HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	15 October 2019 7 November 2019
Title:	Medium Term Financial Strategy Update and Transformation to 2021 Savings Proposals
Report From:	Deputy Chief Executive and Director of Corporate Resources

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Section A: Purpose of this Report

1. The purpose of this report is to consider the overall financial strategy for dealing with the budget gap to 2021/22 in light of the various options available to the County Council and to present the high level outcomes from the public consultation exercise on balancing the budget.

2. As part of that overall consideration, this report details savings proposals that have been submitted by Executive Members in meeting their initial savings targets as part of the Transformation to 2021 (Tt2021) Programme.

3. The report considers the impact of the Spending Round announcement made on 4 September and also examines the medium term financial prospects for the County Council to 2022/23 and takes the opportunity to update Cabinet on the financial monitoring position for 2019/20.

Section B: Recommendation(s)

It is recommended that Cabinet:

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

5. Notes the potential financial impact of Brexit and the proposed response to the risks identified.

6. Confirms that the current planning assumption that council tax will increase by the maximum permissible without a referendum, in line with government policy, will continue.

7. Approves the recommended approach to dealing with the anticipated £80m budget deficit, as set out in paragraphs 181 to 183.

8. Approves, subject to further consultation and executive decision making where necessary, the savings proposals in Appendix 4; after taking due regard of the consultation feedback and Equality Impact Assessments.

9. Approves further service specific consultations, where necessary, on the savings proposals set out in Appendix 4, prior to final decisions being made by Executive Members.

10. Restates and reinforces the requirement that should any savings proposal be rejected that alternative options to the same value will need to be developed by the appropriate department.

11. Approves a one off amount of £4.6m in 2019/20 to fund the impact of further growth in the cost of Child Looked After, to be met from the savings in non-departmental budgets in the current year; as identified in Section F.

12. Notes the change to the Coroner's Service in 2019/20, the financial consequences of which have been incorporated into the budget for 2020/21, with any in year impact managed through the use of contingencies.

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

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

    b) Delegated authority be given to the Deputy Chief Executive and Director of Corporate Resources to make pre-payments of employer contributions to the Pension Fund (including any residual deficit) if it is considered financially favourable to do so.

    c) The savings proposals in Appendix 4 be approved, subject to further consultation and executive decision making where necessary.

    d) Recurring funding of £10m for Adult's Health and Care is approved in response to a step change in costs, along with an additional £3.5m per annum to cover ongoing growth driven by complexity and demography.

    e) Up to £4m of one off funding for Adult's Health and Care is approved to provide potential cash flow support that may be required given the current pressure on care packages.

    f) A sum of £6.8m for the forecast growth in the cost of Children Looked After in 2020/21 is approved, with further increases of £1.9m in 2021/22 and £1.2m per annum thereafter, along with up to £1m for growth in associated legal costs.

g) Funding of up to £555,000 is ring-fenced within existing contingencies to provide resources to respond to the potential direct impact of Brexit on the County Council as set out in more detail in Appendix 3, with approval delegated to the Deputy Chief Executive and Director of Corporate Resources, in the event that additional government funding is not provided.

h) Recurring funding of up to £300,000 be approved from 2020/21 to provide additional resources and capacity for the Highways Service following a review of the existing operational processes, policies and of the management and delivery of the frontline service.

i) Strategic land purchase up to £10m to be funded from prudential borrowing with approval delegated to the Deputy Chief Executive and Director of Corporate Resources, in consultation with the Chief Executive and the Leader be approved.

j) Investment of £70m in Older Persons and Younger Adults Extra Care be approved to continue to provide high quality living environments at the same time as reducing the long term costs of care, to be funded from prudential borrowing, that can be approved by the Executive Member for Policy and Resources subject to a satisfactory business case being produced for each scheme.

k) A sum of £590,000 is added to the Capital Programme for fire precaution works in EII South and approval to spend in 2019/20 is granted, to be funded from Policy and Resources repairs and maintenance budget.

l) A sum of £600,000 is added to the Capital Programme for safe route to school works for Robert Mays School and approval to spend is granted, to be funded from Children's Services cost of change reserve.

m) A strategy of contributing savings arising from the favourable 2019 valuation to the Budget Bridging Reserve (previously the Grant Equalisation Reserve) for the next three years is approved.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

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

b) Delegated authority to the Deputy Chief Executive and Director of Corporate Resources to make pre-payments of employer contributions to the Pension Fund (including any residual deficit) if it is considered financially favourable to do so.

c) The savings proposals in Appendix 4, subject to further consultation and executive decision making where necessary.

d) Recurring funding of £10m for Adult's Health and Care in response to a step change in costs, along with an additional £3.5m per annum to cover ongoing growth driven by complexity and demography.

e) Up to £4m of one off funding for Adult's Health and Care to provide potential cash flow support that may be required given the current pressure on care packages.

f) A sum of £6.8m for the forecast growth in the cost of Children Looked After in 2020/21, with further increases of £1.9m in 2021/22 and £1.2m per annum thereafter, along with up to £1m for growth in associated legal costs.

g) The ring-fencing of funding of up to £555,000 within existing contingencies to provide resources to respond to the potential direct impact of Brexit on the County Council as set out in more detail in Appendix 3, with approval delegated to the Deputy Chief Executive and Director of Corporate Resources, in the event that additional government funding is not provided.

h) Recurring funding of up to £300,000 from 2020/21 to provide additional resources and capacity for the Highways Service following a review of the existing operational processes, policies and of how the frontline service is managed and delivered.

i) Strategic land purchase up to £10m to be funded from prudential borrowing with approval delegated to the Deputy Chief Executive and Director of Corporate Resources, in consultation with the Chief Executive and the Leader.

j) Investment of £70m in Older Persons and Younger Adults Extra Care to continue to provide high quality living environments at the same time as reducing the long term costs of care, to be funded from prudential borrowing, that can be approved by the Executive Member for Policy and Resources subject to a satisfactory business case being produced for each scheme.

k) The addition of £590,000 to the Capital Programme for fire precaution works in EII South and the associated spend in 2019/20, to be funded from Policy and Resources repairs and maintenance budget.

l) The addition of £600,000 to the Capital Programme for safe route to school works for Robert Mays School and the associated spend, to be funded from Children's Services cost of change reserve.

m) A strategy of contributing savings arising from the favourable 2019 valuation to the Budget Bridging Reserve (previously the Grant Equalisation Reserve) for the next three years.

Section C: Executive Summary

14. 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 carefully targeted resources in advance of need and using those resources to help fund transformational change.

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

16. In line with this strategy, the proposals in this report which will form the Transformation to 2021 (Tt2021) Programme, are being presented at this stage, together with a summary of the results of the *Serving Hampshire – Balancing the Budget* public consultation carried out over the summer, in order to allow more time for delivery of the savings; including the requirement to undertake a second stage of service specific consultations where necessary.

17. The Tt2021 Programme sets savings targets for departments based on meeting a predicted £80m budget deficit. At the time this figure was forecast, there were no details on local government finance beyond the 2019/20 financial year and a large range of assumptions were made to get to this estimate.

18. On 4 September a one year Spending Round (SR2019) was announced by the Government for 2020/21 which has provided additional resources to local government. More detail is set out later in Section E of this report but in summary, whilst the settlement is positive in terms of the continuation of temporary funding and the allocation of additional funding for social care growth and Special Educational Needs (SEN) provision, in line with extensive lobbying, it is only for one year at this stage. SR2019 also set out core council tax of 2% and the continuation of a further 2% to fund growth in adult social care costs. This is below our assumptions in the Medium Term Financial Strategy (MTFS) and would lose the County Council around £12m of recurring income over the two years of the Tt2021 Programme.

19. More importantly, the cost pressures we face, particularly in adults' and children's social care services are significantly outstripping the forecasts that were included in the original Tt2021 planning figures. The County Council is not alone in facing these pressures which are a national issue and are driven

by increasing costs and demand. Without the additional injection of funding, the County Council would have faced a revised deficit position well in excess of £100m by 2021/22. The net impact of the settlement after taking account of loss of council tax income and increased pressures in social care services is broadly neutral and therefore still requires the County Council to meet a budget deficit of £80m.

20. Longer term, the County Council is still in the position of having no visibility of its financial prospects beyond the 2020/21 year, which clearly makes any accurate financial planning difficult to achieve. Whilst there are some signs that the key messages on funding requirements are getting through, local government as a sector will continue to push the Government for a programme of multi-year rolling settlements that avoid the inevitable cliff edge that we face at the end of every Spending Review period.

21. In terms of achieving a balanced position over the next two years, the consultation was clear that a range of options would be needed to deliver the required £80m of savings by 2021. Therefore, whilst each option offers a valid way of contributing in-part to balancing the budget, plugging the estimated £80m gap in full will inevitably require a combination of approaches. For example, the Consultation Information Pack illustrated the amount of savings that would still be required even if council tax was increased by up to 10%. It explained that the £80m estimated budget shortfall took into account an assumed increase in council tax of 4.99% at that time in both 2020/21 and 2021/22. The Pack also explained that if central government were to support changing local government arrangements in Hampshire, savings would still take several years to be realised. Residents were similarly made aware that the use of reserves would only offer a temporary fix, providing enough money to run all services for around 27 days.

22. As the consultation feedback confirms, a number of different approaches are likely to still be needed to meet the scale of the financial challenge. Consequently, the County Council will seek to:

- **Continue with its financial strategy**, which includes:
  - **targeting resources** on the most vulnerable adults and children; and
  - **using reserves carefully** to help meet one-off demand pressures.
- **Maximise income generation** opportunities.
- **Lobby central government** for legislative change to enable charging for some services.
- **Minimise reductions and changes to local services** wherever possible, including by raising council tax by the maximum permissible without a referendum (currently 3.99%).
- Consider further the opportunities for **changing local government arrangements** in Hampshire.

23. Executive Lead Members and Chief Officers were provided with the key findings from the consultation to inform departmental savings proposals which are shown at Appendix 4. Responses to the consultation have similarly helped to inform options for delivering a balanced budget up to 2021/22, which the Authority is required by law to do. In addition, Equality Impact Assessments have also been produced for all of the detailed savings proposals and these together with the broad outcomes of the consultation and the development work on the overall Tt2021 Programme have helped to shape the final proposals presented for approval in this report.

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

25. The County Council's approach to making savings has always been to minimise the impact on services, by making efficiencies wherever possible and maximising opportunities for investment alongside the generation of income and expansion of its traded services with other organisations. This remains the case for the new savings programme.

26. In 2020/21 (the interim year) the gap of £28.4m can be bridged through a draw from the Grant Equalisation Reserve (GER). Although this significantly reduces future flexibility and introduces a higher element of risk, it enables the continuation of the current financial strategy operated by the County Council which has been so successful to date.

27. The Transformation to 2019 (Tt2019) Programme is progressing well, with more than £100m secured, but it is clear that the remaining £40m of savings will be extremely challenging to deliver. Whilst there is a longer time frame for delivery, taking the time to get this right is very important for service users and the County Council. Adequate resources have been set aside for the current programme to cover this slower and safer implementation, however, it does increase the overall risk in the budget going forward as there will be overlapping change programmes requiring cash flow support.

28. As we move ahead we know that the remaining savings areas will be the most difficult to secure and given the business as usual pressures facing the two social care departments and Economy, Transport and Environment (ETE) there is clearly no room for complacency, especially as implementation and delivery of the Tt2021 Programme will begin to run alongside the Tt2019 Programme. What is clear though is that any successor programme will need to be delivered within a two year window as continuing to provide large scale corporate support will not be possible based on our current knowledge of the financial landscape ahead.

29. Delivery of the Tt2021 Programme will also extend beyond two years to ensure safe delivery and the cash flow requirement is estimated to be £32m. This amount has been built into our planning. In addition, enabling investment

identified by departments can be met from the anticipated early delivery of Tt2021 savings and financial resources to the value of £10m have already been set aside within the Invest to Save Reserve to fund required IT investment which will underpin £24m of savings.

30. The County Council's ability to continue to provide resources to invest in specific priorities, in line with the authority's focus on continuous service improvement, to generate revenue benefits in future financial years, even in times of austerity, and to allow time to safely implement change 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.

31. In this context the report also considers a number of items of additional capital and revenue investment which relate to economic growth, enabling savings and also to managing risk. Overall there remains limited scope to add new schemes to the Capital Programme and to fund new revenue pressures. Therefore, this has required a review of the current financial strategy in order to free up the necessary resources.

32. The report extends the financial planning period to 2022/23, recognising the uncertainty that exists beyond 2020/21 (the period covered by SR2019). No further settlement figures are available after 2020/21 and there remains uncertainty nationally around the Fair Funding Review and the future of Business Rate Retention. The gap in this year is now currently estimated to be £40.2m and the intention is to bridge this through the judicious use of reserves.

33. At present the anticipated balance at the end of the Tt2021 Programme in the GER, which will be repositioned as the 'Budget Bridging Reserve'(BBR), is £0.4m. If we continue the approach of delivering savings on a two year cycle the extension of the planning horizon to 2022/23 results in an overall shortfall in the BBR of approaching £39.8m to bridge the gap in what will be an interim year. This underlines the importance of ensuring that current planned delivery does not slip, that costs are contained as far as possible and that the reserve is topped up to ensure funding is available.

34. The County Council's gross expenditure continues to be in the region of £1.9bn (including schools) and the authority remains in a relatively strong financial position. However, this report outlines that in an environment of continuing tight funding, uncertainty about Brexit, ongoing social care and inflationary pressures, and given the current referendum limits for council tax increases, the financial outlook remains very challenging. This is the same for all local authorities, but Hampshire's position remains stronger than most.

35. It has been previously highlighted that if we are to remain financially sustainable beyond 2021/22 there needs to be a significant change in the way in which growth in adults' and children's social care is funded, since it is not possible to sustain that growth in demand and cost indefinitely.

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

Appendix 9 – Cumulative Equality Impact Assessment

Appendix 10 – Commercial Strategy

Appendix 11 – Reserves Strategy

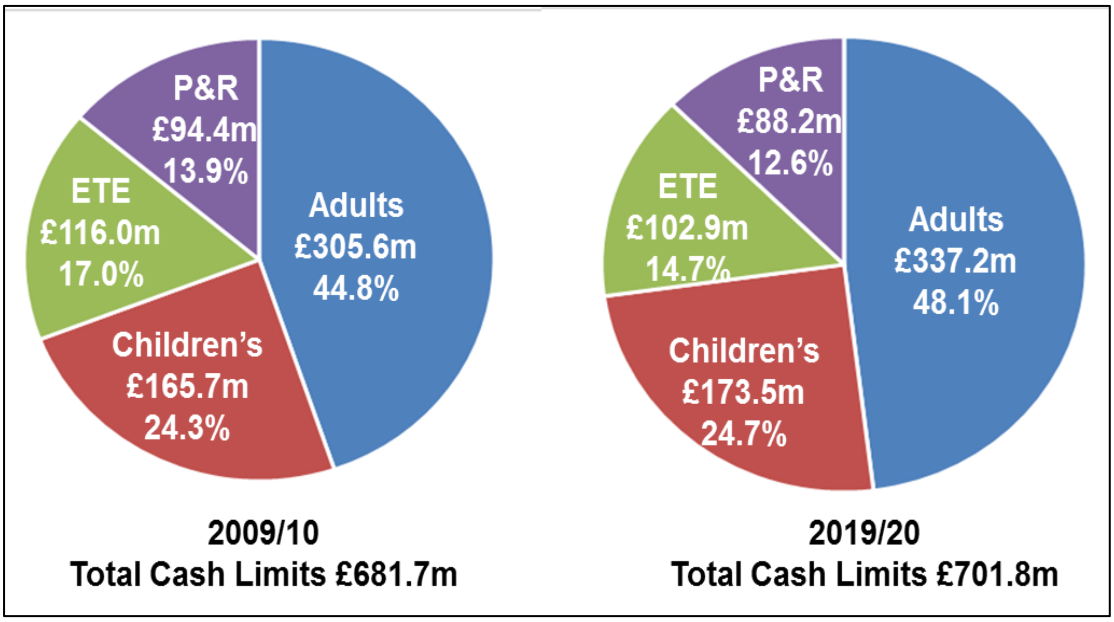
Section D: Contextual Information

37. In recent years it has become customary to present the Medium Term Financial Strategy (MTFS) for approval in the autumn alongside the strategic plan to deliver the savings required for the following two year cycle. The main focus of this report is therefore the plan up to 2021/22 and approval of the detailed savings proposals that will be pursued as part of the Transformation to 2021 (Tt2021) Programme.

38. Further information in respect of the budget setting process for 2020/21 will be provided in December, which will support the setting of the precept in February 2020.

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

40. The impact on expenditure across Departments during this ten year period after having taken out £480m of savings is interesting to see. The chart below shows a comparison of Departmental cash limits between 2009/10 and 2019/20.



41. The variation in total cash limits is only £20.1m. This is because savings have been generated in order to fund increases in expenditure due to inflation and

growth, and since 2016/17 council tax increases have also allowed some increases in expenditure across departments. Had the savings not been made, we would of course have been looking at cash limited expenditure of well over £1bn by 2019/20.

42. What is also interesting to note is that the proportion of total expenditure on the 'social care' departments has only increased by 3.7% over the ten year period, which compares to a swing of 7.6% nationally for all county councils.

43. 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.

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

45. This strategy has enabled the County Council to cushion some of the most difficult implications of the financial changes which have 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.

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

47. Whilst this has been a key feature of previous cost reduction programmes it was recognised that the Tt2021 Programme, the fifth major cost reduction exercise for the County Council since 2010, would be even more challenging than any previous transformation and efficiency programme against the backdrop of a generally more challenging financial environment and burgeoning service demands.

48. Unsurprisingly, the Tt2021 Programme is building seamlessly on from the Transformation to 2019 (Tt2019) Programme, with projects and programmes of work set to go further and harder in a number of areas as the search for an additional £80m of savings (combining cost reduction and income generation) develops.

49. The Tt2021 work has been taken forward without any impact on Tt2019 delivery, with the Corporate Management Team (CMT) setting appropriate time

aside for the Tt2021 planning process whilst maintaining a continued strong grip on Tt2019.

50. What is different to previous years s the fact that the profile of delivery for the Tt2019 Programme is back loaded, with some changes not being delivered at all until well after 2019/20. Secured savings exceeded the £100m mark in the first quarter of 2019 which represented another major milestone for the Programme. However, this leaves £40m to deliver, and as we move ahead we know that the remaining savings areas will be the most difficult to secure.

51. Whilst sufficient resources have been set aside to cover this delayed implementation, the need to commence the successor programme does therefore mean that there will be overlapping change programmes which is another significant difference. This does increase the overall risk in the budget going forward and there is clearly no room for complacency especially as implementation and delivery of Tt2021 will begin to run alongside the Tt2019 Programme and strong focus will be required to ensure simultaneous delivery of both.

52. Departments have looked closely at potential opportunities to achieve the required savings and unsurprisingly the exercise has been extremely challenging because savings of £480m have already been driven out over the past nine years, and the fact that the size of the target (a further 13% reduction in departmental cash limited budgets) requires a complete "re-look"; with previously discounted options having to be re-considered. It has been a significant challenge for all departments to develop a set of proposals that, together, can enable their share of the Tt2021 Programme target to be delivered.

53. An update on Tt2021 planning was summarised in the Chief Executive's Transformation to 2019: Report No.7 which was presented to Cabinet in June 2019 and the early opportunity assessment work featured in the *Serving Hampshire - Balancing the Budget* public consultation exercise that was carried out over the summer of this year. The consultation, on high level options for balancing the County Council's budget, was held to inform and shape the final savings proposals that would be presented to Executive Members, Cabinet and County Council over the autumn. The consultation was scheduled in order to provide sufficient time and capacity to implement the proposals as far as possible before April 2021, following further consultation where necessary.

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

55. The cash flow support required to manage the extended delivery timetable for the Tt2021 Programme will in the most part be met from departmental cost of change reserves, but further funding of £32m to provide for the later delivery has already been factored into the requirements for the Grant Equalisation Reserve (GER) going forward. At this stage, there is a high degree of

confidence that this can be covered but this profile of savings delivery does indicate that we are now ‘behind the curve’ rather than in front of it and this will inevitably impact on our ability to respond to further financial pressures in the future.

56. It has been previously highlighted that if we are to remain financially sustainable beyond 2021/22 there needs to be a significant change in the way in which growth in adults’ and children’s social care is funded, since it is not possible to sustain that growth in demand and cost indefinitely.

Section E: Budget Update

57. Members will be aware that 2019/20 represented the final year of the current CSR period and that no indication has previously been provided by the Government about the prospects for local government finance beyond this time. Although a further multi-year CSR had originally been planned for the summer of this year, this was impacted by Brexit and the national political situation.

58. In recent years significant lobbying of the Government has been undertaken by Hampshire and the wider local government sector to ask them to address the financial pressures we are facing and convince them to provide an early indication of the financial position beyond 2019/20 to aid medium term financial planning and also address the more immediate issue of budget setting for 2020/21. Whilst the news of a single year spending round was not welcome, it was not unexpected and was partly balanced by the promise of an early indication of the ‘settlement’ for local government.

59. The Spending Round 2019 (SR2019) announcement took place on 4 September and the key issues from a Hampshire perspective were:

- £2.5bn nationally for the continuation of existing one off grants across social care services (worth around £38.5m to Hampshire) most of which had already been assumed in the MTFS.
- An extra £1bn for adults’ and children’s social care services, representing between £15m and £20m to Hampshire depending on the distribution methodology, which will be consulted upon.
- Core council tax of 2% and the continuation of a further 2% to fund growth in adult social care costs. This is below our assumptions in the MTFS and would lose the County Council around £12m of recurring income over the two years of the Tt2021 Programme.
- Additional funding for schools, which includes extra funding for Special Educational Needs (SEN) of £700m. If this was distributed on the same basis as previous additional grant, our share would be around £16.8m and would help to address the future growth in this area, but it does not provide a solution to the cumulative deficit position schools will face at the end of 2019/20.

60. The content of the proposed settlement and the issues it addressed were pleasing to see as they mirrored the key issues that we have been consistently raising for some time directly with the Government and through our local MPs.

61. In overall terms, there is a net resource gain to the County Council, albeit that is only for one year at this stage. However, the cost pressures we face, particularly in adults' and children's social care services are significantly outstripping the forecasts that were included in the original Tt2021 planning figures.

62. Without the additional injection of funding, the County Council would have faced a revised deficit position well in excess of £100m by 2021/22, but the additional resources bring us back to a broadly neutral position. It is worth highlighting that the maximum additional grant from the £1bn plus the 2% adult social care precept generates additional resources of around £32m for the County Council, but this must be measured against growth pressures and inflation across adults' and children's social care services which total nearly £57m for 2020/21 alone.

63. Overall therefore, the high level medium term forecast to 2021/22 still 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.

64. The savings targets set for departments were based on forecasts produced early in 2018 and included a wide range of variable assumptions to arrive at the total predicted gap of £80m. The impact of the SR2019 does not materially change the predicted gap and so these targets remain appropriate. However, it must be emphasised that this forecast continues to represent 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.

65. There remain risks around government funding as this is a one year spending round. Beyond 2020/21 the funding position for local government remains uncertain until the next multi-year CSR which is now anticipated in 2020. In addition, although the Government has clarified its intention to introduce 75% Business Rate Retention (BRR) and the Fair Funding Review in April 2021, the impact on the County Council is unknown at this stage.

Risks in the Forecast

66. The current national focus on the financial sustainability of County Councils, following the issuing of a Section 114 notice and other warnings (such as the Public Accounts Committee report on local government spending published in February 2019), 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.

67. 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 T. Our reserves and balances stood at more than £669m at the end of 2018/19 and, whilst we fully understand that the majority of this is committed or earmarked for specific purposes (as referenced in Section R and Appendix 11), it still acts as a general barometer for the relative financial health of the County Council.

68. 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 remains relevant for this forecast is the lack of any detail around the Government's intentions beyond 2020/21. The two year position to 2021/22 presented in this report assumes that all government funding announced for 2020/21 (including the extra £1bn for social care) will be built into the base position going forward. We have not however assumed any increases in funding for the growth in social care costs that we know we will face in 2021/22.

69. 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 core council tax increases of 2% plus a further 2% for the adult social care precept.
- The assumption that there will be continued government funding allocated towards social care pressures at least at 2020/21 levels.
- That growth in adults' and children's social care is even greater than forecast.
- Potential changes resulting from the long awaited Green Paper (or possibly a White 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.

70. At this stage the £80m target remains an appropriate mid-case scenario on which to progress. If following the Government's next CSR 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 CSR, and then build the ongoing impact into the next change programme.

71. However, it is appropriate to note that the medium term position currently leaves little capacity to absorb any shocks through the use of the GER which will be largely depleted. More detail is contained in Section R, but it is important that planned savings are delivered in line with the currently forecast timescales and that all possible opportunities are taken to add to the GER in

order that we can avoid being pushed to abandon our successful financial strategy and have to deliver annual savings plans to balance the budget.

72. It must be reiterated that beyond 2021/22 without a significant change in the way in which growth in adults' and children's social care is funded, the County Council is unlikely to be financially sustainable since it is not possible to sustain that growth in demand and cost indefinitely.

Section F: 2019/20 Financial Monitoring

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

74. 2019/20 represents a further milestone in this journey, given that a further £140m has been removed from budgets, taking the total to £480m since the grant reductions began. This further level of reduction obviously increases the risk within the budget, and strong financial management is critical to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that approved savings programmes are delivered.

75. In recognition of this risk 'financial resilience' reporting presented to CMT not only looks at the regular financial reporting carried out traditionally but also focuses on potential pressures in the system and the continued monitoring of the implementation and delivery of the Tt2019 Programme; primarily within Adults' Health and Care and Children's Services where corporate cash flow support is required.

76. The financial landscape in the year is complicated by a range of one-off impacts arising from transformation activity, planned late delivery of savings, use of cost of change and corporate cash flow support. What is more important is to consider the level of underlying pressure within the latest forecast and the impact that this could have going forward. Latest forecasts predict pressures of just over £25.2, of which £12.2 relates to Adults' Health and Care and £11.1m to Children's Services.

77. During the year, these predicted costs will be met from a combination of departmental cost of change reserves, corporate contingencies and an additional £4.6m of corporate funding as recommended in this report. Going forward the medium term impact of the growth in these areas is picked up in more detail elsewhere within this report, but for Adults' Health and Care it will require a recurring base adjustment of £10m per annum and an expected

increase in growth of £3.5m per annum (taking the total allocation to £13.5m per annum going forward).

Adults' Health and Care

78. Last year Adults' Health and Care continued to contain care pressures, arising through demography and complexity changes in clients, and delivered a saving of £10.9m. However, this position was largely due to the early achievement of £9.9m of Tt2019 savings ahead of the budget being reduced in 2019/20.

79. Whilst the outturn position was positive it was noted at that time that there had been a marked increase in the level of spend on care packages for clients in the latter part of 2018/19. This had a positive impact by assisting with an upturn in the County Councils reported performance on Delayed Transfers of Care (DToC).

80. The additional spend towards the end of 2018/19 was at a level that could be accommodated in year through the use of a range of non-recurrent funding, including but not limited to, the Improved Better Care Fund (IBCF) and Winter Pressures grant. However, it was highlighted that should the higher level of spend on care continue as the new baseline throughout 2019/20 the full year effect would be considerably greater than the combined funding available through the annual budget and expected non recurrent funds.

81. The Department are currently predicting that in 2019/20 they can balance the bottom line through use of cost of change, but given the current pressures on care packages, the late delivery of savings and the forecast projected costs there is likely to be the need for additional corporate support over the medium term. This additional corporate cash flow support is estimated to be up to £4m based on the Department's planned activity to mitigate the current pressures as far as possible and the requirement has been built into our financial plans.

82. The Department has been working with Finance colleagues, analysing the costs and activity to try to better understand some of the drivers around the more recent growth, which has not been in line with the more stable position experienced over recent years. It has been a complex process to break this down, particularly during a period when savings are being delivered as part of the Tt2019 Programme.

83. The analysis shows that some of the increase is attributable to the Council's success in keeping people out of care for longer. However, the downside of this is that at the point they do require care, their needs are greater and the ability to re-able them is more limited. There have also been one off shifts in demand, due for example to reducing levels of DToC in hospitals, which adds an additional number of clients requiring care going forward. These items have created a 'step up' increase in the budget that equates to a figure of £10m per annum and requires a single recurring base change to deal with the increase. In addition, current trends of activity and cost highlight a greater level of annual growth than previously allowed for and a further increase of £3.5m per annum

going forward is required to offset this. Both of these figures have been factored into the forecasts highlighted later in this report.

Children's Services

84. Growth in the numbers of Children Looked After (CLA) has had a profound impact on the Children's Services budget position over the last few years and growing attention nationally is now focused on the pressures facing children's services. Analysis by the Local Government Association (LGA), publications by the Association of Directors of Children's Services, independent studies (Newton Europe) and published data from the Department for Education (DfE) all highlight that growing demand for support is leading to over spends in almost all authorities.

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

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

87. Significant funding for growth in CLA numbers and costs (and in turn the knock on impact for care leavers), has been provided for in recent years. However, it is currently predicted that even with this funding the Department will be over spent by approaching £4.6m at the end of the year. Whilst there are a range of ups and downs across the budget, the pressure primarily equates to the growth in spending on CLA, which has continued to rise since the baselining exercise was last updated and further corporate funding was agreed in the MTFS in 2018.

88. As reported to Cabinet previously, projections of growth in the costs of CLA used to baseline corporate funding, were based on a wide range of assumptions and predictions and given the volatile nature of these areas, a requirement to continue to monitor activity and spend closely was recognised. This continued monitoring, undertaken by Finance staff and Children's Services colleagues, has informed a further review of the recurring funding previously agreed and more detail of the analysis and the findings are set out in Appendix 1.

89. Updated projections indicate that there will be growing financial pressure over and above that previously anticipated, which in 2019/20 is currently forecast to reach £4.6m if the growth continues at the same rate for the remainder of the year. In year this additional cost can be met from non departmental under spends and, subject to approval of this funding, it is currently anticipated that

Children's Services will be able to deliver a balanced bottom line at the end of the financial year.

90. Looking ahead to 2020/21 and forecasts for the MTFS, it is predicted that an additional ongoing base budget increase of £6.8m, on top of the £11.6m that had already been allowed for in the forward forecasts, will be required and this will be followed by further annual increases of £1.9m in 2021/22 and £1.2m in 2022/23 (on top of the £13.3m and £15.6m that has already been provided for in those years). However, there remain concerns about the future financial impact of the continued growth in CLA, particularly with the added complexities of the Tt2019 Programme which seeks to significantly reduce the number of children in care over the next three years.

91. The Transforming Children's Social Care Programme is still in its early stages but there is good evidence that it is having an impact on the overall numbers of children in care, supported by comments in the latest Ofsted report that were positive about the direction of travel and the staff engagement with the programme.

92. Whilst these signs are positive there continues to be significant growth in the average costs of placement across the market to the extent that costs are not reducing in line with the numbers of children in care, particularly in the Independent Fostering Agency (IFA) sector. A recent BBC report highlighted the fact that private equity firms are buying up smaller IFA's, consolidating them and then selling the companies on. It was also highlighted that three firms now account for 45% of all spend with local authorities in this sector. The impact of this together with greater demand for placements nationally may help to explain part of the cost pressure that we are seeing.

93. This overall position will need to be closely monitored over the remainder of this financial year as it could ultimately have a significant impact on our overall budget position in future years.

94. The costs outlined above exclude the impact on social work time. Members will recall that additional funding of £6.6m per annum was set aside to increase social worker numbers, this increase was required to reduce the average caseloads, give more dedicated contact time with families and to provide the capacity to make the changes as part of the Transforming Children's Social Care Programme. This has proved to be successful, not only in increasing the capacity in the Department, but it was an important factor in the overall 'outstanding' rating given by Ofsted earlier in the year.

95. At the time, the funding was agreed for three years on the basis that a review would be carried out during 2020/21. At the present time, with the continued pressure in CLA numbers and the need to retain capacity to help achieve the required savings, there is no expectation that this funding can be removed at least in the short to medium term, however a fuller more detailed review will still be undertaken during the next financial year.

96. A final impact highlighted in Appendix 1 is the increased legal costs associated with taking children into care. A much higher proportion (70%) 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.

97. An increase of £350,000 per annum was added as part of a previous update to the MTFS, but forecasts show a future increase in annual costs of around £1.7m. The Department is implementing some changes to the way in which it deals with the impact of legal costs, but it is still thought that an increase of around a further £1m per annum is required going forward. This has been factored into the updated MTFS figures and will be built in as part of the budget setting process for 2020/21.

Economy Transport and Environment (ETE)

98. This Department has two major demand led services which create pressures during the year, albeit these are effectively managed through corporate allocations, early delivery of savings and use of cost of change reserves. However, the continuing decline in overall highway condition is increasing demand for reactive (revenue funded) maintenance.

99. Highways revenue maintenance, particularly in the area of reactive maintenance, is a constant pressure with the number of calls received by the service doubling in the last ten years to over 100,000 each year. The weather is obviously a key factor that impacts both on the condition of the roads and levels of activity around winter maintenance, but additional flexibility has been approved to ensure that any spare resources are carried forward. This welcome flexibility allowed the highways maintenance budget to be increased by £2m to reinvest in highways maintenance in 2019/20.

100. Waste volume growth (due to demographic growth) and issues with residual waste continue to represent a significant risk to the financial position of the Department. Addressing these challenges remains a key priority and the Department will actively engage with the Government’s new waste strategy, albeit that there remains some uncertainty over the exact nature of any service changes at present. The current pressures are effectively managed through corporate allocations.

Policy & Resources

101. The successful implementation of the Tt2019 Programme and the resulting early delivery of savings in 2018/19 has been crucial to underpinning a strong financial position in 2019/20.

102. Successive budget reductions mean there is less scope to generate savings across the services and high levels of investment and resources are required over a longer time period to generate further savings. Early delivery of savings last year has helped as part of the overall strategy for delivery in the longer

term, but the continued need for additional resources against a backdrop of reducing budgets should not be underestimated.

Summary – Cash Limited Services

103. The overall position across the social care departments will continue to be reviewed throughout the remainder of the year and will remain a focus of the ongoing monthly meetings between the Deputy Chief Executive and Director of Corporate Resources and the Directors of both Adults' Health & Care and Children's Services. As the year progresses action plans in place to address any remaining pressure will be reviewed and closely monitored at these meetings. Any further possible options will also be considered, and if necessary advanced as part of the ongoing development of the budget for future years.

104. It is worth reiterating that at this point in the year the forecasts themselves tend to concentrate on the more significant negative items without considering in depth other areas of potential under spend that could be used to offset them. Monitoring in the first half of the year therefore tends to the side of prudence and it is anticipated that this position may improve through a combination of continued positive management action in the pressure areas, under spends elsewhere and the use of corporate contingencies as appropriate.

105. As we move further through the financial year we will have a clearer picture of the likely outturn position for 2019/20 and strong financial management will continue to be a key focus to ensure that all departments stay within their cash limits, that revenue pressures are contained and that they deliver the savings programmes that have been approved.

Schools Funding

106. 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. 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. In recent years however, there has been more and more pressure on schools' budgets caused in particular by an increasing requirement for pupils with SEN, which exceeds the High Needs allocation within DSG.

107. Pressures on the High Needs Block have mainly arisen due to significant increases in the number of pupils with additional needs and as a result of the extension of support to young people with high needs up to the age of 25. This is a pressure that is mirrored nationally and has been seen since the SEND reforms in 2014. There are also increases in the amount of funding required for each pupil on average due to increasing levels of need and these factors have created a pressure on the top-up budgets for mainstream schools, resourced

provisions and Post 16 colleges. There is also significant pressure due to more pupils requiring placements in independent and non-maintained schools.

108. In 2018/19 there was a net over spend of £9.2m against the school budget including a £10.5m over spend on the High Needs Block. This over spend has been added to the £4.5m brought forward deficit on the DSG Reserve. Responsibility for addressing the deficit rests with entirely with schools and strategies are being developed to reduce demand and consider funding options from future years school budgets. In 2019/20 the current forecast is for a further over spend of approaching £14m which will bring the cumulative deficit to more than £27.7m. Whilst this sum sits as 'negative reserve' on the County Council's balance sheet it in effect represents an overdraft for schools which they (and the Government) need to address over the longer term.

109. Nationally, there are many councils in this position, all of whom were required to submit to government a containment / recovery plan in respect of the cumulative deficits in DSG, which are mainly the result of pressures in the High Needs Block. Whilst the County Council complied with this requirement, it did make it clear in the return that the only realistic chance of being able to address the deficit and underlying annual pressures in the long run is to receive significant additional government funding.

110. Since that time, the County Council has been lobbying the Minister for Education and local MPs for significantly greater funding for this area as part of the one year spending round. The announcement as part of SR2019 of additional funding for schools, which includes extra funding for SEN of £700m nationally is welcomed. However, as highlighted in Section E, while this will help to address the future growth in this area it does not provide a solution to the cumulative deficit position schools will face at the end of 2019/20.

Coroners Services

111. It was highlighted in the 2018/19 End of Year Financial Report that the way in which charges for Coroners services across Hampshire are calculated was due to change part way through 2019/20 and would have a substantial impact on costs going forward.

112. Based on current assumptions about the date of commencement for the changes to the services, it is anticipated that the part year impact will be managed through existing contingencies held due to the volatility of the service where costs are driven by the number of inquests which are difficult to predict. The full year impact could be as much as £600,000 per annum and has now been built into forward projections.

Non-Departmental Spending

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

114. It has been concluded that at this stage of the year it is too early to release any significant level of contingencies associated with adults' and children's social care or centrally held provisions for items such as waste disposal, price inflation and other sums set aside for income risk and general risk, particularly given the uncertainty surrounding Brexit.

115. However, the County Council adopts a very prudent approach to estimating for interest on balances given the number of different variables involved. For 2019/20 current forecasts anticipate that performance in the year will exceed this figure and provide an additional return of £2.6m.

116. In addition, as in previous years, the estimates for capital financing costs are prepared on the basis of taking out new planned borrowing during the year. However, since the County Council has sufficient cash reserves there is no need to actually take out this long term borrowing at this stage, particularly since this would attract a high 'cost of carry' when comparing short term to longer term interest rate levels. The estimates for 2019/20 have therefore been revised taking this into account and show a saving of £2m in the overall capital financing costs for the year.

117. This therefore gives a one off sum of £4.6m that can be used to fund the in year revenue pressures within Children's Services as set out in paragraphs 84 to 89 above, although it should be noted that this will ultimately reduce flexibility in 2019/20 should other pressures arise.

Treasury Management Mid-Year Report

118. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management recommends that treasury management activity should be reported on at least twice a year against the strategy that has been approved.

119. Attached at Appendix 2 is the mid-year monitoring report for 2019/20 that sets out the borrowing and investment activity that has been undertaken to date and how this compares to the prudential indicators that were set for the year. Cabinet is asked to approve the report and recommend approval to full County Council, in line with the requirements of the Code of Practice.

120. In addition, following changes to the way that the Pension Fund calculates employer rates (moving from a grouped rate to individual employer rates), it is now possible to offer employers a facility to make pre-payments of their pension contributions that provides benefits to the Fund as well as offering a financial return to the employer.

121. The exact detail of the scheme and the methodology behind it have yet to be finalised, but this report requests delegated authority for the Deputy Chief Executive and Director of Corporate Resources to make pre-payments to the Fund if it is financially favourable to do so. The County Council makes around £35m of employer contributions each year (excluding the deficit recovery

payments) and placing these with the Pension Fund in advance for up to three years reduces investment risk for the Council and is likely to yield a return that is above that which could be achieved through short term rates in the market.

122. Later in this report is an update on the latest Pension Fund valuation results, which indicate that overall the Fund is likely to be funded at a much higher level than in 2016. This means that the past deficit, which is currently in recovery, will be much smaller and again, if it is financially favourable to do so, delegated authority is being requested for the Deputy Chief Executive and Director of Corporate Resources to pay off the deficit in a single lump sum to avoid further interest costs accruing on this element.

Section G: Transformation to 2019 Programme

123. As anticipated delivery of the Tt2019 Programme will extend into 2021/22 and the latest position was set out in the Chief Executive's Transformation to 2019: Report No.7 which was presented to Cabinet in June 2019.

124. The one off cash flow support to manage the extended delivery timetable for Tt2019 will be met from departmental cost of change reserves (boosted by early delivery in 2018/19) with a further contingency of £40m held corporately to cover any remaining shortfall.

125. At this point the forecast corporate support required to cash flow the extended delivery timetable for Tt2019 is shown below and can be met from within the amount provided:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**
Adults' Health & Care		7,434	425
Children's Services	18,782	8,914	2,493
CCBS	672	672	
Total Corporate Cash Flow Support	**19,454**	**17,020**	**2,918**
Corporate Cash Flow Contingency	40,000	20,546	3,526
Remaining Contingency	**20,546**	**3,526**	**608**

126. A large proportion of the requirement is within Children's Services reflecting both their complex transformation programme and the national trend which now sees local authorities citing the pressure in children's social care as their greatest immediate financial concern.

127. It is clear from this summary that any further material slippage will potentially lead to a requirement for cash flow support that exceeds the £40m set aside. It is therefore critical that during the next two years the County Council is not distracted from delivering the Tt2019 Programme to plan and any failure to deliver recurring sustainable savings to meet the targets set will require additional one off funding to be identified which will only make the challenge for the future harder.

Section H: Brexit

128. Periodic reports are presented to Cabinet which aim to provide an update on the impact of Brexit on the County Council's resources and services, covering both risks and opportunities. The most recent report, Brexit Preparedness Update – Report No. 2, also set out the key risks of a no deal Brexit to the Hampshire and Isle of Wight (HIOW) region and outlined the activities being taken, or planned, to mitigate known risks in line with the Ministry of Housing, Communities and Local Government's (MHCLG) Brexit preparedness check list.

129. Since that point the political landscape has evolved with a new Prime Minister and Cabinet, whose stated aim is to leave the European Union (EU) on 31 October 2019, come what may. Preparations have been ramped up to ensure that the country is ready in the event of no deal, with Michael Gove being appointed as the Minister overseeing preparations for Brexit and an extra £2.1bn of funding pledged; on top of the £4.2bn previously allocated. For the County Council, this equates to £262,500 (three sums of £87,500) with a further £234,000 provided directly to the Local Resilience Forum (LRF) so far.

130. Internally the County Council has established a cross-departmental Brexit Officer Working Group, chaired by the Assistant Chief Executive. A corporate programme management structure has been put in place to co-ordinate activities and report on risks and mitigating actions. Ad-hoc support is also being offered to departments as more in-depth Brexit impact assessments on resources and services are being undertaken. Fortnightly highlight reports, including departmental and HIOW LRF updates, are provided to the County Council's Cabinet and CMT.

131. In addition to the practical steps that are being taken, which include plans outlined in the 2018/19 End of Year Financial Report to deal with the potential impact on traffic if there are significant delays at ports, it is appropriate to include an assessment of the potential financial impacts on the County Council within the MTFS. Alongside this assessment it is then sensible to outline the strategy that will be adopted to deal with the potential financial risks in order to enable action to be taken swiftly and to ensure sufficient funding is available.

132. Officers have been collating information in three main areas:

- The direct external costs of preparing for Brexit (this excludes officer time which whilst significant represents an opportunity cost to the County Council).
- Potential changes in service delivery as a result of a no deal Brexit, for example the need to employ additional Trading Standards Officers to deal with the potential for unsafe goods to enter the UK.
- The impact of a significant increase in the price of directly purchased goods and services (e.g. food for HC3S) or in general inflation, which would feed through to contracts that are index linked to inflation on an annual basis.

133. Appendix 3 shows that most implementation costs incurred to date and predicted for the rest of the year can either be met from government grant or will attempt to be recovered from the Government as an additional burden. However, provision will be made within contingencies in the event that this funding is not forthcoming.

134. There are some limited service impacts that have been identified within Trading Standards and Economic Development, but initial responses will be met through re-prioritisation of existing resources.

135. Funding of up to £555,000 will be ring-fenced within existing contingencies to provide resources to respond to the potential direct impact of Brexit on the County Council, with approval delegated to the Deputy Chief Executive and Director of Corporate Resources, in the event that additional government funding is not provided.

136. The wider financial impact arising from potential inflationary increases or workforce issues is much harder to predict. The County Council is already experienced in dealing with financial uncertainty and will adopt the same strategy as it has for dealing with a sustained period of austerity through the use of contingencies and reserves in the short term and building the longer term impacts into future years financial planning.

Section I: *'Serving Hampshire – Balancing the Budget'* Consultation – Feedback

137. The County Council undertook an open public consultation called *Serving Hampshire – Balancing the Budget* which ran for six weeks from 5 June to the 17 July 2019. The consultation was widely promoted to stakeholders through a range of online and offline channels including: the County Council's website; local media and social media channels; the County Council's residents' e-newsletter *Your Hampshire*; direct mail contact to a wide range of groups and organisations across Hampshire; posters and adverts in County Council libraries, Country Parks, at Hillier Gardens and Calshot Activity Centre; in residential and day care settings, on electronic noticeboards in GP surgeries and healthcare settings. Information Packs and Response Forms were available in hard copy in standard and Easy Read, with other formats available on request. Comments could also be submitted via email, letter or as comments on social media.

138. The public consultation, which was similar in nature to an exercise completed two years ago ahead of Tt2019, sought residents' and stakeholders' views on options for managing the anticipated budget shortfall. The options necessarily extended beyond cost reduction and income raising possibilities to areas such as council tax increases, possible legislative changes and the organisation (structure) of local government in Hampshire.

139. These additional options could help to inform the approach the County Council takes to delivering savings beyond 2021/22. With the squeeze on public finances anticipated to extend into the next decade and the general

uncertainties that surround Brexit it is almost certain that further savings, beyond those required for Tt2021, will be needed in the future.

140. The headline findings of the consultation were provided to Executive Members and Directors during August, to inform departmental savings proposals which are shown at Appendix 4. Equality Impact Assessments (EIAs), in the attached appendices, set out where Stage 2 consultations are required on specific proposals.

141. The consultation sought residents' and stakeholders' views on several options that could contribute towards balancing the revenue budget, and any alternatives not yet considered – as well as the potential impact of these approaches. The consultation was clear that a range of options would be needed to meet the required £80m savings by 2021. For example, the Information Pack illustrated the amount of savings that would still be required even if council tax was increased by up to 10%.

142. The options were:

- Reducing and changing services;
- Introducing and increasing charges for some services;
- Lobbying central government for legislative change;
- Generating additional income;
- Using the County Council's reserves;
- Increasing council tax; and
- Changing local government arrangements in Hampshire.

143. Information on each of the above approaches was provided in an Information Pack. This set out the limitations of each option, if taken in isolation, to achieving required savings. For example, supporting information explained that the £80m estimated budget shortfall took into account an assumed increase in 'core' council tax of 4.99% at that time in both 2020/21 and 2021/22. The Pack also explained that if central government were to support changing local government arrangements in Hampshire, savings would still take several years to be realised. Residents were similarly made aware that the use of reserves would only provide a temporary fix, providing enough money to run services for around 27 days.

144. Therefore, whilst each option offers a valid way of contributing in-part to balancing the budget, plugging the estimated £80m gap in full will inevitably require a combination of approaches.

145. A total of 5,432 responses were received to the consultation – 4,501 via the Response Forms and 931 as unstructured responses through email, letter and social media.

Headline Findings

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

- The majority of respondents (52%) agreed that the County Council should continue with its current **financial strategy**. This involves **targeting resources on the most vulnerable** people; **planning ahead** to secure savings early and enable investment in more efficient ways of working; and the **careful use of reserves** to help address funding gaps and plug additional demand pressures e.g. for social care.

- Achieving the required savings is likely to require a multi-faceted approach. However, respondents would prefer that the County Council seeks to explore all other options before pursuing proposals to reduce and change services – in particular, opportunities to **generate additional income** and **lobby central government for legislative change**.

- Just over one in three respondents (37%) agreed with the principle of **reducing or changing services** - but the proportion who disagreed was slightly higher (45%) - Of all the options, this was respondents' **least preferred**.

- Around half of respondents **(52%) agreed** with the principle of **introducing and increasing charges** to help cover the costs of running some local services, but over one-third (39%) felt that additional charges should not be applied.

- Respondents were in favour of **lobbying central government** to allow charging in some areas:

  - 66% agreed with charging for issuing Older Person's Bus Passes.
  - 64% agreed with charging for Home to School Transport (HtST).
  - 56% agreed with diverting income from speeding fines or driver awareness courses.

- However, in other areas, opinions were more mixed:

  - 42% agreed and 43% disagreed with recouping 25% of concessionary fares.
  - Most did not feel that it would be appropriate to lobby for charges relating to library membership (60% disagreement) or Household Waste Recycling Centres (HWRCs) (56% disagreement).

- Overall, lobbying for legislative change to enable charging was respondents' **second preferred option**.

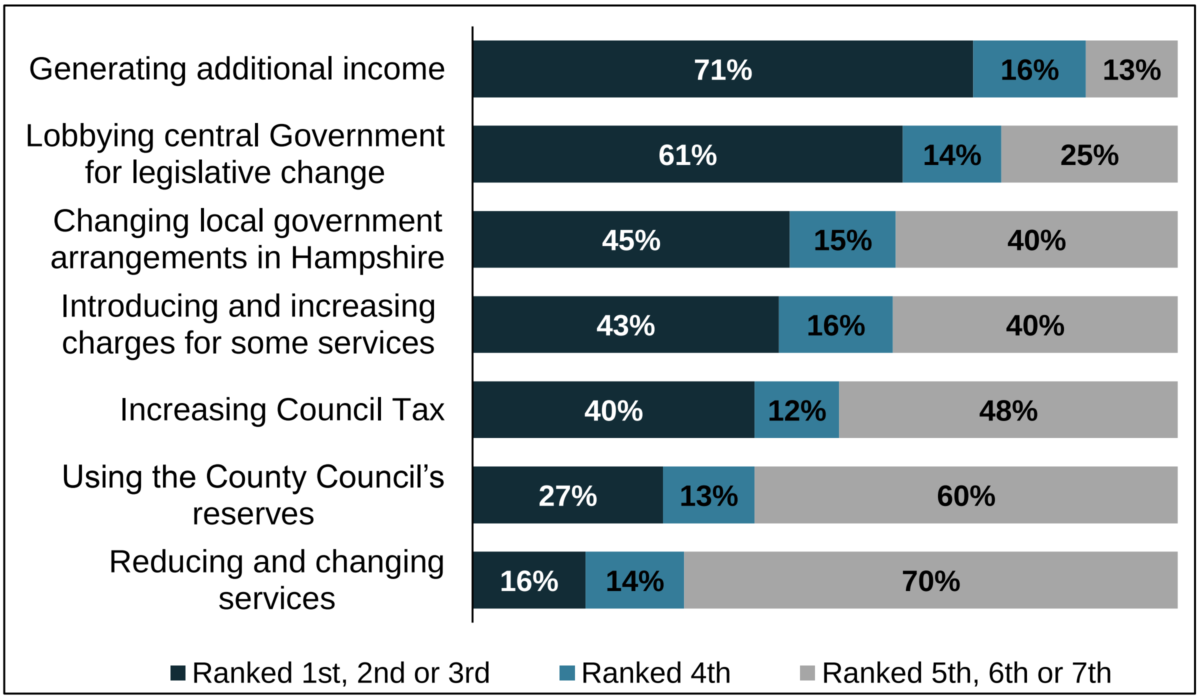
- Of all the options presented, generating additional income was the **most preferred option**. Suggestions included:

  - Improving the efficiency of council processes.
  - Increasing fees or charges for services.
  - Using council assets in different ways.
  - Implementing new, or increasing existing, taxes.

– Lobbying central Government for more funding.

- Six out of ten respondents (61%) agreed with the position that **reserves should not be used** to plug the budget gap.
- Most respondents (55%) preferred the County Council to raise c**ouncil tax** by less than 4.99%. This compared to 34% of respondents whose first choice was to raise council tax by 4.99%. There was limited support for a rise in council tax above this level (14%).
- More than half of those who responded **(61%) agreed** that consideration should be given to **changing local government arrangements in Hampshire**.
- One in three (36%) respondents noted **potential impacts** on poverty (financial impacts), age (mainly older adults and children), disability and rurality.
- Staffing efficiencies were the most common focus of **additional suggestions** (31%).
- The 931 unstructured **other responses** to the consultation primarily focused on ways to reduce workforce costs (26% of comments), the impact of national politics on local government (8%), the need to reduce inefficiency (6%) and both support and opposition to council tax increases (7%).

147. An important element of the consultation was seeking residents and stakeholders' views on the strategy for closing the County Council's budget deficit to 2021/22. The consultation outlined seven options for making anticipated savings and asked respondents to rank these in order of preference. The options were ranked as follows:



148. It is important that the Cabinet and County Council take the results of the consultation into account in determining the overall approach to balancing the budget by 2021/22. Consideration also needs to be given to the wider implications of pursuing any of the savings options.

149. The following paragraphs discuss the County Council's approach to the options consulted upon and set out how departments have taken headline findings into account when putting proposals forward for savings. It is also essential to remember that the County Council is legally bound to deliver a balanced budget and while fuller consideration must be given to the findings that financial imperative remains.

150. **Generating additional income** – The departmental savings proposals set out in Appendix 4 include options for generating additional income. For professional and back office services (such as property services and corporate services) new business has already been secured or is actively being pursued to increase income to meet the savings targets that have been set. In some areas, the proposals include increasing charges to service users.

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

152. Opportunities for generating additional income already form part of the savings proposals being put forward by departments to meet the £80m gap and are not therefore an alternative to the savings proposals but rather an integral part of them.

153. **Lobbying central government for legislative change** – The County Council is already actively pursuing this option and some of the key items are outlined in paragraph 165 below.

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

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

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

156. **Changing local government arrangements in Hampshire** – In 2016, following devolution discussions across the county, the County Council commissioned an independent piece of work to look at the potential options for unitary local government across the whole of Hampshire and the Isle of Wight.

This would in effect remove the district and county tiers of local government and replace them with a single unitary authority, or multiple unitary authorities, (like Southampton and Portsmouth) responsible for all local government services across Hampshire.

157. In summer 2016, the County Council asked residents for their views on options for possible local government reorganisation in Hampshire. Responses to the consultation, detailed in the final report, indicated that views were divided on the principle of replacing the current council structure in Hampshire with a model of unitary government.

158. In view of this feedback the County Council decided not to actively pursue local government reorganisation at the time, making a clear policy statement in favour of the status quo of two tier county government. Moreover, devolution and reorganisation proposals across the country were either stalling or failing and there did not seem to be a clear policy direction from the Government in this area.

159. As part of the *Balancing the Budget* consultation, the County Council stated that its preferred position was to continue to avoid re-organisation, if possible. However, recognising that the County Council could be subject to external factors, and that restructuring local government remains a means of saving money in the longer term, residents were asked their views on this option as part of the consultation. More than half of those who responded (61%) agreed that the County Council should explore this option further – although it was ranked the third most preferred option overall.

160. In view of this feedback the County Council could still pursue this option. However, it currently remains the policy of Hampshire County Council to support the existing two tier arrangements, if possible.

161. In addition, the scale of the changes required to implement such a reorganisation means that it would be very unlikely that any significant savings would be generated by 2021/22.

162. At this stage therefore, given the limitations outlined above, local government re-organisation in Hampshire is not considered to be a viable option for closing the budget gap to 2021/22.

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

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

some of the new areas identified by departments, legislative change would be needed.

165. The County Council continues to lobby the Government to allow greater freedoms and flexibilities to levy charges in the areas of:

- HtST – The legislation and criteria for local authorities, which dates back to the 1940's, does not take account of modern living and is not means tested in any way.
- HWRCs – The Government legislated to stop councils from charging for the general use of HWRCs, albeit that some charges can be levied for certain waste such as building materials. However, previous consultation with residents suggested that they would be prepared to pay a nominal charge if this helped to maintain the number of centres across the county.
- Concessionary Travel – The ability to charge a nominal sum to service users would enable the County Council to increase access to public transport, at the same time as making financial savings.

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

167. While the County Council will continue to pursue these options, at this stage, other than those proposals already contained in Appendix 4, this option does not provide an alternative solution for closing the budget gap.

168. **Increasing council tax** – The majority of respondents (63%) put raising council tax by 4.99% as their second most preferred option overall which is in line with the County Council's planned strategy to continue with council tax increases in line with current government policy, albeit that that policy has been updated in the SR2019 to 3.99%.

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

170. The County Council increased council tax by the maximum permissible without a referendum, in line with government policy over this period.

171. There was little support for increasing council tax further to help balance the budget and any council tax rise above the limit set by central government would

require a public referendum. For every 1% increase in council tax, the County Council would receive approximately £6.4m per annum and to close the predicted budget gap of £80m through council tax alone would require an increase of approaching 18% in total; including the previously planned 4.99% increase for 2020/21.

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

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

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

174. Decisions on council tax increases are made by full County Council in February each year but at this stage, given the points set out above, it is recommended that the County Council works on the assumption that the planned approach for council tax increases (broadly supported by the consultation results) will continue in 2020/21 and 2021/22 with the County Council increasing council tax by the maximum permissible without a referendum in line with government policy.

175. This position will be reviewed in light of any further national or regulatory changes, before the formal council tax setting process in the new year. However, the current position and associated timescales, mean that predicating delivering a balanced budget for 2021/22 on further council tax increases above those currently planned is not considered to be a viable option.

176. **Using the County Council's reserves** – The majority of respondents (61%) agreed that the County Council should not use reserves to plug the budget gap. Respondents ranked this as their second least favoured option. This feedback reflects the County Council's current financial strategy which is to not use reserves as a means of closing the budget gap.

177. Such an approach would not be sustainable as recurring savings are required to bridge the budget gap over the long term. Instead, the County Council is using its reserves prudently to invest in transformation and service change and to give sufficient time to implement savings in a planned and sensible way, as outlined in Section R of this report and the Reserves Strategy contained at Appendix 11.

178. **Reducing and changing services** – Just over one in three respondents (37%) agreed with the principle of reducing or changing services to help balance the budget. Overall, however, this was respondents' least preferred option, which reflects the fact that most residents value the services they receive from the County Council and do not wish to see them reduced or changed.

179. As the other options for saving money at this level, outlined above, do not provide viable options that would enable the County Council to plan with certainty to meet the projected deficit, further funding reductions on the scale required within the Tt2021 Programme inevitably have to lead to reductions and changes to services. This is because local services represent the totality of spend within the County Council.

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

Summary

181. As discussed above it is therefore recommended that the County Council's strategy for dealing with the £80m deficit should be to:

- **Continue with its financial strategy**, which includes:
  - **targeting resources** on the most vulnerable adults and children; and
  - **using reserves carefully** to help meet one-off demand pressures.
- **Maximise income generation** opportunities.
- **Lobby central government** for legislative change to enable charging for some services.

- **Minimise reductions and changes to local services** wherever possible, including by raising council tax by the maximum permissible (currently 3.99%).

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

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

Section J: Equality Impact Assessments

184. In addition to the consultation process outlined above, a separate key part of the Tt2021 Programme is ensuring that the County Council understands and gives due regard to the impact of the Tt2021 savings proposals on people with protected characteristics.

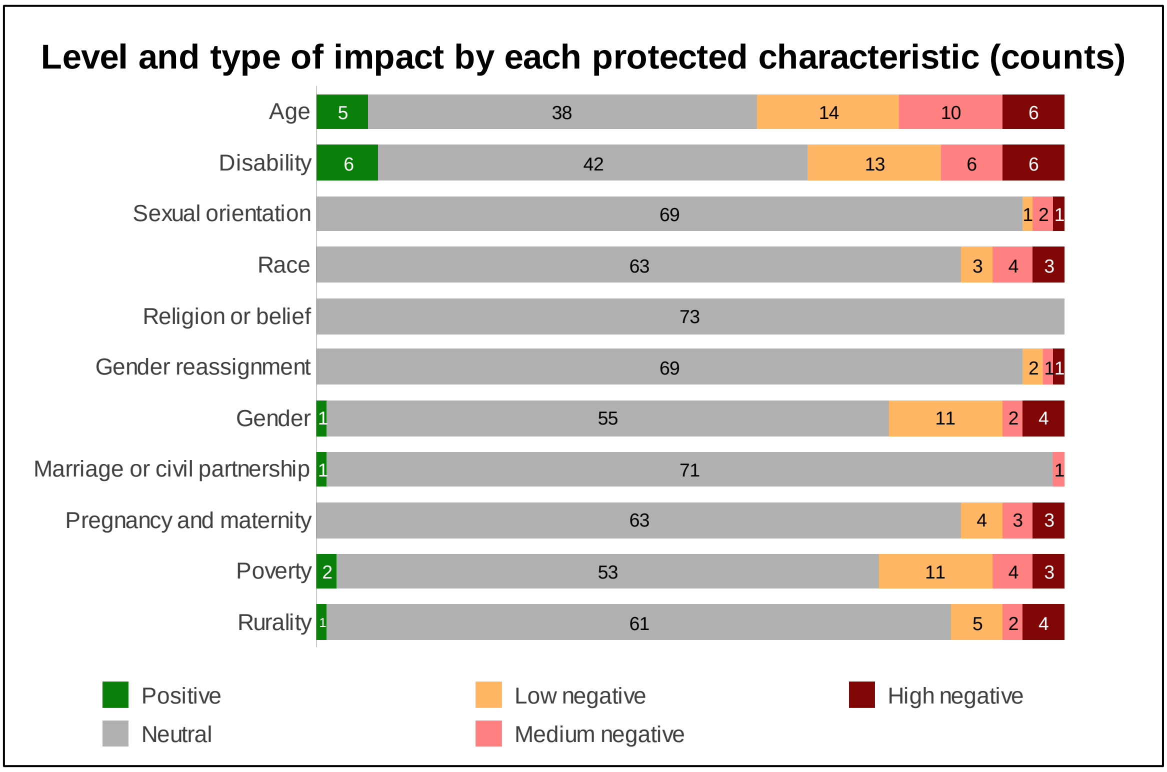
185. The County Council has produced Equality Impact Assessments (EIAs) on all proposals for change that it is considering implementing, which are taken into account as part of the decision making process. This year, to aid transparency, the EIAs for all of the savings proposals were again published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

    - Appendix 5 – Adults' Health and Care
    - Appendix 6 – Children's Services
    - Appendix 7 – Economy, Transport and Environment (ETE)
    - Appendix 8 – Policy and Resources (P&R)

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

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

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



189. The chart shows that the key characteristics most likely to be negatively impacted are age, disability and poverty. Further work will be undertaken to understand the nature of these impacts and the possible mitigations, following specific Stage 2 consultations in these areas.

Cumulative Equality Impact Assessment

190. Whilst the Public Sector Equality Duty (Equality Act 2010) requires public authorities to have due regard to equality considerations, councils are not mandated to conduct EIAs. Nevertheless, EIAs have become a common tool to facilitate and evidence compliance with the Equality Duty.

191. In keeping with good practice, the County Council has completed EIAs for all proposed service changes linked to its Tt2021 Programme as highlighted above. This information has been used to complete a cumulate assessment. This considers the potential impacts of transformation proposals holistically and, in so doing, seek to identify groups likely to experience multiple disadvantage as a result of policy / service changes.

192. The cumulative EIA is set out in Appendix 9 and is based on the 73 EIAs completed by the 6 September 2019. As savings proposals mature due to further consultation or detailed planning, EIAs will be updated and the cumulative EIA may be reviewed further.

193. As Appendix 9 details, the headline results from the cumulative EIA are as follows:

- 56% of EIAs could have at least one negative impact.

- Age, disability, poverty and race were the characteristics most likely to be impacted negatively.
- Age and disability, age and race, and age and poverty were the most common groupings where savings proposals had medium or high negative impacts on more than one characteristic.
- Proposals tended to impact children, young people and older people more than the core adult demographic; females more than males; and deprived communities more than individuals. A range of disability cohorts were likely to be impacted.

194. The cumulative assessment needs to be considered in the context of Hampshire and the nature of the services that the County Council provides. Hampshire is**:**

- one of the ten largest counties by land area (approximately 1,400 square miles) comprising both large rural areas and several dense conurbations;
- 85% rural, with over a third of the county within National Parks or Areas of Outstanding Natural Beauty;
- the 12th least deprived upper tier council in the country – yet 32 neighbourhoods are in the 20% most multiple deprived areas in England;
- expected to grow to more than 1.47m people by 2024 (currently 1.37m);
- experiencing an ageing population – with people aged 85+ forecast to increase by 28.9% between 2016 and 2023, to 54,000 people;
- predominantly white British - 92% of residents compared to 80.5% nationally;
- above the national average for children aged four-to-five classified as obese (22.8%) – one in four adults are also considered obese; and
- home to 1,673 children in need of care (1,593 in March 2018).

195. The County Council spends around £1.9bn a year on serving Hampshire's population. Excluding spend on schools, the County Council's annual budget by service is as follows:

	£m	**%**
Adults' Services	333	45.3%
Public Health	52	7.1%
Children's Services	159	21.6%
Highways, Traffic and Transport	52	7.1%
Waste Disposal	45	6.1%
Corporate Services	44	6.0%
All Other Services	50	6.8%
	735	**100.0%**

196. As the table above illustrates, nearly three quarters of the total annual budget is spent on Adults' Services, Public Health and Children's Services. It is also from these services that the majority of the required £80m savings are proposed to be achieved (£60.3m). If the County Council tried to protect these services, savings equivalent to 42% of the budget would need to be found from the remaining areas, which would not be sustainable given the reductions made to date.

197. Adults' Services, Public Health and Children's Services are, by their very nature, targeted at Hampshire's older population, vulnerable children and adults, and those who may need support due to living in deprived communities. Therefore, it is expected that changes to these services will, to some extent and in various ways, impact certain protected groups.

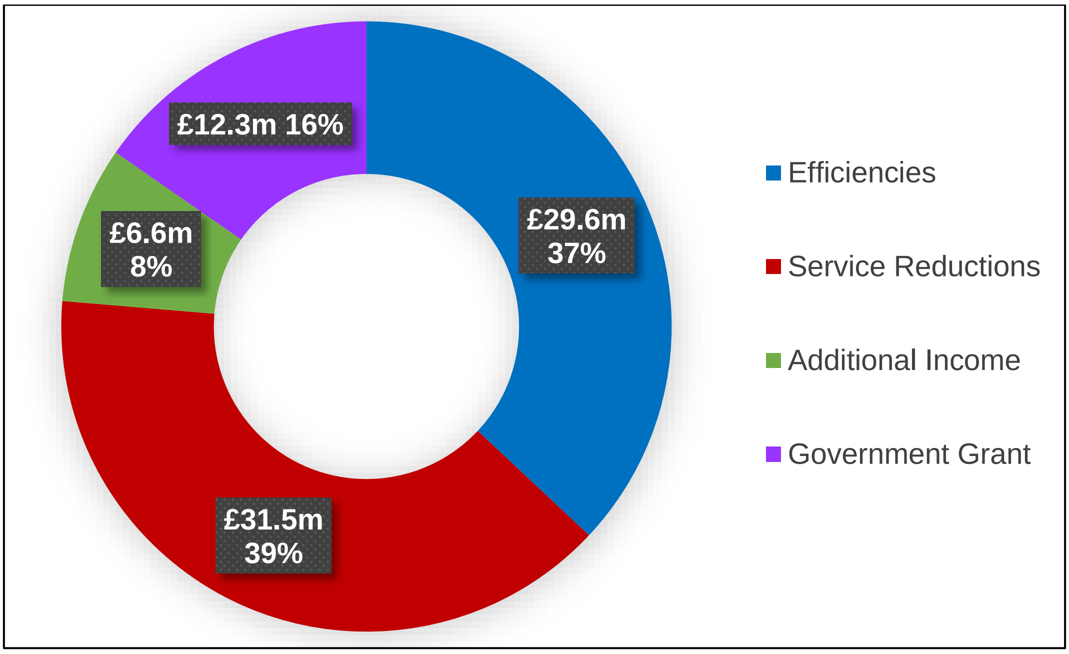
198. The higher level of negative impacts attributed to Adults' Health and Care may also be explained by the volume of proposals and the inclusion of Public Health which, as a universal service, impacts a wide range of people.

199. Where areas of multiple disadvantage have been identified, mitigation actions are in place and work is ongoing to understand the extent to which these are likely to reduce or remove negative impacts on specific cohorts. For example, whilst public health services are provided on a universal basis, specific targeting of high-risk groups (many of whom have protected characteristics) already takes place and will continue to ensure that remaining budgets are used as effectively as possible. Whilst this may mean that overall there are fewer service users, the impact on those with protected characteristics may be low or minimal.

Section K: Savings Proposals

200. The savings proposals that have been put forward by departments as part of the Tt2021 Programme and have been recommended for submission to Cabinet and County Council by Executive Members are contained in Appendix 4 and reflect the feedback from the consultation and content of the EIAs where applicable.

201. Analysis of the savings options by type shows that there is a mixture of proposals across departments which breaks down as follows:



202. The chart shows that whilst the County Council continues to drive out efficiencies and generate income through its commercial strategy, inevitably a high proportion of savings (39%) come from service reductions, highlighting the impact of successive savings programmes on the ability of all departments to protect services.

203. Cabinet will be aware that the target for departmental savings is £80m. The total savings targets for each department, compared to the proposals that are expected to be delivered (in cash terms) in 2020/21, 2021/22 and the full year impact, are as follows:

	Target £'000	2020/21 £'000	2021/22 £'000	Full Year £'000
Adults' Health & Care	43,100	10,202	24,035	43,100
Children's – Non-Schools	17,202	9,913	17,202	17,202
ETE	11,748	850	10,200	11,748
P&R	7,950	3,342	7,950	7,950
Total	**80,000**	**24,307**	**59,387**	**80,000**

204. Where there is a shortfall in savings proposals against the target in 2021/22 this has been explained in more detail in each of the individual Executive Member reports and represents for the most part a time delay in achieving the full amount of the saving. Where this is the case any shortfall will be met from departmental cost of change reserves, which have been built up in part to cover this eventuality, apart from Adults' Health and Care, the position for which is discussed in more detail in the next Section.

205. Members will note that all departments are predicting full year savings equivalent to their savings targets, but the timing of delivery varies from department to department, with savings for some proposals not expected to be fully delivered in Adults' Health and Care until 2023/24 for example; due to the longer term nature of the changes being implemented.

206. The estimated cash flow position of savings in each of the years is outlined in the table below, with full delivery anticipated by 2023/24:

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Adults' Health & Care	325	10,177	24,035	36,921
Children's – Non-Schools		8,100	17,202	17,202
ETE		1,000	11,748	11,748
P&R	2,113	4,079	7,950	7,950
Total	**2,438**	**23,356**	**60,935**	**73,821**
Early Achievement / (Shortfall)	**2,438**	**23,356**	**(19,065)**	**(6,179)**

It shows that the shortfall against the £80m target in 2021/22 and 2022/23 is already significant and experience would indicate that this programme may slip further as difficulties arise during implementation. This emerging position will need close monitoring by CMT to ensure that the delivery of savings remains on track as far as possible.

207. In most cases, it is currently anticipated that the early achievement of savings by departments will provide sufficient funding to cash flow the slipped delivery of savings in future years, with the exception of Adults' Health and Care, where corporate support to meet the later delivery of savings has been factored into this MTFS. However, any successor programme will need to be delivered within a two year window as continuing to provide large scale corporate support will not be possible based on our current knowledge of the financial landscape ahead.

208. Delivery of the savings will also impact the County Council's workforce, and where applicable the proposals in Appendix 4 indicate the estimated number of staff who may be affected by the change in service, expressed as Full Time Equivalents (FTE).

209. In total, this would mean that the Tt2021 Programme could impact a maximum of 277 FTE roles across the County Council. Whilst this is a significant number it needs to be considered against the total savings programme of £80m, which even at an average salary plus on-costs of £45,000 would require the loss of well over 1,750 jobs to meet the full target, and in the context of a total workforce of more than 9,800 FTE (excluding schools).

210. The County Council has an excellent track record for handling reductions in staffing numbers in a sensitive and planned way, keeping the number of compulsory redundancies to a minimum through our voluntary redundancy schemes (which have helped maintain staff morale) and natural turnover (which for Hampshire averages in the region of 15% per annum) and this will continue as part of the Tt2021 Programme. The County Council has also been successful in looking at options for re-deployment of staff as it grows its businesses in other areas and increases in the workforce are required.

211. In the past, any voluntary redundancy costs have been met by departments, up to the value of compulsory redundancy costs, with any enhancement being met from the Organisational Change Reserve (OCR). The OCR includes a provision of £2.6m for the cost of these enhancements. At this stage it is considered that this will be sufficient to cover any additional costs, subject to approval of the extension of the current voluntary redundancy scheme by the Employment in Hampshire County Council Committee on 22 October 2019.

212. Cabinet is requested to consider and approve the savings proposals detailed in Appendix 4 for submission to the County Council, having given due regard to the consultation feedback and the EIAs.

Section L: Transformation to 2021 Programme

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

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

215. Whilst this has been a key feature of previous cost reduction programmes it was recognised without doubt that the Tt2021 Programme, the fifth major cost reduction exercise for the County Council since 2010, will be even more challenging than any previous transformation and efficiency programme as it will run alongside Tt2019 and against the backdrop of a generally more challenging financial environment and burgeoning service demands.

216. Departments have looked closely at potential opportunities to achieve the required savings and unsurprisingly the exercise has been extremely challenging because savings of £480m have already been identified over the past nine years. The sheer size of the 13% target, coming on top of previous reductions, requires a complete "re-look"; with previously discounted options and more radical changes having to be considered. It has been a significant challenge for all departments to develop a set of proposals that, together, can enable their share of the Tt2021 Programme target to be delivered.

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

Cash Flow Support for Late Delivery

218. Even over a two year period, delivering the Tt2021 Programme 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. The impact of managing overlapping programmes will create further demands and complexity.

219. Given this fact, an initial high level estimate was calculated of the likely corporate cash flow support that might be required to ensure that where savings would take more time to implement safely this was factored into our longer term planning. Support to enable this managed approach to be taken was estimated to be £32m. The latest information provided by departments indicates that this envelope will be adequate, with Adults' Health and Care requiring more than £25m of cash flow support – which is perhaps not surprising given the fact that the savings they need to deliver account for more than half of the total.

220. However, it is worth noting that the cash flow support required to manage the extended delivery timetable will in the most part be met from departmental cost of change reserves, which will be boosted by some early delivery in 2019/20 and 2020/21.

221. Whilst Tt2021 represents an immense challenge, the County Council does have significant capacity, capability and experience to tackle the task, highlighted by its track record to date. As tough as the forward agenda is, we know that the County Council is as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector and crucially to make the necessary investment required, some of which is discussed further below.

Enabling Investment

222. The Tt2019 Programme relied heavily on a number of enabling investments within the IT arena including the Digital 2 Programme and the Enabling Productivity Programme, which saw the roll out of desktop and mobile working devices to the whole workforce. Departments also benefitted from specific technology investments to underpin the delivery of the savings programme.

223. The focus for T2021 is partly to build upon and exploit those technologies, whilst at the same time pursuing further specific service based changes that rely on the development of IT based solutions.

224. Over the summer a range of projects and costings were put forward and a sum of £10m was made available from savings on non-cash limited budgets from the outturn position for 2018/19. The IT Programme has continued to be refined and good progress has been made on scoping and specifying the individual projects. Revised costings are being developed as projects pass through the various gateways in the approval process and the current view is that the £10m will be sufficient going forward.

225. The IT and Finance Teams have also been working with Departmental Transformation Leads to determine which specific savings will be enabled by the IT investment. Of the £80m total it is estimated that £24m will be underpinned by the investment of £10m giving a payback period of less than six months.

Section M: 2020/21 Budget Setting

226. The fact that the financial strategy which the County Council operates, is on the basis of a two year cycle of delivering departmental savings means that there is limited activity at this stage associated with the development of the 2020/21 budget, which was largely set out in previous MTFS updates. Members will recall that the financial strategy assumes a significant draw from the GER in 2020/21 in order to give the County Council the time and capacity to properly deliver the Tt2021 Programme.

227. The process will follow the normal budget setting pattern as in previous years, in that a further technical report on the 2020/21 budget will be presented in December this year that will provide departments with provisional cash limits against which they can prepare their detailed budgets that will be reported through to Executive Members, Cabinet and County Council.

228. The report in December will also include further detail relating to the final outcome of the triennial Pension Fund revaluation. The revaluation has been undertaken and initial principles have been developed. However, whilst it is anticipated that the outcome of the actuarial review on both employer pension contributions and past service contributions will be favourable and serve to reduce costs, the financial impact has not been confirmed at this stage.

229. It is anticipated that the current cycle of decision making concludes the savings planning aspect of the MTFS including the working assumption within this report that council tax will increase by the maximum permissible in line with government policy. This therefore moves the Tt2021 Programme from planning into implementation.

Section N: Economic Development and Revenue Investment Priorities

230. In past years it has been possible to add significant additional schemes to the Capital Programme using surplus revenue funding generated by the early achievement of savings. As the financial strategy has evolved and savings have been required to meet successive budget deficits, there is less ability to

do this above and beyond the use of specific capital resources that come from government or developers.

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

232. In addition, the council must also continually review the key risks that it faces and put mitigating actions in place where appropriate. Later in this report there is a request to approve fire precautions work within EII South and included below are a number of items to continue to effectively manage the risks we face, as well as ensuring that we take advantage of potential strategic land opportunities should they arise.

Strategic Land Development / Purchase

233. The County Council has for many years operated a long term strategic approach to its land holdings that have enabled it to create value at the same time as enabling the provision of much needed housing or investment to support economic development across the County. Recent examples of Merton Rise, Botley and Manydown have or will provide capital receipts and other benefits for the council that can be used to re-invest in vital services and supporting infrastructure.

234. Many of the current landholdings, including county farms have been in the ownership of the County Council for many years and as sites are sold for re-development there is a need to try to replenish the pipeline of available land for future investment. Unfortunately, most sites now have options on them that have been put in force by major housing developers, which restricts the availability of suitable sites for acquisition.

235. In the past, sites or farms have become available for sale at short notice and the County Council is restricted in its ability to make an offer due to the length of time it takes to gain proper approval through the appropriate decision making body.

236. This report therefore seeks delegated authority for the Deputy Chief Executive and Director of Corporate Resources, in consultation with the Chief Executive and the Leader to pursue and complete opportunistic land or farm purchases up to the value of £10m where this is considered to be in the best financial interests of the County Council. It is anticipated that this will be funded through prudential borrowing, with the resulting borrowing costs met from income derived from the land or farm in the first instance. Any purchases will be reported to Cabinet and County Council at the next earliest opportunity.

Highways Service Operating Model

237. Recent events and on going engagement with both county councillors and parish councils have highlighted the issue of initial response times on defect reports and reactive maintenance works.

238. With frontline staff already under sustained and growing pressure to meet the demands of a deteriorating highway asset, and the consequential increase in the number of customer enquiries that are being received, any improvement in response times for reported defects will require additional capacity.

239. A detailed assessment is being made to clarify the additional capacity (i.e. engineers and technicians) needed to ensure the service level improvement can be effectively met and the County Council's clear statutory duties and responsibilities under the Highways Act discharged to a satisfactory standard. It is currently estimated that additional funding up to £300,000 will be required from 2020/21 and this has been built into the MTFS. Any part year impact in 2019/20 will be met from within existing contingencies.

Section O: Capital and Investment Strategy

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

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

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

243. The County Council has previously reported these matters in separate reports relating to the Revenue Budget, the Capital Programme and the MTFS. In line with the latest statutory guidance, these inter-related issues are now brought together in one Capital and Investment Strategy which was approved by full County Council in February 2019.

244. The Strategy (which is set out in full as Appendix 7 of the Revenue Budget and Precept 2019/20 report) covers:

- Governance arrangements for capital investment.
- Capital expenditure forecasts and financing.
- Prudential indicators relating to financial sustainability.

- Minimum Revenue Provision (MRP) for the repayment of debt.
- Treasury Management definition and governance arrangements.
- Investments for service purposes, linked to the County Council's Commercial Strategy.
- Knowledge and skills.
- Chief Financial Officer's conclusion on the affordability and risk associated with the Capital and Investment Strategy.
- Links to the statutory guidance and other information.

Section P: Capital Programme

245. The County Council's Capital Programme has been maintained despite the challenging financial environment in which local government has been operating since the start of the decade, continuing the trend of ensuring that we invest wisely in maintaining and enhancing our existing assets and delivering a programme of new ones.

246. 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.

247. 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 General Capital Reserve.

248. 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.

249. 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.

250. 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.

251. Continuous 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.

252. Given the link with revenue, as part of the Tt2019 Programme a review of the Capital Programme (and associated funding) explored any avenues that would result in a positive impact on the revenue position and where any net benefit could be applied as a justified and logical way to reduce the remaining savings required from departments. 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.

253. It is therefore proposed to repeat this exercise over the next six months and gather information on potential areas for capital investment that will be reported in the next iteration of the MTFS over the summer of 2020.

254. As part of the Tt2019 exercise, a large proportion of the capital investment related to schemes that in the longer term will lead to reductions in revenue expenditure, for example projects within Adults' Health and Care to invest in the right facilities in the right locations in order to provide the bed based provision needed in the future. Approval to add an initial sum of £200m to the Capital Programme to enable this specific programme to be taken forward was approved by Cabinet and County Council as part of an earlier MTFS in the summer of 2018 and it is timely to provide an update.

Adults' Services Bed Based Programme

255. As highlighted above, the current Capital Programme includes a provision of £200m that was approved by County Council to support a bed based programme that looked 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.

256. The initial high level assumptions were that the programme would be funded by prudential borrowing, the costs of which would be met from savings in the cost of social care as a result of the new investment. Since that time officers have been looking at the available data and condition of the existing premises, what investment may be required and what impact that may have on future care costs.

257. From this analysis, it is clear that further investment in Older Persons and Younger Adults Extra Care will continue to provide high quality living environments at the same time as reducing the long term costs of care. Whilst the existing Capital Programme still contains provision to extend the range of extra care provision in both of these areas, this report seeks to approve up to a further £70m of investment, funded from prudential borrowing, that can be approved by the Executive Member for Policy and Resources subject to a satisfactory business case being produced for each scheme. This is in line with the arrangements that already exist for scheme approval.

258. Initial analysis that has been done on other priorities for investment suggests that there is not a sufficient return on investment to meet the costs of prudential borrowing that would be required to fund the capital spend. However, what it has highlighted is that significant investment in our current estate is required if as a council we wish to retain our in-house provision of residential and nursing homes.

259. An in-house review is currently being undertaken that will consider our size and position in the overall market and the extent to which this helps to manage the demand and costs of adults' social care over the longer term. It is therefore proposed to await the outcome of this review and to continue to develop a potential investment plan that can be presented in the next iteration of the MTFS alongside other priorities for capital investment from other departments.

EII South Programme of Fire Precaution Upgrade and Improvement Works

260. EII South is a key building within the County Council's Winchester headquarters complex. It is a Grade II listed building with accommodation over five floors that provides in the region of 800 desks together with meeting rooms, drop in spaces, offices for Members and Chief Officers and welfare facilities including toilets and kitchenettes.

261. The current strategy for the corporate office portfolio seeks to rationalise the asset base by consolidating occupation through increased utilisation of buildings and releasing or letting the surplus accommodation. As a core building within the HQ complex, maximising the capacity of EII South is an essential part of delivering this strategy in order to achieve ongoing revenue savings and accommodate organisational growth.

262. Following the redevelopment of the EII complex in 2008, work has been undertaken in EII South on a phased basis to remodel the floor plates to

modernise the workspace, enable flexible working, improve the working environment and increase the capacity of the building. The remodelling of the ground and first floors was completed in 2018 and additional staff were relocated into the building from leased accommodation. In parallel, staff were relocated from EII East to create space for the expansion of the IBC as part of the on-boarding of the three London Boroughs.

263. As part of these changes a fire strategy review was undertaken to ensure that the building could be safely occupied at the increased utilisation levels targeted in the office accommodation strategy, making best use of the remodelled layout.

264. The fire review highlighted a gap between the number of people that could be accommodated within the provided desks, meeting rooms, offices and break out spaces and the numbers that could be safely evacuated in the event of a fire, when assessed in accordance with the regulations.

265. The limited short term risks highlighted through the review have been addressed through an increased management regime for the building which has included additional fire evacuation drills to ensure building occupants are familiar with the procedures and confirm satisfactory evacuation times, refresher training for building occupants through e-learning and refresher training for fire marshals.

266. Following an options appraisal, a scheme of fire precaution upgrade and improvement works has been developed to increase the safe building capacity in the event of a fire. The planned works include:

- Lobbying of staircases to provide additional protection to the means of escape and ensuring that all stairwells remain accessible as an escape route in the case of a fire. This also provides greater building protection by restricting the spread of fire as well as improving protection to building occupants.
- Upgrade of the fire alarm system to provide greater fire detection coverage, ensuring early warning of fire to alert building occupants to facilitate a more efficient evacuation.
- Installation of additional powered and / or new doors for segregation so as not to inhibit the circulation around the building day to day. New corridor, resource room and kitchenette doors will be held open but linked to the fire alarm, so they release and close on a fire alarm activation. Large timber final exit doors that are inward opening will be powered open on fire alarm activation to ensure the exit route is already open when staff leave the building.
- Localised upgrades to the building structure and ventilation system will be undertaken to ensure fire stopping is complete, preventing the spread of fire.

267. Completion of these works increases the capacity of the building by 300 people when assessed in accordance with the relevant regulations. This additional

capacity has already been created through the recent refurbishment and reorganisation projects. Undertaking these further fire precautions works will allow the building to be safely occupied at the higher utilisation rates identified within the corporate office accommodation strategy. This ensures that the occupation of the building can be optimised, now and in the future, to support the further rationalisation of the office portfolio or future organisational growth and the delivery of the associated financial benefits.

268. Listed building consent has now been obtained and the works, which it is estimated will cost £590,000, are due to be tendered in the late autumn with a view to forming a contract and starting work on site towards the end of the calendar year. This report therefore requests that the scheme is added to the Capital Programme and approval to spend in 2019/20 is granted, to be funded from the Policy and Resources repair and maintenance budget.

Robert Mays School – Safe Route to School

269. As part of the Children's Services Tt2019 savings proposals, reductions in the cost of HtST were targeted through investment in infrastructure to create safe routes to school in areas where routes were considered unsafe and therefore required HtST to be provided to pupils; even if the distances to school were below the statutory levels.

270. A preliminary scheme had previously been drawn up for a safe route to Robert Mays School in Odiham that required works to be undertaken, both to the highway and to rights of way across Bartley Heath. The costs of these works were first estimated be around £350,000 in total, split over the ETE and Policy and Resources Capital Programme but funded from Children's Services cost of change reserve.

271. A more detailed design for the scheme has now been produced, modified to take account of greater structural changes to improve children's safety at the crossing point on the A287 near the Newlyn's Roundabout and an improved crossing point on Station Road, Hook, both of which were not part of the original design and are aimed at addressing parental concern.

272. This has increased the cost to around £600,000, which means that formal spend approval is required before the scheme can commence. This report therefore seeks capital scheme approval for spend up to £600,000 which will be met from Children's Services cost of change reserve.

Section Q: Commercial Strategy

273. The County Council's approach to the delivery of successive savings programmes 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.

274. This approach will continue alongside a commercial strategy which aims to generate more income in order to reduce the direct impact on services, either through charging for services or through the expansion of traded services to other organisations.

275. 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.

276. This approach has continued into the Tt2021 Programme and as part of the *Serving Hampshire – Balancing the Budget* consultation feedback, generating additional income was the most preferred option for helping to close the budget deficit.

277. The County Council's Commercial Strategy is set out in more detail in Appendix 10 and also explores what the County Council has been doing in each of these areas as part of its longer term financial strategy.

278. 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. Once Tt2019 is fully delivered total commercial based activity will contribute around £140m 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.

279. 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 needed to merit the effort and upfront investment.

280. In particular, Members will be aware of the ongoing national debate around councils directly investing in individual properties, especially where this relates to retail units which are struggling as a result of the switch to online shopping. The County Council's tried and tested approach of investing in pooled property and other funds continues to provide good yields without exposing us to any of the risks associated with individual property ownership.

281. The County Council's approach of investing in pooled property funds is already providing significantly higher returns (4.35% last year) without the need to prudentially borrow, without the risk of owning individual properties itself and

with the security of a much larger and diverse portfolio than could be achieved on its own, even with our scale of investments.

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

283. 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 Tt2021 and beyond on the back of over ambitious or unsustainable income forecasts that would build significant risk into future financial plans.

Section R: Reserves Strategy

284. The County Council's Reserves Strategy, which is set out in Appendix 11, is now well rehearsed and continues to be one of the key factors that underpin our ability not only to provide funding for the transformation of services but also to give the time for changes to be properly planned, developed and safely implemented.

285. 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.

286. 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 by the Government, 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 intended as part of the wider MTFS.

287. This tipping point has not yet arrived, and reserves increased at the end of 2018/19 as departments were able to add to their cost of change reserves through early delivery of Tt2019 savings. However, it is anticipated that they will begin to fall at the end of 2019/20 in view of the large scale investment required to deliver the County Council's transformation programmes and the level of cash flow support that will be required in the medium term.

288. In addition, while the overall level of reserves currently exceeds £0.6bn, it is 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. This highlights once again that reserves offer no long term solution to the financial challenges we face. Correctly used however, they do provide the time and capacity to properly plan, manage and implement change programmes as the County Council has demonstrated for many years now.

Grant Equalisation Reserve

289. The current strategy that the County Council operates works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the GER. Building the provision within the GER will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us to 2021/22.

290. It has been agreed that where possible, the County Council will continue to direct spare one-off funding into the GER to maintain what is part of a successful strategy which has served it very well to date. Consequently, as part of budget setting in February, a number of additions totalling £29.9m were approved (over 2018/19 and 2019/20) to begin to make provision for the period beyond 2020 to support the two year savings cycle and to provide cash flow support to the Tt2021 Programme.

291. The following table summarises the forecast position for the GER taking into account the requirement to balance the budget in 2020/21 and to provide corporate funding to cash flow the next stage of transformation:

	GER £'000
Balance at 31/03/2018	74,870
2018/19 Original Draw Planned	(26,435)
Additions Approved February 2019	15,100
Addition Outturn 2018/19	1,466
Balance at 31/03/2019	**65,001**
Additions Approved February 2019	14,811
Further Budgeted Addition - MRP "Holiday"	21,000
Planned use:	
Cash Flow Tt2019	(40,000)
Cash Flow Tt2021	(32,000)
Interim Year 2020/21	(28,400)
Unallocated Balance	**412**

292. This will largely deplete the GER and therefore, where possible, the County Council must continue to direct spare one-off funding into the reserve as part of its overall longer term risk mitigation strategy.

293. Alongside this it is proposed that the GER is renamed to reflect the new financial landscape which sees the County Council receiving no Revenue Support Grant (RSG) from central government and to highlight its use to provide resources to bridge the interim year; allowing a two year cycle of delivering savings. The proposal is to reposition the reserve as the 'Budget Bridging Reserve' (BBR).

Section S: Strategy Beyond 2021/22

294. It is critical that during the next two years the County Council is not distracted from delivering the Tt2019 and Tt2021 Programmes, irrespective of the financial outlook in the years ahead which remains very uncertain. Any failure to deliver recurring sustainable savings to meet the targets set will only serve to worsen the position. Working on this basis a further programme of savings will be required for 2023/24 with a need to provide resources in 2022/23 to balance the budget in the interim year.

295. It has previously been highlighted that each year the County Council faces a shortfall to meet cost and demand pressures that historically were provided for by government. and the shortfall in the interim year of 2022/23 is forecast to be £40.2m. Given the BBR is effectively exhausted, as shown in paragraph 291 above, there is a requirement therefore to continue to build up resources in the reserve in the intervening period as insufficient funding is currently available to bridge the gap in this interim year. Failure to achieve this will put at risk the County Council's ability to continue with its successful financial strategy of delivering savings on a two year cycle.

296. At the time of publishing this report, the initial results of the triennial valuation of the Pension Fund are due to be released to individual scheduled bodies in the Fund (Hampshire, Southampton, Portsmouth and the 11 Hampshire districts) in the near future. Whilst no specific figures are therefore available for Hampshire, we have had sight of the initial overall results which are positive.

297. In 2016 the fund was around 80% funded, meaning that we had a deficit that needed to be recovered from employers over an extended period. The initial high level results for the 2019 valuation indicate that we could be between 95% and 98% funded following the improvement in investment returns over the period. At the time of writing the report, adjustments were still being made to take account of the McCloud judgement and the cost cap, but the overall position is still favourable.

298. In terms of the financial impact of this, we expect the future service rate to be in line with the allowances we have made within the current MTFS, but what the higher funding level does provide is the opportunity to reduce the past deficit payments that we are currently making. Allowing for the changes that are still

being worked through, we predict that there could be a saving in the County Council's past deficit contribution in the order of £10m to £15m per annum.

299. Whilst this is very positive, it must be set against the potential risk that with the uncertainty of Brexit and the wider impact on the national economic climate, the fund could fall back to previous levels by the next triennial valuation in 2022. If the County Council were to take this revenue saving into its baseline funding now, and the Fund were to decline over the period it would mean finding extra recurring revenue money at that stage (on top of any Tt2021 successor programme) to plug a potential deficit position.

300. With this in mind, and considering the need to fund a £40.2m gap for the 2022/23 interim year (as outlined in paragraph 295), it is recommended that savings arising from the favourable 2019 Pension Fund valuation be used to top up the BBR in the intervening period. If by the 2022 valuation the returns have been maintained and stabilised (by which time we should also have more certainty about the financial outlook for the County Council) the additional revenue can be factored into the MTFS at that point in time.

301. Looking at the wider MTFS, whilst we have greater certainty for the coming financial year following the announcement of SR2019, there remains a lack of detail around the Government's intentions beyond 2020/21. In 2020 it is hoped that there will be further clarity around the future funding position which will allow us to refine this position, but we will lobby the Government for rolling multi-year settlements to avoid the cliff edge we face at the end of every CSR period. What is clear though is that any successor programme will need to be delivered within a two year window as continuing to provide large scale corporate support will not be possible based on our current knowledge of the financial landscape ahead.

302. The time to consider the wider strategy for tackling the next phase of savings beyond 2021/22 will be when we have a clearer picture of the financial landscape for local government and when we consider there is sufficient traction and delivery on the Tt2021 Programme, since achievement of that programme, alongside delivery of the remainder of the Tt2019 Programme, is crucial to the financial position of the County Council. It is anticipated that this will be in the second half of 2020.

Section T: Financial Resilience and Sustainability

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

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

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

305. 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 2022/23. 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.

306. In addition, the report highlights the danger, in the relentless search for savings, of focusing on the "gap" still to be found while failing to take the actions necessary to ensure all the agreed savings have been delivered. The County Council is alert to this potential danger and for Tt2019, and to an even greater extent Tt2021, will be taking a very measured approach to the timing of moving focus from one transformation programme to the next. In addition, the added challenge of running two transformation programmes alongside each other for a time is recognised and robust management and monitoring arrangements are in place.

307. Following the events in Northamptonshire and a heightened national focus on the finances of local government more generally, CIPFA also produced a Financial Resilience Index (FRI) towards the end of 2018. The index uses a range of financial information and other factors to generate a series of measures against which all authorities are 'stress tested'. Whilst the results were not available for publication, the information for the first year was provided to Chief Financial Officers. This information reflected what we already know about the financial sustainability of the County Council and informed the Section 25 Report included in the Revenue Budget and Precept 2019/20 Report.

308. Further to this, CIPFA has recently consulted on a Financial Management Code (CIPFA FM Code) which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code which is due to be published in the autumn is consistent with other successful CIPFA codes and statements in being based on principles rather than prescription.

309. It is anticipated that local authorities will be required to apply the requirements of the CIPFA FM Code with effect from 1 April 2020. This means that to enable the 2020/21 budget to have been prepared in compliance with the CIPFA FM Code significant elements will have to be adopted before April 2020. More detail will therefore be included in the Revenue Budget and Precept 2020/21 report in February 2020 to explain the CIPFA FM Code and its application and to demonstrate how the County Council effectively meets the requirements.

310. Despite the relentless financial pressure and need to deliver savings, the County Council has demonstrated 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.

311. It also, exceptionally, continues to serve the people of Hampshire with the highest quality of services, with the vast majority of external assessments continuing to show Hampshire's performance to be at least top quartile.

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

313. 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 relatively strong financial position, especially in comparison 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. However, as we have highlighted repeatedly in this MTFS if we are to remain financially sustainable beyond 2021/22 there needs to be a significant change in the way in which growth in adults' and children's social care is funded, since it is not possible to sustain that growth in demand and cost indefinitely.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Transformation to 2021 – Revenue Savings Proposals - Executive Member for Public Health	16 September 2019
Transformation to 2021 – Revenue Savings Proposals - Executive Member for Adult Social Care and Public Health	16 September 2019
Transformation to 2021 – Revenue Savings Proposals - Executive Member for Economy, Transport and Environment	17 September 2019
Transformation to 2021 – Revenue Savings Proposals - Executive Lead Member for Children's Services and Young People	18 September 2019
Transformation to 2021 – Revenue Savings Proposals Executive Member for Recreation and Heritage	19 September 2019
Transformation to 2021 – Revenue Savings Proposals Executive Member for Countryside and Rural Affairs	19 September 2019
Transformation to 2021 – Revenue Savings Proposals Executive Member for Policy and Resources	24 September 2019
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. **Equalities Impact Assessment:**

Given that this report deals with a large number of options and proposals for savings as part of the Transformation to 2021 Programme, the individual EIAs have been appended to this report to aid the decision making process.