HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	18 June 2018 20 September 2018
Title:	Looking Ahead - Medium Term Financial Strategy
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Carolyn Williamson, Director of Corporate Resources

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

1. Recommendations

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

1.1. Notes and agrees the potential for formal decision making on the next transformation programme to take the County Council to 2021 being made during the autumn 2019.

1.2. Notes and agrees to proceed on the basis of a forecast financial gap for the two year period to 2021/22 of £80m.

1.3. Approves the provisional departmental targets outlined in paragraph 7.7.

1.4. Approves the timetable for the Transformation to 2021 Programme as detailed in paragraph 7.13

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

a) The allocation of recurring funding totalling £19.7m from 2019/20 onwards to be met from a further round of corporate efficiencies, achieved from a review of treasury management activity, inflation allowances, contingencies and reserves, is approved to provide for the following:

- £5m for the revenue consequences of the Digital Programme and the expanding use of technology that underpins the delivery of transformation.
- £1.2m to re-align the Strategic Procurement income allowing corporate prioritisation of this resource to take place.
- £13.5m for the forecast growth in Children Looked After numbers.

b) An initial allocation of £200m is added to the capital programme for Adults' Services Bed Based Programme to be funded from prudential borrowing.

c) A sum of £1.8m is added to the capital programme in 2018/19 and £0.5m in 2019/20 to be funded from departmental reserves to proceed with the next phase of the Country Parks Transformation Programme and specific proposals for the Empire Room at Royal Victoria Country Park, the farm attractions at Staunton and Manor Farm and for Queen Elizabeth Country Park.

d) £4m is added to the capital programme to fund the replacement of the current social care IT system to be met from existing funding set aside for this purpose.

e) A sum of £9.53m is added to the capital programme to progress the completion of phase 1 of the Eclipse Busway from Fareham to Gosport and that funding of up to £2.5m is approved to underwrite the scheme in the event that further grant funding cannot be secured.

1.6. **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 allocation of recurring funding totalling £19.7m from 2019/20 onwards to be met from a further round of corporate efficiencies, achieved from a review of treasury management activity, inflation allowances, contingencies and reserves, to provide for the following:

- £5m for the revenue consequences of the Digital Programme and the expanding use of technology that underpins the delivery of transformation.
- £1.2m to re-align the Strategic Procurement income allowing corporate prioritisation of this resource to take place.
- £13.5m for the forecast growth in Children Looked After numbers.

b) The addition of an initial £200m to the capital programme for Adults' Services Bed Based Programme to be funded from prudential borrowing.

c) The addition of £1.8m in 2018/19 and £0.5m in 2019/20 to the capital programme to be funded from departmental reserves to proceed with the next phase of the Country Parks Transformation Programme and specific proposals for the Empire Room at Royal Victoria Country Park, the farm attractions at Staunton and Manor Farm and for Queen Elizabeth Country Park.

d) The addition of £4m to the capital programme to fund the replacement of the current social care IT system to be met from existing funding set aside for this purpose.

e) The addition of £9.53m to the capital programme to progress the completion of phase 1 of the Eclipse Busway from Fareham to Gosport, together with funding of up to £2.5m to underwrite the scheme in the event that further grant funding cannot be secured.

2. Executive Summary

2.1. The purpose of this report is to consider the medium term prospects for the County Council's finances to 2021/22 and to update Cabinet on the budget development process for 2019/20.

2.2. The deliberate strategy that the County Council has followed to date for dealing with grant reductions and the removal of funding that was historically provided to cover inflation, coupled with continued demand pressures over the last decade is well documented. It involves planning ahead of time, through a two-yearly cycle, releasing resources in advance of need and using those resources to help fund transformational change. This strategy has served the County Council, and more particularly, its services and community well, as it has delivered transformation programmes on time and on budget with maximum planning and minimum disruption. Put simply, it is an approach that has ensured Hampshire County Council has continued to avoid the worst effects of funding reductions that have started to blight other local authorities.

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

2.4. The County Council's strategy placed it in a very strong position to produce a 'steady state' budget for 2018/19 and give itself the time and capacity to develop and safely implement the next phase of changes through the Tt2019 Programme. The budget for 2018/19 was balanced through the use of the Grant Equalisation Reserve (GER), in line with the previous Medium Term Financial Strategy (MTFS) approved by County Council.

2.5. The Tt2019 Programme is progressing well and to plan, but it is clear that bridging a further gap of £140m will be extremely difficult and will take longer to achieve in order to avoid service disruption. The Chief Executive's report on Transformation to 2019 – Report No. 3 was presented to Cabinet in April 2018 and outlined the positive progress being made.

2.6. 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.

2.7. In 2019/20 additional funding to provide for the revenue consequences of the Digital Programme which underpins the delivery of transformation, to re-align the Strategic Procurement budget and also to respond to the continued growth in demand pressures across children's social services is required and will be met from a further round of corporate efficiencies, achieved from a review of treasury management activity, inflation allowances, contingencies and reserves.

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

2.9. In this context the report also considers some specific additional capital investment, although overall there remains limited scope to add new schemes to an extensive capital programme.

2.10. This report extends the financial planning period to 2021/22 and considers the financial strategy that may be developed, recognising the uncertainty that exists beyond the period covered by the current spending review which runs to 2019/20. No further settlement figures are available after 2019/20 and there remains uncertainty nationally around the Fair Funding Review and the future of 100% Business Rate Retention.

2.11. Whilst the scale of Government grant reductions after 2019/20 is not expected to be at the same levels experienced throughout the last decade, the County Council must still find funding to meet inflationary and pay pressures within services that prior to 2010 would have been funded by government. Provision must also be made for new funding to meet growth in services, primarily in the areas of adults' and children's social care with only partial funding provided by the Government for adults' services and no national funding identified yet to begin to address the pressures for children's. Whilst council tax income provides part of the solution, the budget can only be balanced through reductions in spending or the generation of additional income by departments.

2.12. Looking ahead, the financial forecasts beyond 2020 indicate that the net gap over the two year period to the 2021/22 financial year is £80m, although it must be emphasised that this forecast is based on a wide range of assumptions and represents a realistic view as opposed to the worst case scenario. It includes assumptions that are marginally less prudent than previous forecasts in order to try to mitigate the impact on services but this must be balanced against the greater risk that these assumptions build into our medium term financial planning.

2.13. The County Council gross expenditure continues to be in the region of £1.9bn and the authority remains in a very strong financial position, which is testament to the organisation’s ability to plan and ensure that it is appropriately placed to deal with the future challenges that lie ahead. However, what is clear from the forward forecasts that have been prepared is that under current funding arrangements, against existing duties and anticipated demands, the County Council cannot maintain financial sustainability in the longer term. It simply does not have the capacity to continue to absorb the annual inflationary and growth pressures through successive change programmes without the allocation of additional government funding.

2.14. Whilst Hampshire is as well placed as any county council to tackle these pressures over the medium term, the simple mathematics mean that ultimately there will be a tipping point and evidence would suggest that many local authorities are closer to that position already.

2.15. The County Council’s workstream, cost reduction, efficiency and transformation programmes and the capital programme will all be reviewed to identify future opportunities. The emphasis will once again be on efficiency and cost reduction aligned with exploiting new digital capability. Increasing partnerships, trading and commercial opportunities will be evaluated at the same time to ensure continued focus on maximising value from every pound spent. However, whilst the County Council will seek to maximise opportunities in these areas, delivering a further £80m on top of the £480m removed from the budget by 2019/20 is unlikely to be achieved without further targeting of services and the reduction of services in some areas.

2.16. The County Council’s reserves strategy, which is set out in Appendix 3, is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be successfully planned, developed and safely implemented.

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

3. Contextual Information

3.1. It is normal practice, at this time of the year, to provide Cabinet with an update on the Medium Term Financial Strategy (MTFS) in order to inform and direct work on detailed budget planning that will take place over the summer.

3.2. The budget setting process for 2019/20 will be different from last year in that the majority of the decisions in respect of major changes to the budget were taken early, in the 2018/19 budget setting process. Other factors will still affect the budget, such as council tax decisions and social care pressures as outlined later in this report, but these will not be as significant as the change programme that has already been put in place.

3.3. The County Council's success in delivering its budget plans is demonstrated by the fact that it has been able to contain expenditure within budget and has achieved under spends in each of the years since 2010/11, despite taking significant sums of money out of the budget.

3.4. 2017/18 represented a further milestone in this journey, given that a further £98m was removed from budgets in this year following the Transformation to 2017 (Tt2017) Programme, taking the total to £340m since the grant reductions (including the removal of funding from government to provide for inflation and demand growth) began.

3.5. This further level of reduction obviously increased the risk within the budget and strong financial management has remained a key focus throughout the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that the change programmes that have been approved are delivered. 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 resources being delivered through transformation, has continued through periodic reports to the Corporate Management Team (CMT) and to Cabinet

3.6. The outturn position for 2017/18 is set out in the 2017/18 – End of Year Financial Report to Cabinet presented elsewhere on this Agenda and shows an overall under spend across departments. This position is probably the best measure we have for demonstrating that the Tt2017 Programme has been successfully delivered and that the focus on strong financial management throughout the year has been effective.

3.7. It is too early to look at revenue monitoring information from 2018/19 but given that this year is in effect a 'steady state' position, following the decision to roll up all of the savings into the Transforming the Council to 2019 (Tt2019) Programme, the potential risks are lower than in 2017/18, although we continue to face pressures within social care (especially children's) along with most other authorities providing these services.

3.8. The Chief Executive's report on Transformation to 2019 – Report No. 3 was presented to Cabinet in April 2018 and outlined the positive progress being made as we continue with implementation of the programme to deliver the required changes and service transformation.

3.9. The programme is now very much orientated to implementation and delivery. Where appropriate, this will include further service specific public consultations where proposals and options for service change will be debated with service users and key stakeholders.

3.10. 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 and also means that benefits realisation and the planned delivery is consistently in focus, which for this programme, given its later cash flow support demands, is ever more important. In addition, it is almost certain that there will be further service demand pressures, particularly in the social care departments, and a continued squeeze on public sector funding into the next decade. This puts an added premium on the Tt2019 Programme being delivered in full, and as quickly as it is safe to do so to put the County Council in the best position possible at the commencement of any successor programme.

3.11. Early implementation progress has been positive with some £35m of the £140m target secured by the end of February. This includes the full achievement of the £23.2m of corporate efficiencies (including a small element of additional council tax income) alongside some early delivery across the different departmental programmes. This combined with the effective management of the financial position across the authority in 2017/18 indicates that the County Council is well placed to maintain its record of strong financial management and delivery through 2018/19.

3.12. The focus of this report is therefore on the position for 2019/20, the medium term to 2022 and the proposed strategy and high level timetable for dealing with the predicted gap in each of these years.

4. The Council's Challenge

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

4.2. Whilst the County Council understands the wider economic imperative for closing the structural deficit, the prolonged period of tight financial control has led to significant reductions in government grant and the removal of funding that was historically provided to cover inflation, coupled with continued underfunding for demand pressures. At the same time the County Council has also had to respond to inflationary and growth driven increases in costs across all services, but in particular adults' and children's social care.

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

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

4.5. The impact on Shire Counties of a significant unexpected reduction in grant at a time of growing demand and cost pressures in the services they provide has affected the short term financial viability of some County Councils, with Surrey previously considering a referendum for a 15% council tax increase and the well publicised financial issues facing Northamptonshire whose Director of Finance issued a Section 114 notice in February 2018, imposing spending controls on the council.

4.6. Whilst Hampshire's forward planning and successful delivery to date have placed it in a strong position, the impact of the 2016/17 settlement significantly increased the challenge for the two years to 2019/20.

4.7. The County Council's approach to date has served it well, exploring areas of cost reduction, efficiency, IT enablement and other investment in service re-design and transformation to help make the required budget reductions. This approach will continue alongside a commercial strategy which generates over £130m of income each year.

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

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

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

4.10. The County Council continues to expand on this strategy with an expected £11.2m income from its investment portfolio during 2017/18, further expansion of partnership arrangements including providing public health services on the Isle of Wight and on-boarding of three London Boroughs to the Shared Services Partnership taking place this year.

4.11. Progress on the Manydown housing development has moved to the next phase following the appointment of a private sector partner who has brought significant expertise and external investment to the joint venture arrangement.

4.12. By building on its existing strengths, at the same time as looking for innovative (but low risk and sustainable) options for investment and utilisation of assets, the County Council has radically shifted its approach to income generation and the pursuit of commercial opportunities during the period of tight financial control.

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

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

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

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

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

5. 2019/20 Budget

5.1. In overall terms, even after allowing for council tax increases over the settlement period, an anticipated budget gap of £140m was predicted by 2019/20 and targets based on a reduction of approaching 19% in cash limited spend, were allocated to departments as part of the Tt2019 Programme. The remaining amount, now standing at £23.2m, has been secured from corporate efficiencies resulting from changes in accounting practice in respect of depreciation and Minimum Revenue Provisions (MRP) and also the management of debt, inflation allowances and reserves; along with a small amount of additional council tax income.

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

5.3. Whilst the majority of the decisions in respect of major changes to the 2019/20 budget were taken early, other factors will still impact the budget, such as council tax decisions and also a number of additional pressures that are explored below:

Costs of the Digital and Enabling Productivity Programmes

5.4. In considering the financial strategy for 2019/20 and beyond, provision needs to be made for the allocation of funding to address the IT revenue pressures resulting from the Digital and Enabling Productivity (EP) Programmes and the expanding use of technology which underpins the delivery of transformation.

5.5. Recognising that technology is fundamental to the County Council's day-to-day service delivery and business operations, as well as being a key enabler for the transformation agenda, Appendix 1 sets out in more detail the financial pressures to be addressed which total £5m per annum.

5.6. This includes some allowances for growth pressures that arise simply because of the ever expanding nature of information technology. Growth in data storage and the need for greater Wi-Fi capacity and coverage place pressures on the IT budget in the same way as more children requiring home to school transport places cost pressures on Children's Services.

5.7. Whilst the majority of the expenditure underpins the Tt2019 change programmes, it was not felt appropriate to try to top slice departmental budgets to fund the ongoing costs of the investment in IT, as that would simply add to their targets in a less transparent manner, and therefore these additional costs are being factored into the forecasts in the same way as those for social care pressures.

Strategic Procurement

5.8. For many years, the procurement function operated as a trading unit within the County Council, which meant that it sat outside of the normal cash limit process and everything that it spent had to be earned as income either externally, internally from other departments or through ad hoc projects.

5.9. As the period of tight financial control unfolded more corporate control to assist the organisation in further modernising its procurement practices to ensure increasing efficiency in the County Council's external spending became vital. In the face of this change, the trading unit methodology became less effective in dealing with the corporate demands and strategy for procurement across the whole of the County Council. As a result, in 2017/18 the decision was taken to stop treating Strategic Procurement as a trading unit and to incorporate it as part of the cash limited services within Corporate Services.

5.10. However, a large element of the budget continues to be met by income totalling £1.2m generated from a rebate mechanism which relies on a level of spend across the County Council with a range of suppliers. As the pressure grows to reduce spend over successive change programmes, the requirement to deliver this rebate income to maintain the financial position of Strategic Procurement has a counter intuitive impact.

5.11. It is therefore proposed to re-align the Strategic Procurement income budget through an adjustment to cash limits when these are agreed in December of this year allowing corporate prioritisation of this resource to take place, coupled with the ongoing push to reduce external spend without the consequent impact on rebate income. Through replacing the current internal income in this way the funding of Strategic Procurement will become regularised and less dependent on a counter-productive business model, while still subject to the usual stringent monitoring.

Children's Services Pressures

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

5.13. The Department have applied strong focus to these pressures and the reported position for 2017/18 is break even, reflecting the pro-active management of the services together with early delivery of resources, the use of the departmental reserves and agreed corporate support; including an additional £7.2m of support approved in February as part of budget setting.

5.14. Funding has been set aside within contingencies to provide for the projected growth in Children Looked After (CLA) numbers (and in turn the knock on impact for care leavers) and rising costs in 2018/19 and beyond. However, it was previously reported to Cabinet that a further increase in recurring funding would be required to meet the financial consequences of updated growth projections and more detail is contained in Appendix 2. Current numbers of CLA are around 1,500, but the projections to 2022/23 indicate that this could rise to over 2,000 before the impact of the Partners In Practice (PIP) Programme is taken into account.

5.15. In summary, it is forecast that a base budget adjustment of £13.5m is required in 2019/20 and then annual increases are needed to keep pace with projected growth to ensure the Department operates from a firmer financial base as work on the challenging transformation programme progresses.

5.16. This forecast continues to be based on a wide range of assumptions and predictions and given the unpredictability of CLA numbers and costs it is proposed to retain these sums in contingencies and to continue to monitor activity and spend closely, releasing funding only as required.

5.17. The forecast will also make provision for increased legal services resources of £350,000 as a result of the increased activity within children's safeguarding and the requirement to process Deprivation of Liberty Safeguards (DoLS) which have also placed a higher workload within adults' and legal services alike.

Corporate Efficiencies

5.18. Once more, activity has been undertaken to explore the potential for further corporate efficiencies which would remove the need for additional departmental savings to be found and minimise the impact on services. This will include a review of treasury management activity, inflation allowances, contingencies and reserves and may require some elements such as future increases in the council tax base to be brought forward to achieve the target.

5.19. Whilst challenging, the assessment is that further savings of £19.7m can be achieved, albeit that these may require an element of cashflow funding in the earlier years.

Schools Funding

5.20. Members will be aware that for the most part spending in schools is met through a government grant called Dedicated Schools Grant (DSG). This is a ringfenced grant and can generally only be used for school purposes albeit there is some limited flexibility that can be applied as long as this is agreed by the Schools Forum.

5.21. In past years, schools have managed their budgets through a combination of utilising schools reserves and carrying forward unspent elements of the DSG in order to help balance budgets in future years.

5.22. In recent years however, there has been more and more pressure on schools budgets caused in particular by an increasing requirement for pupils with Special Educational Needs (SEN), which exceeds the High Needs allocation within DSG. Schools forum have agreed to transfer the maximum sum allowed from the general Schools allocation to the High Needs block but in 2018/19 there was an over spend of £4.5m after using the remaining carried forward DSG, which has now been exhausted.

5.23. The Department for Education (DfE) have allowed the County Council to carry forward this deficit and Schools Forum have agreed a plan to meet the £4.5m in 2018/19. However, it is expected that there will be a further (and growing) pressure on SEN in 2018/19 which based on current needs is expected to be in the region of £8m. Measures are being implemented to try to address the pressures however this is complex in that many potential actions contain a risk of creating greater pressures elsewhere within the block.

5.24. The DfE is aware of these pressures, which are reflected nationally. Some additional, but insufficient, increase was made to the High Needs block with the implementation of the national funding formula. We are continuing to draw this issue to the attention of the DfE, alongside all other local authorities.

Business Rate Retention

5.25. The Government has long held the view that Business Rate Retention (BRR) should be extended beyond the current level of 50%. Technical work continues across the sector to look at options for extending BRR to 75% with a possible implementation date of 2020/21.

5.26. Pilot schemes have been put in place and for 2018/19 bids were requested from local authorities to take part in a new set of pilots. For the County Council to have taken part it would have needed the agreement of all the Districts and Boroughs 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.

5.27. There were other factors which made the pilot less attractive in any event, in particular the fact that the Government did not initially offer a 'no detriment' clause, meaning that local authorities could have actually lost money if business rate income fell, and the need to gain agreement across the business rate area as to how the additional income would be used and distributed.

5.28. Since that time, the Government did agree to a 'no detriment' clause for 2018/19 and have highlighted the fact that the growth in income is applied retrospectively to when the business rate baseline was set in 2013/14, meaning that greater gains can be made by authorities who were successful in applying for pilot status.

5.29. Given this position Hampshire authorities are again considering the possibility of submitting a bid for a pilot scheme in 2019/20 if and when one is announced, since preliminary work would need to be undertaken to meet what are usually tight submission timescales.

5.30. An initial proposal based on a 30% top slice for a 'strategic infrastructure fund' and 10% for contingencies has been pulled together and will be considered by the HIOWLGA Chief Executives group in due course. Under the scheme, the County Council could benefit up to £6.9m on a one off basis from business rate growth, albeit that this is based on a large number of different variables; notably agreement of a future tier split with the districts and boroughs which will be challenging.

6. Medium Term Forecasts - Beyond 2019/20

6.1. The current financial strategy that the County Council operates, works on the basis of a two-year cycle of departmental savings to close the anticipated budget gap at the end of that cycle. This provides the time and capacity to safely deliver major change programmes every two years, with deficits in the intervening years being met from the GER and early release of resources retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures. The model has served the authority well.

6.2. Given the sustained pressure on the County Council's finances this strategy has been reviewed and other options have been considered. One option is to move to an annual savings programme, which would remove the need to cashflow budget deficits in the intervening years. This option has been rejected as it does not allow sufficient time to properly plan and implement change and given the longer time frames for transformation experienced in

Tt2019 which we can anticipate applying thereafter, it is likely to require cashflow funding anyway. It would also have the effect of running multiple overlapping programmes which inevitably would become complex and difficult to manage.

6.3. Alternatively the County Council could look to extend the programme timing to three years, recognising the current challenges in delivering Tt2019. This is considered to be very high risk, given the uncertainties highlighted later in this Section and would also require greater one off funding that does not currently exist to fill two years worth of budget deficits of £80m.

6.4. The warning signs around other County Council finances following the Northamptonshire problems would also indicate that this is not the appropriate time to be delaying difficult decision. Therefore sticking to the discipline and strategy that has placed the County Council in an exceptionally strong financial position to date would seem the most logical conclusion.

6.5. Members will be aware that the County Council is in the process of addressing a budget gap of £140m by 2019/20 through the Tt2019 Programme. Bridging a gap of £140m after already removing £340m of expenditure is a massive undertaking particularly as each successive change 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.

6.6. As in previous years, the County Council has responded positively to the transformation challenge and 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.

6.7. What is different to previous years however is the fact that the profile of delivery for the programme is back loaded, with some changes not being delivered at all until well after 2019/20. 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 change programmes.

6.8. 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, the future funding for adults' social care and the growing financial pressure nationally on children's services.

6.9. Given the nature of local government finances, uncertainties around future government grant reductions and the large number of variables and assumptions within the overall model, it is difficult to predict with any certainty what the position is likely to be beyond 2019/20.

6.10. There are also certain key assumptions that need to be established before considering what the financial landscape post 2019/20 may look like. The forecasts presented later in this section therefore assume the following:

- All Tt2019 changes and the resulting financial benefits will be delivered in line with current assumptions.
- Funding from the Better Care Fund (BCF) continues at 2019/20 levels going forward.
- No business rate income growth assumed.
- No council tax base increase assumed (other than to help meet the £19.7m of corporate efficiencies mentioned in paragraph 5.18).

6.11. A high level forecast based on the following range of key assumptions has been calculated for the period to 2021/22:

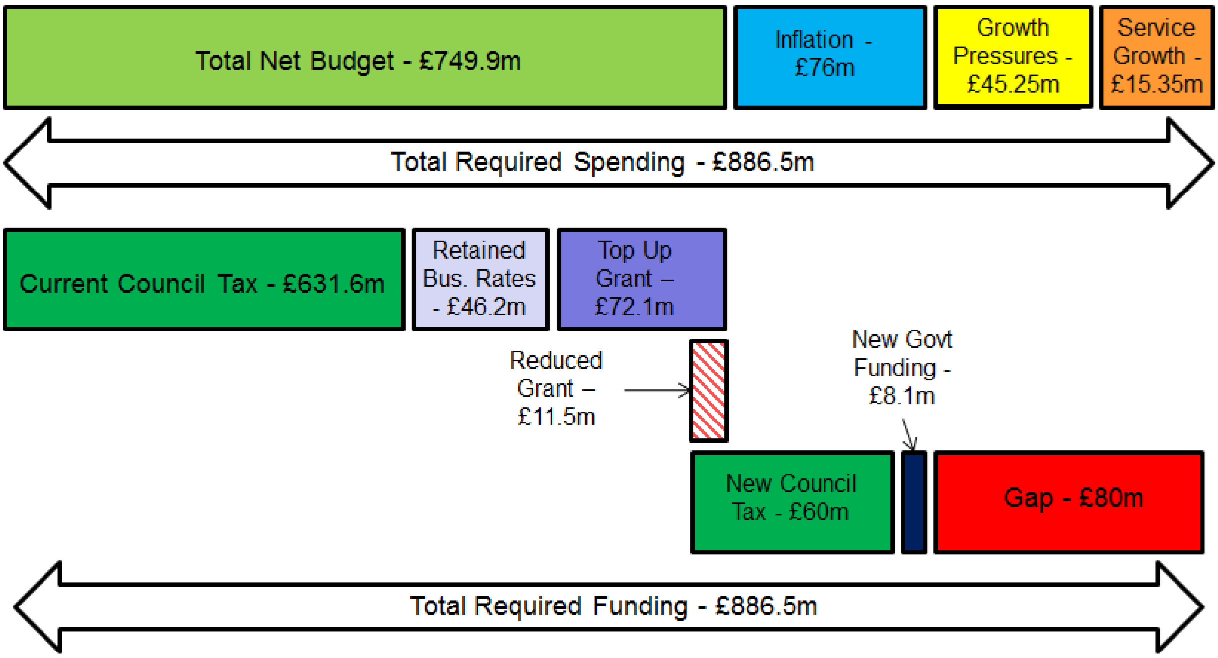
- That the referendum limit will remain at 5.00% which includes a continuation of the extra 2% flexibility to pay for the increasing costs of adults' social care and the increase to the referendum limit for 'core' council tax which for the County Council rose from 2% to 3%.
- That council tax will increase by the maximum amount permissible without a referendum in line with government policy.
- Decreases of 5% per annum in government funding offset, at least in part, by recognition of the need for funding to address the national pressures in children's social care. Whilst we are in negative RSG for 2019/20 there is still the opportunity to reduce funding through the current Business Rate Top Up Grant.
- Annual inflation for pay and prices of around £35.5m per annum, including the impact of the National Living Wage; both directly on salaries and indirectly on care costs.
- An allowance for continuing adult's social care growth of £10m per annum in line with past projections
- An allowance for the future growth in children in care up to £12.6m per annum as set out in Appendix 2.
- Provision of £10m per annum to ensure the continuation of the current Operation Resilience which is due to end in 2020/21.
- New funding of £5m per annum to support the revenue costs of the Digital and EP Programmes.
- An allowance for growth in pension costs of £2.5m per annum resulting from the next triennial pension revaluation.
- Recognition that the MRP holiday, which delivered crucial savings in the order of £50m as a one off sum to contribute to the cash flowing of Tt2019 and the GER, will end part way through 2021/22 and payments will need to recommence.

6.12. These assumptions recognise the challenging financial environment within which the County Council will be working but at the same time include additional funding for adults' and children's social care and highways maintenance of up to £32.6m per annum over the period.

6.13. Taking all of these factors into account and assuming that the Council delivers on the plans for Tt2019, the net gap over the two year period to 2021/22 financial year is currently forecast to be £80m. Given that corporate activity will already deliver efficiencies of £19.7m by 2019/20 (as described in paragraphs 5.18 to 5.19), activity to meet this gap will be targeted through departmental budgets. This will equate to further cash limit reductions of around 13% over the two years.

6.14. As highlighted in Section 5, whilst grant reductions represent only a small proportion of the overall gap in resources, the County Council must still find ways of meeting cost pressures in the form of inflation, growth and new initiatives, which hitherto were also supported by increases in government grant.

6.15. Whilst some money is therefore added into departmental budgets before the gap is met, this still requires a total reduction in net spend of £80m that must be delivered either by reducing activity, reducing the cost of the activity that is provided or generating additional income. This can be represented diagrammatically as follows for the two year period 2020/21 to 2021/22:



Note: Blocks are not to scale

6.16. It must be emphasised that this forecast is based on a wide range of assumptions and represents a realistic view as opposed to the worst case scenario. There are significant risks around government funding and we are in effect working "blind" at this stage. The scale of the reductions in funding for local government will be unknown until the next CSR is announced and the impact on the County Council itself will remain unclear until the announcement of the Local Government Finance Settlement towards the end of 2019.

6.17. Given this position, it would be prudent at this stage to proceed on the basis that a further gap of £80m needs to be bridged by 2021/22. It is critical that during the next two years the County Council is not distracted from delivering the Tt2019 Programme, irrespective of the financial outlook in the years beyond 2020. Any failure to release recurring sustainable resources in a timely manner will only serve to worsen the position. The intention is therefore to continue the well tested strategy of meeting any anticipated gap in 2020/21 from one-off resources which will be built up in the GER in the intervening period.

Risks in the Forecast

6.18. The current national focus on the financial sustainability of County Councils following the issuing of a Section 114 notice is a stark reminder that a balance must be struck between producing a prudent forecast that takes into account known pressures and issues and then building in assumptions which seek to reduce the impact of budget reductions that departments are required to meet.

6.19. The County Council has always remained on the prudent side of this balance, which is evident when considering our position against the symptoms of financial stress as outlined in Section 8. Our reserves and balances stand at approaching £646m at the end of 2017/18 and whilst we fully understand that the majority of this is committed or earmarked for specific purposes as referenced in paragraph 2.17, it still acts as a general barometer for the relative financial health of the County Council.

6.20. The forecasts set out in this Section have followed a similar process to previous years and the risks faced are also common to previous MTFS positions. However, what is particularly relevant for this forecast is the lack of any detail around the Government's intentions beyond 2019/20.

6.21. The key risks within the forecast can therefore be summarised as follows:

- Grant reductions or funding re-distribution are greater than expected following the Fair Funding Review and extended BRR.
- The assumption of ongoing council tax increases at 5%, including the social care precept.
- The assumption that there will be some government funding allocated towards children's social care pressures.
- That growth in adults' and children's social care is greater than forecast (Appendix 2 highlights that continued growth in CLA at the level experienced in the last six months of 2017/18 would add a further pressure of £27m to this forecast).
- Potential changes resulting from the imminent Green Paper on social care for older people and the parallel work being undertaken looking at social care for working age adults.
- Pay and price inflation exceed the provisions contained in the forecast.

6.22. At this stage the £80m target is deemed to be an appropriate mid-case scenario on which to progress. If following the Government's next Spending Review this proves to be optimistic then we would seek to temporarily absorb the impact of any additional deficit through the use of reserves, as we did for the last Spending Review, and then build the ongoing impact into the next change programme.

6.23. Should the position be more favourable then there are clearly more options available to the County Council on how it wishes to proceed.

7. Transformation to 2021/22

7.1. The high level medium term forecast to 2021/22 now requires the County Council to develop a transformation programme that will deliver £80m. Meeting this target on top of the £480m that will have been removed from the budget by 2019/20 clearly represents the greatest financial challenge yet, coming as it does at the end of a decade of funding reductions for local government.

Meeting the Gap

7.2. The County Council has for some time implemented a sophisticated approach to developing its MTFS. It has two strands:

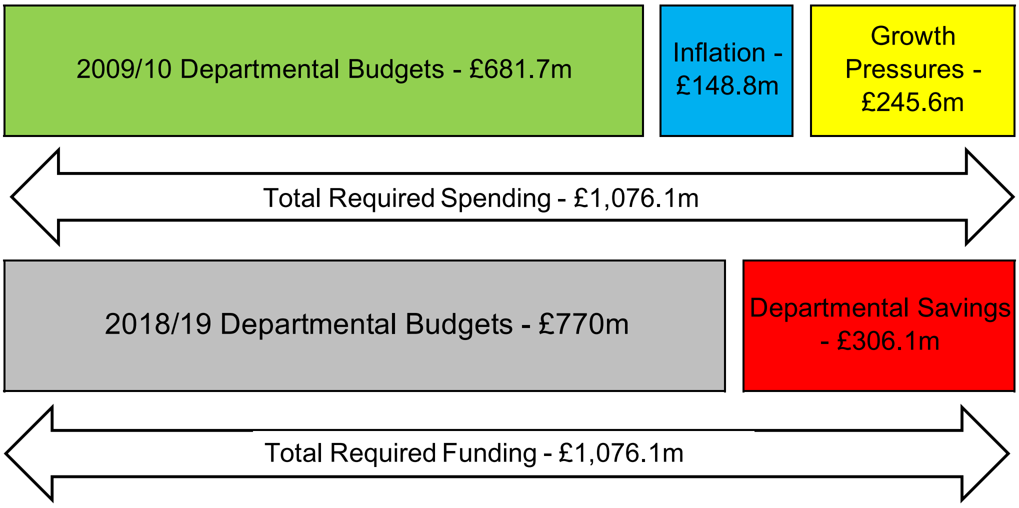
- The first identifies inflationary and growth pressures across services and allocates funding to address these and considers the changes required to also address the loss of government grant income.
- It then applies a straight line target allocation to meet the consequential budget deficit based on net spending to all departments.

7.3. This means that resource allocation overall is directed to the places that need it but importantly it also maintains a strong corporate approach and discipline to delivering the required changes.

7.4. This approach firmly focuses on delivery of resources, removing the distraction of debating the relative merits of different target setting methodologies. This also avoids any subjective debate about the relative merit of specific services and it is recognised that the key pressures, felt within for example demand led social care services, are increasing which is reflected in additional growth in these budgets as appropriate.

7.5. There has always been strong distinction made between savings targets and growth allocations which are made in recognition of growing demand and service pressures on a revenue or capital basis, for example social care, highways maintenance and waste disposal, and the County Council's gross expenditure remains in the region of £1.9bn.

7.6. Over the period since 2010 net departmental budgets have in fact grown by approaching £90m as shown in the diagram below, with the majority of the additional funding allocated to Adults' Health and Care:



7.7. Translating the £80m into departmental targets results in the following allocation which equates to further cash limit reductions of circa 13% over the two years:

	Target £'000
Adults' Health & Care (*)	43,100
Children's Services (Non-Schools)	17,202
Economy Transport and Environment	11,748
Policy &Resources	7,950
Total	**80,000**

(* Public Health included as ring-fence anticipated to end in 2019/20)

7.8. As part of the previous MTFS it was re-iterated that at that stage cash limits had been cut significantly since the period of funding reductions began as demonstrated in the following table:

2012/13	2 year target	-16.0%
2013/14	efficiency target	-2.0%
2015/16	2 year target	-12.0%
2017/18	2 year target	-14.5%
2019/20	2 year target	-19.0%
		-63.5%

7.9. In broad terms bridging a further £80m gap will take the cumulative reduction in cash limits to more than 76% over a ten year period. However as highlighted in the diagram in paragraph 6.15 there has been and continues to be increases in the net departmental budgets; funded primarily from increased council tax income.

7.10. This overall position is predicated on the Council's ability to meet, on a one-off basis, a significant gap in funding in 2020/21 in order to give the longer lead in time for delivery. Even over a two year period, this is clearly a very challenging prospect given the value of resources that have already been taken out of the system and the additional effort and levels of transformation activity that are required to achieve further phases of change. It is likely that further corporate cash flow support may be required and therefore where possible, the County Council will continue to direct spare one off funding into the GER as part of an overall longer term risk mitigation strategy, which has served it very well to date.

7.11. During the coming 18 months there will hopefully be further clarity around a range of issues, including some detail about the plans for BRR and the outcome of the Fair Funding Review, and this along with the future announcement relating to the next CSR will allow us to refine this position.

Timescales

7.12. Looking ahead to the programme to take us to 2021 we would propose a similar timeline to that adopted successfully for both the 2017 and 2019 Transformation Programmes, including a similar approach to consultation.

7.13. In addition, a Budget Peer Review process has also been planned for this summer, which will help to inform the future savings programmes and options. The key dates are set out in the table below:

MTFS to Cabinet and County Council	June / July 2018
Budget Peer Review Process	June / July 2018
Update on Tt2021 to be included in regular Tt2019 report to Cabinet	October 2018
Initial pre-consultation opportunities identified	Spring 2019
First stage Public Consultation	Summer 2019
Executive Member decision making	September 2019
Cabinet and County Council decisions	October 2019
Service Specific consultations as required	Winter 2019 / Spring 2020

7.14. In the past, the County Council has tackled the change programmes by:

- Planning early and ensuring that everyone understands and is focused on what needs to be achieved.
- Giving itself the time and capacity to achieve the changes in services and structures required.
- Supplementing capacity and driving out savings through Corporate Workstream programmes.

- Providing investment for change by allowing departments to keep under spends and providing other targeted funding where appropriate.

7.15. This strategy has served the County Council well throughout the period of government funding reductions and recognising that the time, capacity and investment required to achieve the next phase of transformation will be even greater than before there is an overriding argument to maintain the proven formula at this stage.

7.16. Given that the future programme will increase the cumulative total of savings to £560m it is inevitable that some of the changes will involve more targeted service delivery and service reductions in addition to efficiencies and income generation. As we move towards 2021 we will need to understand more clearly the cost of delivering our core services and therefore the "floor" for our operating costs and work will be undertaken to develop this knowledge through a series of Budget Peer Review sessions over the summer.

7.17. Now is the time to consider the wider strategy for tackling the next phase of change and further detail will then be developed alongside delivery on the Tt2019 Programme, since achievement of that programme is as important as the one to come, if we are to ensure that we do not compound the potential deficit that we face.

7.18. Looking ahead, although there are a number of risks, dependencies and external factors that will require on-going management input and attention, and in a number of areas risks to delivery could actually increase rather than reduce, at least in the immediate term, success with the Tt2019 Programme, over its extended time period will lay very solid and strong foundations for the inevitable and harder successor transformation programme. Alongside this continued management it is anticipated that in the spring of 2019 we will start to map out the broad themes that the Transformation to 2021 Programme may contain.

7.19. On the basis that the planning for the future programme is considered in the spring it would seem reasonable to give departments a period of around six months to develop initial proposals that can be tested and challenged in time for consultation over the summer before formal decision making by Cabinet and Council in October 2019, which follows the same time frame as all the previous transformation programmes.

7.20. It is important that we continue to include time for effective consultation with residents and stakeholders to inform planning on future proposals to bridge the forecast gap of £80m. Where service specific options require further more detailed consultations this will also allow time for these to be carried out and further decisions to be made and implemented with sufficient time to deliver the required savings by April 2021, albeit that the eventual delivery of those savings may take longer depending on the complexity and nature of the proposals put forward by departments, which has been a feature of the Tt2019 Programme which we have also needed to plan for in a sensible and considered way.

Options Arising from Partnerships or Requiring Legislation

7.21. The additional challenge that a further programme of savings will bring inevitably means that we may need to continue to pursue options that require some level of external intervention or changes in the law. Many of these may have wider implications but they are seen as offering a solution to some of the financial problems that we face without requiring new funding to be allocated by the Government, although these are not necessarily within the County Council's gift. These include:

- Nominal charging for entry to Household Waste Recycling Centres which would assist in keeping sites open and would still reduce the net financial cost.
- Consideration of waste disposal arrangements with District and Borough Councils
- Closer co-operation within Local Government in Hampshire which has the potential to achieve efficiencies of between £40m and £100m per annum.
- Changes in Home to School Transport, the legislation for which dates back to the 1940's.
- Use of speeding course income to fund school crossing patrols.
- Continuing to explore income generation opportunities through trading services and partnership arrangements in line with our commercial strategy.

7.22. These options may form part of the potential package that is drawn together for the spring before consulting with the public over the summer months.

8. Financial Sustainability and Resilience

8.1. Financial sustainability and resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment. This is a key issue in light of events unfolding in Northamptonshire.

8.2. In the current environment in which local authorities are operating, achieving financial resilience is a challenge for all and the Chartered Institute of Public Finance and Accountancy (CIPFA) have called on councils to watch out for signs of financial stress. In view of developments in Northamptonshire County Council this is particularly pertinent. In its report entitled “Building Financial Resilience” CIPFA identified five key ‘symptoms’ of financial stress as follows:

- Running down reserves / a rapid decline in reserves. By definition, using up reserves to avoid cuts can only provide temporary relief.
- A failure to plan and deliver changes in service provision to ensure the council lives within its resources.

- Shortening medium term financial planning horizons, perhaps from three or four years to two or even one. A failure to plan ahead could indicate a lack of strategic thinking and an unwillingness to confront tough decisions.
- A lack of firm objectives for savings - greater ‘still to be found’ gaps in financial plans. Now, not only are planning horizons shortening, but some authorities have only specified how savings will be achieved for the next financial year and even then there may be some with targets rather than firm plans.
- A growing tendency for departments to have unplanned over spends and / or carry forward undelivered saving into the following year. As well as creating a need for greater cuts in subsequent years, unplanned over spends are a sign that an authority is struggling to translate its policy decisions into actions.

8.3. CIPFA have highlighted key areas of focus to support financial resilience and these echo the approach taken to date by the County Council and continued in the plans to take us to 2021/22. These include getting routine financial management right, having clear and realistic plans for the delivery of savings which are monitored and underpinned by adequate investment and managing reserves sensibly to ‘cushion’ the delivery of a transformation programme over the medium term.

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

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

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

8.7. As difficult as the next phase of activity is likely to be it is still worth reminding ourselves that the County Council remains in a very strong financial position, especially relative to other upper tier authorities, delivering on its change programmes, keeping within cash limits and having the financial capacity to invest in the transformation of continually high performing services.

9. Capital Strategy

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

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

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

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

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

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

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

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

9.8. 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.

9.9. A large proportion of the capital investment related to schemes that will lead to reductions in revenue expenditure, for example projects within Adults' Health and Care who will work with health to produce short term stay hubs for re-abling clients so that they can return to their own homes. The County Council will also consider schemes where capital investment can generate new or higher levels of income generation.

9.10. For all of these "Invest to Save" schemes, the expectation is that they will 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) or directly from departmental resources.

9.11. Each scheme is expected to produce a business case in its own right which depending on the value of the scheme will then need to be approved by Cabinet or County Council before it can proceed. Schemes and programmes requiring approval as part of this MTFS are outlined below.

Adults' Services Bed Based Programme

9.12. Adults' Services supported by staff from the Transformation Practice and Finance have been undertaking research and analysis to look at what care provision will be needed by the County Council over the medium to longer term. This takes account of predicted market capacity and conditions, as well as demographic changes and changes in the make up and complexity of clients (for example a greater number of dementia clients needing care).

9.13. This is obviously a very complex landscape with many variables and issues to consider, however, the work is important to assess what bed based provision we will need in the future so that we can invest in the right facilities in the right locations. A range of options are being targeted including, short term re-ablement beds, dementia care, nursing care, extension of the extra care programme and the modernisation of our residential homes. The number of beds and the cost will be dependent on the types of schemes taken forward.

9.14. At this stage, detailed work continues to be undertaken to develop an overall Outline Business Case for submission in the autumn but this report requests that an initial sum of £200m is added to the capital programme, which will ultimately be funded from prudential borrowing and repaid from the resources that are released.

9.15. In a similar way to the Extra Care Programme, all proposed schemes will need to produce a Full Business Case that must be signed off by the Executive Member for Policy and Resources before the scheme can commence. More information about the overall aims and scope of the programme will be presented in the autumn.

Country Parks Transformation

9.16. The second of these is the next phase of the Country Parks Transformation Programme and specific proposals for the Empire Room at Royal Victoria Country Park, the farm attractions at Staunton and Manor Farm and for Queen Elizabeth Country Park.

9.17. A report entitled 'Country Park Transformation Phase 2 Business Case and Project Appraisal' was presented to the Executive Member for Culture, Recreation and Countryside on 10 May 2018 and Cabinet is recommended to add £1.8m to the capital programme in 2018/19 and £0.5m in 2019/20 to be funded from departmental reserves.

Replacement Social Care System

9.18. The current social care system which is used by both Adults' Health and Care and Children's Services is due to go out of support in 2019 and therefore a replacement system needs to be procured.

9.19. Changes in technology and the need to ensure that any new system meets the differing needs of adults' compared to children's social care will be important factors in looking at the options available. Options in the market place that look at single or separate systems will be considered and a further report will be brought back to Cabinet in due course.

9.20. A provision of £4m has already been set aside to fund the procurement and implementation costs of any new system or systems, but this report requests that £4m is formally added to the capital programme to enable this work to continue.

Bus Rapid Transit

9.21. The completion of Phase 1 of the Eclipse Busway will provide a southern extension to the award winning Eclipse Busway from Fareham to Gosport. The Scheme is a 0.9 kilometre extension from Hutfield Link / Tichborne Way to Rowner Road at an estimated cost of £9.53m. It forms the final phase of a planned busway forecast to deliver additional time savings, patronage growth, modal shift, access to key development sites and improve air quality. The Scheme will also facilitate a new 'Eclipse Extra' bus service to the Solent Enterprise Zone at Daedalus.

9.22. The existing Eclipse Busway Phase 1A has delivered significant modal shift. Approximately 20% of passengers have transferred from the car, and traffic has reduced by up to 2% on the parallel A32. There has been a 64% growth in patronage on the two Eclipse routes compared with the services they replaced, delivering a 12% increase in public transport use generally on the peninsula. More people are using Eclipse for their daily commute, and more passengers are transferring to rail at Fareham rail station. Approximately 2.4 million journeys each year are now made on Eclipse, the busiest bus corridor wholly within Hampshire.

9.23. Hampshire County Council secured £6.93m from the Government's National Productivity Investment Fund (NPIF) in October 2017 for the Scheme and an additional £100,000 is being provided from the profit share from Phase 1A of the busway. It is intended that further funding bids will be made for the balance of up to £2.5m of funding required. This is likely to include bids to government programmes for air quality improvement, and the Transforming Cities Fund, whilst additional local funding may also become available through the Local Transport Plan capital allocations or developer funding contributions in the area. This report seeks Cabinet and County Council approval to underwrite the funding of £2.5m in order that work can progress immediately on implementation of the project in advance of the outcome of any future Air Quality bid. In the event that further funding is not secured the balance required to complete the project up to the £2.5m stated would be met from the Corporate Policy Reserve

9.24. Once complete, the operator will work in partnership with Hampshire County Council on this project. They will invest £3m in a new fleet of seventeen high specification, low-emission buses to provide fast and high-frequency services on the busway, as well as introducing a new Eclipse Extra service to the Enterprise Zone.

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

10. Reserves Strategy

10.1. The County Council's reserves strategy, which is set out in Appendix 3, is now well rehearsed and continues to be one of the key factors that underpin our ability not only to provide funding for transformation of services but also to give the time for changes to be properly planned, developed and safely implemented.

10.2. Reserves are available to support:

- Funding of the capital programme.
- Investment in transformation.
- Departmental budgets in the face of pressures and timing delays in the release of resources.
- The overall revenue budget through the GER.

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

10.4. As explained in the 2017/18 – End of Year Financial Report to Cabinet presented elsewhere on this Agenda, in overall terms the total value of earmarked revenue reserves has increased as provision is built up in the GER, ahead of planned draws in line with the MTFS.

10.5. The net impact of the changes in the revenue account during 2017/18 mean that the GER stands at £74.9m, which is in line with the financial strategy of supporting the revenue spend position as plans are developed and delivered on a two year cycle. Provision has been made for a draw in 2018/19 in order to give the County Council the time and capacity to implement the Tt2019 Programme and to cash flow the safe delivery of the programme so as we can complete the transformation to take us to 2019/20, and plan sensibly for future years.

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

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

10.7. Other earmarked reserves have increased due to the receipt of funds in advance of their planned use but they will then fall as these funds are utilised in line with their intended purpose, in particular in funding the capital programme and supporting revenue spend whilst change programmes are put in place.

10.8. While the overall level of reserves currently exceeds £0.5 billion it is anticipated that reserves will fall at the end of 2018/19 and then rise again in preparation for a large draw to support the budget in 2020/21 with the overall trend showing a decline as we move through the next decade. In addition it is also important to consider the level of the available resources in the context of the scale and scope of the County Council’s operations and it is a stark fact that when expressed in terms of the number of days that usable reserves would sustain the authority for it would be less than 30.

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
Revenue Budget and Precept 2018/19 and Capital Programme 2018/19 – 2020/21 http://democracy.hants.gov.uk/ieDecisionDetails.aspx?AIId=6228	Cabinet – 5 February 2018 County Council – 22 February 2018
Medium Term Financial Strategy and Transformation to 2019 Savings Proposals http://democracy.hants.gov.uk/ieDecisionDetails.aspx?AIId=3194	Cabinet – 16 October 2017 County Council – 2 November 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:

a) Equality objectives are not considered to be adversely affected by the proposals in this report but the Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account.

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:

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

The revenue budget and capital programme contain measures that will assist in reducing our carbon footprint.

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

The County Council in designing its services will ensure that climate change issues are taken into account

Recurring Costs of the Digital and Enabling Productivity Programmes

1. Introduction

1.1 This appendix provides an overview of the ongoing revenue pressures which have been generated as a result of the Transformation to 2019 (Tt2019) portfolio, Enabling Productivity (EP) Programme, Digital 2 and other business driven demand and natural growth.

1.2 The Digital programmes and other IT enablers have formed an integral part of both the Transformation to 2017 (Tt2017) and Tt2019 Programmes and have successfully underpinned a wide range of transformation opportunities.

1.3 The ongoing costs of these enabling programmes has been built into the Medium Term Financial Strategy (MTFS) as a recurring cost from 2019/20 although some elements will need to be funded in the current year, which will be met from general contingencies.

2. Contextual information

2.1 Technology is unique in its cadence of change, and organisations must move to keep apace with new developments in order to remain effective and relevant, as well as to avoid the risk associated with legacy technology. The pace of change is driven as much by the business models of technology companies, as it is by true innovation.

2.2 As technology moves forward, the County Council seeks to exploit the capability offered by these advancements to drive improvements in quality, efficiency, and productivity in way in which services are delivered.

2.3 Tt2019 has seen a significant investment in technology. Whilst the initial investment in this new technology has been funded via one-off funding from Corporate Reserves, there are inherent ongoing revenue costs associated with every technology implementation. These costs must be borne for the lifespan of the technology's use, and include IT support and maintenance effort, service and contract management, third party service costs, hardware maintenance, and annual subscriptions / software licences.

2.4 The use of technology in organisations also generates natural growth in demand. This includes ever-increasing data that requires storage and management, extended and enhanced Wi-Fi, fixed costs associated with peaks in staffing and departments identifying opportunities for minor improvements. This means, that as well as corporate projects, IT also face additional revenue costs as a result of annual growth in the demand for IT services from across the Council.

3. Financial implications

3.1 There are seven key areas contributing to increased ongoing revenue costs in IT, which are summarised in the paragraphs below:

3.2 **Enabling Productivity** – This programme is deploying a range of new devices to staff, including a large number of hybrid laptops. These devices will enable transformational changes in working practices, and facilitate staff to work in a diverse range of work settings. The majority of the devices will have a three year lifecycle and are more expensive than fixed devices, and so device refresh accounts for a large proportion of the additional revenue cost. In addition, the shift of balance away from fixed terminals towards mobile devices requires additional management software, and IT support time. Provision has also been made to refresh and maintain the technology in meeting rooms, pending a review that is currently being undertaken.

3.3 **Mobile Telephony** – As an extension to Enabling Productivity, those staff who have been identified as 'field' workers (i.e. spend more than 50% of their time working away from Hampshire County Council offices), are recommended to be deployed with a (low-mid range) smartphone. This would provide telephony away from the office, as well as connectivity for a hybrid / laptop via 'tethering'. In addition, staff would benefit from other productivity gains offered by smartphones, such as quick access to email and calendar, camera and satnav. With the anticipated growth in demand for mobile data, the increased revenue cost allows for 2GB per user, and also includes the licence costs for the phone management software required to deploy and secure the devices.

3.4 **Fixed Telephony** – Our existing Avaya fixed telephony solution has reached the end-of-life, and requires replacement. A telephony strategy has been produced to consider the near and future-term requirements for telephony in the context of modern ways of working. The best fit and most cost effective solution to our requirements is to migrate to a soft-phone, using Microsoft Skype for Business, which will provide additional collaboration benefits such as peer-to-peer web and video conferencing. The solution would require uplifting revenue costs to cover the third party service charge.

3.5 **Wi-Fi** – The Corporate Wireless Refresh project significantly expanded the Wi-Fi service coverage in key locations, and provided a like-for-like replacement in other locations. However, experience tells us that as building usage changes, we should anticipate a degree of natural growth. The increased revenue cost includes a provision for this growth, incorporating the additional infrastructure that would be required, plus third party installation costs. It also factors in the refresh of this equipment, and the equipment installed under the Corporate Wireless project.

3.6 **Digital 2** – Following from our successful Digital project in 2016/17. The project has expanded the use of SAP C4C as a case management tool into both the IBC and HR operations. Our analytics platforms have been further enhanced to provide additional business intelligence reporting, and a new Robotic Process Automation (a.k.a. Robotics) platform has been acquired, with a number of business processes already successfully deployed. The additional revenue requirement includes software licencing, and additional staff to support the new and expanded platforms.

3.7 **Recruitment & Learning** – New implementations of SAP Success Factors are being undertaken to significantly improve the recruitment and workforce development offer. The recently live recruitment module greatly enhances both the candidate and manager experience, which in turn will lead to more successful campaigns and reduce the need to go back out to market. The Learning module lays the foundation for implementing a 'Digital Learning

Environment' which will more appropriately balance training delivery between face-to-face, online and self study. The additional revenue costs include software subscriptions, and additional technical staff for support of the platform and its integrations.

3.8 **Natural Growth** – Occurring as the organisation creates and consumes more data and technology in the course of conducting business. It includes expanding our data storage capacity, refreshing and expanding elements of the data centre infrastructure, and acquiring software licenses when there are peaks in staffing.

3.9 At this stage a total provision of £5m has been allowed in the forward forecast, the majority of which relates to the cost of the EP Programme. Given the timescales over which this funding will be required and the changing nature of the costs that we face as a County Council, this funding will only be released into cash limits as and when it is needed.

3.10 Whilst this funding underpins a large element of the Tt2019 programme it was not considered appropriate to try to top slice departmental budgets to fund the ongoing costs of the investment in IT, as that would simply add to their targets in a less transparent manner, and therefore these additional costs are being factored into the forecasts in the same way we do for social care pressures.

4. Conclusion

4.1 Technology is fundamental to the council's day-to-day service delivery and business operations, as well as underpinning the transformation and cost reduction agendas.

4.2 The County Council's reliance on technology to deliver change for Tt2017, Tt2019 (and beyond) comes with an associated revenue cost over its lifespan that allow for the refresh of equipment over time.

4.3 Natural growth is also an unavoidable aspect of technology which brings with it increased ongoing costs but also the benefits of enabling the organisation to continue to function effectively.

Children's Services Demand Projections and Financial Resilience to 2021/22

1. Introduction

1.1 Both nationally and locally pressures relating to the costs (and numbers) of Children Looked After (CLA) continue to grow.

1.2 After a period of relative stability in the 1990s, the number of children that need to be looked after by the state because of neglect and abuse has risen since the mid 2000s. In the period from 2008/9 onwards this has been nationally at around the rate of 5% per year. The Association of Directors of Children's Services (ADCS) has been tracking this increase and the correlating increase in child protection and safeguarding: http://adcs.org.uk/assets/documentation/ADCSSafeguardingPressuresP5REPORTWebFINAL.pdf].

2 Trends and Performance

2.1 Whilst rates of increase have varied across the range of local authorities there is no obvious pattern to be discerned, only that relative rates of increase are often determined by historical rates of children in care (historically too low / too high) and in particular exposure to either a high profile child death (leading to less risk in decision making) or an inadequate Ofsted judgement (ditto).

2.2 In both cases local authorities have had to pay a significant premium for the cost of failure although it should be noted that for most of these authorities, they then have a significant 'cushion' when it comes to making savings.

2.3 Authorities that have maintained an Ofsted rating of 'Good' over the period 2008 - 2017 such as Hampshire are few and far between and their costs tend to be lower given that there has been no premium to pay for failure.

2.4 The national increase in the number of children in care has been driven by a number of factors about which there is a broad consensus:

- A much better awareness and identification of child abuse and neglect from a range of partners.
- The better application of consistent thresholds to receive help as a result of government statutory guidance ('Working Together to Safeguard Children').
- A growing professional aversion to risk from partners driven by national child care scandals ('I don't want it to be me...').
- Some evidence of the impact of recession and austerity on families.
- The discovery of 'new' forms of abuse such as child sexual exploitation, child criminal exploitation and online abuse.
- The creation of a number of new policy initiatives such as 'staying put' which allow teenagers to stay in their foster care placements.
- Children remanded to custody being treated by law as children in care.
- A range of new legal processes such as the 'public law outline' which drive local authorities to put far more case decisions before the family courts.

- A drive by the courts for all cases to conclude within 26 weeks.
- Policy drivers such as the national redistribution of Unaccompanied Asylum Seeking Children (UASC) arriving from France.

2.5 All of these policy initiatives and changes are arguably good things but they have, it is argued, led to higher rates of awareness and activity across a wider range of risk factors leading to higher numbers of children in care both nationally and in Hampshire.

3 Placement Turnover

3.1 It should also be explained that the number of children in the care of the local authority is never a static figure. Every week, indeed most days, children are coming into our care but equally as important, children leave our care. Every decision to take a child in to care is carefully considered and there is a 'triple lock' of accountable decision making.

3.2 Initially, the social worker may have concerns about neglect or abuse of a child based on a risk assessment. If the social worker is sufficiently concerned then they will request that their team manager review the case and, if there are no viable family alternatives, that the child is placed in the care of the local authority in order to protect them. If the team manager agrees then this decision is reviewed by the District Manager to ensure that the decision is sound, the right one for the child and that all alternatives have been exhausted.

3.3 At this point there are only two options that can effectively be pursued: either the child can be placed within local authority care with the agreement of parents (under Section 20 of the Children Act) or the local authority must apply immediately to the court for an interim Care Order in order to safeguard and place the child.

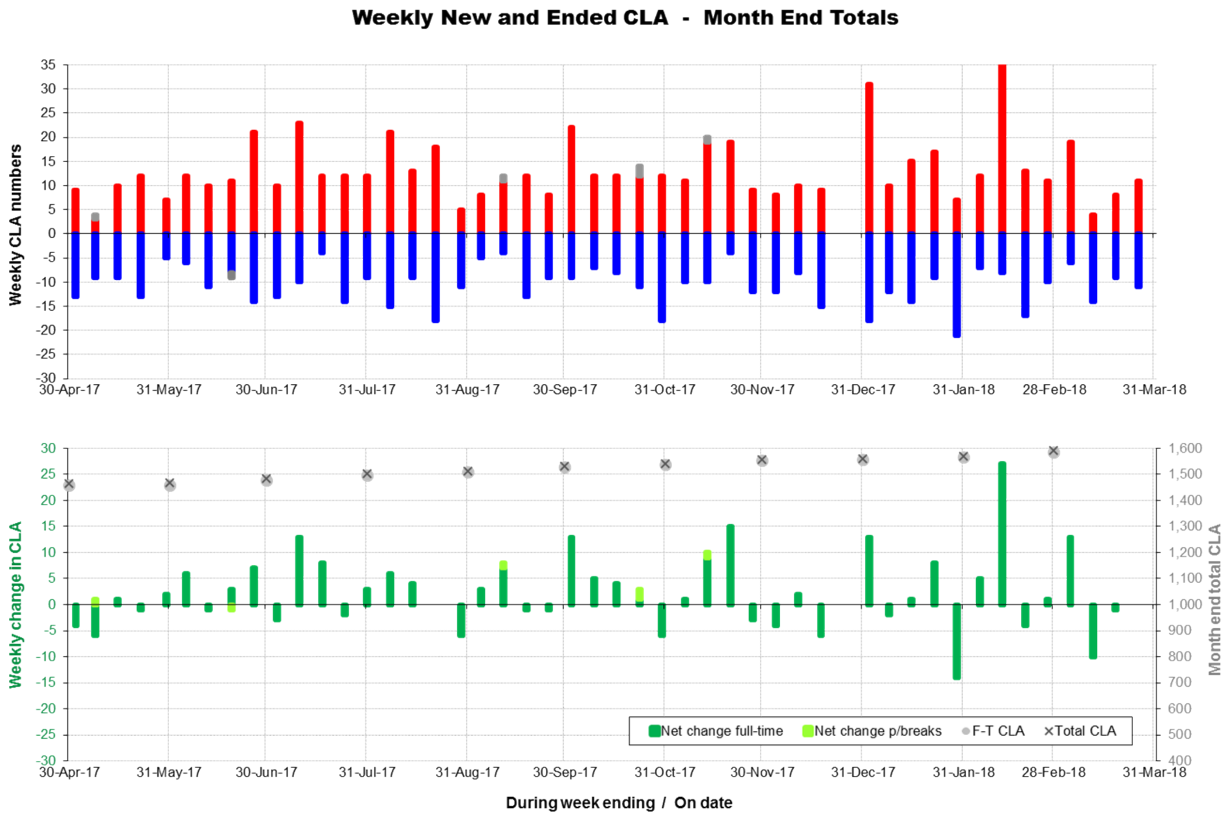
3.4 In the court arena the local authority's decision making is further scrutinised. Around 70% of placements are now made via the courts, a reversal of the situation of a few years ago, due to several practice rulings by the higher courts: supremecourt.uk/cases/2016-0013-judgment.

3.5 It should be noted that children's social care are also piloting a gatekeeping panel to agree the non-emergency admission of children into care. This panel will include partner agencies and will look to time limit periods of accommodation with all agencies contributing to the plan to support the child returning home. If successful, this will be rolled out across the county.

3.6 Children also leave care most days. Often this is because they have become 18 and are classified as 'care leavers' and will be entitled to ongoing financial and practical support from the local authority. This point about ongoing financial support for care leavers is another area where an undoubtedly positive policy development has led to significant additional costs for the local authority which has now become an ongoing financial pressure.

3.7 New legislation which came into effect from April 2018 extended the local authority's responsibility for care leavers until they are 25 years old. Other children are adopted (and thus leave the care of the state) and some, particularly teenagers, return home or go to live with a family member under an arrangement such as a special guardianship order which still has a cost associated with it because of the local authority's duty to financially support such arrangements.

3.8 Thus the number of children in care at any one time is always a net figure reflecting new entrants and leavers. Over time the figure can be better understood as the charts below show:



4 Translating Numbers of Placements into Costs

4.1 Historically, officers have always tracked the number of children in care as a proxy measure for total spend. There has been a long established approximation that the 'cost' of a child in care is in the region of £50,000 per annum. Previous detailed trend analysis work undertaken during a period of significant increases in the number of CLA led to recurring base budget increases in Children's Services of £12.5m in 2015/16 and £9.5m in 2017/18 as well as a further £7.2m allocated for 2017/18 to balance the year end position.

4.2 The costs in these estimations are an average of the direct costs of care (i.e. they do not include the costs of social workers, administration etc.). There are a number of types of care placement, the most common of which is a placement with a local authority recruited and trained foster carer. This tends to be the cheapest option at an average of £344 per week. A mixed market applies in fostering and there are numerous Independent Fostering Agencies (IFAs) that supply placements, sometimes specialist or niche placements, usually at a higher average cost of £854 per week.

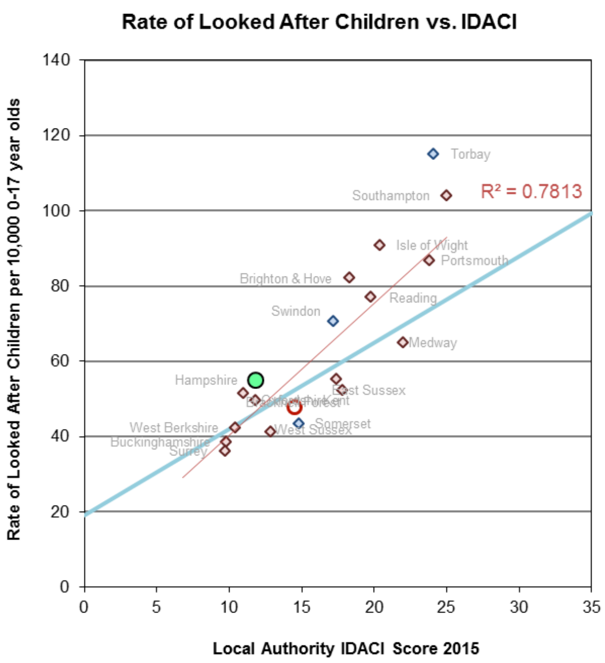
4.3 Similarly, there are in house residential placements and independent residential placements – this latter category being the most expensive with placement packages significantly more expensive than IFAs. There are also a variety of other arrangements, in particular children in care who are placed at home with a parent or family member as part of a reunification plan; this arrangement is becoming more frequent (see below).

4.4 The vast majority of children in care are in foster care (over 70%) with the smallest proportion in residential care (around 12%). However, it is this latter category that is the most expensive. Almost all of the children in these placements (that are not disabled children) will be teenagers – the ‘troubled and troublesome’ category.

4.5 Given that the national number of children in care has increased incrementally and significantly over the last nine years, it should not be a surprise that nationally, demand has outstripped supply and that prices in the independent sector have risen. Significant effort and intelligence has been applied to reducing the costs of contracts with the independent sector as part of Transformation to 2017 (Tt2017) and further work as part of Transformation to 2019 (Tt2019), however there is undoubtedly an element of swimming against the tide on this issue.

4.6 The net number of children in care has been a useful indicator in the past with regards to costs of placements to the County Council and has been used to forecast future costs with some reliability. Alongside this forecasting, considerable efforts have been made to safely reduce the number of children in care although it should be noted that in the thorough Ofsted inspection of 2014, the regulator noted that ‘the right children are in care’.

4.7 This is supported by last year’s annual benchmarking data which showed that the rate of children in care per 10,000 of the child population in Hampshire is at 54, significantly below the England average of 62 and close to the ‘expected rate’ when adjusted for Income Deprivation Affecting Children Index (IDACI) - see graph below:



4.8 A key measure taken to safely reduce the number of children in care has been through Hampshire's involvement in the Department for Education's (DfE) Partners in Practice (PIP) Programme, which underpins the Department's Tt2019 target reduction in CLA costs of £18m.

4.9 This involves focused multi disciplinary interventions with families and especially teenagers, 'on the edge of care' alongside a more family oriented set of interventions focused on promoting parental resilience, targeting parenting deficits and the presence of the 'trigger trio' (domestic abuse, parental substance misuse and parental mental health), whilst increasing the impact of interventions through the implementation of multi disciplinary teams.

4.10 Funding from the DfE for this programme was received in December 2016 and will run until March 2020. The programme is undoubtedly ambitious and seeks to implement an entirely new operating model based on an evidenced based methodology for children's social care.

4.11 The new framework will focus on improving the resilience of children and their families to reduce the numbers of children needing to come into care and thereby increasing the amount of children that can safely live at home. Where children do need to come into the care of the local authority, there will be a greater focus on reuniting them with their families, where it is safe and appropriate to do so. It is anticipated that by implementing this new approach the numbers of children in the care of the local authority will reduce by around 410, albeit that there will be demographic growth and the continued national 5% increase in the number of children in care. Given the size and scale of the changes required it is anticipated the 410 reduction will not be achieved until 2021/22.

4.12 Whilst there is clear evidence that the Department has been able to meet its Tt2017 Programme target for this item, the overall position and future projections are somewhat more complex.

5 Future Projections

5.1 Between 31 March 2017 and 31 March 2018 there was a net increase of 155 children in care. However, there are two main reasons for this.

5.2 Of this number 32 were UASC. Firstly the Government's national redistribution of UASC from France and Kent, which commenced in 2016, has seen Hampshire accepting additional children over the past 18 months. This trend is set to continue longer term.

5.3 Whilst the government set target of 0.7% child population rate for UASC equates to 197 UASC for Hampshire, the average age of unaccompanied children being received 17, meaning they quickly qualify as care leavers and then do not count against the 197 target. UASC now account for over 12% of the care leaver population. The Government has offered additional funding for these children but data from ADCS ('Safeguarding Pressures Phase 5 – Special Thematic Report on Unaccompanied Asylum Seeking and Refugee Children', November 2016) indicates that this meets only around 50% of the actual costs.

5.4 The second reason is the increase (driven by changes in case law) in the number of children subject to interim Care Orders but who are placed with parents under the supervision of the courts. There have been 115 such cases in the last six months, the rate prior to that being negligible. In fact the costs for these children are much less than those in other forms of care as there are effectively no placement costs. Therefore these two factors account for 115 of the increase of 155. The key point here is that although the numbers have increased significantly the relationship between the net number and the overall cost projection is fractured when compared to past predictive models.

5.5 The model is further fractured when the types of placement available are taken into account. The flow of UASCs into the looked after system has strained placement resources nationally, and increasingly fewer IFA placements are available, forcing other placements to be made in higher cost residential settings. Of note is the fact that IFAs increasingly want to receive UASCs, as in the main they present less challenges for their foster carers given the children want to be in care. This then drives a number of local children into higher cost provision, such as Non-County Placements (NCP), simply because of the diminishing level of fostering resource that is available.

5.6 Two obvious conclusions can be drawn from this. Firstly, that a more sophisticated cost prediction model for children in care is needed that takes account of these developing issues. Secondly, that significant resource and capability is applied to reshape the way in which social work with children is carried out to achieve more resilience within families in order that fewer children, especially teenagers who now constitute around 40% of the cohort of children in care, need to enter the care system; and to bear down on the costs of care placements.

5.7 The first aspect of this change programme – the development of a new social work operating model – is the subject of our innovation work as part of the government's PIP Programme, whilst the latter point is the focus of Children's Services Tt2019 Programme.

5.8 Following the unfavourable movements in CLA numbers that started in the summer of 2016, significant work has been undertaken to develop a more appropriate costing model to inform the budget for 2018 to 2022. Children's Services staff have worked with Finance to model scenarios that take into account the changing landscape and the impact that this has on the overall number and mix of placements. Key to this is understanding the market for the different types of placements and how these align to the types of care placements needed (i.e. how supply and demand interact and the consequences for prices / costs).

5.9 Given the significant number of variables there is a danger that projections can become over complicated. A more simplified approach has therefore been applied which initially tracks the movement between total placement numbers and costs for 2016/17 compared to 2017/18 for each of the care groups. This helps to smooth some of the volatility inherent in the comparable numbers over shorter time periods. Adjustments have then been applied, based on what we understand about the capacity of the care market in Hampshire and the impact on price / cost.

5.10 Clearly with so many variables and unknown factors it is impossible to ever predict future trends with certainty, but the actual costs in 2017/18 required £7.2m of the £7.6m additional allocated corporate funding. This was over and above the base budget adjustment of £9.5m and was mainly as a result of a significant growth in NCP's which took place in the year.

5.11 The most recent activity and cost predictions provided by Children's Services on a 'central case' basis indicate that CLA costs will continue to exceed the available budget and require significant further investment. An additional investment of £8.3m corporate funding is anticipated in 2018/19.

5.12 At this stage central contingencies have been allocated within the budget to cover this amount, but inevitably this reduces the County Council's ability to deal with any further financial shocks during the year. Close monitoring of the position will continue throughout the year and any required funding will be released in line with the actual increases experienced.

5.13 Looking ahead to 2019/20 and forecasts for the MTFS, it is predicted that a further ongoing base budget increase of £13.5m on top of the £9.7m that had already been allowed for in the forward forecasts will be required and this will be followed by further annual increases of £8.6m in 2020/21 and £10.3m in 2021/22.

5.14 These forecasts track the rate of increase in costs in the different care groups from 2016/17 to 2017/18 but do not at this stage represent a worst case scenario. The rate of growth in the second half of 2017/18 outstripped that of the first half and were projections to be made using that growth rate, a further £27m per annum would need to be found by 2021/22.

6 Care Leavers

6.1 Finally, attention needs to be drawn to the budget for care leavers. It is an obvious point that if we have had more children in care since 2008 then we will have more young people entitled to care leaver support.

6.2 An analysis of the Local Authority's financial responsibilities towards care leavers highlights a wide set of statutory responsibilities covered by the relevant Legislation and Guidance. There is a requirement to :

- Provide and maintain suitable accommodation.
- Provide a bursary to care leavers going to higher education.
- To give a personal allowance, whilst a benefit claim is being processed.
- To support education, employment and training expenses including travel.
- To give a Setting-up Home allowance, up to £2000 per care leaver.
- Specific requirements for care leavers whilst in custody.
- Responsibilities towards UASC care leavers who have "All Rights Exhausted".

6.3 There are also varying degrees of expectation and guidance that add to the financial burden regarding payments that could be described as discretionary. Many of these payments can be categorised as best practice in terms of corporate parenting.

6.4 There are 759 care leavers aged 18 and over currently receiving a service from Hampshire Children’s Services an increase from 2016/17 of 59. Of this increase UASC account for 22 (or 32%). This number continues to rise year on year as a natural consequence of continuing increases in the numbers of children in care.

6.5 In addition, the new extended duties for care leavers up to the age of 25 will further drive up this number and the associated spend. This group of young people receive support from a dedicated Care Leavers service, with every young person having an allocated Personal Adviser whose responsibility is to keep in touch, to ensure that the young person is supported to access and maintain suitable accommodation and is engaged in meaningful employment, education or training, including support to access apprenticeships, and higher and further education

6.6 A particular challenge in Hampshire currently is to identify and support young people in accessing suitable accommodation, particularly where young people need additional support to live independently. Several new pilots are being tested with the aim of better meeting the needs of care leavers and subject to the outcomes of the pilots, the approach will be rolled out across the county.

6.7 In overall terms, the impact of these changes is already affecting the budget for Children’s Services. Following a detailed review of costs, £1m was added to the budget to 2017/18 to address these pressures, in conjunction with work to provide efficiencies and reduce costs. Further work is required to model potential costs for next year due to the extended duties to care leavers up to the age of 25 while longer term solutions are developed.

Reserves Strategy

1. Introduction

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

1.2 The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long term recurring changes 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 budget gap needs to be met.

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

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

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

2. Reserves Position 31 March 2018

2.1 Current earmarked reserves together with the general fund balance totalled £645.6m at the end of the 2017/18 financial year. The table overleaf summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2016/17.

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

	Balance 31/03/2017 £'000	Balance 31/03/2018 £'000	% of Total %
General Fund Balance	21,498	22,398	3.5
Fully Committed to Existing Spend Programmes			
Revenue Grants Unapplied	17,751	21,541	3.3
General Capital Reserve	126,075	139,645	21.6
Street Lighting Reserve	26,087	26,491	4.1
Public Health Reserve	7,412	7,837	1.2
Other Reserves	1,977	1,057	0.2
	179,302	**196,571**	**30.4**
Departmental / Trading Reserves			
Trading Accounts	12,753	10,970	1.7
Departmental Cost of Change Reserve	85,658	88,690	13.7
	98,411	**99,660**	**15.4**
Risk Reserves			
Insurance Reserve	20,571	25,571	4.0
Investment Risk Reserve	1,500	2,000	0.3
	22,071	**27,571**	**4.3**
Corporate Reserves			
Grant Equalisation Reserve	40,755	74,870	11.6
Invest to Save	31,100	32,109	5.0
Corporate Policy Reserve	4,632	5,889	0.9
Organisational Change Reserve	2,905	2,785	0.4
	79,392	**115,653**	**17.9**
HCC Earmarked Reserves	**379,176**	**439,455**	**68.0**
EM3 LEP Reserve	1,396	4,443	0.7
Schools Reserves	46,679	37,252	5.8
Total Revenue Reserves & Balances	**448,749**	**503,548**	**78.0**
Capital Grants Unapplied	75,415	142,069	22.0
Total Capital Reserves & Balances	**75,415**	**142,069**	**22.0**
Total Reserves and Balances	**524,164**	**645,617**	**100.0**

General Fund Balance

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

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

Fully Committed to Existing Spend Programmes

2.5 By far the biggest proportion of reserves are those that are fully committed to existing spend programmes and more than £139.6m of this funding is required to meet commitments in the Capital Programme. These reserves really represent the extent to which resources, in the form of government grants or revenue contributions to capital, are received or generated in advance of the actual spend on the project.

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

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

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

Departmental / Trading Reserves

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

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

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

- Meet potential over spends / pressures in future years without the need to call on corporate resources.
- Manage cash flow funding issues between years where specific projects may have been started but not fully completed within one financial year.
- Meet the cost of standard redundancy and pension payments arising from the down sizing of the work force.
- Invest in new technology and other service improvements, for example the IT enabling activity associated with the Tt2019 Programme.
- Undertake capital repairs or improvements to assets that are not funded through the existing capital programme where this is essential to maintain service provision or maximise income generation.
- Meet the cost of significant change programmes and restructures.

2.12 By utilising reserves in this way, and allowing departments and trading services to retain resources 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.

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

Risk Reserves

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

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

Corporate Reserves

2.16 The above paragraphs have explained that 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.

2.17 This leaves other available earmarked reserves that are under the control of the County Council and total more than £115.6m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of government grant, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and the residents of Hampshire. These reserves are broken down into four main areas:

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

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

2.20 It has become clear that the period of tight financial control will continue into the next decade and the County Council has taken the opportunity to increase the reserve 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.

2.21 The GER currently stands at approaching £79.4m, but this reflects the fact that a significant draw will be required in 2018/19 as part of the County Council’s strategy of delivering changes over a two year cycle. Where possible, the County Council will continue to direct spare one off funding into this reserve as part of its overall longer term risk mitigation strategy, which has served it very well to date.

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

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

2.23 **Invest to Save** – This reserve is earmarked to provide funding to help transform services 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 efficiencies and improve services over the longer term, by re-designing services and investing in technology and other solutions that make services more modern and efficient.

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

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

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

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

2.28 A scheme is in place, albeit adapted since first introduced, to enable the continued reduction and transformation of the workforce required to deliver the significant savings needed in the medium term with the aim of minimising compulsory redundancies

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

2.30 It should be highlighted that the total ‘Corporate Reserves outlined above account for approximately 17.9% of 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 £79.4m at the end of 2017/18, is in reality fully committed to balance the budget in 2018/19 with the remainder planned to be utilised in the following years to cash flow the safe delivery of the Tt2019 Programme and the next phase of transformation.

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

Enterprise M3 Local Enterprise Partnership (EM3 LEP) Reserve

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

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

Schools Reserves

2.34 Schools reserves account for more than £37m or 5.8% of total reserves and balances. Schools are facing increasing financial pressure relating to high needs and early years, both at an individual school level and within the overall schools' budget. This is reflected in the fall in the value of school reserves in 2017/18.

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

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

Capital Reserves

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

2.38 A sum of £142m is held within capital reserves and balances, although of this more than £36m relates to the EM3 LEP which is included in the annual accounts, as the Council is the Accountable Body. EM3 LEP capital grants unapplied have increased as part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

3. Reserves Strategy

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

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

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

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

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

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

3.5 This cycle has been clearly evident during the last four financial years, with surplus funds generated in advance of need as part of budget setting and then supplemented by further resources released in the year. Achievement in advance of need within departments and efficiencies in contingency amounts due to the successful implementation of change has meant that the Council 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 transformation.
- Additional funds for the GER to help smooth the impact of grant reductions, including significant funding to bridge the unexpected additional budget gap in 2018/19, and give the County Council maximum flexibility in future budget setting processes.

3.6 It is recognised that each successive change programme is becoming harder to deliver and the challenges associated with the Tt2019 Programme are well known. The MTFS has made clear that delivery will extend beyond two years and provision has been made to ensure one-off funding is available both corporately and within departments to enable the programme to be safely delivered. Taking up to four years to 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.

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

3.7 This increases the potential necessity to use reserves to alleviate the initial and ongoing financial shocks in the coming years and we will continue to review all reserves on an ongoing basis to ensure that there is sufficient financial capacity to cope with the challenges ahead.