to undertake meaningful work that can lead to a child leaving the care system at an earlier stage. Therefore to achieve a large proportion of our Tt2019 savings, it is essential that social workers have the capacity to effect long lasting and meaningful change in order to keep children at home or to assist them in exiting the care system more quickly. This requires more social work time and capacity.

2.10 **The staffing imperative** – Community Care's national research (July 2016) noted the following five reasons that would make a social worker to change jobs were;

- Work life balance
- Lower caseloads and dissatisfaction with their current post.
- Less stress
- An organisation with a good reputation

- Increased salary and remuneration

2.11 The Guardian published its 'Social Lives Survey' (2017) where a good work life balance was seen by social workers to be more important (74%) than any other issue. If Hampshire Children's Services is to recruit and retain a good cohort of permanent social work employees, we need to ensure that they have the capacity to undertake high quality and meaningful social work.

2.12 **The reputational imperative** - Hampshire Children's Services has been judged 'good' since 2009 and has an excellent national reputation as a result. It is one of only seven Children's Services chosen by the DfE to be a 'Partner in Practice' (PiP). If caseloads are not addressed at this stage, Hampshire's Ofsted rating could be adversely impacted during the next inspection due in 2018, and our PiP status would be compromised. This would cause reputational damage to Hampshire County Council and would further impact upon our ability to recruit staff into our organisation. In addition, as a PiP and a good authority, we are offered opportunities such as the Isle of Wight and Torbay which generates small, but not inconsequential, income for the Council.

Investment

2.13 Additional investment in frontline social workers to bring caseloads down to an average of 20, with the current level of admin support, equate to £6.6m per year. It is assumed that current accommodation will be sufficient to locate the additional staff in light of the increased flexible working digital is allowing. One-off costs for recruitment and training have not been included, because it is considered that these will come from current resource.

2.14 The model assumes that the additional resource will be managed within the current structure, without the need for more management capacity.

2.15 It is considered this investment will be required over a three year period to allow for enough social work capacity to introduce the new children's social care operating model being developed through our PiP programme and deliver the Tt2019 savings that come from this new model.

2.16 As the Tt2019 savings are achieved as a result of the new operating model, the size and make up of the children's social care workforce will be kept under review and scaled back accordingly.

3. Home to School Transport

3.1 The legislation around HtST dates back to the 1940's and where a child meets the criteria for travel to school, the County Council must provide it free of charge (in most cases).

3.2 The increasing demographics for children generally and in particular the increased number of children with Special Educational Needs (SEN) has meant that the HtST budget has been over spent over the last few years and current predictions forecast that spend will exceed the budget this year by £3.5m.

3.3 Analysis has been undertaken of the increased numbers and costs over the last three years and this shows that there is not a straight line relationship between numbers of children and costs. For example, children who need HtST in a similar area can share transport and significantly reduce costs, but if a new child requires transport and they live in an area not covered by an existing route the marginal cost of that extra child is much more expensive.

3.4 Similarly, children with SEN tend to be more expensive per head than the average cost and this area has seen an increase of over 10% in traveller numbers and a 15% increase in unit costs over the last three years alone. Clearly the priority for these children is to allocate them a school place that meets their educational needs, often this could be some distance from their home, requiring both transport and often escort costs to get them to school.

3.5 Taking into account the demographic increases and the specific rise in the number of children with SEN requiring HtST, it is estimated that a base adjustment of £2.4m is required in 2017/18 and that increases of around 0.9m per annum will be needed thereafter. These amounts are being reflected in the current update of the Medium Term Financial Strategy.

3.6 These adjustments to budgets are consistent with other growth allowances that are made in the budget for areas such increasing numbers of older people, increased road lengths and higher volumes of waste.

Treasury Management Mid-Year Monitoring Report 2017/18

1. Purpose

1.1. The Treasury Management Strategy for 2017/18 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

1.2. The Code also recommends that members are informed of Treasury Management activities at least twice a year (a mid year and a year end report). This report therefore ensures that the County Council is embracing best practice in accordance with CIPFA's recommendations.

1.3. Treasury Management is defined as: "the management of investments and cash flows, 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. Recommendations

2.1. This report recommends the following:

- That the mid-year review of treasury management activities be noted.
- That the potential impact on the investment strategy of defaulting to a retail client with effect from 3 January 2018 be noted.
- That the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy be agreed.
- In electing for professional client status the County Council acknowledges and agrees to forgo the protections available to retail clients attached at Annex 1.
- That the County Council approves delegated responsibility to the Section 151 Officer for the purposes of completing the applications.

3. Economic Background

3.1. The following section outlines the key economic themes currently in the UK against which investment and borrowing decisions have been made in the year to date.

External Context

3.2. UK Consumer Price Inflation (CPIH) for the year to August 2017 was 2.7%, up from 2.6% in July 2017; the largest upward contributions came from housing and household services (mainly from owner occupiers' housing costs and, to a lesser extent, from electricity prices and council tax), and clothing and footwear (the rise in inflation in this category may reflect changes in the exchange rate impacting on the cost of imported clothing). The most recent labour market data for July 2017 showed that the unemployment rate dropped to 4.3% (its lowest since the three months to May in 1975) but the squeeze on real wages (i.e. after inflation) is intensifying and resulting in negative real wage growth. Quarter 1 GDP data released in April and revised in May and June showed economic activity growing at a much slower pace of 0.2%, and the estimates of Quarter 2 GDP data released in July and August showed the economy growing at a rate of 0.3% over the quarter. The Bank of England made no change to Bank Rate or its Quantitative Easing policy (QE) at its meeting on 14 September 2017.

3.3. Prime Minister Theresa May called an unscheduled General Election in June, to resolve uncertainty and in the hope of gaining an enhanced mandate to enter the forthcoming Brexit negotiations. The surprise result has led to a minority Conservative government in a confidence and supply arrangement with the Democratic Unionist Party. This political impasse clearly results in an enhanced level of political uncertainty, however the potential for a so-called hard Brexit is now diminished, reducing the associated economic headwinds for the UK economy from a ‘no deal’ or otherwise unfavourable trade agreement.

3.4. The reaction from the markets on the election’s outcome has been fairly muted; business confidence now hinges on the progress of Brexit negotiations, whether new trade treaties and arrangements are successfully concluded and whether or not the UK continues to remain part of the EU customs union post the country’s exit from the EU.

3.5. In the face of this uncertainty, the County Council’s treasury management advisor, Arlingclose, expects the Bank of England will look through periods of high inflation and maintain its low-for-longer stance on policy interest rates for an extended period.

Financial markets

3.6. Gilt yields displayed some volatility with a marked uptick in late June. This was largely due to the expectation of tapering of QE in the US and Europe, which also had an impact on gilts. The FTSE 100 reached a record high of 7548 in May but dropped off slightly towards the end of Quarter 1, and down to 7438 on 31 August. However this level is still considered high in comparison to recent trends.

Credit background

3.7. UK bank credit default swaps have continued their downward trend, reaching three year lows by the end of June. Bank share prices have not moved in any particular pattern.

3.8. Ring-fencing, which requires the larger UK banks to separate their core retail banking activity from the rest of their business, is expected to be implemented within the next year. The County Council will work with Arlingclose to manage this situation as greater clarity is provided over the following months.

4. Investment Activity

4.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves. The County Council is currently investing according to a low risk, high quality lending list as outlined in its Treasury Management Strategy.

4.2. The transposition of European Union directives into UK legislation places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits. (The outcome of the EU referendum does not alter the UK's legislated bail-in resolution regime.)

4.3. Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the County Council's aim to further diversify into more secure and / or higher yielding asset classes. The majority of the County Council's surplus cash was previously invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

4.4. The County Council's investment holding was £587m at 31 August 2017, which was £16m (2.8%) greater than the same time last year. The table below shows investment activity for the County Council as at 31 August 2017 in comparison to the reported investment activity as at 31 March 2017:

Table 1: Investment Activity in 2017/18

Investments	Asset Value on 31/03/2017 £m	Asset Value on 31/08/2017 £m	Average Rate/Yield on 31/08/2017 %	Average Life on 31/08/2017 years
Short term Investments				
- Banks and Building Societies:				
- Unsecured	35.7	60.2	0.41	0.18
- Secured	20.0	50.0	0.77	0.50
- Money Market Funds	61.7	23.5	0.22	0.00
- Local Authorities	116.8	160.8	1.07	0.59
- Corporate Bonds	1.3			
- Registered Providers		20.0	1.79	0.41
	235.5	**314.5**	**0.87**	**0.44**
Long term Investments				
- Banks and Building Societies:				
- Secured	70.0	100.8	0.59	2.34
- Local Authorities	97.5	51.5	2.15	1.62
	167.5	**152.3**	**1.12**	**2.10**
Long term Investments – high yielding strategy				
- Local Authorities				
- Fixed deposits	20.0	20.0	3.96	16.55
- Fixed bonds	10.0	10.0	3.78	16.36
- Pooled Funds				
- Pooled property*	45.0	55.0	4.10	n/a
- Pooled equity*	20.0	20.0	6.45	n/a
- Pooled multi-asset*	10.0	10.0	4.52	n/a
- Registered Providers	5.0	5.0	3.40	1.66
	110.0	**120.0**	**4.45**	**1437**
Total Investments	**513.0**	**586.8**	**1.67**	**1.92**
Increase/ (Decrease) in Investments		73.8		

* Yield represents the average of each investment class' most recent dividend payments as a percentage of the asset value.

4.5. Cash balances in August are always greater than in March due to many government grants being front-loaded, and so March is generally the cash low point of the year. During the five-month period, the value of County Council cash liable to bank bail-in risk (unsecured bank investments and funds invested in money market funds) has been reduced, whilst the proportion of funds in high-yielding investments has increased. These movements have increased the diversification of the investment portfolio, reduced bail-in risk, and increased the average yield at 31 August 2017.

4.6. As part of the 2017/18 Investment Strategy the total amount targeted towards high yielding investments was increased to £200m. Investments yielding higher returns will contribute additional income to the County Council, although some come with the risk that they may suffer falls in the value of the principal invested.

4.7. Of the £200m available £120m has been invested (an increase of £10m since 31 March 2017), and a further £40m is committed to pooled property, equity and multi-asset funds. The investments in these pooled funds allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the County Council's pooled fund investments are in the respective fund's distributing share class which pay out the income generated.

4.8. 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 31 August 2017

Pooled fund investments	Principal invested £m	Market value 31/08/17 £m	Capital yield (per annum) %
Pooled property	55.0	55.0	0.17
Pooled equity	20.0	21.6	7.95
Pooled multi-asset	10.0	10.0	-0.02
Total	**85.0**	**86.6**	**6.57**

4.9. Counterparty credit quality was assessed and monitored with reference to credit ratings (the County Council's minimum long-term counterparty rating for institutions defined as having "high credit quality" is BBB+ across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

4.10. The average cash balances were £610m during the year to 31 August 2017. The average interest rate earned on the County Council's investments at 31 August 2017 was 1.67%, which should be considered within the context of a low UK Base Rate of 0.25%, and very low short-term money market rates.

4.11. The Guidance on Local Government Investments in England gives priority to security and liquidity and the County Council's aim is to achieve a yield commensurate with these principles. This has been maintained by following the County Council's counterparty policy as set out in its Treasury Management Strategy for 2017/18.

5. Borrowing

5.1. The County Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) at 31 March 2017 was £755m. Affordability and the "cost of carry" remained important influences on the County Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

5.2. For the County Council the use of internal resources in lieu of borrowing has, therefore, continued to be the most cost effective means of funding capital expenditure. No new long-term borrowing has taken place to date in 2017/18, or is planned for the remainder of the year. This has lowered overall treasury risk by reducing both external debt and temporary investments.

5.3. As at 31 August 2017 the County Council held £296m of loans, (a decrease of £37m on 31/03/2017), made up of Public Works Loans Board (PWLB) loans and market loans (including Lender's Option Borrower's Option (LOBO) loans), as part of its strategy for funding previous years' capital programmes.

5.4. The premia that applies to the premature repayment of the County Council's PWLB loans is still relatively expensive for the loans in the portfolio, and therefore unattractive for debt rescheduling. As a consequence, no PWLB debt rescheduling has taken place. However, consideration will continue to be given to an advantageous opportunity for the County Council to reduce or restructure its debt portfolio.

5.5. The County Council holds £20m of LOBO loans (down from the £73m historical balance, as explained in paragraphs 5.6 - 5.8) 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. None of the LOBO loan options were exercised by the lender in the year to date.

5.6. In June 2016 Barclays Bank informed the County Council of its decision to cancel all the embedded options within standard LOBO loans. This effectively converted £13m of the County Council's Barclays LOBO loans to fixed rate loans removing the uncertainty on both interest cost and maturity date. This waiver was been done by 'deed poll'; it is irreversible and transferable by Barclays to any new lender.

5.7. In July 2017, the County Council negotiated the repayment of £32m of LOBO loans, and repaid these at a saving in comparison to the total cost expected over the loans' lifetime.

5.8. In August 2017 the Royal Bank of Scotland also informed the County Council of its decision to cancel all the embedded options within standard LOBO loans, which effectively converted £8m of the County Council's loans to fixed rate loans. RBS then sold these two loans totalling £8m to Phoenix Life Assurance Limited (part of Phoenix Group Holdings).

6. MiFID II

6.1. The European Union, through its Market in Financial Instruments Directive (MiFID II), is aiming to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. This changing of rules will impact how local authorities can access regulated financial services. Although the UK has voted to leave the EU, MiFID II will still be implemented in the UK on 3 January 2018 for three reasons. Firstly, the UK's residents remain members of the EU and subject to its laws until the UK leaves; secondly, the UK government is in favour of strengthening investor protection; and thirdly, UK firms will wish to continue providing financial services across the EU after the UK has left the EU, so will need to comply with equivalent regulations.

6.2. The Financial Conduct Authority (FCA) has some discretion over how to implement this directive in the UK, and it released its final policy statement on the subject in July 2017.

6.3. Local authorities are currently treated by financial services firms as "professional clients", the middle of three categories, and the same as similar-sized companies. But from January 2018, the default position will be that local authorities are to be treated as "retail clients", the same as individuals and small and medium-sized enterprises, which will entail some increased protection, but at the expense of higher fees, increased paperwork and reduced market access.

6.4. It is expected that "opting-up" will be the most favourable position for the County Council as it will allow all investment opportunities detailed within the investment strategy to be accessed, whilst being a retail investor will limit investment opportunities, for example no access to money market funds or brokers. Opting up to professional status will also allow continued access to the current asset classes the County Council is invested in, without the increased fees that retail asset classes demand. Opting up will mean the County Council will not be able to take advantage of the increased protections available to retail clients (retail protections are available at Annex 1 – this list was provided by the Local Government Association and represents protections for all different types of investment, including investments not applicable under the current treasury management strategy). However, this will not be a change from the current status, as these protections are not currently afforded to professional clients.

6.5. Local authorities will be permitted to "opt-up" to professional client status, providing they meet the following criteria:

- The firm has assessed that the person authorised to carry out transactions on the local authority's behalf has the expertise, experience and knowledge to give reasonable assurance in light of the nature of the transactions or services envisaged, that they are capable of making their own investment decisions and understanding the risks involved;
- the size of the local authority's investment portfolio (including cash deposits) exceeds £10m, and

- at least one of the following is true:
  - the local authority has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters;
  - the person authorised to carry out transactions on behalf of the local authority works or has worked in the financial sector (including as a treasury manager) for at least one year in a professional position, which requires knowledge of the services envisaged; or
  - the local authority is a Local Government Pension Scheme administering authority and is acting in that capacity (this was not included in the consultation).

6.6. Considering these criteria, the County Council should be able to opt up to professional client status to maintain the most favourable investment position possible, but this will be decided on a per investment basis in conjunction with the County Council's Finance team. Significant work will be undertaken over the months to January 2018 to achieve this aim. So as to enable the opt-up process a number of recommendations have been included on the first page of this appendix.

6.7. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

6.8. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status.

7. Compliance with Prudential Indicators

7.1. Within 2017/18 to date, the County Council operated within the Prudential Indicators for 2017/18, which were set in February 2017 as part of the County Council's Treasury Management Strategy Statement.

Authorised Limit and Operational Boundary for External Debt

7.2. CIPFA's Code of Practice requires authorities to set an authorised limit for external debt, defined as the sum of external borrowing and other long-term liabilities. The annual strategy report agreed by the County Council in February 2017 set an authorised limit for external debt of £960m.

7.3. This limit is based on the estimated CFR in order to enable it to be financed entirely from external borrowing should the County Council's internal reserves become depleted. The limit also includes an allowance for temporary borrowing to cover normal revenue cash flow requirements and unexpected outflows or delays in receiving cash.

7.4. The County Council has set an operational boundary for external debt reflecting the more likely scenario and consistent with the County Council's capital plans and Treasury Management Strategy. Temporary breaches of 2017/18 operational boundary can take place for cash flow reasons, but any sustained breach will lead to further investigation. The County Council approved an operational boundary for 2017/18 of £860m.

Table 3: Authorised Limit and Operational Boundary for External Debt

	Authorised Limit £m	Operational Boundary £m	2017/18 Actual £m
Borrowing*	750	690	445
Other long-term liabilities	210	170	57
Total Debt	**960**	**860**	**502**

7.5. During the period to 31 August 2017, borrowing remained well within the authorised limit and operational boundary, and no new long-term borrowing has been taken out.

8. Treasury Management Indicators

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

Interest Rate Exposures

8.2. The County Council has to set an upper limit on its fixed and variable interest rate exposures for both total investments and total external debt. This indicator is set to control the County Council's exposure to interest rate risk. The County Council approved the following upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed or invested. None of the limits have been exceeded.

Table 4: Interest Rate Exposures

	2017/18 Limit	Maximum to 31 August 2017
Upper limit on fixed interest rate investment exposure	£375m	£132.5m
Upper limit on variable interest rate investment exposure	£700m	£556.2m
Upper limit on fixed interest rate borrowing exposure*	£960m	£445.1m
Upper limit of variable interest rate borrowing exposure	£960m	£56.9m

* Includes Waste Management and Street Lighting contracts

8.3. The limit for borrowing rate exposures has been set to enable maximum policy flexibility for the potential for refinancing e.g. from variable to fixed rate borrowing. The County Council's entire long-term debt portfolio is currently made up of fixed interest loans.

8.4. The upper limit for exposures for investments rates is based on an extreme case of the total investment balances, and to allow for all of this to be held at variable rates (investments with a maturity of less then one year) if necessary.

Maturity Structure of Borrowing

8.5. The Code also requires the County Council to set upper and lower percentage limits on the maturity structure of its long-term fixed rate borrowing during 2017/18. The following table shows the limits approved by the County Council. These have been set to allow maximum flexibility in managing the debt portfolio and are consistent with the existing portfolio.

Table 5: Maturity Structure of Borrowing

	Upper	Lower	Actual
Under 12 months	50%	0%	4.9%
12 months and within 24 months	50%	0%	0.0%
24 months and within 5 years	50%	0%	11.6%
5 years and within 10 years	75%	0%	17.3%
10 years and within 20 years	75%	0%	51.7%
20 years and within 30 years	75%	0%	14.5%
30 years and above	100%	0%	0.0%

Principal Sums Invested for Periods Longer than 364 days

8.6. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. For 2017/18 the County Council restricted investments for periods of over a year to maximum of £375m. Although at 31 August 2017 the County Council had £272m of investments with over 364 days to their maturity, this indicator reached its peak in May 2017 at £302m.

Warnings - Loss of Protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. Communicating with clients, including financial promotions

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. Information about the firm, its services and remuneration

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular:

(A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients.

(B) There are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients.

(C) The information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package.

(D) When handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. Suitability

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. Appropriateness

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. Dealing

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. Reporting information to clients

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. Client reporting

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. Financial Ombudsman Service

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. Exclusion of liability

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. Trading obligation

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. Transfer of financial collateral arrangements

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. Client money

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

Reserves Strategy

Introduction

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 austerity measures that have seen a greater impact on local government than any other sector.

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

At the end of the 2016/17 financial year the County Council's earmarked reserves together with the general fund balance stood at more than £524m an increase of approaching £27m on the previous year. This is in line with the Medium Term Financial Strategy (MTFS) as provision is built up in departmental cost of change reserves to enable support of transformation and of revenue spend whilst savings programmes are put in place, and in the Grant Equalisation Reserve (GER) ahead of a large planned draw in 2018/19. This Appendix sets out in more detail what those reserves are for and outlines the strategy that the County Council has adopted.

Reserves Position 31 March 2017

Current earmarked reserves together with the General Fund balance totalled £524.2m at the end of the 2016/17 financial year. The table below summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2015/16.

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 31/03/2016 £'000	Balance 31/03/2017 £'000	% of Total %
Revenue Reserves			
General Fund Balance	20,598	21,498	4.1
Fully Committed to Existing Spend Programmes			
Revenue Grants Unapplied	35,530	17,751	3.4
General Capital Reserve	124,137	126,075	24.0
Street Lighting Reserve	9,237	26,087	5.0
Public Health Reserve	0	7,412	1.4
Other Reserves	2,091	1,977	0.4
	170,995	**179,302**	**34.2**

	Balance 31/03/2016 £'000	Balance 31/03/2017 £'000	% of Total %
Departmental / Trading Reserves			
Trading Accounts	15,671	12,753	2.4
Departmental - Cost of Change Reserve	53,926	85,658	16.4
	69,597	**98,411**	**18.8**
Risk Reserves			
Insurance Reserve	25,423	20,571	3.9
Investment Risk Reserve	1,000	1,500	0.3
	26,423	**22,071**	**4.2**
Corporate Reserves			
Grant Equalisation Reserve	75,206	40,755	7.8
Invest to Save	9,077	31,100	5.9
Corporate Efficiency Reserve	7,902	0	0.0
Corporate Policy Reserve	5,109	4,632	0.9
Organisational Change Reserve	3,593	2,905	0.5
	100,887	**79,932**	**15.1**
HCC Earmarked Reserves	**367,902**	**379,176**	**72.3**
EM3 LEP Reserve	0	1,396	0.3
Schools Reserves	55,950	46,679	8.9
Total Revenue Reserves & Balances	**444,450**	**448,749**	**85.6**
Total Capital Reserves & Balances	**52,844**	**75,415**	**14.4**
Total Reserves and Balances	**497,294**	**524,164**	**100.0**

General Fund Balance

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

The current balance stands at £21.5m, which is broadly in line with the current policy.

Fully Committed to Existing Spend Programmes

By far the biggest proportion of reserves are those that are fully committed to existing spend programmes and £126m 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.

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

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

Specifically, the street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments in future years. From 2016/17 elements that were previously included within the Revenue Grants Unapplied Reserve have been included to transparently identify the full amount held for this PFI scheme.

The Public Health reserve (which was previously included within the Revenue Grants Unapplied Reserve but has been separately identified from 2016/17 onwards) represents the balance of the ring-fenced government grant carried forward for future Public Health expenditure.

Departmental / Trading Reserves

Trading services within the County Council operate as semi-commercial organisations and as such they do not receive specific support from the County Council in respect of capital investment or annual pressures arising from spending or income fluctuations.

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

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

- Meet any potential over spends in future years without the need to call on corporate resources
- Manage cash flow funding issues between years where specific projects may have been started but not fully completed within one financial year.
- Meet the cost of standard redundancy and pension payments arising from the down sizing of the work force
- Invest in new technology and other service improvements, for example the IT enabling activity associated with the Transformation to t2019 (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.
- Meet the cost of significant change programmes and restructures.

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

All departments will be utilising their reserves to fund the activity to deliver the Tt2019 Programme and to cashflow the later delivery of savings if needed. The exception to this is Children's Services 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

The Council holds specific reserves to mitigate risks that it faces. The County Council self insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.

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

Corporate Reserves

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

This leaves other available earmarked reserves that are under the control of the County Council and total nearly £79.9m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of government grant reductions, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and residents of Hampshire. They are broken down into four main areas:

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.

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

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

The GER currently stands at approaching £40.8m, but this reflects the fact that a significant contribution will be required in 2018/19 as part of the County Council's strategy of delivering savings over a two year cycle. Where possible, the County Council will continue to direct spare one off funding into this reserve as part of its overall longer term risk mitigation strategy, which has served it very well to date.

Invest to Save / Corporate Efficiency Reserve – These reserves are earmarked to provide funding to help transform services in order to make further revenue savings in the future. Rather than just prop up the budget on a short term basis, the County Council feels it is a far more sensible policy to use available reserves to generate savings and improve services over the longer term, by re-designing services and investing in technology and other solutions that make services more modern and efficient. These two reserves were merged at the end of 2016/17as they are used for the intrinsically the same purpose.

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.

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

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

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

A scheme is in place to enable the continued reduction and transformation of the workforce required to deliver the significant savings needed in the medium term with the aim of minimising compulsory redundancies

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

It should be highlighted that the total 'Corporate Reserves outlined above account for approximately 15% of total reserves and balances that the County Council holds and these have largely been set aside as part of a longer term strategy for dealing with the significant financial challenges that have been imposed on the County Council. In addition, the GER which comprises the majority of these 'available' Corporate Reserves, standing at £40.8m at the end of 2016/17 and due to increase in 2017/18, is in reality fully committed as the MTFS includes a planned net draw of approaching £46m required to balance the budget in 2018/19 before any changes approved as part of budget setting for 2018/19.

The reserves detailed above represent the total earmarked revenue reserves of the County Council and amount to £448.7m as shown in the table on first 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

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.

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

Schools Reserves

Schools reserves account for nearly £47m or 8.9% of total reserves and balances. These reserves must be reported as part of the County Council's accounts, but since funds are delegated to schools any surplus is retained by them for future use by the individual school concerned. Similarly, schools are responsible for any deficits in their budgets and they maintain reserves in a similar way to the County Council in order to smooth fluctuations in cash flow over several years.

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

Capital Reserves

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.

Reserves Strategy

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

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

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

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

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

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

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

- Departmental reserves to pay for the cost of change associated with their own transformation programmes.
- Top up funding to the Organisational Change Reserve to provide resources to continue the very successful voluntary redundancy programme as a means of releasing staff in a sensitive and controlled manner that has helped maintain morale across the Council.
- Funding within the Invest to Save Reserve to help support the Tt2019 Programme and Digital 2 that will deliver the next phase of savings.
- Additional funds for the GER to help smooth the impact of grant reductions, including significant funding to bridge the unexpected budget gap in 2018/19, and give the County Council maximum flexibility in future budget setting processes.

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

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

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HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Policy & Resources Select Committee
Date:	23 November 2017
Title:	Approval of Task & Finish Groups
Report From:	Director of Transformation & Governance

Contact name: Marie Mannveille, Scrutiny Officer

Tel: 01962 845018 **Email:** marie.mannveille@hants.gov.uk

1. Purpose of Report

1.1. For the Policy & Resources Select Committee to fulfil its role of coordinating scrutiny, this committee is asked to approve the initiation of task and finish groups and sub committees by the other Select Committees.

2. Health and Adult Social Care Select Committee Task & Finish Group: Social Inclusion Services

2.1. At the Health and Adult Social Care Select Committee meeting held on 21 September 2017 the Select Committee resolved to initiate a working group regarding Social Inclusion services. This working group is being formed to provide overview and scrutiny to a review of Social Inclusion services, which forms part of the Adults Health and Care Department's T19 programme, prior to an Executive Member decision. Social Inclusion services provide short term accommodation-based and community support to vulnerable people who are homeless or at risk of homelessness. The client group includes rough sleepers, people with mental health support needs, substance misuse issues, learning disabilities and those with a history of offending behaviour. The terms of reference for this task and finish group are attached at appendix 1.

3. Health and Adult Social Care Select Committee Task & Finish Group: Sustainability and Transformation Partnerships (STPs)

3.1. At the Health and Adult Social Care Select Committee meeting held on 21 September 2017 the Select Committee also resolved to initiate a working group to monitor the progress and provide appropriate scrutiny of the core programmes of the two Sustainability and Transformation Plans (STPs) covering the Hampshire geography.

3.2. The NHS and local councils have formed STPs in 44 areas covering all of England, with the aim of improving health and care. Each area has developed proposals built around the needs of the whole population in the area, not just those of individual organisations. The central role of the STP is to support local place-based plans to achieve the changes that that can only be achieved by working in partnership. There is an STP for Hampshire and the Isle of Wight, and an STP for Frimley that covers parts of North Hampshire. The terms of reference for this task and finish group are attached at appendix 2.

4. Recommendations

4.1. That the Policy & Resources Select Committee support the proposed Task & Finish Groups being undertaken by the Health and Adult Social Care Select Committee:

- Working Group on Sustainability and Transformation Partnerships (STPs)
- Task and Finish Working Group on Social Inclusion Services

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
'Social Inclusion and Transformation to 2019' Working Group - Terms of Reference	21 September 2017
'Sustainability and Transformation Partnerships' Working Group - Terms of Reference	21 September 2017

Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>

Section 100 D - Local Government Act 1972 - background documents

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

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

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

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

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

1.2. **Equalities Impact Assessment:**

1.3. An equalities impact assessment will be undertaken as required when any service changes are being proposed. This report is only regarding initiating a piece of review work and therefore is not proposing any changes, therefore no impact is expected as a result of this report.

1. Impact on Crime and Disorder:

1.1. Impact assessments will be undertaken as required when any service changes are being proposed. This report is only regarding initiating a piece of review work and is not proposing any changes, therefore no impact is expected as a result of this report.

2. Climate Change:

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

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

This report is only regarding initiating a piece of review work and is not proposing any changes, therefore no impact is expected as a result of this report.

HEALTH AND ADULT SOCIAL CARE SELECT (OVERVIEW AND SCRUTINY) COMMITTEE

TASK AND FINISH WORKING GROUP ON SOCIAL INCLUSION SERVICES

TERMS OF REFERENCE

1. Role and Purpose of the Task and Finish Working Group

The Task and Finish Working Group is a working group of the Health and Adult Social Care Select (Overview and Scrutiny) Committee (HASC), and is appointed in accordance with the Constitution of Hampshire County Council.

The Task and Finish Group's purpose is to review proposals for future 'Social Inclusion' services, as part of the wider programme of 'Transformation to 2019'.

2. Scope of the Task and Finish Group

The HASC considered an introduction to the 'Transformation to 2019' ('T19') programme, including a broad overview of the Council's required savings and the specific efficiencies to be sought from Adults' Health and Care, at their 21 July 2017 meeting. This working group is being formed to provide overview and scrutiny to a review of Social Inclusion services, which forms part of the Department's T19 programme, prior to an Executive Member decision.

Objectives:

- To support the County Council with the partnership approach to reviewing Social Inclusion services alongside District and Borough Councils, together with any other organisations with a statutory responsibility or interest in this provision.
- To review feedback from engagement and consultation with a wide range of stakeholders, including service users.
- To consider and provide comment on impact assessments.
- To scrutinise and review proposals for service reconfiguration developed within the financial envelope available.

Exclusions:

- The overall savings contribution as may be agreed by the Executive Member for Adults' Health and Care on 21 September 2017.
- The consideration of other Adults' Health and Care services not defined as 'Social Inclusion'.

Outcomes:

- To provide updates to the wider HASC on the progress of considerations when appropriate.

- To make recommendations regarding proposals to the wider HASC
- To submit a report to the wider HASC when Social Inclusion service recommendations appear before the Committee for pre-decision scrutiny.

3. Method

The working group will meet with department officers to consider the evidence leading to recommendations for decisions on the future of Social Inclusion services. At each meeting, the group will provide oversight, scrutiny and comment on progress towards the stated objectives of the review. Where the working group requires further information in order to pursue the concerns outlined in the scope, such information will be requested.

4. Membership

The working group shall be a cross party group made up of four County Councillor Members of the HASC, with additional membership from one of the District and Borough Co-opted Membership.

5. Meetings

The Working Group will hold an initial meeting to understand the timeline for reviewing and making recommendations on Social Inclusion services. After this meeting, it shall meet as often as required to satisfactorily explore this topic.

6. Code of Conduct

Elected Members of the Working Group shall comply with the Hampshire County Council Code of Conduct applicable to Members.

7. Reporting

The Working Group will make an update to the HASC on the progress of considerations when appropriate. It will provide comment to the wider HASC when Social Inclusion service recommendations appear before the Committee for pre-decision scrutiny.

The Working Group will cease to exist once its purpose has been fulfilled.

Appendix

Background to Social Inclusion services

Social Inclusion services provide short term accommodation-based and community support to vulnerable people who are homeless or at risk of homelessness. The client group includes rough sleepers, people with mental health support needs, substance misuse issues, learning disabilities and those with a history of offending behaviour.

The County Council's annual spend on these services is £4.2m.

The current contracts that commenced in April 2016 and come to an end in March 2019 include the following types of service provision:

- **Street outreach:** support for people sleeping rough.
- **Stage 1 accommodation:** 24/7 support within a hostel environment for single homeless.
- **Stage 2 accommodation:** short term supported accommodation with a lower level of support for single homeless.
- **Community support:** support available regardless of tenure where an individual or family is homeless or at risk of homelessness and has additional needs that are exacerbating or preventing them from addressing their housing situation without support.

The contracts above deliver services in all areas of the County apart from Basingstoke and Deane. The County Council entered into a 3 year grant agreement with Basingstoke and Deane Borough Council on 1 April 2016 to enable them to commission their own Social Inclusion services. This agreement ends on 31 March 2019.

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HEALTH AND ADULT SOCIAL CARE SELECT (OVERVIEW AND SCRUTINY) COMMITTEE

WORKING GROUP ON SUSTAINABILITY AND TRANSFORMATION PARTNERSHIPS (STPs)

TERMS OF REFERENCE

1. Role and Purpose of the Working Group

This is a working group of the Health and Adult Social Care Select (Overview and Scrutiny) Committee (HASC), and is appointed in accordance with the Constitution of Hampshire County Council.

The Group's purpose is to monitor the progress and provide appropriate scrutiny of the core programmes of the two STPs covering the Hampshire geography.

2. Scope of the Working Group

Objectives:

1. To develop a good understanding and working knowledge of the two STPs in Hampshire (Hampshire and Isle of Wight, and Frimley)
2. To monitor the progress of the various core programmes sitting beneath the STPs, and to provide appropriate scrutiny of these workstreams.
3. To make any recommendations to STP leads, as appropriate, and to refer topics to the HASC for wider scrutiny through formal meetings.

The topic areas that will be specifically explored by the working group in relation to both the Hampshire and Isle of Wight STP, and the Frimley STP shall be:

- New models of care (to include primary care)
- Acute reconfiguration (to include Urgent and Emergency Care)
- Mental Health

The themes of prevention and actions to promote greater self-management are cross-cutting and will feature throughout the above programmes.

Exclusions:
The working group will not review topics that aren't explicitly mentioned under the core programmes within the STP documents, and will not specifically focus on enabling programmes, which sit outside the scope of the HASC.

Outcomes:
The working group will submit a report to the HASC prior to any wider scrutiny of STP core programme items, and will provide oral updates on meetings when appropriate. The format of these reports and when they are provided to the HASC will be determined by the working group, but should be provided in a timely manner to ensure consideration prior to formal meetings.

3. Method

The working group will meet with representatives leading the STPs and core programmes, as well as providers and commissioners of services in Hampshire. It may also choose to invite evidence from a range of stakeholders who have an interest in the core programmes of the STP.

Specifically in relation to objective two, the working group will rotate between core delivery work streams sitting under the themes of care delivered in health environments, and care delivered in the community.

Where the working group requires further information to pursue the concerns outlined in the scope, such information will be requested.

4. Membership

The working group shall be a cross-party group made up of five members. The working group will co-opt any non-voting individuals they may find advantageous during their considerations.

The working group may invite a panel of expert advisers to attend their meetings to provide advice.

5. Meetings

The working group will hold an initial meeting to understand the various core programme work streams sitting under the Hampshire and Isle of Wight STP, and the Frimley STP. It shall meet as often as required to satisfactorily explore this topic thereafter.

The STPs are strategies that run until the 2020/21 financial year. It is anticipated that the working group will conclude once the STPs have been fully embedded across Hampshire.

6. Code of Conduct

Elected Members of the working group shall comply with the Hampshire County Council Code of Conduct applicable to Members.

7. Reporting

The working group will make updates to the HASC on the progress of considerations, and will report to them prior to STP items receiving wider scrutiny at formal meetings.

It will make any recommendations for endorsement by the HASC, for forwarding to the STP leads and partner organisations.

The working group will cease to exist once its purpose has been fulfilled.

Background on STPs

The NHS and local councils have formed STPs in 44 areas covering all of England, with the aim of improving health and care. Each area has developed proposals built around the needs of the whole population in the area, not just those of individual organisations. All of the STPs, and more detail on their purpose, can be found from the link below:

https://www.england.nhs.uk/stps/about-stps/

The central role of the STP is been to support local place-based plans to achieve the changes that that can only be achieved by working in partnership.

Hampshire and the Isle of Wight

The HIOW STP focuses on the following priorities:

- To provide a radical upgrade in prevention, early intervention and self care.
- To accelerate the introduction of new models of care in each community in HIOW.
- To address the issues that delay patients being discharged from hospital.
- To ensure the provision of sustainable acute services across HIOW.
- To improve the quality, capacity and access to mental health services in HIOW.

You can read more about the STP proposals in the HIOW summary document: HIOW STP summary document 23 November 2016.pdf.

You can also see the full STP delivery plan here: HIOW STP Delivery Plan 21 October 2016 (Final draft).pdf.

Frimley

The Frimley STP focuses on the following priorities:

- Making a substantial step change to improve wellbeing, increase prevention, self-care and early detection.
- Action to improve long term condition outcomes including greater self management & proactive management across al providers for people with single long term conditions.
- Frailty Management: Proactive management of frail patients with multiple complex physical & mental health long term conditions, reducing crises and prolonged hospital stays.
- Redesigning urgent and emergency care, including integrated working and primary care models providing timely care in the most appropriate place.
- Reducing variation and health inequalities across pathways to improve outcomes and maximise value for citizens across the population, supported by evidence.

To view the full Frimley Health and Care STP, pdf click here (5.96 MB) .

To view a summary of the Frimley Health and Care STP, pdf click here (163 KB) .

HAMPSHIRE COUNTY COUNCIL

Report

Committee:	Policy & Resources Select Committee
Date:	23 November 2017
Title:	Work Programme
Report From:	Director of Transformation & Governance – Corporate Services

Contact name: Marie Mannveille, Scrutiny Officer

Tel: 01962 845018 **Email:** marie.mannveille@hants.gov.uk

1. Summary

1.1. The purpose of this item is to provide the work programme of future topics to be considered by this Select Committee.

2. Recommendation

That the Policy & Resources Select Committee approve the attached work programme.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

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

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:**

1.3. This is a forward plan of topics under consideration by the Select Committee, therefore this section is not applicable to this report. The Committee will request appropriate impact assessments to be undertaken should this be relevant for any topic that the Committee is reviewing.

2. Impact on Crime and Disorder:

2.1. This is a forward plan of topics under consideration by the Select Committee, therefore this section is not applicable to this report. The Committee will request appropriate impact assessments to be undertaken should this be relevant for any topic that the Committee is reviewing.

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?

This is a forward plan of topics under consideration by the Select Committee, therefore this section is not applicable to this report. The Committee will consider climate change when approaching topics that impact upon our carbon footprint / energy consumption.

WORK PROGRAMME – POLICY & RESOURCES SELECT COMMITTEE

Topic	Issue	Reason for inclusion	Status and Outcomes	23 Nov 2017	22 Jan 2018	19 April 2018	Summer 2018
Overview/Pre-Scrutiny - *To maintain an overview of Policy and Resources issues, and to consider proposed scrutiny topics for inclusion in the work programme.*							
Pre-scrutiny	Revenue and Capital Budget	To pre scrutinise the budget proposals for the Policy & Resources portfolio, prior to approval by the Executive Member.	Budget considered annually in January. (in recent years this committee has also received the budget setting item at the January meeting for additional context)		✓		
Overview	Performance	To monitor how performance is managed corporately, and consider the performance information to support identification of areas to focus scrutiny.	Members requested to consider the performance report annually. Last received June 2017, next update expected summer 2018.				✓
Overview	IT developments and issues (including Digital Strategy)	Monitoring contribution of IT to change programmes, major projects (e.g. rural broadband) and policy issues in relation to underpinning council services (e.g. disaster recovery plans)	Update has been considered annually. Last update received Jan 2017, next update due Jan 2018. At Sept 2017 meeting requested further detail on IT savings under T19 programme.		✓		

Topic	Issue	Reason for inclusion	Status and Outcomes	23 Nov 2017	22 Jan 2018	19 April 2018	Summer 2018
Overview	Budget Monitoring	(a) Final Accounts considered at summer meeting, to see how the budget was managed for the year compared to plan. (b) Medium Term Financial Strategy – considered when appropriate to provide longer term financial context. (c) Planning for the 2019/20 budget gap	(a) Last considered June 2017 (b) MTFS last considered July 2016. (c) ‘transformation to 2019’ update received June 2017.	(b) ✓			(a) ✓

Topic	Issue	Reason for inclusion	Status and Outcomes	23 Nov 2017	22 Jan 2018	19 April 2018	Summer 2018
Scrutiny Review - *to scrutinise, in-depth, priority areas agreed by the Committee*							
None at this time							
Real-time Scrutiny - *to scrutinise light-touch items agreed by the Committee, through working groups or items at formal meetings.*							
Consultation Policy	Whether improvements could be made to how the County Council engages with the public.	Members were aware of examples of consultations that had not been well received by the public, and wanted to review corporate guidance on consultations.	Working group reported to July 2014 meeting and recommended to Cabinet. Cabinet agreed new policy Feb 2015. Review of implementation April 2016. To retain for future update, timing tbc				

Topic	Issue	Reason for inclusion	Status and Outcomes	23 Nov 2017	22 Jan 2018	19 April 2018	Summer 2018
Crime & Disorder	Duty to review, scrutinise, and report on the decisions made, and actions taken by 'responsible authorities' under the Crime and Disorder Act.	This duty passed from the Safe & Healthy People Select Committee to this committee in May 2014	Introductory item on crime and disorder received at Oct 2014 meeting. Update on crime & disorder work (domestic abuse focus) received at Nov 2015 meeting. Update (with Prevent focus) Nov 2016 and short introduction from PCC. Next item due Nov 2017 – PCC requested for longer slot, briefing note to be circulated confirming crime & disorder remit, and report to cover fewer topics in greater detail. (Supporting Troubled Families focus for Nov 2017)	✓			
Trading Standards	Further detail on savings being made to this service under T19 programme	Requested when T19 for Policy & Resources outline proposals considered at Sept 2017 meeting.	To consider when further detail is available, expected Jan 2018.		✓		

Topic	Issue	Reason for inclusion	Status and Outcomes	23 Nov 2017	22 Jan 2018	19 April 2018	Summer 2018
Monitoring Scrutiny Outcomes - *to examine responses to the Committee's reports or comments and check on subsequent progress.*							
Collation of Annual Report of Select Committee activity	To support oversight of the scrutiny function, and the role of this committee to ensure scrutiny activity is having impact and being evaluated.	The constitution requires that this committee report to full Council annually providing a summary of the activity of the select committees	In recent years this has been prepared by financial year. Report for 2016/17 presented to July 2017 full Council.			✓	