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.

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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