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Hampshire County Council

NOTICE OF MEETING

Meeting	Cabinet
Date and Time	Monday, 5th February, 2018 at 10.30 am
Place	Wellington Room, EII Court, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

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

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

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence received.

2. DECLARATIONS OF INTEREST

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

3. MINUTES OF PREVIOUS MEETING (Pages 5 - 10)

To confirm the minutes of the previous meeting

4. **DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

5. **CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

6. **REVENUE BUDGET & PRECEPT 2018/19** (Pages 11 - 104)

To consider a report of the Director of Corporate Resources regarding the County Council’s Revenue Budget and Precept 2018/19.

7. **CAPITAL PROGRAMME 2018/19 TO 2020/21** (Pages 105 - 144)

To consider a report of the Director of Corporate Resources regarding the County Council’s Capital Programme 2018/19 to 2020/21

8. **COMMISSION OF INQUIRY** (Pages 145 - 154)

To consider a report of the Director of Economy, Transport and Environment proposing the establishment of a commission of inquiry.

9. **ATTAINMENT OF CHILDREN AND YOUNG PEOPLE IN HAMPSHIRE SCHOOLS** (Pages 155 - 164)

To consider a report of the Director of Children’s Services regarding the attainment of children and young people in Hampshire

10. **STRATEGIC PARTNERSHIP FOR HAMPSHIRE COUNTY COUNCIL TO DELIVER CHILDREN'S SERVICES FOR THE ISLE OF WIGHT COUNCIL** (Pages 165 - 180)

To consider a report of the Director of Children’s Services seeking approval for the renewal of the strategic partnership between Hampshire County Council and the Isle of Wight Council for the delivery of Children’s Services on the Isle of Wight.

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.

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AT A MEETING of the Cabinet of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Monday, 11th December, 2017

Chairman:
* Councillor Roy Perry

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

* Present

Also present with the agreement of the Chairman: Councillors Bennison, Glen, Heron, Huxstep, Porter and McNair-Scott

27. **APOLOGIES FOR ABSENCE**

All Members were present and no apologies were noted

28. **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.

29. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed

30. **DEPUTATIONS**

No requests to make a deputation had been received. It was noted that with the agreement of the Chairman, Councillor Jackie Porter would speak on the items relating to Major Developments and to Superfast Broadband.

31. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed everyone to the final Cabinet meeting of 2017, wishing a Merry Christmas to all. Reflecting on the past year he noted in particular the outcome of both local and national elections. Looking ahead, the forthcoming local government finance settlement was highlighted and it was confirmed that discussions with the NHS on ways to support each other and find ways to reduce pressures would continue.

Reports of revived ambition from the City Councils of Portsmouth and Southampton to form a “Solent City” combined authority were highlighted. The Chairman noted the complexities and possible loss of operational effectiveness of splitting up the County Council and iterated his view that the whole Hampshire combined authority model, which all parties had agreed to, remained the best basis for any future arrangement.

The Chairman was pleased to confirm that the Hambledon flood defence work was now complete and was confident that this would prevent a repeat of flooding that occurred in the past. He reported on a very successful special schools’ carol service that he had attended organised by the Hampshire Music Service at Winchester Cathedral and confirmed that he had been invited to attend a reception at the US embassy as part of the First World War centenary events.

32. **BUDGET SETTING AND PROVISIONAL CASH LIMITS 2018/19**

Cabinet considered a report of the Director of Corporate Resources regarding budget setting and provisional cash limits.

The report was introduced and it was confirmed that there were no new budget proposals at this point and therefore any changes would be presented as part of the budget report to February Cabinet. Key points relating to the delivery of savings were highlighted and it was confirmed that the national budget announcements had not included anything of significance to the County Council. An update was provided on the ongoing staff pay negotiations and the possible impact in Hampshire. It was noted that proposals for how to meet the funding gap caused by a potential pay settlement would be included in future budget reports.

Cabinet welcomed the report, noting in particular the £893 million capital programme for investment in infrastructure and to facilitate the delivery of high quality services.

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

33. **TRANSFORMATION TO 2019: REPORT NO. 2**

Cabinet considered the report of the Chief Executive regarding progress of the Transformation to 2019 programme.

The report was introduced and key points were outlined. In particular it was confirmed that the four year delivery window would give sufficient time to safely implement the programme. The position of savings secured by the programme according to the RAG (red, amber, green) status of respective areas was highlighted. Cabinet were also updated on the progress of enabling projects, including the digital strategy, which would underpin the programme through productivity gains.

It was noted that the Transformation programme was designed to adapt to significant demographic change and the consequential increase in demand for services. To deal with this alongside reductions in the County Council's funding meant a re-alignment of the provision of those services was required. The areas of community transport, school crossing patrols and waste and recycling centres, identified by a specific additional decision, for further review by officers at the October meeting of the Cabinet were highlighted. It was confirmed by the Executive member for Environment and Transport that, partnership work by the ETE department, conducted since the October Cabinet, had enabled significant refinancing opportunities with regard to difficult decisions in those areas of the programme. He and the Leader also confirmed that the Council would continue to lobby government on areas where additional flexibility through legislative change, such as with additional charging powers, would provide further opportunity with the aim of finding long-term, sustainable solutions. Cabinet welcomed opportunities for finding mechanisms to sustain services that the Hampshire population could support.

Cabinet recognised the strength of the County Council's position in setting a balanced budget at a time when other Authorities were not able to. It was furthermore welcomed that despite reductions in some areas, a great deal continued to be done to support community organisations such as in the area of culture and communities.

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

34. **SERVING HAMPSHIRE - Q2 2017/18 PERFORMANCE REPORT**

Cabinet considered a report of the Chief Executive providing strategic oversight of the County Council's performance during Q2 2017/18 against the Serving Hampshire Strategic Plan for 2017-21.

In introducing the report the new structure for its presentation was drawn to the attention of Members. A number of positive outcomes detailed in the report, in particular in the areas of education and inclusion and diversity were acknowledged and welcomed by Cabinet.

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

35. **MAJOR DEVELOPMENTS AND INFRASTRUCTURE FUNDING**

Cabinet considered the report of the Director of Economy, Transport and Environment regarding major developments and infrastructure funding.

The report was set out and key elements highlighted. In emphasising the broader importance of infrastructure, proposals for Welborne were given as an example of how infrastructure could support development. It was confirmed that

HIF bids had been submitted, but no outcome was available at this point. With regards to CIL, Cabinet heard that the outcomes of a consultation were awaited but some funding was being received through the District Councils.

With the agreement of the Chairman, Councillor Jackie Porter addressed the Cabinet meeting. Councillor Porter called for a clear statement to be made on the future of Barton Farm. She proposed that the CIL money available to the County Council be used to finance infrastructure to support children, such as cycle and foot paths. Citing a number of accidents at the location, Councillor Porter also appealed for funding for improvements to the Cart and Horses junction.

Cabinet Members noted that only some of the CIL money collected was being made available to the County Council in some areas but there was limited scope for this to have an impact. It was furthermore noted that Parish Councils also receive a share of CIL money with which they are able to take forward localised schemes. The report was welcomed and the level of integration across the Hampshire area, alongside the County Council's capacity to lead on major projects was highlighted. The Manydown development was cited as an area where, the importance of a long term strategy for development was key and it was recognised that Hampshire had a strong track record in planning for the future. With this in mind the Chairman referenced proposals to form a commission to review and make recommendations on wide ranging future requirements for the County.

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

36. ANNUAL REPORT OF THE DIRECTOR OF PUBLIC HEALTH

Cabinet considered the annual report of the Director of Public Health which focussed on Ageing Well in Hampshire.

The report which detailed specific issues for the health of older people where preventive action could be taken were set out and welcomed by Members who noted the impact on quality of live and that issues such as social isolation were part of a national trend. A number of ways in which technology was being used and developed to support positive outcomes were identified and it was confirmed that Hampshire was leading the way in this area. Recent positive feedback on the position in Hampshire from Duncan Selbie (Chief Executive of Public Health England) was shared with Cabinet.

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

37. SUPERFAST BROADBAND IN HAMPSHIRE

Cabinet considered the report of the Director of Culture, Recreation and Communities regarding the progress of the superfast broadband programme.

The report was outlined, setting out the success of the programme to date, both through investment by the County Council and the use of government funding. The failure of the telecoms market to provide a connection to the hardest to reach properties was highlighted as a limiting factor and plans to continue to support such communities to get broadband access were set out.

With the agreement of the Chairman, Councillor Jackie Porter addressed the meeting. Councillor Porter acknowledged the challenge faced by the County Council, explaining that her own Division would be worse off if it weren't for a private broadband service. She called for similar schemes to be supported and on the basis of broadband being an essential service felt that new development should not be permitted without infrastructure to support good quality internet access.

Members welcomed the report and noted the success rate in Hampshire in comparison with other parts of the country. It was acknowledged that in a commercial market, some of the hardest to reach areas were unviable for the telecoms companies, therefore further expansion should be supported by government, particularly when access to many government services now relied on internet access.

The inconsistency of inclusion of a broadband supply for new developments was agreed to be unacceptable and Cabinet felt that this should be installed routinely alongside other essential services and should be included in local plans as a pre-requisite for development.

It was proposed and agreed that an additional recommendation be added: for the Leader of the Council to write to the Minister of State for Digital to reinforce the continuing issue of rural coverage, especially given the crucial economic and social implications, and to seek assurances that the government will address this through policy development and a range of proposals alluded to in the report.

With the above addition, the recommendations in the report were proposed and agreed. The decision record is attached.

Chairman,

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	5 February 2018
Decision Maker:	County Council
Date:	22 February 2018
Title:	Revenue Budget and Precept 2018/19
Report From:	Director of Corporate Resources

Contact name: Carolyn Williamson

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

1. Recommendations

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

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

1.2. Approves the allocation of up to £7.6m in 2017/18, from within existing contingencies, to provide for the forecast growth in Children Looked After numbers.

1.3. Approves the council tax increase for 2018/19 of 5.99% in line with the details set out in paragraphs 7.6 to 7.15.

1.4. Approves the Revised Budget for 2017/18 contained in Appendix 1.

1.5. Gives in principle approval to transfer any spare resources on the 2017/18 winter maintenance budget to the highways maintenance budget for 2018/19.

1.6. Approves the updated cash limits for departments for 2018/19 as set out in Appendix 3.

1.7. Approves the proposed service budgets for 2018/19 as set out in Appendix 4.

1.8. Approves the overall budget for the County Council for 2018/19 as set out in Appendix 5.

1.9. Delegates authority to the Director of Corporate Resources, following consultation with the Leader and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by District Councils or any late changes in the final Local Government Finance Settlement.

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

a) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 7) be taken into account when the Council determines the budget and precept for 2018/19.

b) The Revised Budget for 2017/18 set out in Appendix 1 be approved.

c) The Revenue Budget for 2018/19 (as set out in Appendix 4 and Appendix 5) be approved.

d) Funding for one off revenue priorities linked to the development of capital investment totalling £3.045m as set out in paragraphs 5.25 to 5.36 be approved.

e) The strategy for dealing with new capital investment priorities as set out in Section 6 is approved together with the addition of new schemes totalling £15.78m (net) as detailed in Appendix 2.

f) The changes to ETE savings proposals as outlined in paragraphs 9.8 to 9.14 are agreed together with the proposed increase in corporate housekeeping savings that will be met from additional council tax income generated from the 1% increase in 2018/19.

g) Recurring funding from 2018/19 onwards of £3.2m rising to £3.7m per annum, to be held within contingencies, is approved to partly cover the forecast increased costs for Children Looked After.

h) The total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2018, be £751,001,384.

i) The **council tax requirement** for the County Council for the year beginning 1 April 2018, be £608,175,704.

j) The County Council's band D council tax for the year beginning 1 April 2018 be £1,200.96, an increase of 5.99% of which 3% is specifically for adults' social care.

k) The County Council's council tax for the year beginning 1 April 2018 for properties in each tax band be:

	£
Band A	800.64
Band B	934.08
Band C	1,067.52
Band D	1,200.96
Band E	1,467.84
Band F	1,734.72
Band G	2,001.60
Band H	2,401.92

l) Precepts be issued totalling £608,175,704 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	64,085.00
East Hampshire	49,459.56
Eastleigh	44,805.97
Fareham	42,605.30
Gosport	26,524.90
Hart	40,185.80
Havant	40,680.15
New Forest	70,621.00
Rushmoor	30,971.38
Test Valley	48,079.00
Winchester	48,389.90

m) The Treasury Management Strategy and the Annual Investment Strategy for 2018/19 (and the remainder of 2017/18) as set out in Appendix 8 be approved, including:

- The Prudential Indicators for 2018/19, 2019/20 and 2020/21 (Appendix 8 - Annex C).
- The Minimum Revenue Provision (MRP) Statement (Appendix 8 - Annex D).
- The delegation of authority to the Director of Corporate Resources to manage the Council's investments according to the risk assessment process in the Investment Strategy as appropriate.

- Investments of up to £35m for up to 20 years in the Manydown joint venture in which the County Council has a significant interest.
- The delegation of authority to the Director of Corporate Resources to approve investments in the Manydown joint venture in consultation with the Executive Member for Policy and Resources.

1.11. **RECOMMENDATIONS TO COUNTY COUNCIL**

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

County Council is recommended to approve:

a) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 7) and take this into account when determining the budget and precept for 2018/19.

b) The Revised Budget for 2017/18 set out in Appendix 1.

c) The Revenue Budget for 2018/19 (as set out in Appendix 4 and Appendix 5).

d) Funding for one off revenue priorities linked to the development of capital investment totalling £3.045m as set out in paragraphs 5.25 to 5.36.

e) The strategy for dealing with new capital investment priorities as set out in Section 6, together with the addition of new schemes totalling £15.78m (net) as detailed in Appendix 2.

f) The changes to ETE savings proposals as outlined in paragraphs 9.8 to 9.14, together with the proposed increase in corporate housekeeping savings that will be met from additional council tax income generated from the 1% increase in 2018/19.

g) Recurring funding from 2018/19 onwards of £3.2m rising to £3.7m per annum, to be held within contingencies, to partly cover the forecast increased costs for Children Looked After.

h) That the total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2018, be £751,001,384.

i) That the **council tax requirement** for the County Council for the year beginning 1 April 2018, be £608,175,704.

j) That the County Council's band D council tax for the year beginning 1 April 2018 be £1,200.96, an increase of 5.99% of which 3% is specifically for adults' social care.

k) The County Council's council tax for the year beginning 1 April 2018 for properties in each tax band be:

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Band F	1,734.72
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l) Precepts be issued totalling £608,175,704 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	64,085.00
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m) The Treasury Management Strategy and the Annual Investment Strategy for 2018/19 (and the remainder of 2017/18) as set out in Appendix 8 be approved, including:

- The Prudential Indicators for 2018/19, 2019/20 and 2012021 (Appendix 8 - Annex C).
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- The delegation of authority to the Director of Corporate Resources to manage the Council's investments according to the risk assessment process in the Investment Strategy as appropriate.

- Investments of up to £35m for up to 20 years in the Manydown joint venture in which the County Council has a significant interest.
- The delegation of authority to the Director of Corporate Resources to approve investments in the Manydown joint venture in consultation with the Executive Member for Policy and Resources.

2. Executive Summary

2.1. The purpose of this report is to set out the County Council's proposals for the revenue budget and precept for 2018/19.

2.2. The deliberate strategy that the County Council has followed for dealing with grant reductions since 2010 is well documented. It involves planning ahead of time, making savings in anticipation of need and using those savings to help fund transformational change to generate the next round of savings.

2.3. In line with the financial strategy that the County Council operates, which works on the basis of a two year cycle of delivering departmental savings to close the anticipated budget gap, no savings targets were set for departments in 2018/19 and a net draw in the order of £29m will need to be taken from the Grant Equalisation Reserve (GER) to balance the budget. Any early achievement of resources from proposals during 2018/19 as part of the Transformation to 2019 (Tt2019) Programme will be retained by departments to use for cost of change purposes, to cash flow the delivery of savings or to offset service pressures.

2.4. Financial performance in the current year remains strong, but the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users means that pressures are being felt in all departments.

2.5. The pressures within social care departments are well known and the sustained pressure on social care spending means that these services continue to be the highest risk and most volatile area of the County Council's budget. For Adults' Services, a combination of a more stable service position and increased resources from government and the social care precept mean that short term pressures are under control.

2.6. In Children's Services however, despite the significant extra corporate resources that were put into the budget for 2017/18, a continued growth in Children Looked After (CLA) numbers coupled with other projected pressures in Home to School Transport and agency staff mean that the year end position is forecast to be an over spend of £7.6m. Since Children's Services have no remaining cost of change reserves this will need to be met from contingencies that were set aside for this purpose and the ongoing impact of increasing CLA numbers will need to be assessed as part of the next update of the Medium Term Financial Strategy (MTFS).

2.7. The provisional Local Government Finance Settlement was announced on 19 December 2017 but it should be noted that the settlement published in 2016 covered four years from 2016/17 to 2019/20 and, following the acceptance by the Department for Communities and Local Government (DCLG) of the County Council's Efficiency Plan for the period, the expectation was for minimal change to the figures previously published.

2.8. In 2016/17 the Government implemented a clear shift in council tax policy and presumed that local authorities would put up their council tax by the maximum allowed each year in the period to 2020. For Hampshire County Council this was 3.99% per annum, which included an extra 2% flexibility to pay for the increasing costs of adults' social care. Further flexibilities were announced last year 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 2019/20.

2.9. In addition, in the provisional Local Government Finance settlement in December 2017 the Government announced an increase in the referendum limits for 'core' council tax which for the County Council rose from 2% to 3%.

2.10. The report recommends that council tax is increased by 5.99% in 2018/19, reflecting this change in the referendum limits and recognising the shift in government policy and the fact that the Government have presumed that local authorities will put up their council tax by the maximum they are allowed.

2.11. This additional 1% increase, over and above the assumptions set out within the MTFS, will generate additional income of £5.7m in 2018/19 rising to £11.9m in 2019/20 if the referendum limit stays the same and the maximum increase is again approved.

2.12. In 2018/19 this additional income will allow provision to be made to meet pay cost pressures and to begin to meet the further pressures within Children's Services. In 2019/20 the additional council tax income raised from the extra 1% increase in 2018/19 will, along with other additional resources identified, also enable a limited number of savings to be mitigated.

2.13. Savings proposals were agreed by Cabinet and County Council during October and November this year and at the time it was agreed that officers should 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 household waste recycling centres, while recognising that any modification to any proposal must be consistent with the financial and time imperatives of the overall programme

2.14. The identification of alternative savings proposals together with the additional council tax flexibility will enable the full savings proposals associated with the services mentioned in the paragraph above to be withdrawn and will also allow a £2m reduction in the proposed saving in bus subsidies.

2.15. During January individual Executive Members have been considering their revenue budget proposals with the Leader and Cabinet and this report consolidates these proposals together with other items that make up the total revenue budget for the County Council in order to recommend a budget, precept and council tax to the meeting of full County Council on 22 February 2018.

2.16. This report also considers a number of revenue items that are linked to the development of capital investment priorities and following a review of capital need across departments presents a strategy for dealing with the capital investment priorities identified. Immediate capital priorities requiring net funding of £15.78m have also been outlined for approval.

2.17. It should be noted that the figures in this report in respect of government grant levels and figures notified to the County Council by District Councils are provisional at this stage and will be subject to change. Revised figures will therefore be presented to full County Council and this report seeks delegated authority for the Director of Corporate Resources in consultation with the Leader and Chief Executive to make these changes as appropriate.

3. Contextual Information

3.1. The current financial strategy which the County Council operates works on the basis of a two year cycle of delivering departmental savings targets to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Grant Equalisation Reserve (GER) and any early achievement of resources from proposals being retained by departments to use for cost of change purposes, to cash flow the delivery of savings or to offset service pressures.

3.2. The County Council's early action in tackling its forecast budget deficit since 2010 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 Transformation to 2019 (Tt2019) Programme to deliver the next phase of savings totalling £140m. This also avoids the worst effects of sudden and unplanned decisions on service delivery and the most vulnerable members of the community. Consequently, there are no departmental savings targets built into the 2018/19 budget. However, other factors will still affect the budget, such as council tax decisions and inflation.

3.3. In 2016 the Local Government Finance Settlement provided definitive figures for 2016/17 and provisional figures for local authorities for the following three years to aid financial planning for those authorities who could 'demonstrate efficiency savings'. Following acceptance by the Department for Communities and Local Government (DCLG) of the County Council's Efficiency Plan for the period to 2019/20 the expectation was for minimal change for 2018/19 and 2019/20. No figures have been published beyond this date and implementation of the Fair Funding Review and the potential for 75% Business Rate Retention has been delayed to 2020/21.

3.4. The Medium Term Financial Strategy (MTFS) approved by the County Council in November 2017 flagged that the Budget in November might contain some additional information that could impact our planning assumptions, for example around public sector pay and council tax referendum limits.

3.5. In overall terms, the announcements in the Budget had very little impact on the revenue position reported in the MTFS, although there were some welcome announcements in respect of the Community Infrastructure Levy and Section 106 Developer Contributions.

3.6. Since the Budget was announced there has been a two year pay offer for local government workers, which includes a 'core' increase of 2% and changes to the lower pay scales to reflect the impact of the National Living Wage (NLW). The overall increase in the pay bill could be in the region of 6% over the two years, and is above the allowances made within the MTFS. Depending on the final pay award that is agreed this could mean additional recurring costs of circa £5m need to be met.

3.7. Although the offer of a four year settlement provided greater but not absolute funding certainty, the provisional Local Government Settlement announced on 19 December confirmed the grant figures for 2018/19 in line with the four year settlement. The key announcement related to the new referendum limit for council tax and this and other elements of the provisional settlement are described in more detail in Section 7.

3.8. The final grant settlement for 2018/19 is not due out until this report has been dispatched, however it is not anticipated that there will be any major changes to the figures that were released in December 2017.

3.9. In December 2017 Cabinet received a budget update report that set provisional cash limit guidelines for departments, taking into account inflation, savings and base changes. This report confirms the cash limits that will be applied to departments next year and the individual reports approved by Executive Members during January all show that the proposed budgets are within the cash limit guidelines that have been set.

4. Third Quarter Budget Monitoring

4.1. Strong financial management has remained a key focus during the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that they deliver the savings programmes that have been approved. Enhanced financial resilience monitoring, which looks not only at the regular financial reporting but also at potential pressures in the system and the early achievement of savings being delivered through transformation, has continued through periodic reports to the Corporate Management Team (CMT) and to Cabinet.

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

	Adults' Health and Care £'000	Children's Services £'000	ETE, CCBS & Corporate Services £'000
Investment / Cost of Change Used	6,275	2,812	19.554
Pressures	690	12,866	316
Tt2017 Late Delivery	6,861	989	2,170
Subtotal	**13,826**	**16,667**	**22,040**
To Be Met From:			
Tt2019 Early Delivery	(716)	(636)	(3,278)
Other Savings	(2,555)	(3,075)	(10,690)
Other Departmental Reserves	(4,239)		(1,001)
Unallocated Corporate Support			(4,960)
Departmental Cost of Change	(6,316)	(5,356)	(2,111)
Total (Under) / Over Spend	**0**	**7,600**	**0**

4.3. Key issues across each of the departments are highlighted in the paragraphs below and whilst pressures within social care departments are well documented, the impact of successive savings programmes along with other service pressures means that all departments are facing financial pressure at the present time:

Adults' Health and Care

4.4. It was agreed with Cabinet for Adults' Health and Care to defer achievement of £13.1m of Transformation to 2017 (Tt2017) savings to 2018/19 with the shortfall in 2017/18 being covered from the Departments' cost of change reserves. It is currently forecast that the cash saving shortfall in 2017/18 will only be £6.9m with full achievement expected for 2018/19. This has enabled the Department to retain a greater than expected proportion of the cost of change reserve to meet future Tt2019 costs. In light of the Departments' highly positive Tt2017 position to date and the level of confidence that the full saving will accrue in 2018/19 work is currently being undertaken to formally close the Adults' Health and Care Tt2017 Programme before the close of the year.

4.5. The Department has continued to experience growth pressures as a result of demographic increases in the numbers of people requiring care and rising costs due to the increased complexity of clients needs however, the forecast outturn for 2017/18 is breakeven, although there are some key variances outlined below in the paragraph below.

4.6. The main recurrent pressures in 2017/18 relate to the provision of care, both purchased and provided in house with pressures of £3.0m and £1.7m respectively. However, in year these have been offset by non-recurrent funding of £4.0m made available through the "Meeting Social Care Needs" work stream from the increased Integrated Better Care Fund (IBCF). The balance of £0.7m is offset from various savings across the Departments' non-care budgets.

4.7. In addition, to reach this reported position the Department have utilised £2.1m of the £10m available recurrent corporate support and £4.8m from the one-off Adult Social Care Support grant in 2017/18.

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

4.9. For Public Health specifically, the expected outturn forecast for 2017/18 is a budget under spend of £0.4m. This under spend has been achieved through planned work to deliver efficiencies and innovation within existing services in advance of future reductions in funding, including holding vacancies in the Public Health team and making reductions in contractual and non-contractual spend.

4.10. The 2017/18 closing balance of the Public Health Reserve, after budgeted use of approaching £1.3m was anticipated to be £6.1m. In light of the early realisation of savings plans it is now forecast that the balance at year end will be circa £6.5m.

Children's Services

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

4.12. 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.

4.13. The expected outturn forecast for 2017/18 is a net budget over spend of £7.6m and whilst there are a range of ups and downs across the budget, the pressure primarily equates to the growth in spending on Children Looked After (CLA), including Unaccompanied Asylum Seeking Children (UASC), which has continued to rise since the baselining exercise was undertaken in December 2016 and corporate funding of £9.5m per annum was agreed.

4.14. Other challenges faced by the Department relate to the short supply of qualified social workers, an increase in the numbers of care leavers and the costs associated with the provision of school transport, mainly relating to those with special educational needs.

4.15. Further corporate support has been agreed to help alleviate the pressures being felt in these areas which is already accounted for in full in the forecast pressure noted above.

4.16. The forecast pressure above relies on the success of a series of agreed management actions. Children's Services have, for a long time only authorised essential spend and such messages are being and will be continuously reinforced by senior managers.

4.17. As reported to Cabinet previously, the projections of the growth in the costs of CLA used to baseline corporate funding in December 2016, were 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. This continued monitoring has informed a review of the recurring funding previously agreed.

4.18. Updated projections indicate that there will be growing financial pressure over and above that previously anticipated which in 2017/18 is currently forecast to reach £7.6m if the growth continues at the same rate for the remainder of the year. This additional cost can be met from corporate contingencies in 2017/18 but there remain concerns about the future financial impact of the continued growth in CLA, particularly with the added complexities of the Tt2019 programme which seeks to significantly reduce the number of children in care over the next five years.

4.19. More detailed work is required to understand the continued growth in numbers and whilst some of this additional cost can be met in part from existing contingencies, it should be noted that this will reduce flexibility in 2018/19, and it is likely that a further injection of additional recurring funding will be required. This forecast continues to be based on a wide range of assumptions and predictions and given the unpredictability of CLA numbers it is proposed to retain these sums in contingencies and to continue to monitor activity and spend closely during the year, releasing funding only as required. A more detailed analysis will then be provided as part of the update of the MTFS.

4.20. Additional investment in a range of areas within Children's Services was approved as part of the updated MTFS, including funding to cover costs to grow social worker capacity through increased recruitment and improved retention. These amounts, together with the revised funding for growth in CLA numbers (and in turn the knock on impact for care leavers), alongside continued management focus on the other pressure areas, will help the Department to operate from a firmer financial base as work on the challenging transformation programme progresses.

Economy, Transport and Environment

4.21. This Department has two major demand led services which create pressures during the year, albeit these are effectively managed through corporate allocations, early delivery of savings and use of cost of change reserves.

4.22. Highways revenue maintenance, particularly in the area of reactive maintenance, is a constant pressure with the number of calls received by the service doubling in the last ten years to over 100,000 each year. The weather is obviously a key factor that impacts both on the condition of the roads and levels of activity around winter maintenance.

4.23. The highways maintenance budget in 2017/18 has benefitted from £1.7m of additional one-off funding following Cabinet's decision to incorporate the spare resources from the 2016/17 winter maintenance budget which arose from the relatively mild winter last year. This allowed an additional programme of highway works to proceed during the year. Third quarter forecasts indicate potential spare resources within the 2017/18 winter maintenance budget, though the current prolonged very cold and wet period could reduce or even eliminate this sum. However, in the light of the current outturn forecast, approval in principle is sought to again add any spare resources from the 2017/18 winter maintenance budget to the 2018/19 highways maintenance budget to continue to give this much needed flexibility.

4.24. After a period of relative stability, the level of waste collected for disposal has increased by 5.3% over the last three years impacting not only the direct costs of waste disposal but also adversely affecting the income that is received by the County Council from Veolia for the utilisation of spare capacity in our plants.

4.25. The waste disposal budget is affected by falling recycling rates (reflecting national trends) and is also sensitive to changes in statutory waste definitions and fluctuations in markets or currencies which impact the value of recycled materials such as metal or paper or the treatment costs of materials like wood. These pressures are currently effectively managed through corporate allocations.

4.26. Overall the outturn forecast for the Department for 2017/18 is a planned saving towards Tt2019 of £5.9m, recognising that not all of the Department's required savings will be achieved in full by 2019/20 and that cash flow support needs to be built up in advance. This has been an effective strategy to date although the increased requirement for investment in assets and resources to generate the next phase of savings places further pressure on the Department during the lead into 2019/20. The forecast saving is at least in part dependent on weather conditions in the final quarter of the year and a period of severe winter or wet weather would reduce this figure.

4.27. Experience from previous years where the Department has implemented or proposed savings, particularly in 'universal' service areas such as Highways, indicates that there will be an increase in contact from members of the public and also from MPs and others who expect previous service levels to continue and challenge responses that indicate that service levels have been reduced or withdrawn. Looking to 2018/19 and beyond the combination of reduced staffing levels (since 2010 the Department has reduced its core permanent staff numbers by around 25%) and the lower operational budget provision mean it will be increasingly challenging to respond to these demands.

Culture, Communities and Business Services

4.28. CCBS have been very successful to date in delivering major transformation programmes across Libraries, Outdoor Centres, Hillier Gardens and the Countryside service which have produced savings in excess of the required targets and implemented them earlier than required.

4.29. For 2017/18 this has placed the Department in a strong position, enabling them to invest in the resources needed to develop the next phase of transformation and ensure there is provision within their cost of change reserves to fund future activity to deliver the required Tt2019 savings. CCBS is in a better position than some other departments to be able to encourage use of its services in order to generate external income, but this does increase the risk in the budget moving forward as the reliance on that income becomes ever greater.

4.30. Successive budget reductions also mean there is less scope to generate savings across the services and ever greater levels of investment and resources are required to generate further savings as is the case with other departments.

Corporate Services

4.31. Since 2010, Corporate Services have been required to deal with increasing work pressures at a time when staffing resources and other budgets are reducing significantly. Furthermore, as savings become harder and more complex to deliver (linked for example to IT system changes) the cost and timeframes to deliver savings increase, placing additional strain on the resources available to deliver business as usual.

4.32. Corporate Services have also been using their cost of change reserves to fund additional capacity in their departmental transformation teams and the corporate Transformation Team. The potential longer timeframes for delivering the Tt2019 Programme will also mean that these teams will be in place for longer placing an additional burden on available resources.

4.33. The forecast position for 2017/18 is that savings will allow a small contribution to cost of change balances after substantial transformation costs have been met in year. Early delivery of savings in the current year will help as part of the overall strategy for delivering savings in the longer term, but the continued need for additional resources against a backdrop of reducing budgets should not be underestimated.

Schools

4.34. Financial pressures on schools are increasing, both at an individual school level and within the overall schools' budget and the expected 2017/18 outturn forecast is an over spend of £10.3m which was reported to Schools

Forum in December 2017. These pressures relate to both high needs and early years.

4.35. Pressures on the High Needs Block have mainly arisen due to significant increases in the number of pupils with additional needs. This is a pressure that is mirrored nationally and has been seen since the SEND reforms in 2017. There are also increases in the amount of funding being provided for each pupil on average due to increasing levels of need and these factors have created a pressure on the top-up budgets for mainstream schools, resourced provisions and further education colleges. There is also significant pressure due to more pupils requiring placements in independent and non-maintained schools.

4.36. Further funding for high needs is due to be received through the National Funding Formulas and a transfer of funds equivalent to 0.5% of the Schools Block has been requested to help meet these pressures in 2018/19. Management actions are also being developed to reduce expenditure through a number of centrally held budgets.

4.37. There is a further over spend forecast within the early years budget due to an unexpected decline in the number of children recorded on the census.

4.38. Any year end over spend is usually met from the Dedicated Schools Grant (DSG) Reserve however the balance is not sufficient to cover these pressures, but the allocation of the schools budget will address this in 2018/19.

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

5. Revised Budget 2017/18

5.1. During the current financial year there have been a number of changes to the original budget that need to be taken into account, some of which have already been reported to Cabinet. In addition, it is also timely to review some of the high-level numbers contained within the revenue budget in order to assess the likely impact on the outturn position for the end of this year.

5.2. Appendix 1 provides a summary of the original budget that was set for 2017/18 together with adjustments that have been made during the year. The proposed Revised Budget for 2017/18 is then set out for information. The variance between the adjusted and revised budget gives an indication of any one-off resources that may be available at the end of the year that could be used to fund one-off investment or provide additional contributions to the GER.

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

Adjusted Budget 2017/18

5.4. **Departmental Spending** – Budgeted departmental spending has increased by more than £60.9m and the reasons for this are highlighted in the table below:

	£M
Adults' social care draw from central contingency	2.1
Children's Service's draw from central contingency	11.9
Impact of increase in superannuation to 14.1%	2.2
Approved funding for Strategic Land Development	3.5
Net increase in grants	11.6
Use of cost of change reserves	25.2
Other Net Changes	4.4
Total	**60.9**

5.5. The increases in budgeted departmental spending are mainly as a result of increased government grants, the allocation of approved funding (for example from contingencies) or the one-off use of cost of change reserves. The true value of recurring increases is £16.2m relating to the increase in superannuation and the allocation of funding to the social care departments, but both of these represent transfers from contingencies rather than new spend.

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

5.7. **Capital Financing Costs** – The decrease reflects the Minimum Revenue Provision (MRP) payment 'holiday' as described in the MTFS.

5.8. **Revenue Contributions to Capital Outlay (RCCO**) – The decrease in RCCO reflects changes made to the capital programme and financing during the year and the impact of the £3m transfer from capital to revenue resources on behalf of the Enterprise M3 LEP (as approved in MTFS) which are both offset by amounts in other sections of the revenue account and therefore have no impact on the overall budget.

5.9. **Contingencies** – The reduction in contingencies is mainly the result of transfers made to departmental budgets during the year.

5.10. **DSG and Specific Grants** – The decrease in DSG reflects amendments that have been made to the final grant during the year. The increase in specific grants is mainly due to the announcement of funding for adults' social care in the form of the Improved Better Care Fund along with some changes in known grants; including the UASC Grant and the PE and Sports Grant.

5.11. **Apprenticeship Levy** – The Apprenticeship Levy, which amounts to 0.5% of an organisation's pay bill in excess of £3m, came into force on 6 April

2017 and the budget which was held initially in contingencies when the budget was approved for 2017/18 has now been separately identified.

5.12. All of these changes have had no overall impact on the bottom line of the revenue account as they mainly represent transfers between different areas of the budget or represent matching changes to expenditure and income as is the case with specific grants.

Revised Budget 2017/18

5.13. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2017/18. At this stage the revised budget for departments matches the adjusted cash limits that they have been given for the year and therefore no variances are shown for the end of the year.

5.14. As set out in Section 4 it is anticipated that there will be under spends in the majority of departmental budgets by the end of the year. However, in line with current policy this can be transferred to departmental earmarked reserves to be used to fund the cost of change in future years and will therefore have no impact on the bottom-line position of the revenue account.

5.15. For all departments with the exception of Children's Services, the forecast position has been presented as break even against the revised cash limits reflecting this policy and the fact that departments are managing their bottom line positions to contain spending pressures and are using cost of change in the year as required. Within Children's Services, subject to approval of the use of contingencies of up to £7.6m, it is anticipated that the end of year position will be a balanced budget; after any required draw.

5.16. **Interest on Balances** – The County Council adopts a prudent approach to estimating for interest on balances given the number of different variables involved. For 2017/18 current forecasts anticipate that performance in the year will exceed this figure and an additional return of £0.5m is therefore assumed in the revised budget.

5.17. **Capital Financing Costs** – As in previous years, the estimates for this heading are prepared on the basis of taking out new planned borrowing during the year. However, since the County Council has sufficient cash reserves there is no need to actually take out this long term borrowing at this stage, particularly since this would attract a high 'cost of carry' when comparing short term to longer term interest rate levels.

5.18. The estimates for 2017/18 have therefore been revised taking this into account and show a saving of £1m in the overall capital financing costs for the year.

5.19. **Contingencies** – The key items within this budget relate to risk contingencies set aside to reflect the pressures in social care, the major change and savings programmes that were being embarked on during the year, allowance for waste disposal inflation and disposal costs, together with some other centrally held contingencies in respect of pay and price increases.

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

5.21. Given the position outlined for the social care departments in the current year it is anticipated that the requirement for up to £7.6m of additional support for Children's Services can be met from within the overall sums held for social care. This is mainly due to the fact that Adults' Health and Care have benefited from additional funding in the form of the one off Adult Social Care Grant and also from the Improved Better Care Fund in 2017/18.

5.22. At this stage of the year, it is also considered prudent to release contingency items in respect of pay and price inflation that have not been used, together with other sums set aside for income risk and the general risk contingency. In total, these items amount to £2m which can be declared as savings against the adjusted budget.

5.23. Taking this £2m, together with the £1.5m available from capital financing and interest on balances gives a grand total of £3.5m that can be used on a one-off basis.

5.24. It is proposed that this total of £3.5m is used to provide funding for a number of revenue purposes linked to the development of capital investment priorities (as described in more detail in the next section) which total £3.045m and that the balance of £455,000 is added to the GER to begin to make provision for the period beyond 2020.

Development of Capital Investment Priorities

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

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

5.27. Given the changing nature of these programmes funding for each year is considered as part of the budget setting process and the requests for 2018/19 for these areas is shown below:

	£'000
Strategic Land Development	665
New Schools Design & Delivery Strategy	1,030
Total	**1,695**

5.28. **Strategic Land Development** – In 2017 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.

5.29. 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. A strategic development partner has now been selected subject to both Councils formal approval but additional funding is required next year to continue to progress the joint venture. The funding also includes the progression of other strategic sites such as Swing Swang lane.

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

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

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

Financial Year	Original Estimate	Updated Estimate	
	£'000	£'000	
2017/18	1,230	780	
2018/19	880	1,480	
2019/20	600	1,630	Indicative
2020/21	220	870	Indicative

5.33. Funding for the first years' costs was approved in July 2017 and so for 2018/19 after taking into account the rephrased activity an additional sum of £1.03m is required.

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

5.35. In addition to these two areas additional funding is also being sought to create a separate strategic development and feasibility fund that can be used to progress other capital investment priorities where multiple departments may be involved. The infrastructure works at Botley would be a good example of this where significant input in terms of planning and design have been undertaken by the County Council as landowner, LEA and Highway Authority. The County Council also wants to continue to develop and design 'oven ready' schemes that can be promoted and delivered at short notice should government or LEP funding become available.

5.36. A strategic infrastructure reserve of £4.65m already exists within the capital programme and the proposal is to move this to revenue and supplement it with further funding of £1.35m to provide a sum of £2m per year for the next three years.

6. Capital Investment Priorities

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

6.2. Whilst this has limited the ability to add significant numbers of new schemes to the Capital Programme, it has not diminished the need for new investment across a range of services within the County Council.

6.3. It was therefore considered important that there was a good corporate understanding of the key capital investment priorities to aid future planning in this area and departments were asked to identify their potential requirements over the medium term.

6.4. The submissions from departments have been analysed and separated into four main categories as outlined in the table overleaf:

	Gross Bid	Funding Available	Net Funding Required
	£'000	£'000	£'000
Schemes requiring immediate investment	21,580	(5,800)	15,780
Invest to Save Schemes	225,366	(6,366)	219,000
Stand Alone Schemes	138,000	(5,000)	133,000
Schools Programme	55,000	0	55,000
	439,946	**(17,166)**	**422,780**

6.5. The County Council clearly does not have over £420m available to fund this level of capital investment. The proposed strategy for dealing with each of the categories going forward is therefore outlined below.

6.6. **Schemes Requiring Immediate Investment** - The immediate capital priorities that are recommended to be added to the capital programme are outlined in Appendix 2 and total £21.580m. Existing funding of £5.8m is already contained within the approved capital programme leaving a balance of £15.780m which can be met as follows:

	£'000
Historic un-earmarked grants	7,000
Historic un-earmarked capital receipts	3,654
Current un-earmarked capital receipts	5,126
	15,780

6.7. **Invest to Save Schemes** – A large proportion of the schemes relate to capital investment that will lead to savings in revenue expenditure. Examples of this are projects within Adults' Services who will work with health to produce short term stay hubs for re-abling clients so that they can return to their own homes. Other schemes look to re-model our existing nursing and residential estate to make it fit for the changing nature of care models in respect of the increasing instances of dementia.

6.8. For all of the schemes, the expectation is that they would be funded from prudential borrowing, the financing costs of which would need to be met by departments from the savings that are generated by the schemes.

6.9. Each scheme will need to produce a business case in its own right and depending on the value of the scheme this will need to be approved by Cabinet or County Council before it can proceed.

6.10. **Stand Alone Schemes** – These are similar in nature to the invest to save schemes but cover significant projects with a large degree of complexity and therefore the business case is likely to evolve over time. There are three schemes covered in this section, namely the development of the Manydown site, a new Materials Recovery Facility and the potential for a fourth Energy Recovery Facility in partnership with Veolia.

6.11. Each of these schemes will be subject to future outline and full business cases and due to the scale of the investment required will need to be approved by full County Council.

6.12. **Schools Programme** – The MTFS approved last November outlined that a detailed update of the overall schools programme had been undertaken in light of a range of changes that had happened since the previous longer term assessment of the impact of the Secondary Schools Programme had been completed.

6.13. The revised modelling showed that over the period to 2020/21 there were still sufficient resources to meet liabilities in respect of school place provision but that after that date a deficit of £55m was predicted in the overall programme.

6.14. It was agreed that this deficit would be covered by prudential borrowing, provision for which already existed within the MTFS but that officers would continue to seek to mitigate the overall deficit through the continued pursuit of government and developer funding and aligning scheme design and cost to available resources wherever possible.

7. Local Government Finance Settlement

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

7.2. Although the offer of a four year settlement provided greater but not absolute funding certainty, the provisional Local Government Settlement announced on 19 December confirmed the grant figures for 2018/19 in line with the four year settlement. The other key elements of the provisional settlement were:

- The 'core' council tax referendum limit was increased from 2% to 3% for all authorities for the next two years (each 1% increase in council tax equates to approximately £5.7m additional income). The arrangements for the social care precept remain unchanged.
- Ten new 100% Business Rate Pilots were announced, one of which was for the three local unitary councils (Portsmouth, Southampton and Isle of Wight).
- A Fair Funding Review consultation was announced as part of the settlement which is expected to be implemented in 2020/21.
- A potential move to at least 75% Business Rate Retention is also planned for 2020/21, but still on the basis of fiscal neutrality.

- No new announcements of funding for social care above those that we are already aware of but the Green Paper for adults' social care is due to be published in summer 2018.

7.3. The key announcement related to the new referendum limit for council tax although the business rate pilot for Portsmouth, Southampton and the Isle of Wight is of local interest. The County Council, along with all local authorities in Hampshire and the Isle of Wight jointly considered whether or not to submit a bid for a 100% Business Rate Retention pilot across the whole area.

7.4. For the County Council to have taken part it would have needed the agreement of all the Districts in its area, but at least two authorities immediately indicated their clear intention not to want to take part. In essence therefore the County Council was unable to submit a bid.

7.5. There are however several other factors which make the pilot less attractive in any event:

- The pilot only allows authorities to keep an extra 50% of the growth in business rates in the year. The extra 50% of existing business rates is clawed back by the Government by withdrawing other grants.
- Business Rates is a volatile source of income and there was no indication at the point bids had to be submitted that there were likely to be significant gains in business rate income for 2018/19.
- The pilot was for 2018/19 only and does not therefore offer any sort of solution to the long term funding problems that we have.
- Whilst some additional income could have been received, in the context of the County Council's overall budget it is minimal and pilot areas are required to agree between them how the extra income will be distributed and experience from our early work on a potential combined authority indicated that this would place a significant and complex burden on those authorities taking part.

Council Tax

7.6. In 2016/17 the Government implemented a clear shift in council tax policy following five years of freezing council tax, supported by the allocation of council tax freeze grant. The Government ended this support and presumed that local authorities would put up their council tax by the maximum they are allowed each year in the period to 2020. For Hampshire County Council this was 3.99% per annum, which included an extra 2% flexibility to pay for the increasing costs of adults' social care.

7.7. In 2017/18 they granted local authorities the flexibility to bring forward some of this increase and to raise the precept by up to 3% that year and the year after within the cap of 6% over the next three years to 2019/20.

7.8. Given the continued pressures within Adults' Health and Care and the challenges presented by the Tt2019 Programme the County Council agreed to increase council tax by 4.99% in 2017/18 in line with government policy (including the further flexibilities granted in the provisional settlement) in recognition of the pressures facing local authorities due to the growing cost of adults' social care.

7.9. In addition, in the provisional Local Government Finance settlement in December 2017 the Government announced an increase in the referendum limits which for the County Council rose from 2% to 3%.

7.10. This report recommends that council tax is increased by 5.99% in 2018/19, reflecting this change in the referendum limits and recognising the shift in government policy and the fact that the Government have presumed that local authorities will put up their council tax by the maximum they are allowed.

7.11. This proposed increase which will see the council tax for a Band D property increase by £67.86 per annum to £1,200.96 will still mean that council tax is at a far lower level than it might have been. If Council tax had gone up by the Retail Price Index (RPI) every year since 2010/11 it would now be £1,295.48, £94.52 more than the amount being proposed. The table below shows the level of council tax being proposed for a Band D property and compares this to the level which council tax would have been across a range of scenarios, demonstrating the relative position for 2018/19:

Scenario	**Band D Council Tax 2018/19**	**Variance to Proposed Council Tax 2018/19**
	£	**£**
Proposed council tax for 2018/19	1,200.96	
Increase by RPI per annum since 2010/11	1,295.48	+94.52
Increase by the referendum threshold each year since 2010/11 (inc. 5.99% in 2018/19)	1,352.47	+151.51

7.12. The additional 1% increase, over and above the assumptions set out within the MTFS, will generate additional income of £5.7m in 2018/19 rising to £11.9m in 2019/20 if the maximum increase is again approved.

7.13. In 2018/19 this additional income will allow provision to be made to meet pay cost pressures as described in paragraph 3.6 and to begin to meet the further pressures within Children's Services as detailed in Section 4 and paragraph 9.12.

7.14. For 2019/20, the additional council tax income raised from the extra 1% increase in 2018/19 will, along with other additional resources identified, enable a limited range of savings to be mitigated, as described in Section 9.

7.15. The final Local Government Finance Settlement for 2018/19 is still awaited at the time of the publication of this report, however, it is not anticipated that there will be any major changes to the figures that were released in December last year, which confirmed that the County Council will have a further reduction in grant of £23m in 2018/19.

8. Service Cash Limits 2018/19

8.1. In December 2017 Cabinet considered a budget update report which set provisional cash limit guidelines for Departments for 2018/19.

8.2. Appendix 3 sets out the cash limits agreed for 2018/19 in December and provides information on adjustments that have been made subsequently, which are the result of changes to grants within the local government finance regime. Overall, cash limits have increased by £26.3m, some of the reasons for which have been outlined in the individual budget reports to Executive Members. The reasons for the increase are summarised in the following table and explained in more detail in Appendix 3:

	£M
Increase in Dedicated Schools Grant	25.2
Changes in other schools' grants	0.6
Changes in non-schools' grants	0.5
Total	**26.3**

8.3. In a similar way to the changes for 2017/18 these amendments have not had a bottom-line impact on the revenue budget as they are all the result of changes in grants.

9. Savings Proposals

9.1. In line with the current financial strategy, there are no new savings proposals presented as part of the 2018/19 budget setting process. Savings targets for 2019/20 were approved as part of the MTFS in July 2016 and savings proposals have been developed through the Tt2019 Programme which were agreed by Cabinet and County Council during October and November last year.

9.2. The Tt2019 Programme will look to deliver new income or further savings of £140m, bringing the cumulative total of savings to £480m over a 10 year period.

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

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

9.5. The County Council has also invested heavily in technology to underpin the Tt2019 programme and provided funding for the implementation of Digital 2 and the Enabling Productivity Programme. Approved funding at this stage is only one off to support implementation of the programmes, but it is recognised that there will be significant additional ongoing costs associated with the new technology that will need to be built into the next update of the MTFS once a better idea of running costs and technology refresh has been produced.

9.6. The last report to Cabinet in December 2017 indicated that early implementation progress of the Transformation to 2019 Programme has been positive with some £26m of the £140m target secured by October; which includes the full achievement of the £20m of corporate housekeeping savings alongside some modest early delivery across the departmental programmes.

9.7. It should be noted that County Council agreed that officers would continue to explore all viable options to revise or refine the savings proposals agreed with particular regard to service continuity in areas such as community transport, school crossing patrols and waste and recycling centres, while recognising that any modification to any proposal must be consistent with the financial and time imperatives of the overall programme.

9.8. Since that point officers have been considering other potential options for meeting the savings and two further options have been identified:

- **Street Lighting PFI** – The PFI contract has been in place for around eight years and the original financial model relied on both departmental and corporate contributions towards the contract costs during the early capital investment period. Following a re-financing of the PFI contract and a recent review of assumptions in respect of the remaining contract period it has been possible to put forward a reduction in the budget of £1.1m at this stage, albeit that this will need to be kept under review as the contract progresses and variables such as energy costs are better understood.

- **Bus Services Operators Grant (BSOG) –** Each year, the Government provides one-off funding of around £1m in the form of BSOG to help develop and improve local bus services in partnership with the bus operators. Whilst the grant has been in place for some time, there is no published commitment from the Government to continue with this funding in the future and the County Council has therefore agreed with bus operators in the past that it will be used for one-off investment in areas such as contactless payment and wi-fi technology on buses. Given the financial constraints and the request to look at options for service continuity in community transport, it is recommended that the BSOG be used to fund existing bus services, which will replace savings that have been put forward by ETE.

  As the grant is only given on an annual basis, the County Council will effectively need to underwrite the use of this grant for three years in order to allow bus subsidies and contracts to be let on a three year basis. Should the grant be withdrawn during this time, corporate contingencies will be used to fund the subsidies which would then cease after the three year contract has ended.

9.9. In addition to these savings, Section 7 highlighted that in the provisional local government finance settlement released in December 2017, the council tax referendum limit for 'core' council tax was increased to 3% for 2018/19 and 2019/20 (with arrangements for the social care precept remaining the same).

9.10. This report recommends that should the flexibility remain in place for the next two years that the County Council increase council tax in line with its current strategy which is to increase by the maximum permissible in any year. This would give additional resources of £5.7m in 2018/19 and £11.9m recurring from 2019/20 onwards.

9.11. Taking all of these items together provides additional funding totalling £14m in 2019/20, some of which can be used to mitigate the impact on the service areas outlined in paragraph 9.7. However, there are other pressures in the system that also need to be considered. Firstly, a pay offer consisting of 2% for all employees for the next two years plus changes to the pay structure to accommodate the impact of the NLW has been made by employers. The overall impact of this on cash limited service could equate to increases of around 3% per year for the next two years, which is above the provisions contained within the MTFS and leads to a recurring pressure of £5.0m by 2019/20.

9.12. In addition, Section 4 outlined the continuing growth pressure within CLA (with a knock on impact on care leavers). The current MTFS allows for increased growth of £3.0m per annum within contingencies and therefore an increased provision will be required on an ongoing basis, but at this stage it is not clear at what level. It is also likely that a further base adjustment may be required to Children's Services budget to reflect the higher than anticipated growth during 2017/18. At this stage additional resources will be added to contingencies with a full review being reported in the next update of the MTFS.

9.13. Taking all of these issues together, the following table summarises the planned use of the available funding:

	2018/19 £M	2019/20 £M
Additional Resources		
Council Tax 1% (Increase in Referendum Limit)	5.7	11.9
Street Lighting PFI - Savings in Corporate Contribution		1.1
Bus Services Operators Grant		1.0
	5.7	**14.0**
Use of Resources		
Withdraw School Crossing Patrol Saving		1.2
Withdraw Community Transport Saving		0.9
Withdraw HWRC Saving		1.2
Reduce Bus Subsidy saving (currently £3.1m to £1.1m)		2.0
Increased Pay Offer (high level estimate)	2.5	5.0
Children Looked After (Increased growth)	3.2	3.7
	5.7	**14.0**

9.14. The figures in this report assume that this allocation of resources is approved along with the additional 1% flexibility in council tax. This also has the net impact of reducing the total savings from the ETE Department, which will reduce their target by £3.2m to £15.8m and increase the corporate housekeeping saving by the same amount which will effectively be met from increased council tax income. Cabinet recommends these changes to County Council as part of this report.

10. Service Budgets 2018/19

10.1. As explained in Section 8 departments have been set cash limit guidelines for 2018/19 which include allowances for inflation, pressures, approved savings and other agreed changes.

10.2. Appendix 4 provides a summary for each department of the main services under their control and shows the original budget for 2017/18, the revised budget for 2017/18 and the proposed budget for 2018/19. All departments are proposing budgets that are within their cash limits.

11. 2018/19 Overall Budget Proposals

11.1. Whilst service budgets make up the vast majority of the total budget there are several other items that need to be taken into account before the overall budget and council tax can be set for the year.

11.2. Appendix 5 sets out a summary of the overall revenue account starting with the cash limited expenditure for departments that have been discussed above. The following paragraphs outline the other items that make up the overall revenue account and provide explanations for any significant variances compared to the 2017/18 budget.

11.3. **Interest on Balances and Capital Financing Costs** – The reduction of £10.7m in capital financing costs primarily reflects the impact of the agreed MRP ‘holiday’.

11.4. **Revenue Contributions to Capital Outlay (RCCO**) – Each year, revenue contributions are made to help fund the capital programme. The decrease of approaching £12m is due to the change in the amount of RCCO drawn down from reserves and the impact of the £3m transfer from capital to revenue resources on behalf of the Enterprise M3 LEP (as approved in MTFS) which are both offset by amounts in other sections of the revenue account and therefore have no impact on the overall budget.

11.5. **Contingencies** – The budget for contingencies has increased by more than £22.5m compared to the 2017/18 original budget. This mainly reflects the increase in contingency amounts held for social care, the potential impact of the pending pay award and NLW in line with the approved MTFS and, as described in paragraphs 9.11 to 9.12, additional provision for children’s social care pressures and pay costs.

11.6. Existing contingency provisions in respect of key risk items such as inflationary pressures; including the NLW, and demand pressures (notably for social care) have been retained in the base budget. These provisions represent the recommendation by the Director of Corporate Resources of a prudent approach to budgeting given the potential pressures the County Council faces. In addition to these contingencies, the County Council has access to sufficient reserves as part of an on-going strategy for the management of the County Council’s financial resources over the medium term.

11.7. **DSG** –The increase in the DSG reflects national formula changes, growth in pupil numbers across mainstream and high needs and the full year effect of funding for new items such as additional hours of childcare and education for 3 and 4 year olds and the transfer of funding for statutory duties from the Education Services Grant.

11.8. **Specific Grants** – This income budget has been updated following grant notifications for 2018/19 and the increase is largely due to additional funding for adults’ social care through the Better Care Fund, offset by the end of the one-off Adult Social Care Support Grant and also the Transitional Grant which was awarded for two years as part of the 2016/17 Local Government Settlement.

11.9. **Pension Costs** – Pension costs for past deficit payments are now accounted for centrally. The increase of approaching £1.8m reflects the agreed recovery plan for the current actuarial valuation of the fund the cost for which will continue to increase by 8% per annum until 2019/20.

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

11.11. The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the GER. Hence the use of the GER is cyclical and helps the County Council to dampen the impact of significant and unexpected grant reductions; allowing a planned approach to the delivery of savings.

11.12. The comprehensive Reserves Strategy, updated to include the figures at the end of March 2017, was presented to Council as part of the MTFS in November 2017 and is set out in Appendix 6.

11.13. The County Council holds reserves for many different reasons, but not all of these are available for general usage. Schools balances are for schools' exclusive use and other reserves such as the Insurance Reserve are set aside as part of the Council's overall risk management strategy or are already planned to be used as is the case with the GER which will be drawn on in 2018/19.

11.14. The Reserves Strategy highlights the point that the majority of reserves are set aside for specific purposes and are not available in general terms to support the revenue budget or for other purposes and only in the region of 15% of reserves are truly available to be used to support revenue spending and to help fund the cost of the change programmes across the County Council. In addition, the GER which comprises the majority of these 'Available Reserves', standing at £40.7m at the end of 2016/17 is in reality committed to balance the budget in 2018/19 with the remainder planned to be utilised in the following years to cash flow the safe delivery of the Tt2019 Programme.

11.15. **Use of General Balances** –The 2017/18 original budget assumed a net contribution to general balances of £0.9m and this amount has been amended for 2018/19 to make a one-off contribution to the GER in line with the MTFS.

11.16. Appendix 7 represents the Director of Corporate Resources view of the overall budget and the adequacy of reserves which must be reported on as part of the main budget proposals in accordance with Section 25 of the Local Government Act 2003. In particular, it considers risks within the budget and in the MTFS going forward, updated to reflect the impact of the settlement, and places this in the context of the recommended contingencies and balances set out in this report.

12. Budget and Council Tax Requirement 2018/19

12.1. The report recommends that council tax is increased by 5.99% in 2018/19, reflecting the announcement in the provisional Local Government Finance Settlement of the change in the referendum limits and recognising the shift in government policy and the fact that the Government have presumed that local authorities will put up their council tax by the maximum they are allowed.

12.2. This additional 1% increase, over and above the assumptions set out within the MTFS, will generate additional income of £5.7m in 2018/19 rising to £11.9m in 2019/20 if the maximum increase is again approved.

12.3. In 2018/19 this additional income will allow provision to be made to meet pay cost pressures and to begin to meet the further pressures within Children's Services. In 2019/20 if the maximum increase is approved the additional council tax income raised will, along with other additional resources identified, also enable a range of savings to be mitigated, as described in Section 9.

12.4. In addition to the recommended increase for council tax, there are other changes within the council tax calculation that have an impact on the budget. The council tax base represents the estimated number of houses eligible to pay council tax and the latest forecasts provided by the Districts which take into account expected growth and any adjustments for the impact of their Council Tax Reduction Schemes result in additional income of £4.1m over and above that assumed previously, albeit that these forecasts may change before the budget is finally set.

12.5. The County Council is also notified by Hampshire Districts, of the estimated level of collection fund surpluses or deficits that needs to be taken into account in setting the council tax for 2018/19. In addition to the figures for council tax, Districts are required to provide estimates of their surplus or deficit on the Business Rates collection fund, following the introduction of Business Rates Retention in April 2014.

12.6. For 2017/18 a net council tax collection fund surplus approaching £3.9m is anticipated of which only £1.5m was assumed in the original forecast. This has mainly arisen due to general increases in the council tax base during the year.

12.7. The current prediction for business rate collection funds is a deficit of approaching £0.2m across all Districts, although there are varying levels of surpluses and deficits that make this up. This reflects the fact that there remain risks around appeals and volatility and uncertainty continues such that this position could still be subject to change after this report has been dispatched.

12.8. Similarly, Districts have provided estimates of what Business Rate income they expect to receive for 2018/19 based on their experience during the current financial year. These estimates have yet to be finalised and, given continuing experience about the risk and volatility surrounding this income, at this stage have not been built into the budget position. We will await confirmation of final figures and any adjustment will be reported at County Council.

12.9. Final details of the compensation grant that Hampshire is due to receive following the caps and reliefs granted by government in past budgets have yet to be notified and will therefore change the anticipated income from this source in the final budget so again we will await confirmation and any adjustment will be reported at County Council.

12.10. Taking account of all the budget changes outlined in this and previous sections of this report, the County Council is able to set a balanced 2018/19 budget as follows:

	£M	£M
Additional 1% Increase in Council Tax @ 5.99%	5.7	
Provision for CLA growth	(3.2)	
Provision for pay cost pressures (pay award)	(2.5)	
	0.0	
One-off Business rates collection fund deficit		(0.2)
One-off Council tax collection fund surplus		2.4
Taxbase Growth		4.1
Contribution to GER		(6.3)
Balanced Budget		**0.0**

12.11. The table above shows that in 2018/19, as a result of the changes, the County Council is able to make provision for identified pressures and also make a contribution to the GER to begin to build the sum available for future years in line with the MTFS.

12.12. Local authorities are required to report a formal council tax requirement as part of the budget setting process and the recommendations to Council later in this report show that the Council Tax Requirement for the year is £608,175,704.

13. Treasury Management Strategy and Investment Strategy for 2018/19

13.1. The County Council is required to adopt a Treasury Management Strategy (TMS) and an Annual Investment Strategy for 2018/19 and these are set out in Appendix 8 for approval. The strategy has been reviewed in light of current and forecast economic indicators and remains broadly unchanged from last year.

13.2. Although not classed as treasury management activities the Council may also make loans and investments for service purposes, for example loans to Hampshire based businesses or the direct purchase of land or property. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this TMS. The Council's existing non-treasury investments are listed in Annex B of Appendix 8.

13.3. Authority is requested in the strategy to allow the County Council to invest in joint ventures or similar arrangements in which we have a significant interest up to a maximum value of £35m for up to 20 years. At this stage any investment would be limited to the Manydown development and given the significantly different risk profile and financial arrangements, it is proposed that any decisions to invest are delegated to the Director of Corporate Resources in consultation with the Executive Member for Policy and Resources and a full report will be produced in due course to explore the risks and issues associated with such an investment.

13.4. The County Council's higher yielding investment strategy continues to perform well and figures reported for the first half year are outlined in the table below:

	2017/18 Value £M	2017/18 Return %
Local Authorities	20.0	3.96
Government Bonds	10.0	3.78
Registered Providers	5.0	3.40
Pooled Property Funds	55.0	4.10
Pooled Equity Funds	20.0	6.45
Pooled Multi-Asset Funds	10.0	4.52
Higher Yielding Investments	**120.0**	**4.45**

13.5. There continues to be national debate about local authorities investing in commercial property and a consultation was released in November last year that looked amongst other things to increase the level of transparency of such investments, to understand the extent to which they contributed to core local authority functions and for local authorities to highlight the level of risk exposure and whether or not this was proportionate to the overall activities of the authority. The proposals stop short of some of the potential measures that were hinted at prior to the Autumn Budget.

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

14. Prudential Indicators

14.1. The prudential code that applies to local authorities ensures that:

- Capital programmes are affordable in revenue terms
- External borrowing and other long-term liabilities are within prudent and sustainable levels
- Treasury management decisions are taken in line with professional good practice

14.2. Some of the limits have been altered to reflect the revised treasury management and investment strategy although this does not expose the County Council to any greater levels of risk.

14.3. Appendix 8 also contains the prudential indicators required by the code for the County Council which will now be submitted for approval by the full County Council in setting the budget for 2018/19.

15. Consultation

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

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

15.3. The findings from the Consultation were provided to Executive Members and Directors during September 2017, to inform departmental savings proposals, in order for recommendations to be made to Cabinet and the full County Council in October and November 2017 on the MTFS and Tt2019 Savings Proposals. The results were also reported to Cabinet and County Council as part of the final decision making process and a summary is contained in Appendix 9.

15.4. Following the '*Serving Hampshire – Balancing the Budget'* Consultation any specific changes to services will be subject to further, more detailed consultation. It is intended that the outcome of this second round of consultation will help to inform further detailed Executive decisions in the coming months.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

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
Medium Term Financial Strategy and Transformation to 2019 Savings Proposals (County Council and Cabinet) http://democracy.hants.gov.uk/mgAi.aspx?ID=3194#mgDocuments	2 November 2017 and 16 October 2107
Budget Setting and Provisional Cash Limits 2018/19 (Cabinet) http://democracy.hants.gov.uk/documents/s9665/Budget%20Report.pdf	11 December 2017

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

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

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

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

1.2. **Equalities Impact Assessment:**

The budget setting process for 2018/19 does not contain any new proposals for major service changes which may have an equalities impact. Proposals for budget and service changes which are part of the Transformation to 2019 Programme were considered in detail as part of the approval process carried out in Cabinet and County Council during October and November 2017 and full details of the Equalities Impact Assessments (EIAs) relating to those changes can be found in Appendices 4 to 7 in the October Cabinet report linked below:

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

For proposals where a Stage 2 consultation is required the EIAs are preliminary and will be updated and developed following this further consultation when the impact of the proposals can be better understood.

2. Impact on Crime and Disorder:

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

3. Climate Change:

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

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

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

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

REVENUE BUDGET – LIST OF APPENDICES

1. Revised Budget 2017/18
2. Capital Investment Priorities - Schemes Requiring Immediate Investment
3. Final Cash Limit Calculation 2018/19
4. Proposed Departmental Service Budgets 2018/19
5. Proposed General Fund Revenue Budget 2018/19
6. Reserves Strategy
7. Section 25 Report from Chief Financial Officer
8. Treasury Management Strategy and Investment Strategy 2018/19 to 2020/21
9. Consultation

Revised Budget 2017/18

	Original Budget 2017/18 £'000	Adjustment £'000	Adjusted Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Variance £'000
Departmental Expenditure					
Adults' Health and Care	355,587	42,615	398,202	398,202	0
Children's - Schools	786,892	(7,840)	779,052	779,052	0
Children's – Non Schools	150,067	15,988	166,055	166,055	0
Economy, Transport and Environment	108,014	4,127	112,141	112,141	0
Policy and Resources	87,564	6,025	93,589	93,589	0
	1,488,124	**60,915**	**1,549,039**	**1,549,039**	**0**
Capital Financing Costs					
Committee Capital Charges	135,264	(223)	135,041	135,041	0
Capital Charge Reversal	(136,489)	160	(136,329)	(136,329)	0
Interest on Balances	(8,395)	0	(8,395)	(8,895)	(500)
Capital Financing Costs	51,775	(10,674)	41,101	40,101	(1,000)
	42,155	**(10,737)**	**31,418**	**29,918**	**(1,500)**
RCCO					
Main Contribution	14,034	(3,097)	10,937	10,937	0
RCCO From Reserves	8,529	(7,971)	558	558	0
	22,563	**(11,068)**	**11,495**	**11,495**	**0**
Other Revenue Costs					
Contingency	35,880	(7,452)	28,428	26,428	(2,000)
Dedicated Schools Grant	(732,102)	10,073	(722,029)	(722,029)	0
Specific Grants	(159,681)	(21,690)	(181,551)	(181,551)	0
Pensions - Non Distributed Costs	18,526	93	18,619	18,619	0
Apprenticeship Levy	0	1,350	1,350	1,350	0
Flood Protection Levy	623	8	631	631	0
Coroners	1,650	167	1,817	1,817	0
Business Units (Net Trading Position)	164	96	260	260	0
	(835,120)	**(17,355)**	**(852,475)**	**(854,475)**	**(2,000)**
Net Revenue Budget	**717,722**	**21,755**	**739,477**	**735,977**	**(3,500)**
Contributions to / (from) Earmarked Reserves					
Transfer to / (from) Earmarked Reserves	19,520	(26,486)	(6,966)	(3,466)	3,500
Trading Units Transfer to / (from) Reserves	(242)	(1,314)	(1,556)	(1,556)	0
RCCO from Reserves	(8,529)	7,971	(558)	(558)	0
	10,749	**(19,829)**	**(9,080)**	**(5,580)**	**3,500**
Contribution to / (from) Balances	900	0	900	900	0
BUDGET REQUIREMENT	**729,371**	**1,926**	**731,297**	**731,297**	**0**

	Original Budget 2017/18 £'000	Adjustment £'000	Adjusted Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Variance £'000
BUDGET REQUIREMENT	**729,371**	**1,926**	**731,297**	**731,297**	**0**
Funded by:					
Business Rates and Government Grant	(156,274)	(1,926)	(158,200)	(158,200)	0
Business Rates Collection Fund Deficit / (Surplus)	696	0	696	696	0
Council Tax Collection Fund Deficit / (Surplus)	(6,963)	0	(6,963)	(6,963)	0
COUNCIL TAX REQUIREMENT	**566,830**	**0**	**566,830**	**566,830**	**0**

Capital Investment Priorities - Schemes Requiring Immediate Investment

Dept.	Title	Scheme Summary	Total Gross Cost £'000	Funding Available £'000	Net Funding Required £'000
CCBS	Basingstoke Canal	Essential infrastructure works to ensure that the canal remains in good working order and the County Council meets its obligations as part owner of the canal	1,500		1,500
CCBS	Repairs and Maintenance	Extending the planned repairs programme to 2019/20 and 2020/21 to reduce the day to day revenue demand over the medium to long term. Without a suitable programme of planned repairs the backlog liability will continue to grow putting continuity of service delivery at risk.	3,000		3,000
CCBS	Winchester Leisure Centre	Potential County Council contribution to a new Winchester Leisure Centre that would support the development of a Hampshire wide Institute of Sport and regional sporting facilities	1,000		1,000
ETE	Structures - Holmsley Bridge	The bridge carries the A35 over the C10 in the New Forest. If the work doesn't go ahead weight restrictions will be needed, ultimately followed by closure. Total scheme cost estimated at £5.5m of which £2m is already held within the Structural Maintenance & Bridges capital programme.	5,500	(2,000)	3,500
ETE	Structures – Redbridge Causeway	Major structural works are required to the Causeway that have been the subject of failed bids to DfT and Solent LEP in the past. Phase 1 works now need to be completed, some funding has been set aside from past allocations.	8,000	(3,800)	4,200
ETE	Highways - Traffic Management infrastructure	Replacement of life-expired traffic management assets. This would reduce the impact of these life-expired assets on the revenue budget, the likelihood of a complete failure (requiring unplanned replacement work) and congestion/avoidable delay arising through sub-standard performance due to unreliability and/or component failure	2,580		2,580
			21,580	**(5,800)**	**15,780**

Final Cash Limit Calculation 2018/19

	December Cash Limit Guideline £'000	Other Changes £'000	Final Cash Limit 2018/19 £'000
Adults' Health and Care	395,983	0	395,983
Children's – Schools	781,076	25,809	806,885
Children's – Non Schools	166,541	500	167,041
ETE	112,506	0	112,506
Policy & Resources	91,521	0	91,521
	1,547,627	**26,309**	**1,573,936**

Notes:

Other Changes

- The increase for Children's - Schools is primarily due to an increase in DSG as announced in the Schools' revenue funding settlement on 19 December 2017. In 2018/19 the increase reflects National Funding Formula changes, growth in pupil numbers across mainstream and high needs and the full year effect of funding for new items such as additional hours of childcare and education for 3 & 4 year olds and the transfer of funding for statutory duties from the Education Services Grant.
- The increase for Children's - Non-Schools is due to an increase in the SEND Reform & Implementation Grant.

Adults' Health and Care Budget Summary 2018/19

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Director:			
Director	1,535	1,312	1,277
Strategic Commissioning and Business Support:			
Strategic Commissioning	17,399	18,884	18,061
Transformation			
Transformation	2,917	3,949	3,443
Older People and Physical Disabilities:			
Older People and Physical Disabilities Community Services	123,829	119,041	125,609
Learning Disabilities and Mental Health Services:			
Learning Disabilities Community Services	103,194	104,255	105,474
Mental Health Community Services	17,742	16,795	16,947
Contact Centre	0	706	665
Internal Provision:			
Internal Provision	34,176	35,492	36,696
Reablement	10,868	11,341	11,408
Governance, Safeguarding and Quality:			
Safeguarding	3,455	3,637	3,591
Centrally Held:			
Centrally Held	(12,968)	29,350	19,936
Total Adults' Services Budget	**302,147**	**344,762**	**343,107**
Public Health:			
Central (*)	2,595	2.595	2,710
Information & Intelligence	32	32	22
Nutrition	1,188	1,188	959
Drugs & Alcohol	9,357	9,357	9,278
Tobacco	2,109	2,109	2,109
Dental	180	180	180
Children 5 - 19	4,036	4,036	4,036

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Children Under 5 (*)	16,566	16,566	16,566
Health Checks (*)	1,447	1,447	1,447
Miscellaneous Health Improvement & Wellbeing (**)	5,771	5,771	5,697
Sexual Health (*)	10,130	10,130	9,843
Health Protection (*)	29	29	29
Total Public Health Budget	**53,440**	**53,440**	**52,876**
Adults' Health and Care Cash Limited Budget	**355,587**	**398,202**	**395,983**

* Includes mandated services

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

Children's Services Budget Summary 2018/19

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Early Years	**73,378**	**70,729**	**80,115**
Individual Schools Budgets	543,050	535,673	546,797
Schools De-delegated Items	2,114	2,102	2,102
Central Provision Funded Through Maintained Schools Budget Share	1,318	1,302	2,250
Growth Fund	5,000	5,000	5,165
Schools Block	**551,482**	**544,077**	**556,314**
High Needs Block ISB	31,667	31,469	30,534
Central Provision Funded Through Maintained Schools Budget Share	29	29	47
High Needs Top-Up Funding	58,112	58,291	63,461
SEN Support Services	5,543	5,543	4,808
High Needs Support for Inclusion	3,361	3,361	3,286
Hospital Education Service	589	589	589
High Needs	**99,301**	**99,282**	**102,725**
Central Block	**7,941**	**7,941**	**8,116**
Other Schools Grants	**54,790**	**57,023**	**59,615**
Total Schools Budget	**786,892**	**779,052**	**806,885**
Young Peoples Learning & Development	**578**	**803**	**725**
Adult & Community Learning	**532**	**334**	**389**
Asset Management	557	84	86
Central Support Services	52	(77)	(227)
Educational Psychology Service	1,388	1,485	1,565
Home to School Transport	28,186	30,641	32,180
Insurance	38	38	39
Monitoring of National Curriculum Assessment	142	93	51
Parent Partnership, Guidance and Information	199	221	203
Pension Costs (includes existing provisions)	3,204	2,626	2,600
Premature Retirement / Redundancy Costs	0	241	0
School Improvement	2,718	1,736	1,634
SEN Administration, Assessment, Co-ordination & Monitoring	2,337	2,847	2,092

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Statutory/Regulatory Duties	1,328	820	709
Service Strategy & Other Ed Functions	**40,149**	**40,755**	**40,932**
Management & Support Services (Including facilities management and overheads)	**2,910**	**2,507**	**2,318**
Early Achievement of Savings	**(2,453)**	**236**	**773**
Other Education & Community	**41,716**	**44,635**	**45,137**
Services for Young Children	**1,721**	**1,760**	**1,595**
Adoption Services	3,475	3,577	3,682
Asylum Seekers	2,000	2,761	3,487
Education of Children Looked After	311	313	125
Fostering Services	27,375	27,943	28,034
Leaving Care Support Services	3,135	5,133	5,209
Other Children Looked After Services	1,177	2,674	2,740
Residential Care	20,827	26,540	26,896
Special Guardianship Support	1,987	2,154	2,206
Children Looked After	**60,287**	**71,095**	**72,379**
Other Children & Families Services	**2,022**	**1,349**	**1,384**
Direct Payments	1,059	1,587	1,625
Other Support for Disabled Children	216	237	241
Short Breaks (Respite) for Disabled Children	5,554	5,886	5,504
Targeted Family Support	5,789	5,946	4,539
Universal Family Support	109	58	42
Family Support Services	**12,727**	**13,714**	**11,951**
Youth Justice	**1,418**	**2,036**	**1,577**
Safeguarding & Young Peoples Services	**19,443**	**19,189**	**19,564**
Services for Young People	**1,151**	**690**	**658**
Management & Support Services (Including government grants and legal costs)	**9,460**	**11,065**	**10,792**
Early Achievement of Savings	**0**	**400**	**1,882**
Non-Distributed Costs	**122**	**122**	**122**
Children's Social Care	**108,351**	**121,420**	**121,904**
Total Non-Schools Budget	**150,067**	**166,055**	**167,041**
Children's Services Cash Limited Budget	**936,959**	**945,107**	**973,926**

ETE Budget Summary 2018/19

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Highways Maintenance	12,346	14,133	11,392
Street Lighting	9,741	9,899	9,969
Winter Maintenance	5,996	5,996	6,144
Concessionary Fares	13,886	13,236	13,118
Other Public Transport	5,117	5,117	5,297
Road Safety	1,767	1,558	1,292
Other Highways, Traffic & Transport Services	(43)	(48)	(48)
Staffing & Operational Support	8,889	8,862	9,405
Highways, Traffic and Transport	**57,699**	**58,753**	**56,569**
Waste Disposal Contract	44,187	46,373	46,315
Environment & Other Waste Management	680	667	319
Strategic Planning	865	934	967
Chichester Harbour Conservancy	193	193	193
Waste, Planning and Environment	**45,925**	**48,167**	**47,794**
Departmental and Corporate Support	3,356	3,530	3,546
Early achievement of savings	289	950	3,840
Total Environment and Transport Budget	**107,269**	**111,400**	**111,749**
Economic Development	745	741	757
Total Economic Development Budget	**745**	**741**	**757**
ETE Cash Limited Budget	**108,014**	**112,141**	**112,506**

Policy & Resources Budget Summary 2018/19

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Legal	2,267	2,390	2,495
Transformation	893	1,771	1,012
Governance	2,449	2,458	2,463
Transformation and Governance	**5,609**	**6,619**	**5,970**
Finance	3,645	3,514	3,717
HR	4,106	4,310	4,366
IT	18,777	20,663	21,341
Audit	660	644	661
Customer Business Services	3,512	2,307	2,404
Corporate Resources Transformation	37	806	854
Corporate Resources Management	867	170	183
Corporate Resources	**31,604**	**32,414**	**33,526**
Communication, Marketing & Advertising	535	555	565
Corporate Customer Services	2,125	2,813	2,824
Web Team	641	593	563
Insight & Engagement	651	568	722
Chief Executives Office	792	801	764
Customer Engagement Service	**4,744**	**5,330**	**5,438**
Corporate Services Budget	**41,957**	**44,363**	**44,934**
Corporate & Democratic Representation	66	66	66
Grants to Vol	222	222	227
Grants & Contributions to Voluntary Bodies	787	787	806
Southern Sea Fisheries	307	348	307
Members Devolved Budgets	390	624	390
Rural Affairs	200	110	200
Other Direct and Corporate Services	221	221	221
P&R Non-Departmental Budget (Direct)	**2,193**	**2,378**	**2,217**

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Members Support Costs	1,721	1,721	1,749
Corporate Contribution to Trading Units	105	0	0
Repair & Maintenance	7,565	7,621	7,812
Strategic Asset Management	1,501	5,051	1,254
Other Miscellaneous	323	323	331
P&R Non-Departmental Budget (Central)	**11,215**	**14,716**	**11,146**
Other Policy and Resources Budget	**13,408**	**17,094**	**13,363**
Transformation	57	507	210
Rural Broadband	243	244	250
CCBS IT Budget and Rural Funding	0	214	76
Transformation and Business Management	**300**	**965**	**536**
Regulatory Services	1,432	1,343	1,076
Business Support	774	766	833
Scientific Services	8	18	49
Asbestos	(1)	7	(21)
Community and Regulatory Services	**2,213**	**2,134**	**1,937**
Risk, Health & Safety	193	195	199
Sir Harold Hillier Gardens	312	220	87
Culture & Heritage	**505**	**415**	**286**
Corporate Estate	(189)	(196)	(194)
County Farms	(501)	(500)	(497)
Development Account	(417)	(417)	(415)
Sites for Gypsies and Travellers	54	54	55
Property Services	1,691	1,326	1,687
Office Accommodation / Workstyle	5,139	5,003	4,591
Facilities Management	3,037	3,065	3,337
Hampshire Printing Services	0	(139)	(136)
Caretaking & Cleaning Services	0	(11)	(11)
Segensworth Unit Factories	0	(12)	(12)

Service Activity	Original Budget 2017/18 £'000	Revised Budget 2017/18 £'000	Proposed Budget 2018/19 £'000
Print Sign Workshop	9	9	9
Property Services and Facilities:	**8,823**	**8,182**	**8,414**
CCBS Planned Contribution to / (from) Cost of Change	(168)	(261)	1,093
CCBS P&R Services	**11,673**	**11,435**	**12,266**
Library Service	11,886	11,730	10,996
Energise Me Grant (Sport) and Talented Athletes Scheme	179	186	141
Community	160	198	164
Community and Regulatory Services	**12,225**	**12,114**	**11,301**
Countryside	2,821	2,953	2,862
Cultural Trust Grant and HCC Arts related costs	2,960	2,875	2,634
Archives	802	767	730
Outdoors Centres	234	243	195
Community Grants	977	763	977
Culture & Heritage	**7,794**	**7,601**	**7,398**
CRC Planned Contribution to / (from) Cost of Change	507	982	2,259
CCBS CRC Services	**20,526**	**20,697**	**20,958**
Total CCBS Cash Limited Budget	**32,199**	**32,132**	**33,224**
Policy and Resources Cash Limited Budget	**87,564**	**93,589**	**91,521**

Revenue Budget 2018/19

	Original Budget 2017/18 £'000	Adjustment £'000	Proposed Budget 2018/19 £'000
Departmental Expenditure			
Adults' Health and Care	355,587	40,396	395,983
Children's - Schools	786,892	19,993	806,885
Children's - Non Schools	150,067	16,974	167,041
Economy, Transport and Environment	108,014	4,492	112,506
Policy and Resources	87,564	3,957	91,521
	1,488,124	**85,812**	**1,573,936**
Capital Financing Costs			
Committee Capital Charges	135,264	(223)	135,041
Capital Charge Reversal	(136,489)	160	(136,329)
Interest on Balances	(8,395)	800	(7,595)
Capital Financing Costs	51,775	(11,474)	40,301
	42,155	**(10,737)**	**31,418**
RCCO			
Main Contribution	14,034	(3,452)	10,582
RCCO from Reserves	8,529	(8,529)	0
	22,563	**(11,981)**	**10,582**
Other Revenue Costs			
Contingency	35,880	22,529	58,409
Dedicated Schools Grant	(732,102)	(15,168)	(747,270)
Specific Grants	(159,861)	(8,525)	(168,386)
Pensions – Non Distributed Costs	18,526	1,765	20,291
Apprenticeship Levy	0	1,350	1,350
Flood Protection Levy	623	0	623
Coroners	1,650	97	1,747
Business Units (Net Trading Position)	164	54	218
	(835,120)	**2,102**	**(833,018)**
Net Revenue Budget	**717,722**	**65,196**	**782,918**
Contributions to / (from) Earmarked Reserves			
Transfer to / (from) Earmarked Reserves	19,520	(50,360)	(30,840)
Trading Units Transfer to / (from) Reserves	(242)	165	(77)
RCCO from Reserves	(8,529)	8,529	0
	10,749	**(41,666)**	**(30,917)**
Contribution to / (from) General Balances	900	(1,900)	(1,000)
BUDGET REQUIREMENT	**729,371**	**21,630**	**751,001**

	Original Budget 2017/18 £'000	Adjustment £'000	Proposed Budget 2018/19 £'000
BUDGET REQUIREMENT	**729,371**	**21,630**	**751,001**
Funded by			
Business Rates and Government Grant	(156,274)	17,148	(139,126)
Business Rates Collection Fund Deficit / (Surplus)	696	(509)	187
Council Tax Collection Fund Deficit / (Surplus)	(6,963)	3,077	(3,886)
COUNCIL TAX REQUIREMENT	**566,830**	**41,346**	**608,176**

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 activity 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 %**
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	16,979	31,100	5.9
Corporate Policy Reserve	5,109	4,632	0.9
Organisational Change Reserve	3,593	2,905	0.5
	100,887	**79,392**	**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 2019 (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 £79.4m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of government grant, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and the residents of Hampshire. These reserves are broken down into four main areas:

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 – 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 2016/17 as 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, albeit adapted since first introduced, to enable the continued reduction and transformation of the workforce required to deliver the significant savings needed in the medium term with the aim of minimising compulsory redundancies

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 included a planned net draw of approaching £46m 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.

Section 25 Report from Chief Financial Officer

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

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

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

Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. Given the significance of the Revenue Support Grant reductions announced to the end of the decade, this report considers not only the short term position but also the position to 2019/20 in the context of the County Council's current Medium Term Financial Strategy (MTFS) and the Transformation to 2019 (Tt2019) Programme.

Robustness of Estimates in the Budget

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

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

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

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

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

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

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

A further £98m of savings were removed from the budget in 2017/18 and current monitoring indicates that most Departments are working effectively within the reduced resource envelopes including adult services where £13m of savings were approved to be deferred with the department required to meet the shortfall from reserves in the intervening period.

Of most significance is the continued increase in the number and cost of children looked after which shows a further pressure of £7.6m at the end of the year despite a £9.5m cash injection at the beginning of the year. This issue is explored in more detail later in this report.

Budget 2018/19

The budget for 2018/19 has been produced in line with the process outlined in the section above and therefore I am content that a robust, Council wide process has been properly followed and driven through our Finance Business Partners working with the Operational Finance Team. Further oversight is then provided by the Head of Finance and myself in presenting the final budget and council tax setting report to Cabinet and County Council.

The budget relies on a net draw from the Grant Equalisation Reserve (GER) of some £29.1m. Whilst significant this is entirely in line with the MTFS that has been put in place during this period of austerity and which 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. The lack of any requirement for savings targets for 2018/19 also adds further confidence to the budget setting process.

Once again, the robustness of the budget is underpinned by adequate contingencies for volatile areas such as social care as well as by the existence of departmental cost of change reserves, which can be used to meet unforeseen costs during the year as well as providing funding for investment to achieve transformational savings, for 2018/19 this will include funding generated by the early delivery of Tt2019 savings.

Risks in the Budget 2018/19

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

a) **Government Funding and Policy** – The MTFS includes the announced reductions in government grant over the current spending review period and plans are in place to deliver a balanced budget by 2019/20 based on the Tt2019 Programme . The four year settlement announced following the spending review had a massive impact on those projections, but these have been incorporated in the MTFS and the Tt2019 Programme takes this into account.

Following acceptance by the Department for Communities and Local Government (DCLG) of the County Council's Efficiency Plan for the period to 2019/20, the expectation was for minimal change for 2018/19 when the Provisional Local Government Finance Settlement was announced in December; which was the case. Other significant changes to funding or policy during the year would have to be covered by contingencies or general balances, but generally once grant levels have been set in the final settlement due in January they do not change, although there have been in year changes implemented previously, for example reductions to the Public Health grant.

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

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

A further base budget increase of £9.5m was added to the budget for 2017/18 which took into account annual growth of around 5% in CLA numbers and a provision of around £3m a year was made in the MTFS. Continued higher growth in the current year coupled with increasing costs due to demand outstripping supply across the country has led to a predicted £7.6m pressure in the current year which will inevitably have an impact on the funding required for future years. At this stage, I am comfortable that the 2018/19 budget contains sufficient contingencies and flexibility to deal with the increased level of CLA costs, but a further review of this area will be undertaken in order to inform the next update of the MTFS over the summer.

In a similar process to Adults' Services, regular monthly meetings are now held with the Director of Children's Services to consider pressures and financial planning for the Department and this group will continue to look in detail at the CLA position as the year progresses.

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

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

This will include potential risks associated with the delivery of Tt2019 savings, early delivery of which is currently planned to provide resources in advance of need to help fund transformational change to generate the next round of savings and help to cash flow delivery of the Department's savings. Due to the nature of adult's social care in particular, it is not always possible to distinguish whether or not cost pressures arise due to further increased demand or the potential failure to have delivered a savings proposals and therefore it is necessary to manage the total budget against total activity and demand within the system, which is already in place and should highlight issues irrespective of how they have arisen.

c) **Council Tax** – The government have granted additional flexibilities in relation to council tax that allow local authorities with responsibility for adult social care to raise the social care precept by up to 3% on top of the 3% general increase in 2018/19 and 2019/20 (increased from 2%) without the need to hold a referendum. The Cabinet is recommended to take up the offer of the extra flexibility for the social care precept as agreed within the MTFS and in addition to agree a general increase of 2.99% which will generate an additional sum of £5.7m.

d) **Pay and Price Risk** – Pay inflation has been capped for some time and the MTFS contained provision for a general pay award of 1% and also allowance for the impact of the National Living Wage (NLW) in line with government policy. Subsequently there has been a two year pay offer for local government workers, which includes a 'core' increase of 2% and changes to the lower pay scales to reflect the impact of the NLW. The overall increase in the pay bill could be in the region of 6% over the two years, and is above the allowances made within the MTFS. Depending on the final pay award that is agreed this could mean additional recurring costs of circa £5m will need to be met by 2019/20.

Until the pay deal is concluded it is not possible to quantify the final impact but the budget includes provision within contingencies for an overall increase in the pay bill of 3% (a 'core' increase of 2% and changes to the lower pay scales to reflect the impact of the NLW) and the provision for future years will be reviewed when the MTFS is updated next year.

Increases in employer pension rates are also a factor that can impact on the budget and the results of the 2016 pension fund valuation and the increases have been built into the financial forecasts moving forward.

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

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

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

The Adequacy of Reserves

The County Council’s policy on general balances is to hold a minimum prudent level which on the basis of the previous risk assessment is around 2.5% of net expenditure. The projected level of general fund balances will be 3.0% of net expenditure at the beginning of 2018/19. This in part reflects the declining level of spend, rather than an increase in the level of balances held. However, the level of general fund balances has been reviewed as part of the wider strategy to manage the budget in the medium term whilst the Tt2019 Programme is implemented and in 2018/19 a one-off draw of £1m is planned. After this, general fund balances will be around 2.5% of net expenditure at the beginning of 2019/20.

Overall the level of earmarked reserves and balances that the County Council holds stood at £524.2m (including schools and the Enterprise M3 LEP reserve) at the end of March 2017 and these reserves, the majority of which are held for specific purposes as set out in the Reserves Strategy in Appendix 6, underpin the overall MTFS and capital programme.

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

The GER currently stands at over £57m, but this reflects the fact that a net contribution of more than £29m is required to balance the budget in 2018/19 and the fact that a further significant contribution will be required to cash flow the safe delivery of the Tt2019 Programme.

In addition, in order to continue the County Council's strategy of delivering savings over a two year cycle a further significant contribution will be required in 2020/21. As a consequence, where possible, the County Council will continue to direct spare one off funding into this reserve as part of its overall longer term risk mitigation strategy, which has served it very well to date.

Budget 2018/19 – Conclusion

Given the details outlined above, provided that the County Council considers the above factors and accepts the budget recommendations, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2018/19.

The Position to 2019/20 and Beyond

Looking ahead to 2019/20, the County Council needs to address a budget gap of £140m by 2019/20. Bridging a gap of £140m after already removing £340m of expenditure is a massive undertaking particularly as each successive savings programme is becoming harder to deliver and many areas cannot be re-visited due to the nature of the revised service models or contractual arrangements that will have been put in place.

As in previous years, the County Council has responded positively to the transformation challenge and savings proposals to meet the £140m deficit were signed off by County Council in November last year subject to any further Stage 2 consultations that need to take place for some proposals.

What is different to previous years however is the fact that the profile of delivery for the savings programme is back loaded with some savings not being delivered at all until well after the 2019/20 financial year. Whilst sufficient resources have been set aside to cover this delayed implementation, it does increase the overall risk in the budget going forward as there will potentially be overlapping savings programmes.

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

At this stage however, the County Council must focus on delivery of savings towards 2019/20 and I believe it is well placed to do that at the same time as having realistic expectations around what can be achieved.

Carolyn Williamson

Director of Corporate Resources

17 January 2018

Treasury Management Strategy and Investment Strategy 2018/19 to 2020/21

1. Summary

1.1. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the CIPFA Code) and the Prudential Code require authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also includes the Annual Investment Strategy that is a requirement of the Department for Communities and Local Government's (DCLG) Investment Guidance.

1.2. As per the requirements of the Prudential Code, Hampshire County Council adopted the CIPFA Treasury Management Code at its meeting in February 2012. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance.

1.3. The purpose of this TMSS is, therefore, to present for approval:

- Treasury Management Strategy for 2018/19
- Annual Investment Strategy for 2018/19
- Prudential Indicators for 2018/19, 2019/20 and 2020/21 shown in Annex C
- Minimum Revenue Provision (MRP) Statement shown in Annex D

1.4. The County Council has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's TMS.

2. Introduction

2.1. In February 2012 the County Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the County Council to approve a Treasury Management Strategy (TMS) before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

2.2. In addition, the DCLG issued revised Guidance on Local Authority Investments in March 2010 that requires the County Council to approve an investment strategy before the start of each financial year.

2.3. This report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DCLG Guidance.

2.4. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's TMS.

3. External Context

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

Economic background

3.2. The major external influence on the Council's TMS for 2018/19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

3.3. Consumer Price Inflation (CPI) reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee (MPC) judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the MPC raised official interest rates to 0.5% in November 2017. Since this point, CPI hit 3.1% in November 2017.

Credit outlook

3.4. High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

3.5. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ring-fence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

3.6. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain very low.

Interest rate forecast

3.7. The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

3.8. Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose's forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

3.9. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

4. Balance Sheet Summary and Forecast

4.1. On 30 November 2017, the County Council held £294m of borrowing and £570m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 overleaf:

Table 1: Balance Sheet Summary and Forecast

	31/03/17 Actual £M	31/03/18 Revised £M	31/03/19 Estimate £M	31/03/20 Estimate £M	31/03/21 Estimate £M
Capital Financing Requirement	756	772	791	809	810
Less: Other long-term liabilities					
- Street Lighting PFI	(112)	(108)	(104)	(100)	(96)
- Waste Management Contract	(59)	(56)	(53)	(50)	(46)
Borrowing CFR	585	608	634	659	668
Less: External borrowing					
- Public Works Loan Board	(257)	(243)	(236)	(227)	(217)
- Market Loans (incl. LOBOs)	(73)	(41)	(41)	(41)	(41)
Internal (Over) Borrowing	**255**	**324**	**357**	**391**	**410**
Less: Reserves and balances	(524)	(513)	(439)	(404)	(422)
Less: Allowance for working capital	(225)	(220)	(220)	(220)	(220)
Resources for Investment	**(749)**	**(733)**	**(659)**	**(624)**	**(642)**
New Borrowing or (Investments)	**(494)**	**(409)**	**(302)**	**(233)**	**(232)**

4.2. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

4.1. It is forecast that the County Council will take advantage of internal borrowing over the period forecast in Table 1, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise. Reserves and balances are due to reduce over the forecast period due to the anticipated funding of the capital programme, repayment of external debt, and use of the Grant Equalisation Reserve as part of the County Council's financial strategy. These factors result in a reducing investment balance year on year over the forecast period, as shown in Table 1.

4.2. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2018/19.

5. Borrowing Strategy

5.1. The County Council currently holds £294m of loans, a decrease of £42m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the County

Council does not expect to need to borrow in 2018/19. The County Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £770m.

Objectives

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

Strategy

5.3. Given the significant cuts to public expenditure and in particular to local government funding, the County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, if the County Council does need to borrow, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

5.4. By internally borrowing, the County Council would be able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. If borrowing is required, the benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the County Council with this 'cost of carry' and breakeven analysis.

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

Sources

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

- Public Works Loan Board (PWLB) and any successor body
- UK local authorities
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Hampshire Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other Sources of Debt Finance

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

- Operating and finance leases
- Hire purchase

- Private Finance Initiative
- Sale and leaseback

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

Municipal Bonds Agency

5.9. UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full County Council.

LOBOs

5.10. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. This holding is down from £60m due to the repayment of £32m of LOBO loan in July 2017, and the conversion to fixed rate and subsequent sale of £8m Royal Bank of Scotland LOBO loans to Phoenix Life Assurance Limited in August 2017. In the current low interest rate environment the County Council understands that lenders are unlikely to exercise their options, but there remains an element of refinancing risk. The County Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

Short-term and Variable Rate loans

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

Debt Rescheduling

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

6. Investment Strategy

6.1. The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council's investment balance has ranged between £504 and £659m, and lower levels are expected in the forthcoming year, as shown in Table 1.

Objectives

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

Negative Interest Rates

6.3. If the UK enters into a recession in 2018/19, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

6.4. Given the increasing risk and very low returns from short-term unsecured bank investments, the County Council aims to further diversify into more secure and / or higher yielding asset classes during 2018/19. This is especially the case for the estimated £375m that is available for longer-term investment. Approximately 93% (up from 90% last year) of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, supranational banks, pooled property, equity and multi-asset funds, and secured bank bonds.

6.5. Whilst of the remaining cash subject to bail-in risk, 13% is held in short-term notice accounts which produce a significant return commensurate with the bail-in risk, 32% is held in overnight money market funds which are subject to a reduced risk of bail-in, 32% is held in certificates of deposit which can be sold on the secondary market, and the remaining 2% of cash subject to bail-in risk is held in overnight bank call accounts for liquidity purposes. Further detail is provided at Annex B.

6.6. This diversification will represent a continuation of the new strategy adopted in 2015/16.

Investments Targeting Higher Returns

6.7. Given the stability of the County Council's cash balances there was the opportunity during 2016/17 to increase the allocation for investments targeting higher returns, which will allow further diversification, increase the overall rate of return and the income contributed to the revenue budget. It was approved that the allocation targeting higher yields increase to £200m from £105m. This amount will be kept under review in the context of the Council's overall forecast cash balance.

6.8. Higher yields can be accessed through long-term cash investments (although this is currently less the case as yields have declined) and investments in other assets than cash, such as pooled property, equities and bonds. Non-cash pooled investments must be viewed as long-term investments in order that monies are not withdrawn in the event of a fall in capital values to avoid crystallising a capital loss.

6.9. As shown in Annex B the County Council has invested £138m of the £200m allocation. In addition, the County Council has committed a further £22m to investments in pooled funds. The County Council is continuing to work with its advisors, Arlingclose, to identify additional opportunities for the remaining £40m of allocation. Without this allocation the weighted average return of the Council's cash investments would have been 1.08%; the allocation to higher yielding investments has added 0.81% (£4.6m based on the cash balance at 30 November 2017) to the average interest rate earned by the remainder of the portfolio.

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

Table 2: Pooled fund investments capital value at 30 November 2017

Pooled fund investments	Principal Invested £M	Market Value 30/11/17 £M	Capital Yield (per annum) %
Pooled property	55.0	55.6	1
Pooled equity	32.0	33.8	4
Pooled multi-asset	16.0	16.0	0
Total	**103.0**	**105.4**	**2**

Investment Limits

6.11. The Council's resources for investment are forecast to be £733m on 31 March 2018. In order that no more than 10% of resources for investment will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £70m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, and investments in pooled funds, as they would not count against a limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment Limits

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

Approved Counterparties

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

Table 4: Approved Investment Counterparties and Limits

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

*See paragraph 6.18

This table must be read in conjunction with the notes below

Credit Rating

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

Banks Unsecured

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

Banks Secured

6.15. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

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

Corporates

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

6.18. The County Council will not invest in an un-rated corporation, except where it owns a significant interest in the corporation. Authority is requested in this report to allow the County Council to invest in joint ventures or similar arrangements in which we have a significant interest up to a maximum value of £35m for up to 20 years. At this stage any investment would be limited to the Manydown development and given the significantly different risk profile and financial arrangements, it is proposed that any decisions to invest are delegated to the Director of Corporate Resources in consultation with the Executive Member for Policy and Resources and a full report will be produced in due course to explore the risks and issues associated with such an investment.

Registered Providers Secured and Unsecured

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

Pooled Funds

6.20. Shares in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

6.21. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Depending on the type of pooled fund invested in, it may have to be classified as capital expenditure. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly. Much of the allocation for investments targeting higher returns will be invested in pooled funds.

Operational bank accounts

6.22. The County Council may incur operational exposures, for example though current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The County Council's operational bank account is with National Westminster; therefore the Fund does not hold unsecured investments in this bank, and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

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

- no new investments will be made,

- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

6.24. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

6.25. The County Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

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

6.27. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Specified Investments

6.28. The DCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

6.29. The County Council defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

Non-specified Investments

6.30. Any investment not meeting the definition of a specified investment is classed as non-specified. The County Council does not intend to make any investments denominated in foreign currencies. Non-specified investments will therefore be limited to long-term investments, (i.e. those that are due to mature 12 months or longer from the date of arrangement), pooled funds that the County Council intends to hold as long-term investments (for more than one year) and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 5 below.

Table 5: Non-Specified Investment Limits

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

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

6.31. Although the total long-term investments limit is greater than the expected investment balance at 31 March 2019 and in future years, as shown in Table 1, this limit has been set to allow for current long-term investments to mature, as well as to allow flexibility if capital expenditure is experienced to be slower than forecast.

Liquidity Management

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

7. Non-Treasury Investments

7.1. Although not classed as treasury management activities the Council may also make loans and investments for service purposes, for example loans to Hampshire based businesses or the direct purchase of land or property. Such loans and investments will be subject to the Council's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. The Council's existing non-treasury investments are listed in Annex B.

8. Treasury Management Indicators

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

Interest Rate Exposures

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

Table 6: Interest Rate Exposures

	2018/19	2019/20	2020/21
Upper limit on fixed interest rate investment exposure	£375m	£300m	£300m
Upper limit on variable interest rate investment exposure	£700m	£700m	£700m
Upper limit on fixed interest rate borrowing exposure	£970m	£980m	£980m
Upper limit on variable interest rate borrowing exposure	£970m	£980m	£980m

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

Maturity Structure of Borrowing

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

Table 7: Maturity Structure of Borrowing

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

Principal Sums Invested for Periods Longer than 364 days

8.5. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 8: Principal Sums Invested for Periods Longer than 364 days

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£375m	£300m	£300m

9. Other Items

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

Policy on Use of Financial Derivatives

9.2. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

9.3. The County Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the County Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

9.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. The use of financial derivatives is not planned as part of the implementation of the TMS and any changes to this would be reported to members in the first instance.

Investment Training

9.5. The needs of the County Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

9.6. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

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

Investment Advisers

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

Investment of Money Borrowed in Advance of Need

9.9. The County Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the County Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the County Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £770m.

Annex A - Arlingclose Economic & Interest Rate Forecast November 2017

Underlying assumptions:

- In a 7-2 vote, the Monetary Policy Committee (MPC) increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Quarter 3 2017 Gross Domestic Product (GDP) growth was 0.4%, after a 0.3% expansion in Quarter 2.

- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.

- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.

- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

Forecast:

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.

- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.19**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.15**
3-month LIBID rate														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.22**
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	**-0.20**
1-yr LIBID rate														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.27**
Arlingclose Central Case	**0.70**	**0.70**	**0.70**	**0.70**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.80**	**0.77**
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.15	**-0.26**
5-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**0.75**	**0.75**	**0.80**	**0.80**	**0.80**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**	**1.00**	**1.05**	**1.10**	**0.89**
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
10-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.55**	**1.36**
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	**-0.33**
20-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.85**	**1.85**	**1.85**	**1.85**	**1.85**	**1.90**	**1.90**	**1.95**	**1.95**	**2.00**	**2.05**	**2.05**	**2.05**	**1.93**
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.38**
50-yr gilt yield														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	**0.32**
Arlingclose Central Case	**1.70**	**1.70**	**1.70**	**1.70**	**1.70**	**1.75**	**1.80**	**1.85**	**1.90**	**1.95**	**1.95**	**1.95**	**1.95**	**1.82**
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	**-0.39**

Annex B - Existing Investment & Debt Portfolio Position at 30 November 2017

Investments	**Asset Value on 31/08/2017 £M**	**Asset Value on 30/11/2017 £M**	**Average Rate/Yield on 30/11/2017 %**	**Average Life on 30/11/2017 Years**
Short Term Investments				
- Banks and Building Societies:				
- Unsecured	60.2	26.0	0.51	0.25
- Secured	50.0	30.0	0.98	0.46
- Money Market Funds	23.5	12.0	0.36	0.00
- Local Authorities	160.8	171.3	1.05	0.46
- Registered Provider	20.0	20.0	1.79	0.16
Total Short Term Investments	**314.5**	**259.3**	**1.01**	**0.39**
Long Term Investments				
- Banks and Building Societies:				
- Secured	100.8	105.8	0.75	2.42
- Local Authorities	51.5	67.0	1.87	1.70
Total Long Term Investments	**152.3**	**172.8**	**1.19**	**2.14**
Long Term Investments – high yielding strategy				
- Local Authorities				
- Fixed deposits	20.0	20.0	3.96	16.35
- Fixed bonds	10.0	10.0	3.78	16.15
- Pooled Funds				
- Pooled property*	55.0	55.0	4.30	n/a
- Pooled equity*	20.0	32.0	5.18	n/a
- Pooled multi-asset*	10.0	16.0	4.50	n/a
- Registered Provider	5.0	5.0	3.40	1.41
Total Long Term Investments – high yielding strategy	**120.0**	**138.0**	**4.41**	**14.16**
Total Investments	**586.8**	**570.1**	**1.89**	**2.07**
Increase / (Decrease) in Investments £m		(16.7)		

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

	£M	%
External Borrowing		
PWLB Fixed Rate	(252.7)	(4.79)
LOBO Loans	(20.0)	(4.76)
Other Market Loans	(21.0)	(4.01)
Total External Borrowing	**(293.7)**	**(4.73)**
Other Long-Term Liabilities:		
Street Lighting PFI	(111.5)	
Waste Management Contract	(59.4)	
Total Other Long-Term Liabilities	**(170.9)**	
Total Gross External Debt	**(464.6)**	
Investments	**570.1**	**1.89**
Net (Debt) / Investments	**105.5**	

Non-treasury investments	**Asset Value on 30/11/2017 £M**	**Average Rate/Yield on 30/11/2017 %**
Loans to Hampshire based businesses	3.4	4.00
Total Non-treasury Investments	**3.4**	**4.00**
Total Investments	**573.5**	**1.90**

Annex C - Prudential Indicators 2018/19

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

Estimates of Capital Expenditure

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

Capital Expenditure and Financing	**2017/18 Revised £M**	**2018/19 Estimate £M**	**2019/20 Estimate £M**	**2020/21 Estimate £M**
Total Expenditure	**238**	**283**	**268**	**200**
Capital receipts	6	12	8	4
Grants and other income	151	199	232	178
Revenue contributions	51	37	(8)	(3)
Contributions from / (to) reserves	1	-	-	0
Total Financing	**209**	**248**	**232**	**179**
Prudential borrowing	39	46	46	31
Less: repayments from capital receipts etc.	(10)	(11)	(10)	(10)
Total Funding	**29**	**35**	**36**	**21**
Total Financing and Funding	**238**	**283**	**268**	**200**

Estimates of Capital Financing Requirement

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

Capital Financing Requirement	**31/03/18 Revised £M**	**31/03/19 Estimate £M**	**31/03/20 Estimate £M**	**31/03/21 Estimate £M**
General Fund	772	791	809	810
Total CFR	**772**	**791**	**809**	**810**

The CFR is forecast to rise by circa £38m over the next two years as capital expenditure financed by debt outweighs resources put aside for debt repayment.

Gross Debt and the Capital Financing Requirement

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

Debt	31/03/18 Revised £M	31/03/19 Estimate £M	31/03/20 Estimate £M	31/03/21 Estimate £M
Borrowing	284	277	268	258
PFI liabilities	164	157	150	142
Total Debt	**448**	**434**	**418**	**400**

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

Operational Boundary for External Debt

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

Operational Boundary	2017/18 Revised £M	2018/19 Estimate £M	2019/20 Estimate £M	2020/21 Estimate £M
Borrowing	680	700	730	740
Other long-term liabilities	170	160	150	150
Total Debt	**850**	**860**	**880**	**890**

Authorised Limit for External Debt

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

Authorised Limit	2017/18 Revised £M	2018/19 Limit £M	2019/20 Limit £M	2020/21 Limit £M
Borrowing	740	770	790	800
Other long-term liabilities	210	200	190	180
Total Debt	**950**	**970**	**980**	**980**

Ratio of Financing Costs to Net Revenue Stream

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

Ratio of Financing Costs to Net Revenue Stream	2017/18 Revised %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %
General Fund	1.68	1.75	1.93	2.04

Incremental Impact of Capital Investment Decisions

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

Incremental Impact of Capital Investment Decisions	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £
General Fund - increase in annual band D Council Tax	3.68	7.21	5.48

Adoption of the CIPFA Treasury Management Code

The County Council adopted the Chartered Institute of Public Finance and Accountancy’s Treasury Management in the Public Services: Code of Practice 2011 Edition in February 2012. It fully complies with the Code’s recommendations.

Annex D - Annual Minimum Revenue Provision Statement 2018/19

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

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

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

MRP in 2018/19

Prior to 2015/16 the County Council calculated MRP for supported borrowing on a 4% reducing balance basis. It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a 50 year straight line basis. To be more prudent the 50 years has been started from 2008 and the actual calculation is 1/43's. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £67m less in MRP payments by 31 March 2016.

Starting in 2016/17 the County Council will pause in making MRP payments on supported borrowing until it has realigned the total amount of MRP payments with the new policy, which will be during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis.

The County Council will continue to apply the Asset Life or Depreciation Method (which are Options 3 and 4 from the range provided by the DCLG) in respect of unsupported capital expenditure funded from borrowing. Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section106 Developers Contributions, MRP will not be applied.

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

Capital expenditure incurred during 2018/19 will not be subject to a MRP charge until 2019/20.

Based on the Authority's latest estimate of its CFR on 31 March 2017, the budget for MRP has been set as follows:

	31/03/2018 Estimated CFR £M	2018/19 Estimated MRP £M
Supported capital expenditure	454.6	0.0
Unsupported capital expenditure after 31/03/2008	125.2	8.4
Finance leases and Private Finance Initiative	164.1	7.2
Transferred debt	28.3	0.6
Loans to other bodies repaid in instalments	0.0	0.0
Total General Fund	**772.2**	**16.2**

Consultation

Summary of *'Serving Hampshire – Balancing the Budget'* Consultation

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

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

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

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

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

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

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

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.

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

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

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

Proposals. Any specific changes to services will be subject to further, more detailed consultation.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	5 February 2018
Decision Maker:	County Council
Date:	22 February 2018
Title:	Capital programme 2018/19 to 2020/21
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Rob Carr

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

1. Recommendation(s)

The following decisions are sought, based on the recommendations of the Leader and Cabinet to the County Council, for the capital programme for 2018/19 to 2020/21 and the revised capital programme for 2017/18 that:

1.1. The following variations to the 2017/18 capital programme are approved:

- Three Children's Services schemes with a total value of £11.369 million be deferred to the 2018/19 programme to allow completion of pre-work including statutory approvals, design and programming of projects.
- Owing to the difficult site conditions at Kings Furlong Infant and Junior Schools, additional funding of £0.9 million (including fees) is added to this scheme from unallocated funding within the 2017/18 programme.
- Owing to the difficult ground conditions and structural and site issues at Oakwood Infant and Greenfield Junior schools, additional funding of £0.8 million (including fees) is added to this scheme from unallocated funding within the 2017/18 capital programme.
- £0.511million revenue contributions to the 2017/18 capital programme be transferred to the Children's Services revenue budget.
- £0.73 million is transferred from the Winchester Road Roundabout (Basingstoke) scheme to the adjacent Thornycroft Roundabout scheme, with the budget for the Winchester Road scheme reducing to £2.68 million and the budget for Thornycroft scheme increasing to £8.92 million.

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

a) the capital programme for 2018/19 and the provisional programmes for 2019/20 and 2020/21 as set out in Appendix 3 be approved.

b) The new capital schemes detailed in Appendix 4 be approved.

1.3. Council is recommended to:

a) approve the capital programme for 2018/19 and the provisional programmes for 2019/20 and 2020/21 as set out in Appendix 3.

b) approve the new capital schemes contained in Appendix 4.

2. Executive Summary

2.1. This report sets out for approval the proposed capital programme for 2018/19 to 2020/21 of £540 million.

2.2. Overall, the proposals in this report are in line with the medium term financial strategy which ensures that we continue to invest wisely in our existing assets and deliver a programme of new ones in line with overall priorities and need.

2.3. The report collates the service capital programmes prepared by Executive Members based on the existing cash limit guidelines for the locally resourced programme, together with schemes funded by Government grants and other external sources.

2.4. The programme delivers schemes totalling £540 million over the three years from 2018/19 to 2020/21. This follows a revised programme of £343 million for 2017/18, providing a total capital programme of £883 million over the four years. This is a very significant investment in the economy and infrastructure of Hampshire. It will provide:

- £146 million of investment in new and extended school buildings in Hampshire in the period 2018/19 to 2020/21 to ensure there is a school place for every child in Hampshire, providing a big boost for the local economy through jobs and construction materials
- £120 million for structural maintenance of roads and bridges in Hampshire over the next three years
- £133 million for integrated transport schemes including nine major infrastructure schemes, totalling £108.6 million, of which five are expected to start in 2018/19
- £11 million on flood risk and coastal defence
- £107 million for major improvement of school and other County Council buildings over the next three years.

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

Table 1 - Proposed capital programme

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

2.6. The report shows that the projected payments arising from the capital programme can be financed within the resources available to the County Council including the planned use of prudential borrowing.

2.7. The proposals take account of the County Council's capital strategy and the Prudential Code for Capital Finance in Local Authorities including the capital financing position, the level of debt outstanding and the consequences for the revenue budget and council tax. The prudential indicators are included in Appendix 8 of the report on this Agenda on the Revenue Budget.

2.8. The capital programme is supported by Government grants for schools, highways and transport. The Secretary of State has previously announced details of individual local authority Basic Need allocations (to provide school places) for 2018/19 and 2019/20. In addition, Government funding for new Free schools is expected for 2018/19. However, the Secretary of State has not yet announced details of individual local authority Schools Condition Allocation (SCA) for 2018/19, 2019/20 and 2020/21. However, indications are that the 2018/19 Schools Condition Allocation (SCA) will be allocated to Local Authorities based on the same criteria as 2017/18. For planning purposes, a continuation of the 2017/18 allocation is being assumed. Devolved Formula Capital (DFC) has yet to be confirmed for 2018/19, but again, expectations are that it will be at a similar level to the 2017/18 allocation.

2.9. The Department for Transport (DfT) has confirmed the Integrated Transport Block (ITB) and Structural Maintenance allocations for 2018/19. The Government has recently announced that further pothole funding will be available nationally but it is not yet known how this will be allocated at a local level. Given this, the programme has been developed on the basis that this value will remain consistent across the programme. In addition, the County Council has had a great deal of success in securing Highways England funding and Local Growth Funding (LGF) from both the EM3 and Solent Local Enterprise Partnerships (LEPs).

2.10. The other main technical points of this report are:

- the capital programmes proposed by Executive Members are in line with the guidelines for the locally resourced capital programme
- prudential borrowing will total £312 million by 2021/22. The repayment of the 'bridging loans' included in this total will depend in part on the continued recovery of the property market. The current assumptions are that the bridging loans will be fully repaid by 2022/23.
- the prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance
- the capital receipts assumed for this report are primarily for the sale of sites already earmarked to rationalisation schemes or to repay previously approved prudential borrowing, although some receipts have been utilised to fund the new capital priorities outlined in Section14.

2.11. A strategy for dealing with a range of new capital priorities is outlined in the Revenue Budget report, presented elsewhere on this Agenda, but the immediate additions to the programme arising from this are also summarised in this report.

3. Contextual information

3.1. The cash limit guidelines for the new capital programme for 2018/19 to 2020/21 have been set at the same level as the current capital programme.

3.2. Executive members have now prepared proposals for:

- a locally resourced capital programme for the three-year period from 2018/19 to 2020/21 within the guidelines set and other resources available to services
- a programme of schemes supported by Government capital grants.

3.3. 'Locally resourced' schemes are those financed from the County Council's own resources such as capital receipts, contributions from the revenue budget, prudential borrowing, reserves and other funds. They do not include schemes supported by capital grant from the Government.

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

4. Capital Financing

4.1. The size of the capital programme takes account of forecast financing resources and the forecast level of capital expenditure (or 'payment') flows to be financed each year.

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

- Government capital grants – the Government has issued all of its support for local authorities' capital expenditure from 2011/12 onwards in the form of capital grants and not as borrowing allocations
- prudential borrowing – loans that the County Council may decide to raise in the knowledge that it will have to meet the principal repayment and interest charges from its own resources without any additional support from the Government. The County Council would need to consider the impact of such loans on the revenue budget and prudential indicators
- contributions from other bodies, which can include developers, the health service, other local authorities and the national lottery
- capital receipts from the sale of land, buildings and other assets
- contributions from the revenue budget including those held in the capital reserve and departmental reserves.

4.3. Appendix 2 includes details of the planned sources of funding to meet the forecast capital payments in each year. The forecasts are likely to change as schemes within the programme progress and the position will be reassessed at the next review of the capital programme.

4.4. Progress during the remainder of 2017/18 and throughout 2018/19 on all capital payments and resources will be closely monitored and reported to the Leader during the year. Executive members will also review progress on their capital programmes at regular intervals during the year.

4.5. Appendix 2 also includes details of the longer term implications of the proposed programmes for the revenue budget from any increased running costs and capital charges.

5. Prudential borrowing

5.1. Prudential borrowing agreed to date and now proposed is in accordance with the framework for the use of prudential borrowing under the Prudential Code for Capital Finance.

5.2. The planned prudential borrowing will total £312 million, after deducting repayments to 31 March 2017. Of this, £198 million is being repaid from savings in the revenue budget, including the schemes from earlier years for the Enhance nursing care homes project, waste management infrastructure and the structural maintenance of highways, together with the prudential borrowing necessary to support the additions to the capital programme from 2012/13 onwards agreed in February 2012.

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

6. Capital programmes proposed by Executive Members

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

7. Guideline cash limits for the capital programme

7.1. The guidelines for the locally resourced programme were set by Cabinet in December 2017 based on existing levels with no uplift for inflation. The guidelines and subsequent transfers to or from revenue proposed by Executive Members and other adjustments are shown in table 2.

Table 2 – Guidelines for locally resourced capital programmes

	2018/19	2019/20	2020/21	Total
	£'000	£'000	£'000	£'000
Adult Services original guideline	481	481	481	
Adult Services total	**481**	**481**	**481**	**1,443**
Children's Services original guideline	100	100	100	
Developers' and other contributions	7,235	31,462	24,807	
Carry forward to later years	-182	24,000	25,551	
Children's Services total	**7,153**	**55,562**	**50,458**	**113,173**
Environment and Transport	11,929	11,929	11,929	
Prudential borrowing subject to conditions previously agreed by Cabinet	8,500	6,000		
Developers' and other contributions	21,713	10,123	2,627	
Contribution from reserve	365			
Carry forward from previous years	4,449			
Environment and Transport total	**46,956**	**28,052**	**14,556**	**89,564**
Policy and Resources original guideline	4,692	4,692	4,692	
Contribution from business unit reserves	600			
Policy and Resources total	**5,292**	**4,692**	**4,692**	**14,676**
TOTAL	**59,882**	**88,787**	**70,187**	**218,856**

8. Government supported programme

8.1. The present Government has so far issued all its support for local authorities' capital expenditure in the form of capital grants and not as borrowing allocations. It is expected to continue that arrangement for 2018/19 onwards.

8.2. As mentioned earlier, the Government has announced details of individual local authority capital allocations for 2018/19 and 2019/20 for Basic Need. The Basic Need allocation for 2018/19 is £28.4 million and zero for 2019/20 reflecting the Government's assessment of the requirement and delivery of school places. There is the potential for a zero or low capital allocation in 2020/21 as the DfE assess the impact of the free school places they directly fund. At this stage, it is considered prudent to assume a zero allocation; further capital announcements by the Government are expected in March 2018. In addition, the 2018/19 proposed programme assumes £40.7 million Government funding for new Free schools.

8.3. Government funding for the School Condition Allocation (SCA) and for Devolved Formula Capital (DFC) for schools is expected to continue at the 2017/18 levels, £17.5 million and £3.35 million respectively. In addition, national funding of £215m has been announced by the DfE to support special educational needs and disability (SEND) projects at existing schools for which the County Council will receive £3.786m over the three financial years of this report.

8.4. The Department for Transport (DfT) has confirmed the Integrated Transport Block (ITB) and Structural Maintenance allocations for 2018/19 and for planning purposes, these grants are assumed to continue at a similar level in the two subsequent years of this programme. Together with the Pothole funding, Local Growth Funding (LGF) and the Highways England Housing and Growth Funding and Congestion Relief Funding, the proposed programme is based on £175 million Government grant for highways and transport over the three years.

8.5. From 2016/17, the Government has discontinued the Social Care capital grant and increased the Disabled Facilities Grant. This funding, £10.7 million for 2018/19, forms part of the Better Care Fund – Pooled budget which is overseen by the Hampshire Health and Wellbeing Board.

9. The programmes submitted

9.1. The total starts value of the three-year programme submitted by Executive Members is £540 million, as shown in Table 3. It includes £321 million of schemes supported by Government grants.

Table 3 - Starts programmes proposed 2018/19 to 2020/21

	Land	Works etc			Total
		Locally Resourced	Supported by Govt Allocations	Total	
	£'000	£'000	£'000	£'000	£'000
2018/19	646	59,236	194,659	253,895	254,541
2019/20	646	88,141	74,420	162,561	163,207
2020/21	646	69,541	52,150	121,691	122,337
Total	1,938	216,918	321,229	538,147	540,085

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

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

10. Children's Services

10.1. The proposed three year programme provides sufficient school places to meet the forecast demand. During the period 2013 to 2017 the County Council will have delivered 8,088 new school places with projects contained within the 2018/19 to 2020/21 programme totalling a further 10,472 giving a total of 18,560 new school places by September 2021.

10.2. The current presumption (by the DfE) is that every new school will be an academy/free school. Hampshire's first free school, to meet the demand for additional school places, is scheduled to open in Botley in September 2019. Feasibility work is on-going for a further five to open by September 2021.

10.3. The proposed programme includes other improvement and modernisation projects relating to access to schools, special educational needs accommodation, relocation and replacement of children's homes, adaptations to properties of foster carers and disabled children and schools' devolved formula capital totalling £40 million over three years.

10.4. To manage the demand for schemes and the resources available, the Executive Lead Member for Children's Services proposes to carry forward resources between the years of the capital programme.

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

10.6. A number of variations to the 2017/18 capital programme are proposed. This includes the deferral to 2018/19 three schemes totalling £11.369 million as it will not be possible to start the schemes during 2017/18. In many cases this is due to the need to obtain the necessary statutory approvals and sometimes as a result of changes in the scope, brief or programming of projects. The Executive Member proposes to use unallocated resources within the 2017/18 capital programme to increase the total value of schemes at Kings Furlong Infant and Junior Schools (£0.9 million including fees) and also at Oakwood Infant and Greenfield Junior Schools (£0.8 million including fees) owing to difficult ground conditions, structural and site issues. It is also proposed to transfer to the revenue budget £0.511 million revenue contributions originally intended for early years capital projects as these projects can instead be funded from contingency in the capital programme.

11. Environment and Transport

11.1. Proposals of the Executive Member for Environment and Transport amount to just over £264 million over the next three years. The programme includes £120 million of new investment in structural maintenance, £133 million in the Integrated Transport programme and £11 million in flood and coastal defence projects.

11.2. Government grants make up the bulk of the funding, with formula settlements and project specific grants, e.g. Local Growth Funding (LGF) through the Local Enterprise Partnerships (LEPs) (£175.1 million). The remainder is funded from a mix of local resources, (£55.1million), developer contributions (£33.1million), and other local authority contributions (£1.25million).

11.3. The Flood Risk and Coastal Defence programme includes two major infrastructure schemes that are scheduled to start construction in 2018/19. These are Buckskin in Basingstoke and Romsey Flood Alleviation Schemes. Detailed design and business cases prepared for both schemes have unlocked significant amounts of funding from Flood Defence Grant in

Aid and Local Levy. It is planned that further schemes from the Flood Risk and Coastal Defence programme will be brought forward for delivery in 2019/20 and 20/21 as business cases are approved.

11.4. The 2017/18 programme includes the £11.6million Basingstoke A30 Corridor schemes: Winchester Road Roundabout and Thornycroft Roundabout. Following agreement with the Enterprise M3 LEP and as notified in the January 2017 Capital Programme Monitoring report, £0.59million identified as no longer being required for the Winchester Road scheme will be reinvested in the adjacent Thornycroft Roundabout scheme. In addition, since January 2017, further savings have been made on the Winchester Road scheme, and it is proposed that a virement of £0.73million be made from the Winchester Road scheme to the Thornycroft scheme. This will result in revised scheme values of £2.68m (Winchester Road) and £8.92million (Thornycroft).

12. Policy and Resources

12.1. The proposed capital programme for Policy and Resources totalling £67.3 million, is largely based on the priorities for capital investment established in previous years, relating to the County Council's built estate, IT infrastructure and community buildings and village halls.

12.2. As agreed by Cabinet in December 2015, a number of maintenance programmes have been moved to the Policy and Resources revenue budget, as much of the work carried out does not meet the accounting definition of capital expenditure. The original source of funding for these schemes is revenue and so they can be combined with the revenue repairs and maintenance budgets.

12.3. The School Condition Allocation (formerly Capital Maintenance) was previously split between the Children's Services and Policy and Resources programmes to reflect a split between suitability and condition work. From 2016/17, the full grant is included in the Policy and Resources programme to allow the funding to be managed flexibly between condition and suitability works. Officers from Children's Services and Property Services will continue to work closely together to identify the highest priority strategic building condition issues along with the need for modernisation improvements.

12.4. The Executive Member for Policy and Resources proposes to supplement the 2018/19 locally resourced guideline set by Cabinet to incorporate investment of £0.6 million to refurbish vehicle workshops run by Hampshire Transport Management (HTM). This will be funded by transfers from earmarked HTM reserves which have been built up for this purpose.

13. Adult services

13.1. Following investment of £45 million in Extra-Care Housing as part of the capital review in 2014, the proposed programme for Adults Services now returns to a level of £0.481 million per year. This will be used for priority works on residential and nursing care premises to meet the needs of residents and service users and satisfy the requirements of regulators including the Care Quality Commission, The Fire Service and the Health and Safety Executive.

13.2. In addition, projects within the revised capital programme for 2017/18 will continue to support the transformation of the Adult Learning Disability Service and also the housing programme for Adults with a disability which aims to transition around 600 service users with a learning and/or physical disability from an existing care home setting to a shared house or individual groups of flats.

13.3. From 2016/17, the Government has discontinued the Social Care capital grant and increased the Disabled Facilities Grant. This funding forms part of the Better Care Fund – Pooled budget which is overseen by the Hampshire Health and Wellbeing Board.

13.4. Disabled facilities grant (DFG) of £10.694 million is capital money made available to local authorities as part of their allocations to award grants for changes to a person’s home. There is a statutory duty for local housing authorities to provide grants to those who qualify. This part of the fund will be governed by the disabilities facilities grant conditions of grant usage as made by the Department for Communities and Local Government (DCLG) under section 31 of the Local Government Act 2003. Therefore, although officially part of the fund, the money cannot be used for other things and will be paid back out of the fund to the relevant district councils.

14. Capital Investment Priorities

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

14.2. Whilst this has limited the ability to add significant numbers of new schemes to the Capital Programme, it has not diminished the need for new investment across a range of services within the County Council.

14.3. The Corporate Infrastructure Group (CIG) is chaired by the Director of Economy, Transport and Environment and includes representatives from his Department, together with officers from Children’s, Adults’ and Property Services. The aim of the group is to ensure a co-ordinated approach to capital investment and major developments across the County Council.

14.4. During 2017 the CIG was tasked with collating capital investment priorities across Departments, albeit that no specific additional funding had been identified at this stage. It was considered important that there was a good corporate understanding of the key capital investment priorities to aid future planning in this area.

14.5. Following submissions from Departments, a paper was considered by the Corporate Management Team around a strategy for dealing with the priorities that had been identified and this is explained in more detail in the Revenue Budget report presented elsewhere on this Agenda.

14.6. The immediate capital priorities that are recommended to be added to the capital programme are outlined in Appendix 4 and total £21.580 million. Existing funding of £5.8 million is already contained within the approved capital programme leaving a balance of £15.780 million which can be met as follows :

	£m
Historic unearmarked grants	7.000
Historic unearmarked capital receipts	3.654
Current unearmarked capital receipts	5.126
	15.780

14.7. The schemes outlined in Appendix 4 have not yet been added to the detailed capital programmes contained in Appendix 3 pending approval by County Council but will be incorporated should they be approved.

15. Conclusions

15.1. Executive Members have proposed capital programmes for the next three years in line with the Corporate Strategy and County Council priorities. The locally resourced guidelines set by Cabinet in December 2017 have been adjusted by transfers to revenue, transfers between portfolios and between programme years and supplemented by Government grants of £321 million, giving a total programme for the next three years of £540 million.

15.2. Regular monitoring will take place during the year on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2018/19 and the progress on obtaining the capital receipts necessary to finance the capital programme.

15.3. The exercise to identify capital investment priorities across Departments has led to the development of a broader strategy in respect of those priorities and has also led to the addition of a number of smaller high priority capital schemes to the programme.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
http://democracy.hants.gov.uk/documents/s9665/Budget%20Report.pdf	11 December 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:**

Equalities impact will be assessed as part of each project design as they are developed.

2. Impact on Crime and Disorder:

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

3. Climate Change:

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

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

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

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

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

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

Capital Programmes 2018/19 to 2020/21 proposed by Executive Members

1 Summary of the proposed programmes

1.1 The proposed three-year programme of £540 million can be reconciled with the cash limit guidelines, as Table 4 shows.

Table 4 – Capital programme 2018/19 to 2020/21 – funding sources

	£000
Guideline for the three-year locally resourced programme	51,606
Prudential borrowing	14,500
Adjusted locally resourced guidelines	66,106
Use of capital receipts, developers' contributions, reserves, etc	
- Children's Services	63,504
- Environment and Transport	34,828
- Policy and Resources	600
Total funding from local resources	165,038
Resources carried forward from previous years	
- Children's Services	49,369
- Environment and Transport	4,449
Government support	
- Capital grants	321,229
Total programme 2018/19 to 2020/21	540,085

Capital Expenditure Flows and Financing Resources 2017/18 to 2020/21

1 Capital expenditure flows

1.1 The level of capital expenditure (or ‘payment’) flows is one of the factors taken into account in determining the size of the capital starts programme, together with forecasts of financing resources.

1.2 Expenditure flows in 2017/18 and the following three years will result from works in progress (schemes started in 2017/18 and earlier years) plus those arising from the proposed programme for 2018/19 to 2020/21, as Table 5 below shows.

Table 5 – Capital expenditure flows

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Works in progress at 31 March 2017 and schemes starting in 2017/18	237,515	155,110	89,091	34,360
Programmes starting in 2018/19, 2019/20 and 2020/21	0	127,249	178,021	165,315
Land acquisition	559	646	646	646
Total expenditure flows	238,074	283,005	267,758	200,321

1.3 In practice, expenditure flows in the years after 2017/18 may vary from those shown in Table 5 if further developer and other external contributions become available to fund additional capital schemes, or if the levels of Government support differ from those currently assumed.

2 Resources available for capital financing

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

Table 6 - Resources to fund capital expenditure

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Prudential borrowing	38,664	46,561	45,656	31,104
less repayments from capital	-10,199	-11,415	-9,957	-9,624
Capital grants	104,624	134,720	175,098	147,370
Contributions from other bodies including developers	46,601	64,373	56,933	31,542
Capital receipts	5,880	12,097	8,198	3,553
Contributions from reserves	558	0	0	0
Revenue contributions to capital *	10,937	10,582	8,215	7,582
New resources in the year	197,065	256,918	284,143	211,527
Use of the capital reserve:				
added to the reserve (-), or			-16,385	-11,207
taken from the reserve (+)	41,009	26,087		
Total resources available	238,074	283,005	267,758	200,320

* Including additions agreed by Executive Members in January 2017

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

3 Capital reserve

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

Table 7 – Capital reserve

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Opening balance	126,075	85,066	58,979	75,364	86,571
Used in year	-41,009	-26,087			
Added in year			16,385	11,207	24,479
Closing balance	85,066	58,979	75,364	86,571	111,050

4 Revenue implications

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

Table 8 – Revenue effects

	Running costs £000	Capital charges £000	Total £000
2018/19 starts	1,238	7,988	9,226
2019/20 starts	563	5,553	6,116
2020/21 starts	62	3,676	3,738
Total	1,863	17,217	19,080

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

4.3 Although the capital charges in Table 8 do not affect the County Council's overall expenditure, it will be increased by the capital financing costs on the loans raised to finance the programme. The full year revenue impact of the additional prudential borrowing over the proposed three-year programme will be £5.2 million.

5 Debt outstanding

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

Table 9 – Debt outstanding

	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Debt outstanding at the beginning of the year	756.0	772.2	791.2	809.0	810.3
New borrowings	38.7	46.6	45.7	31.1	14.0
Repayments from:					
- the revenue account	(13.8)	(16.2)	(18.1)	(20.1)	(28.2)
- capital receipts and developers' contributions	(8.6)	(11.4)	(9.8)	(9.6)	(5.6)
Debt outstanding at the end of the year	772.3	791.2	809.0	810.4	790.5

5.2 As the table shows, the amount of debt outstanding will increase by 2020/21 and then decrease.

6 Prudential borrowing

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

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

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

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

Table 10 – Prudential borrowing

	Borrowing £000	Repaid to date £000	Future repayments £000	Net total £000
2004/05 actuals to 2009/10	132,643	-29,648	-	102,995
2010/11 actuals	22,294	-7,851	-	14,443
2011/12 actuals	15,628	-27,558	-	-11,930
2012/13 actuals	13,078	-35,548	-	-22,470
2013/14 actuals	18,981	-1,730	-	17,251
2014/15 actuals	14,124	-5,147	-	8,977
2015/16 actuals	19,099	-5,088	-	14,011
2016/17 actuals	16,280	-4,041	-	12,239
2017/18 estimate	38,664	-	-10,199	28,465
2018/19 estimate	46,561	-	-11,415	35,146
2019/20 estimate	45,656		-9,957	35,699
2020/21 estimate	31,104		-9,624	21,480

Table 10 – Prudential borrowing

	Borrowing	Repaid to date	Future repayments	Net total
	£000	£000	£000	£000
2021/22 estimate	14,009		-5,576	8,433
Total	428,121	-116,611	46,771	264,739
	311,510			

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

Table 11 – Summary of outstanding and planned prudential borrowing advances

	£000
Financed from savings in the revenue budget	198,478
'Bridging' loans on specific projects to be repaid from capital receipts and developer contributions	78,619
Capital investment to be financed from future charges to services	34,413
Total	311,510

6.5 The 'bridging loans' in advance of capital receipts or developers' contributions are expected to be fully repaid by 2022/23. In addition to these lump sum repayments, £198.5 million of the prudential borrowing will be repaid from savings in the revenue budget, including the Enhance nursing care homes, waste management infrastructure and structural maintenance of highways.

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

Adult Services **Capital Programme - 2018/19**

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing**	
	2018/19 Schemes											
	Schemes Supported from Local Resources											
1	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26	N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	1
2	Disabled Facilities Grants	-	-	10,694	10,694	-	-	N/A	1	12	Grant paid to district councils to fund adaptions to people's homes	2
	Total Programme	241	40	10,894	11,175	-	26					
											+ Projects to be partly funded from external contributions.	

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing**	
	2019/20 Schemes											
	Schemes Supported from Local Resources											
3	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26	N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	3
	Total Programme	241	40	200	481	-	26					
											+ Projects to be partly funded from external contributions.	

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing**	
	2020/21 Schemes											
	Schemes Supported from Local Resources											
4	Maintaining Operational Buildings including Residential and Nursing Care	241	40	200	481	-	26	N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	4
	Total Programme	241	40	200	481	-	26					
											+ Projects to be partly funded from external contributions.	

Appendix 3

Children's Services **Capital Programme - 2018/19**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2018/19 Schemes											
	Children's Social Care											
1	Children's Homes	1,067	176	-	1,243	-	25	Owned	Various	Various	Improvements to Children's Homes.	1
2	Foster Carers	86	14	-	100	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary.	2
3	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	3
	Primary School Improvements											
4	Bursledon Junior, West End	339	56	-	395	-	8	Owned	2	12	1 classroom expansion	4
5	Castle Hill Primary, Basingstoke	3,013	497	-	3,510	-	70	Owned	2	12	expansion to two form entry	5
6	Church Crookham Junior, Fleet	1,288	212	-	1,500	-	30	Owned	2	12	expansion to six form entry	6
7	Kings Copse Primary, Hedge End	1,717	283	-	2,000	-	40	Owned	2	12	expansion to 1.5 form entry	7
8	Northern Junior, Portchester	343	57	-	400	-	8	Owned	2	12	2 classroom extension	8
9	Petersgate Infant, Clanfield	1,471	243	-	1,714	-	34	Owned	2	12	expansion to three form entry	9
10	Whitchurch CE Primary, Basingstoke	1,777	293	-	2,070	-	41	Owned	2	6	expansion to 2.5 form entry	10
	New Primary School Provision											
11	Barton Farm Primary, Winchester	8,219	1,356	-	9,575	-	-	Neg.	2	12	New two form entry primary school to meet housing demand.	11
12	Boorley Park Primary, Botley	4,932	814	-	5,746	-	-	Neg.	2	12	New two form entry primary school to meet housing demand.	12
	Secondary School Improvements											
	New Secondary School Provision											
13	Deer Park School, Hedge End	18,438	3,042	-	21,480	-	-	Owned	2	24	New seven form entry secondary school	13
14	**Special School Improvements**	1,942	320	-	2,262	-	45	Owned	Various	Various	Rebuild and refurbishment of special schools.	14
	New Special School Provision											
15	Chineham Park, Basingstoke	11,588	1,912	-	13,500	-	0	Owned	2	24	New 125 place special school	15
											# controlled on an accrued expenditure basis	

Children's Services — **Capital Programme - 2018/19**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2018/19 Schemes (continued)										**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
16	**Other Improvement Projects**	1,717	283	-	2,000	-	40		Various	Various	Various projects to meet identified needs.	16
17	Purchase of modular classrooms	1,852	148	-	2,000	-	67		Various	Various	Various projects to be identified.	17
18	Health and Safety	343	57	-	400	-	8		Various	Various	Improvements to address health and safety issues.	18
19	Schools Devolved Capital	3,350	-	-	3,350	-	67		Various	Various	Allocations to schools through devolved formula capital.	19
20	Access Improvements in Schools #	429	71	-	500	-	10		Various	Various	Improvements to school's buildings to improve accessibility.	20
21	Furniture and Equipment #	-	-	250	250	-	25		Various	Various	Provision of furniture and equipment for capital schemes.	21
22	Contingency	5,685	938	-	6,623	-	132		Various	Various	Provision for cost of increases arising from inflation.	22
	Total Programme	69,595	10,773	500	80,868	-	675					

controlled on an accrued expenditure basis

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2019/20 Schemes											
	Children's Social Care											
23	Foster Carers	86	14	-	100	-	0	N/A	Various	Various	Improvements to foster carers' homes where necessary.	23
24	Adaptation Equipment	0	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	24
	Primary School Improvements											
25	Bordon Infant & Junior, East Hants	2,953	487	-	3,440	-	69	Owned	2	12	expansion to three form entry	25
26	Colden Common Primary, Winchester	1,545	255	-	1,800	-	36	Owned	2	12	expansion to two form entry	26
27	Four Marks CE Primary, Alton	1,777	293	-	2,070	-	41	Owned	2	12	expansion to two form entry	27
	New Primary School Provision											
28	Cornerstone CE (aided) Primary, Whiteley	10,987	1,813	-	12,800	-	-	Neg.	2	12	New three form entry primary school to meet housing demand.	28
29	Chestnut Avenue Primary, Eastleigh	5,322	878	-	6,200	-	-	Neg.	2	12	New 1.5 form entry primary school to meet housing demand.	29
	Secondary School Improvements											
30	Calthorpe Park, Fleet	7,880	1,300	-	9,180	-	184	Neg.	2	12	expansion to twelve form entry	30
31	Henry Beaufort, Winchester	3,605	595	-	4,200	-	84	Neg.	2	12	expansion to seven form entry	31
32	Wyvern Secondary, Fair Oak	1,888	312	-	2,200	-	-	Neg.	2	12	STP & classroom re-modelling	32
33	**Special School Improvements**	1,942	320	-	2,262	-	45	Owned	Various	Various	Rebuild and refurbishment of special schools.	33
34	**Other Improvement Projects**	1,717	283	-	2,000	-	40	Owned	Various	Various	Various improvements to meet identified needs.	34
35	Purchase of modular classrooms	1,852	148	-	2,000	-	67	N/A	Various	Various	Various projects to be identified.	35
36	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues.	36
37	Schools Devolved Capital	3,350	-	-	3,350	-	67	N/A	Various	Various	Allocations to schools through devolved formula capital.	37
38	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school's buildings to improve accessibility.	38
39	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes.	39
											# controlled on an accrued expenditure basis	

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

Ref	Project	Construction Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	***£'000***	***£'000***	***£'000***	***£'000***	***£'000***		***Qtr***	***Months***	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2019/20 Schemes (continued)											
40	Contingency	6,156	1,016	-	7,172	-	143	N/A	Various	Various	Provision for cost of increases arising from inflation.	40
												-
	Total Programme	51,832	7,842	500	60,174	-	844					-
												-
												-
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												-
												-
												-
										# controlled on an accrued expenditure basis	

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
	2020/21 Schemes											
	Children's Social Care											
41	Foster Carers	86	14	-	100	-	0	N/A	Various	Various	Improvements to foster carers' homes where necessary.	41
42	Adaptation Equipment	0	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	42
	Primary School Improvements											
43	Four Lanes Infant & Junior, Basingstoke	4,292	708	-	5,000	-	100	Owned	2	12	expansion to four form entry	43
44	Hamble Primary, Hamble	1,717	283	-	2,000	-	40	Owned	2	12	expansion to 1.5 form entry	44
45	Morelands Primary, Havant	1,717	283	-	2,000	-	40	Owned	2	12	expansion to two form entry	45
46	Overton Primary, Basingstoke	1,717	283	-	2,000	-	40	Owned	2	12	expansion to 2.5 form entry	46
47	Rownham St Johns CE Primary	473	78	-	551	-	11	Owned	2	10	expansion to 1.5 form entry	47
48	Sun Hill Infant & Junior, Winchester	3,433	567	-	4,000	-	80	Owned	2	12	expansion to three form entry	48
	New Primary School Provision											
49	Hazelton Farm, Horndean	4,155	685	-	4,840	-	-	Owned	2	12	New one form entry primary school to meet housing demand.	49
50	Manydown Primary, Basingstoke	6,721	1,109	-	7,830	-	-	Owned	2	12	New two form entry primary school to meet housing demand.	50
51	Welborne Primary, Fareham	6,721	1,109	-	7,830	-	-	Owned	2	12	New two form entry primary school to meet housing demand.	51
52	**Special School Improvements**	1,942	320	-	2,262	-	45	Owned	Various	Various	Rebuild and refurbishment of special schools.	52
53	**Other Improvement Projects**	1,717	283	-	2,000	-	40	Owned	Various	Various	Various projects to meet identified needs.	53
54	Purchase of modular classrooms	1,852	148	-	2,000	-	67	N/A	Various	Various	Various projects to be identified.	54
55	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues.	55
56	Schools Devolved Capital	3,350	-	-	3,350	-	67	N/A	Various	Various	Allocations to schools through devolved formula capital.	56
57	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school buildings to improve accessibility	57
58	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes.	58
												-
												-
											# controlled on an accrued expenditure basis	

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2020/21 Schemes (continued)										**All schemes support the Corporate Priority of maximising wellbeing and the Children and Young People's Plan**	
59	Contingency	6,787	1,120	-	7,907	-	158	N/A	Various	Various	Provision for cost of increases arising from inflation.	59
	Total Programme	47,451	7,119	500	55,070	-	756					

controlled on an accrued expenditure basis

Appendix 3

Economy, Transport and Environment — **Capital Programme - 2018/19**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2018/19 Schemes										**The following schemes all reflect the Corporate Priorities**	
	Schemes Supported from Local Resources											
1	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	591	N/A	1	12	Structural maintenance to improve road conditions.	1
2	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies.	2
	Total Programme Supported by Local Resources	10,729	1,200	-	11,929	-	593					
	Schemes Supported by the Government and Other External Bodies											
3	M27 Junction 9 & R1 Roundabout, Whiteley, Fareham +	14,817	4,939	-	19,756	-	988	N/A	3	18	Junction improvements. Capacity improvements.	3
4	Stubbington Bypass +	25,500	8,500	-	34,000	-	1,700	N/A	1	24	New road construction.	4
5	Whitehill Bordon, A325 Integration Phase 1 - Gateways +	862	288	-	1,150	-	58	N/A	1	6	Improvement of connectivity between the east and west of the town.	5
6	A33/Thornhill Way Junction Improvement, Basingstoke +	945	315	-	1,260	-	63	N/A	3	4	Junction improvements and capacity enhancements.	6
7	A30 Thornycroft Roundabout Improvements, Basingstoke +	6,690	2,230	-	8,920	-	446	N/A	4	12	Full signalisation and widening of roundabout to improve capacity and accessibility.	7
8	Bus Rapid Transport Phase 1B +	5,272	1,758	-	7,030	-	352	N/A	2	20	Dedicated busway	8
9	Redbridge Lane Roundabout (Bakers Drove), Nursling *	1,875	625	-	2,500	-	125	N/A	2	9	Junction improvements	9
10	Romsey Town Centre Improvements Phase 3 - Market Place +	1,198	399	-	1,597	-	80	N/A	1	4	Improvements to the public realm.	10
11	Popley Area Improvements, Basingstoke *	195	65	-	260	-	13	N/A	1	2	Improvements around Abbey Road and Shakespeare Road.	11
12	A3090 Winchester Road/ Halterworth Lane, Romsey *	430	144	-	574	-	29	N/A	3	4	Junction improvements	12
13	Access to Aldershot Railway Station +	251	84	-	335	-	17	N/A	2	3	Accessibility improvements	13

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

Economy, Transport and Environment — **Capital Programme - 2018/19**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2018/19 Schemes (continued)										**The following schemes all reflect the Corporate Priorities**	
14	Over Wallop Village - Traffic Management, Phase 2 *	249	83	-	332	-	17	N/A	1	3	Traffic calming and reclassification of road.	14
15	Romsey Road/Clifton Terrace, Winchester - Pedestrian Crossing *	361	120	-	481	-	24	N/A	1	3	A new puffin crossing, footways improvements, revised junction.	15
16	Horndean Access Improvements *	337	113	-	450	-	23	N/A	3	3	Pedestrian/cycle & accessibility improvements, traffic management	16
17	Bishops Waltham Village Access Improvements *	203	68	-	271	-	14	N/A	4	6	Accessibility improvments.	17
18	Whitchurch Access & Traffic Management *	291	97	-	388	-	19	N/A	4	3	Accessibility improvments.	18
19	Anstey Road, Alton Improvements *	225	75	-	300	-	15	N/A	2	3	Junction and accessibility mprovements	19
20	Hook to Dilly Lane, Hartley Wintney Cycle Route *	334	111	-	445	-	22	N/A	3	4	New cycle route and conversion of footway	20
21	Four Marks Traffic Improvements *	487	163	-	650	-	33	N/A	3	6	Improvements to key junctions onto A31.	21
22	Town Mill, Andover Improvements +	637	213	-	850	-	43	N/A	3	6	Moving entrace to Town Mills, cyclist/pedestrian accessibility improvements.	22
23	Hayling Island (South Side) Accessibility Improvements *	351	117	-	468	-	23	N/A	3	3	Pedestrian, cycling and accessibility improvements.	23
24	Andover Railway Station *	244	81	-	325	-	16	N/A	4	3	Accessibility and environmental improvements.	24
25	Roman Way/Viking Way/Smanell Road Traffic Calming, Andover *	225	75	-	300	-	15	N/A	3	3	Accessibility improvements.	25
26	A27 Barnes Lane Junction, Fareham *	487	163	-	650	-	33	N/A	4	6	Junction improvements.	26
27	Jermyns Lane to Braishfield, Romsey *	262	88	-	350	-	18	N/A	2	3	New footway	27
28	Kings School, Winchester *	225	75	-	300	-	15	N/A	2	3	Accessibility improvements	28
29	Schemes Costing Less than £250,000 +	1,666	556	-	2,222	-	113	N/A				29
30	Safety Schemes #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty reduction programme.	30
31	Minor Improvements (part #) +	563	187	-	750	-	38	N/A	1	12	Improvement schemes costing less than £50,000 each.	31
											# Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded	

Economy, Transport and Environment

Capital Programme - 2018/19

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2018/19 Schemes (continued)										**The following schemes all reflect the Corporate Priorities**	
32	Community Transport	-	-	365	365	-	4	N/A	1	12	Vehicle replacements for Community Transport Schemes	32
33	Flood Alleviation - Buckskin, Basingstoke	5,179	1,061	-	6,240	-	100	N/A	1	12	Flood alleviation measures at Buckskin, Basingstoke	33
34	Flood Alleviation - Romsey	3,752	768	-	4,520	-	72	N/A	1	7	Flood alleviation measures, Romsey	34
35	Structural Maintenance of Roads and Bridges #	25,382	2,820	-	28,202	-	1,410	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	35
	Total Programme Supported by the Government and other bodies	100,624	26,752	365	127,741	1,238	6,013					
	Total Programme				139,670	1,238	6,606					

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

Appendix 3

Economy, Transport and Environment

Capital Programme - 2019/20

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes										**The following schemes all reflect the Corporate Priorities**	
	Schemes Supported from Local Resources											
36	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	591	N/A	1	12	Structural maintenance to improve road conditions.	36
37	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with	37
	Total Programme Supported by Local Resources	10,729	1,200	-	11,929	-	593					
	Schemes Supported by the Government and Other External Bodies											
38	Whitehill Bordon - Sleaford Lights Junction *	750	250	-	1,000	-	50	N/A	1	6	Junction improvements.	38
39	Farnborough Corridor Improvements *	6,525	2,175	-	8,700	-	435	N/A	3	24	Junction and capacity improvements along the whole corridor.	39
40	Botley Bypass Phase1	4,500	1,500	-	6,000	-	300	N/A	4	24	New road construction.	40
41	Whitehill Bordon, A325 Integration - Phase2 +	2,137	713	-	2,850	-	143	N/A	1	18	Improvement of connectivity between the east and west of the town.	41
42	A30 Corridor Roundabout Improvements, Basingstoke +	14,121	4,707	-	18,828	-	941	N/A	3	24	Roundabout improvements	42
43	High Street, West End Accessibiltiy Improvements *	187	63	-	250	-	13	N/A	2	3	Pedestrian accessibility improvements	43
44	Schemes Costing Less than £250,000 *	236	79	-	315	-	16	N/A				44
45	Safety Schemes #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty reduction programme.	45
46	Minor Improvements (part #) +	563	187	-	750	-	38	N/A	1	12	Improvement schemes costing less than £50,000 each.	46
47	Structural Maintenance of Roads and Bridges #	25,382	2,820	-	28,202	-	1,410	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	47
	Total Programme Supported by the Government and other bodies	55,527	12,868	-	68,395	563	3,421					
	Total Programme				80,324	563	4,014				# Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded	

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2020/21 Schemes										**The following schemes all reflect the Corporate Priorities**	
	Schemes Supported from Local Resources											
48	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	591	N/A	1	12	Structural maintenance to improve road conditions.	48
49	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with	49
	Total Programme Supported by Local Resources	10,729	1,200	-	11,929	-	593					
	Schemes Supported by the Government and Other External Bodies											
50	Walworth RAB/A3093/A3057, Andover	637	213	-	850	-	43	N/A	2	6	Roundabout signalisation and pedestrian/cycle improvements	50
51	Sustainable Eastern Access, Andover	525	175	-	700	-	35	N/A	3	6	Sustainable access improvements to Andover town centre.	51
52	London Road/Eastern Avenue, Andover	229	77	-	306	-	15	N/A	1	6	Junction improvements, signalisation, bus priority measures.	52
53	London Road/The Middleway, Andover	241	80	-	321	-	16	N/A	1	6	Safety improvments.	53
54	Safety Schemes #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty reduction programme.	54
55	Minor Improvements (part #) +	563	187	-	750	-	38	N/A	1	12	Improvement schemes costing less than £50,000 each.	55
56	Structural Maintenance of Roads and Bridges (part #)	25,382	2,820	-	28,202	-	1,410	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.	56
	Total Programme Supported by the Government and other bodies	28,703	3,926	-	32,629	62	1,632					
	Total Programme				44,558	62	2,225					

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

Appendix 3

Policy and Resources

Capital Programme - 2018/19

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2018/19 Schemes										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported from Local Resources											
	Culture, Communities and Business Services											
1	Office Accommodation Schemes	350	58	-	408	-	8	N/A	-	-	Various schemes throughout the County	1
2	Vehicles for Hampshire Transport Management #	-	-	3,000	3,000	-	300	N/A	-	-	Continuing programme of replacing vehicles	2
3	Hampshire Transport Management Vehicle Workshop	515	85	-	600	-	12	N/A	-	-	Refurbishment of Petersfield HTM vehicle workshop	3
4	Community Buildings and Village Halls	-	-	125	125	-	-	Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	4
5	CCBS Minor Works	328	-	-	328	-	7	N/A	1	12	Provision of minor works across the department including Library and Countryside services	5
	Corporate Services											
6	Contingency	185	-	-	185	-	3	N/A	-	-		6
	Total Programme Supported by Local Resources	1,378	143	3,125	4,646	-	330					

controlled on an accrued expenditure basis

Appendix 3

Policy and Resources | **Capital Programme - 2018/19**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2018/19 Schemes (continued)										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported by the Government											
	Schools Condition Allocation (SCA)											
7	Alderwood School, Aldershot	800	132		932	-	19	Owned	1	9	ROSLA block thermal upgrading, roof recovering and recladding	7
8	Applemore School, Dibden Purlieu	900	148		1,048	-	21	Owned	1	8	ROSLA block thermal upgrading, roof recovering and recladding	8
9	Westgate School, Winchester	900	148		1,048	-	21	Owned	1	9	SCOLA recladding and window replacement	9
10	Schools Condition Allocation (costing less than £250,000)	12,453	2,055	-	14,508	-	290	Owned	-	-	Major improvements to school buildings	10
	Total Schemes Supported by the Government	15,052	2,484	-	17,536	-	351					
	Total Excluding Land				22,182	-	681					
	Advance and Advantageous Land Purchases				646	-	-					
	Total Programme				22,828	-	681					

Appendix 3

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

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2019/20 Schemes										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported from Local Resources											
	Culture, Communities and Business Services											
11	Office Accommodation Schemes	350	58	-	408	-	8	N/A	-	-	Various schemes throughout the County	11
12	Vehicles for Hampshire Transport Management #	-	-	3,000	3,000	-	300	N/A	-	-	Continuing programme of replacing vehicles	12
13	Community Buildings and Village Halls	-	-	125	125	-	-	Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	13
14	CCBS Minor Works	328	-	-	328	-	7	N/A	1	12	Provision of minor works across the department including Library and Countryside services	14
15	Contingency	185	-	-	185	-	3	N/A	-	-		15
	Total Programme Supported by Local Resources	863	58	3,125	4,046	-	318					
	Schemes Supported by the Government											
16	Schools Condition Allocation	15,052	2,484	-	17,536	-	351	Owned	-	-	Major improvements to school buildings	16
	Total Schemes Supported by the Government	15,052	2,484	-	17,536	-	351					
	Total Excluding Land				21,582		669					
	Advance and Advantageous Land Purchases				646							
	Total Programme				22,228		669					
											# controlled on an accrued expenditure basis	

Appendix 3

Policy and Resources | **Capital Programme - 2020/21**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2020/21 Schemes										**The following schemes all reflect the current Corporate Priorities**	
	Schemes Supported from Local Resources											
	Culture, Communities and Business Services											
17	Office Accommodation Schemes	350	58	-	408	-	8	N/A	-	-	Various schemes throughout the County	17
18	Vehicles for Hampshire Transport Management #	-	-	3,000	3,000	-	300	N/A	-	-	Continuing programme of replacing vehicles	18
19	Community Buildings and Village Halls	-	-	125	125	-	-	Owned	1	12	Grants and contributions towards the development of community buildings and village halls.	19
20	CCBS Minor Works	328	-	-	328	-	7	N/A	1	12	Provision of minor works across the department including Library and Countryside services	20
21	Contingency	185	-	-	185	-	3	N/A	-	-		21
	Total Programme Supported by Local Resources	863	58	3,125	4,046	-	318					
	Schemes Supported by the Government											
22	Schools Condition Allocation	15,052	2,484	-	17,536	-	351	Owned	-	-	Major improvements to school buildings	22
	Total Schemes Supported by the Government	15,052	2,484	-	17,536	-	351					
	Total Excluding Land				21,582		669					
	Advance and Advantageous Land Purchases				646							
	Total Programme				22,228		669					
											# controlled on an accrued expenditure basis	

Dept	Title	Capital investment priorities Scheme Summary	Total Gross Cost £'000	Funding Available £'000	Net Funding Required £'000
CCBS	Basingstoke Canal	Essential infrastructure works to ensure that the canal remains in good working order and the County Council meets its obligations as part owner of the canal	1,500		1,500
CCBS	Repairs and Maintenance	Extending the planned repairs programme to 2019/20 and 2020/21 to reduce the day to day revenue demand over the medium to long term. Without a suitable programme of planned repairs the backlog liability will continue to grow putting continuity of service delivery at risk.	3,000		3,000
CCBS	Winchester Leisure Centre	Potential County Council contribution to a new Winchester Leisure Centre would support the development of a Hampshire wide Institute of Sport and regional sporting facilities	1,000		1,000
ETE	Structures - Holmsley Bridge	The bridge carries the A35 over the C10 in the New Forest. If the work doesn't go ahead weight restrictions will be needed, ultimately followed by closure. Total scheme cost estimated at £5.5m of which £2m is already held within the Structural Maintenance & Bridges capital programme.	5,500	(2,000)	3,500
ETE	Structures – Redbridge Causeway	Major structural works are required to the Causeway that have been the subject of failed bids to DfT and Solent LEP in the past. Phase 1 works now need to be completed, some funding has been set aside from past allocations.	8,000	(3,800)	4,200
ETE	Highways - Traffic Management infrastructure	Replacement of life-expired traffic management assets. This would reduce the impact of these life-expired assets on the revenue budget, the likelihood of a complete failure (requiring unplanned replacement work) and congestion/avoidable delay arising through sub-standard performance due to unreliability and/or component failure	2,580		2,580
			21,580	**(5,800)**	**15,780**

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	5 February 2018
Title:	Commission of Inquiry
Report From:	Director of Economy, Transport and Environment

Contact name: Stuart Jarvis; Frances Martin

Tel: 01962 845260 / 01962 845487 **Email:** Stuart.jarvis@hants.gov.uk / frances.martin@hants.gov.uk

1. Recommendations

1.1 That approval is given for the establishment of a commission of inquiry, as outlined in this report.

1.2 That delegated authority be given to the Chief Executive, in consultation with the Leader, to finalise and put in place the necessary arrangements for the Commission to be set up and to conduct its work

1.3 That the conclusions of the Commission be reported back to an appropriate meeting of Full Council to enable all Members to consider and discuss their work and conclusions.

2. Executive Summary

2.1 The purpose of this paper is to seek approval for the establishment of a Hampshire Commission of Inquiry.

2.2 This paper seeks to:

- Set out the background to the commission, its purpose and aims;
- Explain the process and outline some of the key themes to be examined;
- Set out the principles and context which forms the suggested basis for identifying potential commissioners; and
- Set out the anticipated timescales.

3. Background, Purpose, and Aims

3.1 At Full Council on 2 November 2017, the Leader proposed the establishment of an independent cross-party commission, inviting leading experts in environment and economic development and members of the community to help develop a Vision for Hampshire 2050: Economically Prosperous - Environmentally Sustained.

3.2 The purpose of the Commission is:

‘*to consider submitted evidence, to deliberate upon key issues and to make recommendations on a Vision for Hampshire 2050 which will guide and contribute to the future prosperity, quality of life, and protection and enhancement of the character and environment of Hampshire*.’

3.3 It is suggested that the Commission should consider both the desired future shape of Hampshire in terms of broad outcomes, and to assess the forces that are likely to impact upon and shape that future.

3.4 The remit should include economic, social and environmental outcomes and the key forces that are likely to have significant impact within these themes, such as projected future demography and patterns of working, globalisation, digital revolution and artificial intelligence. Account will also need to be taken of national economic changes in the post Brexit era, housing growth, the impacts of a changing climate and conflicting land management priorities, for example between food production, energy generation, maintaining and enhancing landscape and biodiversity, as well as access to the natural environment.

3.5 The work will help inform and shape the County Council and its partners longer term policies on the future development of the economy, the protection and enhancement of Hampshire’s environment, as well as wider planning and delivery of public services. Crucially, this work will link with an emerging Government agenda on Local Industrial Strategies, which are seen as setting a longer term vision for local areas, looking beyond traditional economic considerations and providing a framework for future planning and resourcing. There will be a strong link to the recently published 25 Year Environment Plan ‘*A Green Future: our 25 Year Plan to Improve the Environment’*; and will link to the current Government focus on housing and infrastructure to inform any potential economic deals for the county. These plans and policies cover a wide range of issues that will need to be explored from a Hampshire perspective throughout the Commission and beyond.

4. Process and Themes for the Commission

4.1 It is suggested that the Commission of inquiry would start with an initial meeting to establish the modus operandi, including consideration of its Terms of Reference, its broad work programme, and the processes involved including the scheduling of a series of up to six evidence gathering hearings.

4.2 A ‘Call for Evidence’ will also be undertaken. This will be for evidence from both specified invited experts, as well as an open call for evidence from the wider Hampshire community and any independent experts or organisations who may wish to make a submission.

4.3 The evidence gathering part of the process is envisaged to involve a series of up to six hearings, with two to three invited witnesses along with consideration of relevant material from other submissions. Subject to the agreement of the Commission, it is proposed the evidence gathering would be divided up into cross-cutting, inter-related themes along the following lines:

(i) **Demographic and societal challenges** - This theme would cover the future demography of Hampshire, the changing population and living patterns, and the opportunities and challenges into the future, for example in terms of health and social care, or housing and employment.

(ii) **Economy** - This theme would look at the future of the Hampshire economy in the context of Brexit, increasing globalisation and the potential digital and automation revolutions. It would look at the most potentially significant factors influencing business investment and location decisions, including local skills and access to housing.

(iii) **Work, skills and lifestyle** - This theme would examine future learning and working patterns, skills needs in a post digital revolution future, as well as wider quality of life within Hampshire such as arts, leisure and culture.

(iv) **Environment and quality of place** - Hampshire's natural environment is arguably its main economic asset. This theme looks at how a changing climate, different patterns of living and working, and competing demands on countryside and farmland will impact on environmental quality, character and quality of life in Hampshire.

(v) **Mobility, Connectivity and Energy** - This theme includes the transport impact of electric powered and autonomous vehicles, impact of smart technology in homes and workplaces, communications technology, and future energy issues.

(vi) **Rural Hampshire** - This theme could look at how economic, social, technological and environmental changes are likely to affect rural communities, the potential for a rural renaissance and new opportunities for rural communities.

4.4 It is expected that the evidence will be submitted in advance of the themed based evidence hearing sessions, with evidence packs supplied to Commissioners for the Inquiry hearings. This is likely to be detailed and require some time to gather and digest for both the Commissioners and officers supporting the process.

4.5 Evidence hearings will then be held to discuss the themes. Commissioners will receive an evidence pack in advance of each session. Each hearing will then feature 2 -3 witnesses who would be expected to make a presentation followed by opportunities for Commission members to cross-examine presenters, discuss points with invited experts and advisors and call for any required follow-up information. They will then have time to deliberate on the evidence and debates and to establish emerging key points and any initial conclusions at the end of each hearing. The Commission of inquiry will hold some final sessions to consider the evidence as a whole.

4.6 Following the Commission of inquiry evidence gathering and consideration process, it is proposed that a report will be prepared for consideration by Full Council, which will provide the basis for a strategic vision for Hampshire to 2050, with the aim of providing strategic guidance for the future of the County. It will help the County Council to formulate more detailed policies for the future development of the economy, the protection and enhancement of Hampshire's environment, and for the planning and future delivery of public services. It will also provide an opportunity and focus for work with central government and its partners to help to further identify strategic requirements and align funding priorities.

4.7 The process for the commission of inquiry will need to involve officers from across the organisation, due to the wide ranging issues to be discussed. This will require dedicated resources to be identified to support the process and ensure its successful delivery.

5. Potential Commissioners

5.1 In order to properly explore the themes identified, it is important to have a range of commissioners with different areas of interest and knowledge but also with a connection to Hampshire. The Commission process will require some time to attend hearings and to read evidence packs, therefore it is likely to involve a contribution of between half and one day per month for each Commissioner, for around 12 months. The need to commit time on this basis may also have an impact on who may be able to become potential Commission members.

5.2 The Commission will need to have proper and balanced political representation. It is expected to be chaired by the Leader of the County Council, and it is intended to involve a District Council Leader and an Opposition County Councillor, if possible representing different areas across Hampshire.

5.3 The Commissioners are not expected to be subject experts, but to bring some knowledge and understanding of Hampshire, and a willingness to work alongside others in considering a wide ranging set of ideas and evidence, and formulating advice for the County Council to consider. Non political Commissioners may therefore come from a range of backgrounds or interests within or related to Hampshire, including academia, business, public services, community and interest groups, and importantly a commissioner drawn from a younger persons cohort such as students.

6. Finance

6.1 The Commission is not expected to require significant expenditure in the course of its work, as it will be mainly supported by existing County Council resources. However it is anticipated that some additional funding will be required to support the Commission process, including providing some additional dedicated capacity to support the general work on evidence gathering, and the preparation and running of the Commission's meetings, including potential expenses for invited witnesses. It is proposed that an operational budget sum of up to £100,000 should be identified from within the overall Invest in Hampshire resource to support the Commission. This will be subject to a separate report to the Executive Member for Policy and Resources who has responsibility for the Invest in Hampshire Programme and Resources.

7. Status of Commission and Commissioners

7.1 The Commission is not a formal Committee of the County Council and accordingly any non County Council Member will not be a Co-opted Member of the County Council.

8. Potential Timescales

8.1 It is proposed that the initial meeting and 'Call for Evidence' is undertaken in early 2018, with the formal hearings commencing in the Spring. The aim is to complete the evidence hearings during 2018, with consideration of conclusions and completion of a report in Spring 2019, and for that report to be considered by Full Council in July 2019.

8.2 It should be noted that this is an ambitious timescale; given the scope of the inquiry, likely interest, and time it will take to examine the evidence. Therefore this timescale will be kept under review as the Commissioners are appointed and throughout the process to ensure it remains appropriate and deliverable. Appendix 1 sets out alternative potential timescales.

9. Conclusion and Recommendations

9.1 The proposed Commission of inquiry is an opportunity to engage with a variety of Hampshire stakeholders to develop a vision for the County up to 2050, and the proposal is commended to the Cabinet on this basis.

9.2 **It is recommended that**:

a) That approval is given for the establishment of a commission of inquiry, as outlined in this report.

b) That delegated authority be given to the Chief Executive, in consultation with the Leader, to finalise and put in place the necessary arrangements for the Commission to be set up and to conduct its work

c) That the conclusions of the Commission be reported back to an appropriate meeting of Full Council to enable all Members to consider and discuss their work and conclusions.

CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

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:**

This report merely seeks approval to establish a Commission of Inquiry and agree it processes. It will not have decision making powers and therefore no direct impact on equality issues. However any recommendations from the Commission would be subject to their own equality impact assessment.

2. Impact on Crime and Disorder:

3. Climate Change:

a) How does what is being proposed impact on our carbon footprint / energy consumption? No impact.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? No impact

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Appendix 1

Potential timescales

1. Timetable to achieve Feb 2019 County Council Meeting

	2018												2019	
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
CMT Report	10th													
Cabinet Report		5th												
Appoint Commissioners														
Commission set up meeting														
‘Call for Evidence’														
Submission of Evidence to Commissioners														
Societal Challenges and Changes Hearing														
Spatial Planning Challenges Hearing														
Economy Hearing														
Work, Skills and Lifestyle Hearing														
Environment and Quality of Place Hearing														
Rural Hampshire Hearing														
Concluding Hearings														
Preparation of final report														
Final report to County Council														

2. Timetable to achieve July 2019 County Council Meeting

	2018												2019						
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
CMT Report	10th																		
Cabinet Report		5th																	
Appoint Commissioners																			
Commission set up meeting																			
'Call for Evidence'																			
Submission of Evidence to Commissioners																			
Societal Challenges and Changes Hearing																			
Spatial Planning Challenges Hearing																			
Economy Hearing																			
Work, Skills and Lifestyle Hearing																			
Environment and Quality of Place Hearing																			
Rural Hampshire Hearing																			
Concluding Hearings																			
Preparation of final report																			
Final report to County Council																			

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	5 February 2018
Title:	Attainment of children and young people in Hampshire Schools
Report From:	Director of Children's Services

Contact name: David Hardcastle

Tel: 01252 814755 **Email:** david.hardcastle@hants.gov.uk

1. Recommendations

1.1. Cabinet is asked to note the positive attainment outcomes being achieved by Hampshire's schools as outlined in this report.

2. Purpose of Report

2.1. This report provides a summary and analysis of the performance of Hampshire schools in 2017 at the key points in children's education: the end of the Foundation Stage, the end of Key Stage 2 (the end of primary education) and at the end of Key Stage 4 (the end of secondary education).

3. Contextual Information

3.1. This report has been produced using the latest data released by the Department for Education (DfE) at the time of writing. A final dataset will be published for Key Stage 4 later in the year. This will show some changes from the figures included in this report, although it is unlikely that the figures will vary significantly. Data from 2015 and 2016 uses the DfE's final published figures.

4. Consultation and Equalities

4.1. There is no consultation proposed in relation to the contents of this report. Similarly, there are no equalities issues raised in Appendix B of this report.

5. Early Years Foundation Stage Profile

5.1. Standards in the foundation stage, as measured by the proportion of pupils that have reached a good level of development (GLD), continue to be well above those nationally and have been consistently so now for a number of years.

Good Level of Development (GLD)	2017	2016	2015
National	70.7%	69.3%	66.3%
Hampshire	75.5%	75.2%	72.6%

5.2. This strong performance over time has been underpinned by the work of the Hampshire Early Years team supporting schools in developing quality provision for children so that they get a strong start to their education in school.

5.3. Given that standards are well above those nationally, it is helpful to compare our performance with a group of demographically similar local authorities, our so-called “statistical neighbours” The group comprises the 10 authorities statistically most like Hampshire, with 5 being more advantageous and 5 less so. The group currently consists of Leicestershire, Gloucestershire, South Gloucestershire, North Somerset, West Berkshire, West Sussex, Warwickshire, Worcestershire, Cambridgeshire and Central Bedfordshire.

5.4. The group is set up so that Hampshire’s performance should be in line with the group average, with the county being ranked in the middle of the group (i.e. 6th place). Performance above this represents a strength and performance below an area for development.

When compared to our statistical neighbours, we rank third on this measure, with GLD being above the average for the group.

6. Standards at Key Stage 2 (KS2)

6.1. This is the second year of the new national testing and assessment processes that were introduced for 2016. The new, more challenging standards introduced in that year mean that it is difficult to make judgements about trends over time, other than for the two year period 2016 to 2017.

6.2. The Government’s preferred measure is the proportion of pupils that have reached Age Related Expectations (ARE) in each of reading, writing and mathematics (RWM). The table below sets out the Hampshire performance at this measure.

RWM	2017	2016
Hampshire	65%	59%
National	61%	54%

6.3. Standards in Hampshire schools are well above those nationally and have been so now for the two years of these more challenging standards.

6.4. Standards are well above those in the group of statistical neighbours, with Hampshire schools again being group top.

6.5. This strong performance is underpinned by high standards in the separate subject areas again in 2017.

Reading	2017	2016
Hampshire	76%	71%
National`	71%	66%

Writing	2017	2016
Hampshire	80%	80%
National	76%	74%

Mathematics	2017	2016
Hampshire	77%	72%
National	75%	70%

6.6. In all three subject areas, Hampshire performs well above those nationally. Standards are above the average of our statistical neighbours with Hampshire being placed at the top of the group in reading, in writing and in mathematics. This was the pattern seen last year.

6.7. Writing is teacher assessed rather than part of the national testing programme. Local authorities have the duty to moderate these standards and ensure that the criteria are being applied accurately by their schools. There is a national programme of inspecting the arrangements that local authorities make to do this work. Our processes have been checked in 2017 and found to be of good quality.

6.8. In 2016, whilst the Hampshire average was well above that nationally, there were wide variations in the performance of individual schools that resulted in a very broad distribution. There was strong evidence that schools that had understood the detailed requirements of the new standards had performed well. This was particularly evident in mathematics where there is now a greater expectation of pupils applying their mathematical understanding.

6.9. Through 2016 and 2017 the local authority has worked with schools through the annual visit, through assessment training and on teaching mathematical reasoning. As a result of this, 81 schools improved the percentage achieving ARE for combined Reading, Writing and Mathematics by 15% or more from 2016, significantly reducing the variation in performance across schools in Hampshire.

6.10. Whilst the average for the local authority is relatively high, there is still work to do to ensure all children across Hampshire have access to the same high quality education. Whilst the distribution in performance of individual schools is now much narrower, there are 32 schools in which less than half the pupils reach ARE. Working with these schools to raise attainment in them is an important priority for Children’s Services over the next two to three years.

7. Standards at Key Stage 4 (KS4)

7.1. New measures were introduced for secondary schools in 2016 which signalled the end to the percentage of pupils attaining 5A*-C (including English and Mathematics) being used as the key standard against which to judge the performance. Schools are now judged against attainment 8 (A8), progress 8 (P8), the proportion of pupils achieving the English Baccalaureate (EBacc) and the proportion of pupils achieving the Basics (a grade 4 or better in both English and mathematics).

7.2. In 2017, new, more challenging GCSE courses were examined in these two subjects for the first time. These are graded on a 1 to 9 point scale. The content of the other GCSE subjects examined in 2017 remained unchanged and the subjects were still graded using letters. When pupils received their results they received a mixture of letter grades and numbers.

7.3. There is no direct correlation between letter grades and numbers. This creates issues for the calculation of A8 and P8, and defining the threshold attainment level to achieve the EBacc. The DfE has developed an approach to enable these calculations to be made this year, and this approach has been the basis of much discussion within schools. This has centred on the equity of the point scores given to different grades. Whatever the merits or otherwise of these discussions, the approach taken to the calculations in 2017 means that the data cannot be compared directly to that from 2016. Furthermore, other GCSE courses are being modified and will be examined for the first time in 2018 and this will mean that next year's data cannot be compared directly to that from this year.

8. The "Basics"

Prior to 2017, this measure indicated the proportion of pupils who have achieved a C or better grade in both an English and mathematics qualifying qualification. The definition changed in 2017 to take into account the fact that pupils examined in these subjects this year have been following the new, harder revised GCSEs that are graded by numbers. So in 2017, to have qualified for the Basics, pupils must have achieved a grade 4 or better in both subjects.

8.1. In past years, Hampshire schools have performed above the national average, with the Hampshire figure improving at a faster rate than nationally. In spite of the changes this year, Hampshire schools have again performed well and indeed have improved against the national average compared to previous years.

	Hampshire	National
2015 (old measure)	62.1%	59.5%
2016 (old measure)	66.7%	63.3%
2017 (new measure)	67.6%	63.5%

8.2. The local authority also again performs above the statistical neighbour average, something it has consistently done over a number of years. Its ranking places it in the middle of the group, the “statistically expected” position.

	Hampshire	Statistical neighbour average National	Hampshire rank
2015 (old measure)	62.1%	61.4%	6
2016 (old measure)	66.7%	65.4%	3
2017 (new measure)	67.6%	66.3%	6

8.3. This is as a result of continuing strong performance at this threshold in the individual subject areas:

	Hampshire	Statistical neighbour average	Hampshire rank
English (9 to 4)	76.9%	76.6%	4=
Mathematics (9 to 4)	73.8%	72.4%	2

8.4. Hampshire schools have maintained their strong ranking against statistical neighbours in these areas. In 2016 they place 2nd in the group for mathematics and 4th= for English. Given the issues reported by schools with recruitment in these core subjects, this is a significant achievement.

9. The English Baccalaureate

9.1. The EBacc measures performance across a tightly defined group of academic subjects. To qualify, pupils must take both English Language and literature and obtain a grade 5 to 9 in one of them; obtain a grade 5 to 9 in mathematics; obtain 2 A*-C grades in the sciences; an A*-C in a language (either modern or ancient) and an A*-C in either history or geography.

9.2. Unlike “the Basics” measure, pupils have to achieve a grade 5 rather than 4 in their English and mathematics qualification to qualify. In 2016, pupils had to achieve a C grade or better in these subjects. Consequently, the 2016 and 2017 figures are not comparable.

9.3. 22.5% of pupils achieved the EBacc this year against 21.2% nationally. Hampshire’s performance has improved slightly against the national average compared to last year. There is also a very slight improvement relative to the statistical neighbour average from 2016 to 2017, with Hampshire performing above the average for the group and placing 5th, in line with last year.

9.4. There is significant variation between schools against this measure, although this is less marked than last year. There is also significant variation in pupils’ performance in the various subject areas that constitute the EBacc, when compared to that of our statistical neighbours. In Hampshire, pupils’ performance in the mathematics and science elements in 2017 was strong against our statistical neighbours .There was a relative improvement in the humanities element so that it is now better than the group average. Performance in the English and languages elements was in line with that of the group. Improving performance in these subjects to the level seen in mathematics and science will form the basis for an overall improvement in the proportion of pupils that achieve the EBacc. Alongside this, schools will need to ensure that there is effective oversight and co-ordination of pupils' performance across this range of subjects.

10. Attainment 8

10.1. The calculation of A8 is complex, looking at pupils' average performance across eight subjects from a tightly defined set that includes an English qualification, mathematics, three EBacc subjects and 3 other subjects. A8 is not a threshold measure, but gives a sense of an average performance that pupils have achieved across the basket of subjects. Just focussing on improving pupils who are on the C/D borderline will only have a slight impact on A8. The performance of all pupils across a wide range of subjects really does count towards this measure.

10.2. For reasons outlined above, A8 figures in 2017 are not directly comparable with those from 2016.

10.3. In 2016, A8 in Hampshire schools was 51.1 against a national figure of 50.1. In 2017 A8 in Hampshire is 46.7 against 46.1 nationally. The national figure has closed on the Hampshire figure.

10.4. Hampshire ranks in 5th place in the group of statistical neighbours in 2017, as it did in 2016. In 2016 Hampshire performed above the group average at this measure (51.1 versus 50.8), albeit it slightly. A8 in 2017 is now in line with the group average (46.7 versus 46.7).

10.5. Given the change in calculating the measure, it is challenging to identify how individual schools have fared this year compared to 2016. The best approach is to compare the difference with the national figure this year and last year. When this is done, it shows more schools have declined in relative terms than have improved and this explains the slight difference in the relative performance of Hampshire against the national and statistical neighbour figures.

10.6. There is still a level of "volatility" in this measure. Last year, pupils' performance in humanities was comparatively lower than our statistical neighbours and was seen as a key area to improve. This year it is relatively stronger. This year, performance in the "three other subjects" category is lower.

10.7. The point was made last year about how pupils' choices of option subjects play a role in determining the school's A8 score. The nature of the calculation means that if pupils have not studied enough subjects from particular categories, this will have an adverse effect on A8. Research indicates that schools in Hampshire were no more or less disadvantaged by these factors than were schools in our group. There is evidence, however, that schools in other parts of the country have shaped this more effectively.

10.8. The research also shows that in many schools in Hampshire, pupils can follow a broad range of option subjects. These are generally the subjects that contribute to the “three other subjects” section of the A8 calculation. However, in a significant number of these schools, pupils’ performance is not as high in these subjects as might be expected from their KS2 results. There is a question, then, for schools about how they set high expectations across a large number of subjects and then maintain management grip over this breadth to ensure that pupils meet these expectations. Addressing this is at the heart of securing improved performance in this area.

11. Progress 8

11.1. P8 is a measure of the progress pupils have made from KS2 across the A8 basket of subjects relative to their peers nationally. National performance information is used to estimate the A8 score of each pupil based on their KS2 performance. This is subtracted from their actual A8 score and the mean of the difference calculated across the school. P8 is therefore a relative measure, dependant on pupils’ performance nationally. Schools cannot predict with any accuracy what it might be ahead of the examinations.

11.2. In a school with a P8 of zero, pupils have on average performed in line with pupils with similar starting points nationally. If the score is positive, then pupils have made more progress from their starting points than nationally; if it is negative, then pupils have made correspondingly less progress.

11.3. As well as changes to the way in which A8 has been calculated this year, changes have also been made to the calculation of the KS2 baseline. Again, these changes make direct comparison to the 2016 figures difficult. However P8 is calculated relative to that nationally, so this and the statistical neighbour performance provides an indication of relative performance.

11.4. In 2016, P8 in Hampshire was in line with that nationally and with statistical neighbours (-0.03 Hampshire, -0.03 nationally, -0.01 statistical neighbours). Hampshire was placed in the middle of the statistical neighbour group.

11.5. In 2017, P8 is -0.14 relative to -0.03 nationally and -0.04 in the statistical neighbour group. This is a drop in relative terms and places us 8th equal in the group. This is below where we should be.

11.6. In short, given our well above national KS2 performance for this cohort, if our above average A8 performance was higher still, this would have led to a higher P8 figure.

11.7. As identified above, improving the A8 figure in Hampshire so that P8 will then improve has two elements. First of all there is the matter of pupils studying a sufficient number of “qualifying” subjects. Secondly, there is the issue of ensuring suitably high expectations are made of pupils based on their KS2 performance, across all the subjects that they follow at KS4 and that there is adequate oversight to ensure that these expectations are met.

11.8. In light of these findings, schools should give careful consideration to the curriculum that they offer, its quality and the rigour of their associated processes. Offering a range of curriculum choices, however engaging they might be, that does not enable pupils to flourish runs counter to the principles of education.

11.9. Secondary schools need to understand better how to build on pupils' strong KS2 performance. The local authority is currently working with a number of schools to help understand the expectations now required based on those from KS2, and using these to better shape teaching and the curriculum through KS3.

12. Conclusions

12.1. Overall, pupils' attainment compares favourably with that nationally and with our group of "statistical neighbour" local authorities.

12.2. The strong performance seen last year at Key Stage 2, despite the changes to more challenging standards in 2016, has been secured in 2017.

12.3. This year, there have been changes to GCSE English and mathematics that have led to the courses being rewritten to include more challenging content. Despite these changes, schools' attainment at KS4 compares favourably with that nationally across these three measures. There is work to do in improving schools' performance against the P8 measure.

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

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:**

This update on the educational attainment of children in Hampshire is for Cabinet to monitor achievement and performance in that area and does not in itself cause any impact on equalities.

2. Impact on Crime and Disorder:

2.1. None

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?

None

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	5 February 2018
Title:	Strategic Partnership for Hampshire County Council to deliver Children's Services for the Isle of Wight Council
Report From:	Director of Children's Services

Contact name: Steve Crocker

Tel: 01962 846400 **Email:** Steve.crocker@hants.gov.uk

1. Recommendation

1.1. That the Cabinet of Hampshire County Council agrees to continue its strategic partnership with the Isle Wight Council in order to deliver the range of Children's Services, as defined by the 2004 Children Act.

1.2. That the negotiation and agreement to the Heads of Terms is delegated to the Chief Executive of the County Council.

2. Summary

2.1. The purpose of this paper is to seek Cabinet approval for the renewal of the strategic partnership between Hampshire County Council and the Isle of Wight Council for the delivery of Children's Services on the Isle of Wight.

2.2. The current partnership between Hampshire County Council and Isle of Wight Council was initiated in July 2013 and supported by a statutory direction put in place by the Secretary of State for Education due to the failure of Children's Services on the Isle of Wight in both its safeguarding and education functions. That partnership has since brought demonstrable improvements for Isle of Wight children and has also benefited Hampshire County Council.

2.3. The partnership is due to expire at the end of June 2018. The Cabinet of the Isle of Wight Council has voted to seek to continue the partnership and this was unanimously supported by its Scrutiny Committee. The Cabinet for Hampshire County Council now needs to decide whether to endorse an ongoing strategic partnership.

3. Contextual information

3.1. As a result of an Ofsted inspection of the Isle of Wight council's Children's Services in late 2012, the council was judged to be inadequate in respect of the effectiveness of its arrangements to protect children on the Isle of Wight. Shortly afterwards the council's school improvement services were judged to be 'ineffective' by Ofsted. As a result, the Department for Education issued a statutory direction requiring the council to enter into a strategic partnership with Hampshire County Council for a period of five years in order to deliver the necessary improvements for both children's safeguarding and education services.

3.2. The Isle of Wight Cabinet of the time, at their meeting of 19 June 2013, undertook the formal constitutional decision making required to enter into the strategic partnership with Hampshire County Council. Approval was also given to the appointment of the Director of Children's Services for Hampshire County Council to act in the capacity as the Director of Children's Services for the Isle of Wight Council with effect from 1 July 2013. This process was mirrored in Hampshire through the decision taken by the Executive Lead Member on 12 June 2013.

3.3. Under the terms of the strategic partnership, both councils' statutory duties and responsibilities remain in place and as such this means that the overall political control and accountability for the delivery of outcomes for Children's Services on the Isle of Wight is retained by the Isle of Wight Council as is the case for Hampshire County Council; there is no 'merging' of political accountabilities. The Director of Children's Services has full delegated responsibility for the strategic and operational management of all children's services functions, in accordance with the relevant council's constitution, scheme of delegations and policy framework.

3.4. Since the inception of the strategic partnership, there has been regular reporting undertaken through relevant committees on the Isle of Wight in order to monitor progress being made to secure the required improvements. An annual review meeting has also taken place every year between the two councils which has involved the respective leaders, executive lead members and chief executives from both authorities, As required under the ministerial direction, a Children's Improvement Board was also established and independently chaired by Professor Ray Jones.

3.5. Ofsted returned in June 2014 to undertake a re-inspection of the Isle of Wight's arrangements for school improvement. Ofsted's judgements were overwhelmingly positive and described the arrangements put in place through the strategic partnership as "effective" meaning that the work being done was considered to be leading to schools improving and children and young people doing better.

3.6. Ofsted returned again in September/October 2014 to undertake an unannounced inspection of services for children in need of help and protection, looked after children and care leavers, utilising a new and tougher single inspection framework. Ofsted's judgements saw the council's arrangements moving from being 'inadequate' to 'requires improvement to be good'. This judgement moved the council in line with the majority of local authorities reviewed under this new regime, thus demonstrating that significant progress had been secured in what was a relatively short period of time.

3.7. Good progress continues to be made in both areas, see below.

3.8. In February 2015, the Department for Education formally reviewed the progress being made against the agreed improvement plans and concluded that while the Statutory Direction should remain in place until June 2018, the Children's Improvement Board was no longer required given the rapid improvements that had been made to the Local Safeguarding Children's Board in holding partners to account for the safeguarding of children on the Island.

3.9. In September 2016, a summary report was presented to members detailing the evidence of the progress made since the inception of the Children's Services strategic partnership between Hampshire County Council and the Isle of Wight Council together with the identification of the areas where further practice and management improvements were required and which would form the basis of revised improvement plans.

3.10. In June 2017 Department for Education officials again reviewed the progress of the partnership under the terms of the statutory direction and were extremely positive about the progress made.

3.11. The Isle of Wight council's Internal Audit Service (delivered under service contract with Price Waterhouse Coopers) undertook an audit of the partnership arrangements with Hampshire County Council for the delivery of children's services. This review examined the strategic partnership documentation; supporting operational plans; reporting mechanisms and arrangements for exit planning for when the Statutory Direction reaches its conclusion. The outcome of that review concluded that there was satisfactory evidence to suggest that the partnership was working to the benefit of the council in its improvement journey, with a few minor suggested improvements required.

3.12. Members on the Isle of Wight and in Hampshire have been kept informed of the progress made against the agreed improvement plan through the strategic partnership. All aspects of its delivery have also been open to scrutiny. There is demonstrable evidence of the improvements that have been secured thus far, including the multi-agency local safeguarding children's board, charged with securing the necessary professional collaboration to work together to keep children safe, along with evidence of the relationships established through the work of the partnership. See below for more details.

3.13. The partnership between the Isle of Wight Council and Hampshire County Council has evolved during the last four years to one where the arrangement is beneficial to both councils, not simply in financial terms but for example.

- The Area Director (Isle of Wight) is a member of the children and families management team and contributes to the development of policies, procedures and practice across the two local authorities;
- All Isle of Wight service managers are part of the Hampshire County Council and Isle of Wight Council wider children and family's management team with shared key strategic responsibilities across both organisations;
- All team managers take part in service wide meetings and work across the partnership to develop specific projects;
- Isle of Wight Council staff have engaged in peer reviews of Hampshire County Council's children's services on a regular basis (Hampshire County Council staff undertake an annual peer review of the Island's children's services);
- Isle of Wight children's service staff contributed to the development of the Department for Education innovations programme across both organisations and are currently supporting the 'partners in practice' developments in Hampshire County Council;
- Isle of Wight children's services staff contribute to task and finish groups regarding specific projects across partnership
- There has been a range of secondment opportunities made available for both Isle of Wight staff and Hampshire County Council staff within respective organisations (two secondments to the Isle of Wight Council and four secondments to Hampshire County Council);
- The Area Director (Isle of Wight) led and developed the Neglect Strategy and toolkit;
- More recently Isle of Wight Council staff contributed to improvement work being led by Hampshire County Council with Torbay children's social care peer support visits.
- A range of senior managers have had opportunities to develop and carry out service development that they may not otherwise have experienced in Hampshire contributing to their professional development and, in turn, strengthening performance and capacity in Hampshire.

3.14. In Ofsted's inspection of safeguarding services in Hampshire in 2014, inspectors stated that the partnership with the Isle of Wight '… has not compromised performance in Hampshire. Indeed, inspectors saw evidence of learning from the experience being used to re-evaluate aspects of children's services in Hampshire. These include front line responses to contacts and referrals and the provision of professional development opportunities for middle and first line managers.' As the partnership has deepened since this point, those benefits have also been evident in education and support services.

3.15. The strategic partnership agreement is due to expire at the end of June 2018 and consideration now needs to be given to the longer term management arrangements of children's services on the Isle of Wight. Utilising the power to trade under section 1 of the Local Authorities (Goods and Services) Act 1970, a local authority has the power to enter into an agreement with any public body for the supply of administrative, professional or technical services. However, any agreement is subject to the council having complied with the public procurement regulations. An exemption applies where the agreement between two public bodies is one where there is a sharing of resources, that the agreement is one of partnership working rather than it being merely a supply of services which would indicate a contract for services arrangement.

3.16. The Isle of Wight council had to properly consider a range of options open to the council. They considered the following options:

- To let the strategic partnership agreement with Hampshire County Council expire in June 2018 and for the Isle of Wight Council to take back the strategic management responsibility for children's services and to develop alternative business models for aspects of children's social care and education.
- To extend the current strategic partnership with Hampshire County Council into the longer term, with break clauses in the partnership agreement to review after each substantive Ofsted inspection/every five years.
- To enter into a new strategic partnership with another local authority with break clauses in the partnership agreement to review after each substantive Ofsted inspection/every five years.
- To commission/create a not for profit Trust for the alternative delivery and governance arrangements for children's social care and education outside the operational control of the local authority.

3.17. The Isle of Wight council's Corporate Plan 2017 – 2020 establishes twelve outcomes as measures of success in achieving the overall ten-year vision for the Isle of Wight to be an inspiring place in which to grow up, work, live and visit. At the heart of this vision is the stated outcome that "all young people will have the best start in life so that they can fill their potential". The council has also set out its commitments in its strategy "Excellence in Education" to secure 100% of schools being rated as good or better by 2021. The council considered it essential therefore that there continues to be robust arrangements in place for the strategic and operational delivery of children's services and its related functions in order to provide confidence and assurance that continued and sustained improvements can be secured and maintained.

3.18. At its Cabinet meeting on 9 November 2017, the Isle of Wight Cabinet considered all of the above options and voted unanimously to seek to continue the strategic partnership with Hampshire County Council. This was supported by the Council's Scrutiny Committee which also supported the recommendation unanimously. The full report and decision can seen here https://www.iwight.com/Meetings/committees/cabinet/9-11-17/Paper%20E.pdf .

3.19. There is already a detailed partnership agreement in place that sets out the agreed operational arrangements. However, it will be necessary to consider new heads of terms for the partnership and to upon which future performance monitoring can be undertaken. These adjustments will be based around the continued delivery of the council's statutory duties and the outcomes set out in the Corporate Plan. The Chief Executive of the Isle of Wight was afforded delegated authority, in consultation with the Cabinet Member for Children's Services and Cabinet Member for Resources to determine the expected partnership outcomes; required performance outputs and resource requirements, for integration to the new partnership agreement together with any amendments required to the partnership agreement so that it reflects the current position and not the position at the time of the direction. An outline of those heads of terms, are appended to this report at Appendix A. It is proposed that the authority to agree to negotiate and agree the terms and conditions is similarly delegated by Hampshire County Council to the Chief Executive of the County Council.

4. Finance

4.1. The current Isle of Wight budgetary provision for the delivery of the strategic partnership with Hampshire County Council is circa £1.3 million per annum. This makes provision for the allocation of an agreed percentage of Hampshire County Council officer time, for work undertaken for the Isle of Wight Council, plus a 15 per cent overhead charge to cover additional administrative costs and travel expenses. There is an additional £700,000 per annum charge for the delivery of other service support activities, outside of the partnership agreement and which could be subject to separate review. These include the hosting of the council's social care database system; out of hour's service; school property services and school improvement programmes.

4.2. As a result of the strategic partnership with Hampshire County Council, there have been some £4.3 million savings delivered to the Isle of Wight Council in the delivery of children's services in the period 2014 to 2016, with a further potential £1.2 million identified for delivery within the current financial year.

5. Performance

5.1. Improvements have been substantiated by Ofsted and the Department for Education in their follow on inspection and whose inspectors will have met with partner organisations, service users and staff to inform their judgements. The partnership has secured significant improvements in children's social care. These can largely be considered within two areas. Firstly, the workforce. In 2013 there was no recruitment and retention strategy, morale was exceptionally low and the percentage of agency social workers had risen to 47% of the workforce. Staff described a culture where they were not listened to and felt anxious in speaking out. It was noted by Ofsted in the re-inspection of 2014 the local authority had taken *'extensive action to secure a stable, competent and sufficient workforce.'* By 2017 in a pilot inspection under the new inspection framework, Ofsted noted that *'knowledgeable, confident and accessible managers support staff well to make decisions about how best to support and protect children. Management oversight of this work is strong. Social workers have access to a wide range of good training opportunities. Senior leaders promote a* *culture of continuous improvement, supported by well-motivated staff whose morale is high. Staff vacancies and the use of agency workers are low.'* (currently 3%). In the annual staff survey of 2016/2017, Isle of Wight staff said they were able to raise concerns with line managers and found senior managers approachable, accessible and responsive. Turnover of social workers is now at an all time low and staff have developed a sense of pride in their work, supported by access to joint training and development with their Hampshire counterparts

5.2 The second area of significant improvement in children's social care relates to the operating model. The front door to the service now operates through Hampshire's Multi Agency Safeguarding Hub (MASH), providing consistent and safe thresholds of service. The Children in Need service has been reinstated and the service is structured on the same basis as Hampshire children's social care. Policies and procedures have been introduced providing clear accountability for managers and practitioners alike. This has allowed social workers' practice to flourish whilst providing good management grip and oversight. As part of the improvement journey, the confidence of multi-agency partners in children's social care has increased, allowing for a more mature partnership approach to children's safeguarding across the island.

5.3 Improvement in the quality of education being provided on the Isle of Wight has been significant. In 2014, only 52% of schools were assessed by Ofsted as providing a good or outstanding education for their students. At the end of November 2017 that proportion had improved to 80%. In 2014, 18% of schools were judged to be providing an inadequate education for their students. At the end of November 2018 there was only one inadequate school (2%) on the Island, Sandown Bay Academy. Plans are in place to close the inadequate academy and to expand a primary school to create an all through school. Ofsted inspections of individual schools point to an improvement in the quality of leadership and management of schools which is impacting on improving teaching, learning, curriculum and assessment and standards of attainment.

5.4 From a position of relative weakness, early years outcomes are now above the national average ensuring that children on the Isle of Wight have a good start to their education. Standards at the end of primary education have also improved with pupils now performing at the national average in reading. Standards in writing and mathematics have improved faster than the national rate of improvement although mathematics will requires significant improvement. Although standards at the end of secondary education have also improved significantly, this remains a key focus of the improvement strategy as outcomes still require improvement.

6. Consultation and Equalities

6.1. No consultation is required and now that performance is strongly improving in both educational and safeguarding terms there is no authority for the Department for Education (DfE) to specify a further direction under the powers of the Secretary of State. However, DfE officers from the safeguarding team and the Regional Schools Commissioners team have been kept fully apprised of developments.

7. Future direction

7.1. This decision sets the future direction for partnership working with the Isle of Wight in relation to Children's Services. It is foreseeable that other similar partnerships may develop with other authorities and also with regards to other services. Developing strategic partnerships such as this is one way for councils to develop mutually advantageous arrangements which benefit tax payers and service users in times of ongoing austerity. It should be said that the future of such partnerships are contingent, to a degree, on Hampshire maintaining its high performance in safeguarding and education services.

7.2. Cabinet is therefore recommended to agree to the renewal of the strategic partnership between Hampshire County Council and the Isle of Wight Council for the delivery of Children's Services on the Isle of Wight.

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	Date
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
Children's Services Partnership report	https://www.iwight.com/Meetings/committees/cabinet/9-11-17/Paper%20E.pdf

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 proposal will have no or limited impact on equalities in Hampshire. The report sets out that a previous Ofsted report has highlighted the benefits of the partnership to Hampshire Children's Services and thus to children in Hampshire.

2. Impact on Crime and Disorder:

2.1. There should be no impact on Crime and Disorder in Hampshire.

3. Climate Change:

3.1 There is no or minimal effect on climate change with most journeys to the Isle of Wight being carried out on existing public transport.

Hampshire County Council & Isle of Wight Council

Strategic Partnership

Services and Scope:

As currently set out in Schedule 3 of the Strategic Partnership Agreement:

1. During the term Hampshire County Council will provide the statutory role of Director of Children's Services as defined in:

    1.1 Section 18(2) of the Children Act 2004 (as amended) as follows:

        1.1.1 Education functions conferred on or excercisable by the isle of Wight Council (within the meaning of sections 13 and 133(A) Education Act 1996.

        1.1.2 Functions conferred on or exercisable by the Isle of Wight Council which are social services functions (within the meaning of the Local Authority Social Services Act 1970 (c42)), so far as those functions relate to children

        1.1.3 Functions conferred on the Isle of Wight Council under sections 23C to 24D of the Children Act 19189 (c.41) (so far as not falling within paragraph (b))

        1.1.4 Functions conferred on the Isle of Wight Council under sections 10 to 12, 12C, 12D and 17A of the Children Act 2004

        1.1.5 Functions exercisable by the Isle of Wight Council under section 75 of the National Health Service Act 2006 or section 33 on behalf of an NHS body (within the meaning of those sections), so far as those functions relate to children

        1.1.6 Functions conferred on the Isle of Wight Council under Part 1 of the Childcare Act 2006.

    AND

    1.2 The 2012 Statutory Guidance on the Roles and Responsibilities of the Director of Children's Services and the Lead Member for Children's Services which is summarised (in as far as it relates to the Director roles) as:

        1.2.1 The Director of Children's Services is appointed for the purposes of discharging the education and children's social services functions of the local authority. The functions for which they are responsible are set out in section 18(2) of the Children Act 2004. This includes (but is not limited to) responsibility for children and young people receiving education or children's social care services in their area and all children looked after by the local authority or in custody (regardless of where they are placed).

1.2.2 The Director of Children's Services has professional responsibility for children's services, including operational matters and a key leadership role both within the local authority and working with other local agencies to improve outcomes for children and young people.

To be delivered in a manner consistent with the Isle of Wight Council corporate plan (2017 – 20) and subsequent amendments.

Key Partnership Outcomes:

- All young people will have the best start in life so that they can fill their potential
- Vulnerable young people are supported and protected
- Young people take responsibility for their own health and wellbeing
- A well-educated and skilled community

Key Partnership Outputs:

1. A Children's and Young People's Plan that is current, relevant and delivered in accordance with its expectations.
2. A current and relevant action plan (presently Delivering Educational Excellence) with clear road map and expectations for raising educational standards in Island schools, delivered in accordance with its expectations.
3. Preparation for and response to Ofsted inspections.
4. An effective and efficient Safeguarding Board; ensuring adequate levels of protection for young people at all times.
5. Appropriate representation at key corporate meetings ensuring the needs of services are well represented in the local authority's activities.
6. Leadership of the local authority's response to any proposed or actual amendments to legislation in respect of its children's services.
7. Work within the corporate framework for, policy and strategy development and decision making.
8. Make appropriate representations to the Full Council in respect of the finances necessary to deliver the services and work within the agreed financial parameters agreed by the Full Council.
9. Ensure there is a sufficient quantity of school places at all time, provided in the most cost effective way and work to secure capital funds to ensure the highest standards of school provision possible.

Key Partnership Indicators – Long term:

Measure	Three year target (March 2020)	Ten year target (March 2027)
Percentage of schools graded good or better in most recent inspection.	90%	100%

Measure	Three year target (March 2020)	Ten year target (March 2027)
Average attainment 8 measure at year 11 when compared to comparator authorities.	better than average	Top 25%
Percentage of children looked after (per 10,000 children ≤ 18 years old).	80%	70%
Percentage of 16 to 18 years old Not in Education, Employment of Training.	2%	1%

Note: targets to be reviews annually as part of the contract review process

Key Partnership Indicators – Short term:

Measure	Three year target (March 2020
Percentage of primary schools graded as good or outstanding in the most recent inspection (not including schools with no inspection score).	80%
Percentage of secondary schools graded as good or outstanding in the most recent inspection (not including schools with no inspection score).	75%
Proportion of children on a child protection plan that are there for a second or subsequent occasion.	23%
Number of repeat referrals to children's social care within the last 12 months.	83
Number of children looked (after at month end)	129

Note: targets to be reviews annually as part of the contract review process

Core Partnership Inputs: (to be confirmed)

Hampshire County Council

Service Area	FTEs	
Strategic Management		
Early Years		
Educational Psychology		
Hantsdirect		
Special Educational Needs		
Youth Offending Team		
Fostering & Adoption		
Learning & Development		
Admissions		
Data		
Complaints		
Administration & Support		
Overheads		

Isle of Wight Council

Service Area	FTEs	
Strategic Management		
Early Years		
Educational Psychology		
Hantsdirect		

Special Educational Needs		
Youth Offending Team		
Fostering & Adoption		
Learning & Development		
Admissions		
Data		
Complaints		
Administration & Support		
Overheads		

Other Partnership Inputs:

To be at the direction of the Director of Children's Services, charged in accordance with the payment schedule, provided that they are within the Isle of Wight Council's budget and policy framework.

<u>Staffing: (average number of days per week in a 12 month period)</u>

Strategic Management:

Post		Days
Director of Children's Services	Steve Crocker	1
Assistant Director – Children & Families	Stuart Ashley	1
Assistant Director Access, Performance & Resources	Felicity Roe	1
Assistant Director – Education & Inclusion	Brian Pope	1
Administration Support		0.5

Early Years

Post		Days

Educational Psychology

Post		Days

Hantsdirect

Post		Days

Special Educational Needs

Post		Days

Youth Offending Team

Post		Days