HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	3 February 2020 13 February 2020
Title:	Revenue Budget and Precept 2020/21
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Carolyn Williamson

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

Section A: Purpose of this Report

1. The purpose of this report is to set out the County Council's proposals for the revenue budget and precept for 2020/21. It also provides an update on the financial position for 2019/20.

Section B: Recommendation(s)

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

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

3. Approves the Revised Budget for 2019/20 contained in Appendix 1, including a transfer of £2.0m to the Investment Risk Reserve.

4. Approves that a minimum allocation of £2.0m is carried forward each year for highways reactive maintenance funding irrespective of the level of any under spend, with any shortfall underwritten corporately through the use of contingencies.

5. Delegates authority to the Director of Economy, Transport and Environment in consultation with the Executive Member for Economy, Transport and Environment to move funding from Operation Resilience to highways reactive maintenance if required during the year up to a limit of £3.0m.

6. Approves the updated cash limits for departments for 2020/21 as set out in Appendix 3.

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

8. Recommends to County Council that:

a) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 7) be taken into account when the Council determines the budget and precept for 2020/21.

b) The Revised Budget for 2019/20 set out in Appendix 1 be approved.

c) The Revenue Budget for 2020/21 (as set out in Appendix 4 and Appendix 5) be approved.

d) Funding for one off revenue priorities linked to the development of capital investment totalling £3.9m as set out in paragraphs 92 to 105 be approved.

e) Funding of £830,000 in 2020/21 to deal with the impact of ash dieback as set out in paragraphs 106 to 110 be approved.

f) The additions to the Capital Programme totalling £9.6m as set out in paragraphs 111 to 128 are approved.

g) The allocation of £2.5m from the Policy and Resources Other Reserve to top up the Investing in Hampshire Fund be approved.

h) The **council tax requirement** for the County Council for the year beginning 1 April 2020, be £668,000,898.

i) The County Council's band D council tax for the year beginning 1 April 2020 be £1,286.28, an increase of 3.99%, of which 2% is specifically for adults' social care.

j) The County Council's council tax for the year beginning 1 April 2020 for properties in each tax band be:

	£
Band A	857.52
Band B	1,000.44
Band C	1,143.36
Band D	1,286.28
Band E	1,572.12
Band F	1,857.96
Band G	2,143.80
Band H	2,572.56

k) Precepts be issued totalling ££668,000,898 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authority's area as determined by them and as set out below:

Basingstoke and Deane	66,647.30
East Hampshire	50,461.90
Eastleigh	47,034.53
Fareham	43,559.30
Gosport	27,039.10
Hart	40,704.11
Havant	40,708.30
New Forest	71,492.90
Rushmoor	31,865.06
Test Valley	49,855.00
Winchester	49,960.25

l) The Capital & Investment Strategy for 2020/21 (and the remainder of 2019/20) as set out in Appendix 8 be approved.

m) The Treasury Management Strategy for 2020/21 (and the remainder of 2019/20) as set out in Appendix 9 be approved.

n) Authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

RECOMMENDATIONS TO COUNCIL

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

County Council is recommended to approve:

a) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 7) and take this into account when determining the budget and precept for 2020/21.

b) The Revised Budget for 2019/20 set out in Appendix 1.

c) The Revenue Budget for 2020/21 (as set out in Appendix 4 and Appendix 5).

d) Funding for one off revenue priorities linked to the development of capital investment totalling £3.9m as set out in paragraphs 92 to 105.

e) Funding of £830,000 in 2020/21 to deal with the impact of ash die back as set out in paragraphs 106 to 110.

f) The additions to the Capital Programme totalling £9.6m as set out in paragraphs 111 to 128.

g) The allocation of £2.5m from the Policy and Resources Other Reserve to top up the Investing in Hampshire Fund.

h) That the **council tax requirement** for the County Council for the year beginning 1 April 2020, be £668,000,898.

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Test Valley	49,855.00
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l) The Capital & Investment Strategy for 2020/21 (and the remainder of 2019/20) as set out in Appendix 8.

m) The Treasury Management Strategy for 2020/21 (and the remainder of 2019/20) as set out in Appendix 9.

n) The delegation of authority to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

Section C: Executive Summary

9. This report sets out the proposed budget and council tax for 2020/21, representing the 'interim year' as part of the County Council's tried and tested two year cycle for delivering savings, which has been a key feature in ensuring that strong financial management has been maintained during the period of austerity.

10. Savings targets for 2021/22 were approved as part of the Medium Term Financial Strategy (MTFS) in 2018 and detailed savings proposals have been developed through the Transformation to 2021 (Tt2021) Programme which were agreed by Cabinet and County Council during October and November last year. Any early achievement of resources from proposals during 2020/21 as part of the Tt2021 Programme will be retained by departments to use for cost of

change purposes, to cash flow the delivery of savings or to offset service pressures.

11. During January individual Executive Members have been considering their revenue budget proposals with the Leader and Cabinet and Select Committees who provide overview and scrutiny. This report consolidates these proposals together with other items that make up the total revenue budget for the County Council in order to recommend a budget, precept and council tax to the meeting of full County Council on 13 February 2020.

12. This report also considers a number of one off revenue and capital items that can be added to the budget and Capital Programme at this stage, reflecting the scale and capacity at which the County Council is able to operate and demonstrating the effectiveness of its financial strategy and strong financial management. The key additions are shown in the following table:

	£M
Funding for new schools' design and strategic land development	3.90
Additional resource to tackle the ash tree die back problem	0.83
Rural Broadband 'top up' voucher scheme	1.00
LED street lighting replacement scheme	3.20
Electric vehicle purchase (additional allocation)	0.80
Operation Resilience additional contribution	3.00
Guaranteed additional funding for highways revenue maintenance	2.00
Funding for climate change initiatives	2.00
Total	**16.73**

13. Financial performance in the current year remains strong. Indications are that all departments will be able to manage the large-scale investment required to deliver their planned transformation activity and meet service pressures through the use of cost of change and other reserves, along with appropriate corporate funding. However, the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users, means that pressures are being felt in all departments.

14. On 4 September 2019 a one year Spending Round (SR2019) was announced by the Government for 2020/21 which has provided additional resources to local government. Whilst the settlement was 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. The SR2019 also set out core council tax of 2% and the continuation of a further 2% to fund growth in adult social care costs.

15. The provisional Local Government Finance Settlement was announced on 20 December 2019 and confirmed the grant figures and council tax thresholds for 2020/21 in line with the SR2019 and the clarification provided in the subsequent technical consultation.

16. In line with the MTFS, this report recommends that council tax is increased by 3.99% in 2020/21, of which 2% is specifically for adults' social care, reflecting government policy. This will generate around £25m additional income and it is likely that Hampshire will remain the second lowest county level council tax in the country, without suffering from the same financial problems as some of the other low council tax county councils.

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

18. At this stage the net draw required from the Budget Bridging Reserve (BBR) is £12.8m, which reflects the approved use of funding to provide cash flow support for the planned extended delivery of Tt2019, and to balance the budget in the interim year, offset by additions as we begin to make provision for future years.

19. The County Council's Reserves Strategy, which is set out in Appendix 6, is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be successfully planned, developed and safely implemented.

20. The apparent lack of understanding of local authority reserves continues to be a national issue and in response some indicative work by the Local Government Association highlighted that for local government collectively, after earmarked or committed reserves had been excluded, the remaining uncommitted reserves only left enough money to run services for around 25 days. For the County Council the same exercise has been repeated and gave a figure of around 15 days. 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. The Budget Bridging Reserve continues to be used effectively and new contributions mean that we have begun to address future challenges beyond 2021/22 but are still some way short of fully funding all the elements of any successor savings programme

21. In addition, this report includes both the County Councils Capital and Investment Strategy and the Treasury Management Strategy (TMS) for 2020/21 (and the remainder of 2019/20), set out in Appendix 8 and Appendix 9 respectively.

22. 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. The TMS supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

23. Longer term, the County Council is still in the position of having no real 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.

24. The Treasurer's report under Section 25 of the Local Government Act 2003, which has to be taken into account when the Council determines the budget and precept for 2020/21, is set out in Appendix 7 and also considers the future financial resilience of the County Council in this context.

25. 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 D: Contextual Information

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

27. The County Council's strategy has placed it in a very strong position to produce a 'steady state' budget for 2020/21 and safely implement the next phase of changes through the Transformation to 2021 (Tt2021) Programme to deliver further savings totalling £80m.

28. The Tt2021 Programme is progressing to plan, but it is clear that bridging a further gap of £80m is extremely difficult and will take longer to achieve in order

to avoid service disruption. The Chief Executive's report entitled Transformation to 2019: Report No.8 was presented to Cabinet in January 2020 and outlined the positive progress being made, alongside continued delivery of the Transformation to 2019 (Tt2019) Programme.

29. The anticipated later delivery of some elements of the programme has been factored into our medium term planning to ensure that enough one off funding exists both corporately and within departments to meet any potential gap over the period. Taking longer to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy and further emphasises the value of our Reserves Strategy.

30. On 4 September 2019 a one year Spending Round (SR2019) was announced by the Government for 2020/21 which has provided additional resources to local government. Whilst the settlement was 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. The SR2019 also set out core council tax of 2% and the continuation of a further 2% to fund growth in adult social care costs.

31. The provisional Local Government Finance Settlement was announced on 20 December 2019 and more detail about the provisional settlement is set out in Section G of this report

32. The final grant settlement for 2020/21 is not due out until this report has been dispatched, however it is not anticipated that there will be any major changes to the figures that were released in December 2019.

33. In January 2020 Cabinet received a budget update report that set provisional cash limit guidelines for departments, taking into account inflation, savings and base changes. This report confirms the cash limits that will be applied to departments next year and the individual reports approved by Executive Members during January all show that the proposed budgets are within the cash limit guidelines that have been approved.

Section E: 2019/20 Financial Monitoring

34. 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.

35. 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.

36. In recognition of this risk 'financial resilience' reporting is regularly presented to CMT which 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.

37. The latest forecast position for each department as at the end of November (Month 8) indicates that in year all departments will be able to manage the large-scale investment required to deliver their planned transformation activity and meet service pressures through the use of cost of change and other reserves, along with currently agreed corporate funding.

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

Adults' Health and Care

39. The latest forecast is a balanced position, but this is after the utilisation of all non-recurrent funds including the Cost of Change Reserve to offset significant service pressures that have materialised in the year. This position is also dependant on securing Tt2019 cash savings of £41.5m and Tt2021 early savings of just under £0.1m.

40. Whilst the net position on the Adult Social Care service budget is balanced there are some key variances. The main recurrent pressures in 2019/20 relate to the provision of care, both purchased and provided in house with pressures of £11.4m and £1.0m respectively.

41. The pressure on purchased care is primarily within the Older Adults service area with a net pressure of £7.3m. This has arisen from sustained increases in care volumes and average price increases since the latter half of 2018/19 with the full year effect of those increases becoming apparent in 2019/20. This has largely arisen due to the need to support greater throughput of clients out of hospital. In the last months there has been a stabilising of the position with limited further increases overall and indeed some reductions.

42. In response the Department is utilising the full balance of their Cost of Change Reserve to offset these pressures in 2019/20. The Department started the year with a balance of £38.6m in cost of change and will use £26.1m to offset

planned late delivery of Tt2019 and in year transformation costs, with the remainder used to offset the recurrent service pressures outlined above.

43. The 2019/20 forecast outturn has also been reliant on the availability of both the Winter Pressure Grant of £4.8m and the third year of the additional Integrated Better Care Fund (IBCF) allocation which totalled £6.8m. Both of these amounts have been utilised in accordance with the purpose upon which they were given, namely additional social care activity to alleviate pressures on the NHS.

44. However, as a consequence of creating a greater flow of patients leaving hospital there is a subsequent impact on volumes of clients in receipt of long term care packages. To meet this need, the Department have had to, and will likely need to further, increase capacity for long term care. This further cost has a lasting impact beyond the year in which these grants have been awarded and, as has been observed in the latter half of 2018/19, if left unaddressed will likely create a pressure in future years, over and above the additional funding allowed for in the latest MTFS.

Children's Services

45. The expected outturn for 2019/20 on the non-schools' budget is a balanced position following the additional corporate support provided to Children's Services. There has been significant focus on Children Looked After (CLA) numbers and costs over recent years and trends for average costs, numbers and the mix of placement type have been tracked. Based on this analysis and tracking, additional corporate support has been agreed to address the pressures arising from this growth.

46. The cost of agency workers continues to be an issue and previous corporate support has been agreed in order to increase the number of social workers which will lead to a reduced caseload for teams and free up capacity to deliver reductions in CLA numbers. A further outcome of this is to ensure that we retain our social workers and avoid the additional use of agency staff, albeit they continue to be used to maintain capacity in the service. Various recruitment avenues and alternative pathways to social work careers are being promoted. Connect2Hampshire, which is looking to address the resource issues over the longer term, should also improve the quality of those agency social workers we do use.

47. Swanwick Lodge, our in-house secure unit, is in a period of financial recovery following a major refurbishment. The ability to recruit and retain suitable staff has delayed the opening of beds which impacts that recovery. This is currently under review. There are also pressures on the legal budget relating to external legal costs for counsel and expert witnesses relating to care proceedings going to court. Funding has been allocated within the MTFS to support this pressure.

Economy, Transport and Environment (ETE)

48. Given the significant challenges of the Tt2021 savings programme the Department has adopted a cautious approach to 'business as usual' budgets including a prudent approach to vacancy management and currently a saving of £1.9m is predicted. This is due to a combination of holding vacant posts, tightly controlling non-pay budgets and increased forecast income and recharges, offset by increases in agency staff (linked to the higher income and recharges), planned one-off investments and exceptional project development costs not rechargeable to capital.

49. This sum will be transferred to the Department's Cost of Change Reserve at the end of the year, in line with the County Council's financial strategy, to be used to fund future transformational change or to cash flow delivery and offset service pressures.

50. ETE continues to maintain a relentless focus on core service delivery around Highways, Waste Management, Transport, Economic Development and statutory planning services. The first two of these being major universal demand led services. To date the Department has been able to make contributions to its Cost of Change Reserve to cash flow planned later delivery of savings and to provide for the necessary enabling investment to deliver transformation. This has been an effective strategy to date although the increased requirement for investment in assets and resources to generate the next phase of savings will place further pressure on the Department.

51. Waste volume growth due to demographic growth and falling recycling rates, reflecting the national trend, continue to represent a significant risk to the financial position of the Department. In addition, the waste service budget continues to be sensitive to changes in statutory waste definitions and fluctuations in markets or currencies which affect the value of recycled materials such as metal or paper or the treatment costs of materials like wood. These risks are effectively managed through provisions held within contingencies, but all these factors create a challenging backdrop for delivering the Tt2021 savings target for waste.

52. After a decade of financial pressure, the condition of Hampshire's highways network is in noticeable decline. The County Council's Operation Resilience capital programme has helped to partly mitigate the effects of the reductions but has remained at £10.0m per annum since its inception, thus reducing its ability to mitigate the effects of reduced revenue funding. Government capital funding for highways, while welcome, is provided as a mixture of formula grant (with a degree of stability and the ability to plan programmes of work) and competitive bidding for one off grant.

53. Over the last four or five years, the County Council has agreed to carry forward any under spends on the winter maintenance budget to supplement the revenue highway maintenance budget in the following year, this is now an agreed policy position and happens every year at year end. This has proved a

successful way of increasing the available resources for reactive maintenance and figures have varied from £1.4m to nearly £2.0m over this period.

54. Whilst this has been a successful strategy, the additional funding is not guaranteed (and therefore cannot be effectively planned) and importantly is not sufficient to keep pace with the reactive maintenance volumes across the network, which have worsened over this winter as a result of the pro-longed wet weather followed by bouts of freezing temperatures. To partly address this position (and in advance of any potential announcements that there may be in the Budget in March) the Capital Investment Priority section of this report proposes new one off funding of £3.0m for Operation Resilience for 2020/21 together with increased flexibility to move capital resources to revenue if required to respond to urgent reactive maintenance liabilities.

55. In addition, this report also recommends that a slightly different approach is adopted in respect of the winter maintenance funding that has been key in providing additional funding for reactive maintenance in previous years. At the moment, any under spend in the year is carried forward and added to the reactive maintenance budget for the next financial year.

56. In order to provide greater certainty over reactive maintenance funding in the future it is recommended that a minimum allocation of £2.0m is carried forward each year, irrespective of the level of any under spend. If the under spend is greater than this, then the extra funding will be allocated at year end, if it is less than this, then the difference will be underwritten corporately. In essence, central contingencies will bear the greater share of the risk in respect of winter maintenance spending.

Culture, Communities and Business Services (CCBS)

57. CCBS delivers a wide range of services and the Department have been very successful to date in delivering major transformation programmes across Libraries, Outdoor Centres, Hillier Gardens and the Countryside Service which have produced savings in excess of the required targets and implemented them earlier than required.

58. For 2019/20 this has placed the Department in a strong position, enabling them to invest in the resources needed to develop the next phase of transformation and ensure there is provision within their Cost of Change Reserves to fund future activity to deliver the required Tt2021 Programme.

59. Successive budget reductions do mean there is less scope to generate savings across the services and ever greater levels of investment and resources are required to generate further savings, as is the case with other departments. However, CCBS is in a better position than some other departments to be able to encourage use of its services to generate external income, but this does increase the risk in the budget moving forward as the reliance on that income becomes ever greater.

60. CCBS also includes a range of trading units which rely on income to fully recover the costs that they incur. HC3S is one of these trading units, providing catering services to HCC establishments, in particular the provision of school meals. Since June 2019 there has been a significant downturn in the take up of school meals, coupled with increasing food and staffing costs. Current predictions are that a deficit of around £1.0m could be expected by the end of the financial year. Actions are being put in place to mitigate the level of the eventual deficit, which can be covered by trading unit reserves and a more extensive plan is being put in place to ensure that the service returns to a break even position.

Corporate Services

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

62. Corporate Services have also been using their Cost of Change Reserves to fund additional capacity in their departmental transformation teams and the corporate Transformation Team. The longer timeframes for delivering the Tt2019 Programme together with planning for the successor programme, will also mean that these teams will be in place for longer, placing further pressure on available resources.

63. The forecast position for 2019/20 is that savings will still allow a contribution to cost of change balances even after substantial transformation costs have been met in year. Early delivery of savings in the current year will help as part of the overall strategy for delivering savings in the longer term, but the continued need for additional resources against a backdrop of reducing budgets should not be underestimated.

64. In addition, Corporate Services teams will continue to provide critical support to other departments during the implementation of their own transformation programmes and it will be important for the Department to manage this further pressure to service delivery.

Schools

65. The financial pressures facing schools have been highlighted for some time, driven in large part by an increasing requirement for pupils with Special Educational Needs (SEN), which exceeds the available funding and is mirrored nationally. Pressures 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. There are also increases in the amount of funding required due to increasing complexity of need, resulting in 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.

66. In 2019/20 the current forecast is for a further over spend of £13.4m (mainly due to a forecast over spend of £17.6m on the High Needs Block, partly offset by under spends on the other blocks) which will bring the cumulative deficit to circa £27.2m. The Department for Education (DfE) have consulted on changes to the Dedicated Schools Grant (DSG) to clarify that it is a ring-fenced specific grant separate from the general funding of local authorities and that any deficit is expected to be carried forward and does not require local authorities to cover it with their general reserves. Whilst this sum sits as a 'negative reserve' on the County Council's balance sheet, it in effect therefore represents an overdraft for schools which they (and the Government) need to address over the longer term.

67. Following extensive lobbying of the Minister for Education and local MPs, the announcement as part of the SR2019 of additional funding for schools, which includes extra funding for SEN of £700m nationally (£18.1m for Hampshire schools) is welcomed. However, as highlighted in the MTFS, while this will help to address the future growth in this area, the demand continues to accelerate meaning future pressures are likely and it does not provide a solution to the cumulative deficit position the schools' budget will face at the end of 2019/20.

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

Section F: Revised Budget 2019/20

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

70. Appendix 1 provides a summary of the original budget that was set for 2019/20 together with adjustments that have been made during the year. The proposed Revised Budget for 2019/20 is then set out for information. The variance between the adjusted and revised budget gives an indication of any one off resources which may be available at the end of the year and could be used to fund one off investment or provide additional contributions to the BBR.

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

Adjusted Budget 2019/20

72. **Departmental Spending** – Budgeted departmental spending has increased by more than £116.6m and the reasons for this are highlighted in the following table:

	£M
Use of cost of change reserves	49.3
Net increase in grants	23.3
In Year Children's Service's draw from central contingency	27.8
In Year Corporate Service's draw from central contingency and Invest to Save Reserve	4.5
In Year Adults' social care draw from central contingency	4.2
Approved funding for Strategic Land Development	3.4
Changes to Revenue Contributions to Capital Outlay (RCCO)	1.2
Other Net Changes	2.9
Total	**116.6**

73. The increases in budgeted departmental spending are mainly because of increased government grants, the allocation of approved funding (for example from contingencies) or the one off use of cost of change reserves. The true value of recurring increases is much smaller and relates to the allocation of funding to the social care departments and corporate services from contingencies, but this reflects a transfer rather than new unanticipated spend.

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

75. **Capital Financing Costs** – The decrease reflects updated budgets that were approved as part of the MTFS in 2019 and the £4.6m that was released has been utilised to fund in year revenue pressures within Children's Services.

76. **Revenue Contributions to Capital Outlay (RCCO)** – The decrease in RCCO reflects changes made to the Capital Programme and it's financing during the year but this is entirely offset by other funding changes in budgets or to earmarked reserves so that there is no bottom line impact in 2019/20.

77. **Contingencies** – The reduction in contingencies is mainly the result of transfers made to departmental budgets during the year, notably in relation to social care pressures.

78. **Dedicated Schools Grant (DSG) and Specific Grants** – The increase in DSG reflects amendments that have been made to the final grant during the year. The increase in specific grants is mainly due to the Teacher's Pay and Pension

Grants, along with some changes in known grants, including the Unaccompanied Asylum Seeking Children's (UASC) Grant and the Partners in Practice Grant.

79. **Other Levies** – The increase reflects the transfer of Inshore Fisheries from the Policy and Resources cash limited budget to be held corporately, adopting a consistent approach to the treatment of all levies.

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

Revised Budget 2019/20

81. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2019/20. At this stage the revised budget for departments matches the adjusted cash limits that they have been given for the year and therefore no variances are shown for the end of the year.

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

83. For all departments the forecast position has been presented as break even against the revised cash limits reflecting this policy and the fact that departments are managing their bottom line positions to contain spending pressures and are using cost of change in the year as required.

84. **Interest on Balances** – 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 an additional return of £0.5m is therefore assumed in the revised budget.

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

86. The estimates for 2019/20 have therefore been revised taking this into account and show a saving of £1.5m in the overall capital financing costs for the year.

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

88. In considering the revised budget position, it is timely to review these contingencies in light of the current financial position highlighted in monitoring reports. At this stage of the year, it is considered prudent to release contingency items in respect of pay and price inflation that have not been used, together with other sums set aside for income risk and the general risk contingency. In total, these items amount to £5.0m which can be declared as savings against the adjusted budget.

89. Given the position outlined for the social care departments in the current year all of the specific sums held for social care have been allocated. However, sufficient funding will be retained to cover potential adverse movement in the final quarter of the year given the recognised volatility of these areas.

90. Taking this £5.0m, together with the £2.0m available from capital financing and interest on balances gives a grand total of £7.0m that can be used on a one off basis.

91. It is proposed that this total of £7.0m is used as follows:

- Provision of funding for a number of revenue purposes linked to the design and delivery of new schools and the development of strategic land to generate future capital receipts (as described in more detail in paragraphs 92 to 105) which total £3.9m.
- Additional resources of £830,000 in 2019/20 to fund a dedicated co-ordination and inspection team, together with a commissioning budget to employ specialist arboriculturists to remove trees which are deemed to be higher risk, due to ash dieback, (as described in more detail in paragraphs 106 to 110).
- The addition of £2.0m to the Investment Risk Reserve to mitigate against the potential future need to reflect gains and losses in pooled investments in the revenue account in the year in which they occur. The aim is to works towards a total provision equating to 2.5% of the total higher yielding investment portfolio over time (as explained in paragraphs 201 to 203).
- The addition of the balance of £270,000 to the BBR to begin to make provision for the period beyond 2021.

Development of Capital Investment Priorities

92. The rules that govern capital expenditure within local government are well defined and in more recent years, flexibilities that have previously been allowed within accounting definitions have been tightened. In particular this includes

early feasibility or development works that do not necessarily lead to an identifiable new capital asset.

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

94. Given the changing nature of these programmes, funding for each year is considered as part of the budget setting process and the requests for 2020/21 for these areas are shown below:

	£'000
Strategic Land Development	3,390
New Schools Design & Delivery Strategy	510
Total	**3,900**

95. **Strategic Land Development** – The Strategic Land Programme (SLP) was set up in 2008 to maximise the financial returns on the County Council's land holdings that had the potential for sale and development in the future. By developing the plan and opportunities for a site, usually through to outline planning permission stage, this greatly increases the eventual financial return at the point the land is released for development. Since its inception the SLP has realised and delivered over £21m of capital receipts up to and including the 2019/20 financial year and based upon current local plan allocations, planning approvals and projects it is anticipated that it will generate circa £260m of net receipts for the County Council in the period up to 2029/30.

96. To realise this, the Country Council invests annually in the SLP to prepare and bring forward its land. Within the Programme Business Plan overall revenue expenditure is forecast at approximately 10% of total receipts, with a range of between 1% and 11% spend per project depending on the planning / disposal strategy of individual projects and their scale. The spend supports a dedicated team within Property Services and the procurement of specialist advice or consultancy depending on the nature of the site and its complexity.

97. Total funding of approaching £16.8m since 2008 has previously been approved to take forward a large number of sites (notably Manydown).

98. The phasing of the programme is difficult to predict and is influenced by many factors some of which are outside of the County Council's control. In some respects, higher spend on a site often means that progress has been

accelerated and receipts will be achieved earlier. In addition, market interest in a site may bring forward work that was planned in the future.

99. Therefore, future allocations to the programme are currently being agreed in February each year as part of the budget setting process. For 2020/21 the latest forecast is that up to £3.4m will be required to continue the planned programme, which includes just over £1.2m for Manydown.

100. Funding to take forward the SLP is a considerable investment for the County Council but makes sound financial sense and is a key strand of the authority's Commercial Strategy. Appendix 2 sets out in more detail the benefits to the organisation of our strategic approach to land, including the need to acquire a pipeline of sites that will ultimately develop into the future SLP in decades to come.

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

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

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

Financial Year	**Previous Estimate £'000**	**Updated Estimate £'000**	
2018/19	930	160 (*)	
2019/20	650	1,230	
Approved Funding	**1,580**		
2020/21	1,440	700	
Cumulative		**2,090**	
2021/22	*900*	*1,260*	*Indicative*
2022/23	*400*	*1,430*	*Indicative*
2023/24		*1,040*	*Indicative*

(* Actual for 2018/19)

104. Funding for the costs up to and including 2019/20 was approved in February 2019 and so, after taking into account the re-phased activity, additional funding of £510,000 is required for 2020/21.

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

Ash Tree Dieback

106. Members may be aware that nationally there is a growing problem with the dieback of ash trees. Ash dieback is a fungus which originated in Asia and whilst it does not cause much damage on its native hosts, its introduction to Europe about 30 years ago has devastated the European ash because our native ash species did not evolve with the fungus and this means it has no natural defence against it.

107. Current predictions are that up to 95% of the total population of ash trees in the country could eventually die from the disease. This is clearly a significant issue in terms of the environment, landscape and biodiversity of our woodlands, but also presents financial liabilities for the County Council. Ash trees are found in our country parks, rights of way, council owned land and along the highway and the Council has responsibility for ensuring that the safety of residents is not put at risk as a result of the death of these trees.

108. Across the county there are estimated to be 10,000 ash trees many of which are at different stages of ash die back. The fungus itself grows very slowly and it is therefore difficult to assess the longer term impact and risks associated with individual trees, but it is anticipated that up to 80% of the total trees could be affected. Whilst some work has already been undertaken by the Council to assess the higher risk areas it is recommended that additional resources be approved to fund a dedicated co-ordination and inspection team together with a commissioning budget to employ specialist arboriculturists to remove the trees which are deemed to be higher risk.

109. It is anticipated that the team will need to be in place for a period of up to three years to complete the inspection and recording of the trees and to ensure that any risks to safety are minimised as far as is possible. A sum of £830,000 is requested for 2020/21, made up of a co-ordination and inspection team costing £380,000 and a delivery budget of £450,000.

110. At this stage it is difficult to quantify the scale of the problem and the potential costs of rectifying any safety issues that are discovered. The aim will be to bring back a further and more detailed report based on the information and experience gained from the first year of operation and this will feed into further

requests for funding in future years once a greater understanding of the risks and mitigating activity has been compiled.

Capital Investment Priorities

111. The revenue funding outlined in paragraphs 92 to 110 will support the development of capital priorities and secure longer-term funding for capital investment. As in previous years, departments have been considering their service needs for capital investment and this is currently being reviewed with the aim of presenting the overall picture for consideration by Cabinet and County Council as part of the next update of the MTFS.

112. There are, however, a number of schemes that either need to be urgently considered at this time or can be added to the Capital Programme as they are self-funding. These items are set out below and Cabinet and County Council are requested to approve these amounts as part of the budget setting process.

113. **Rural Broadband** – The County Council has been an active supporter of the roll out of broadband across the County and has approved significant funding to support the overall roll out programme. As the main programme starts to wind down focus has turned to providing broadband in the more rural and harder to reach communities.

114. The Government is operating a voucher scheme that provides residents with up to £1,500 towards the cost of installing broadband infrastructure to their premises and the proposal is that the County Council provides funding to allow a further top up to this amount up to £1,500 per property.

115. Under the first contract with BT, the County Council is entitled to receive a gainshare if sign up to broadband exceeds a threshold level. Some of this funding has already been re-invested into the second contract of works but current predictions are that we will receive at least a further £2.5m over the next three years and the proposal is to use £1.0m of this to provide the top up voucher scheme. It is therefore recommended that £1.0m is added to the Policy and Resources Capital Programme. If all applications were for the full value then this would provide infrastructure to nearly 700 additional homes, but it is expected that many more than this will be accommodated under the scheme.

116. **LED Streetlighting** – As part of the ETE Department’s Tt2021 savings, a sum of £0.5m has been included from savings that can be made by replacing streetlights with LED lamps. Savings arise from the lower cost of powering the units but also increased longevity (and hence reduced maintenance costs for replacements) and the change would also help to reduce the County Council’s carbon footprint.

117. A capital scheme totalling £3.2m has been developed to begin a programme of LED lamp replacement and a bid will be made to the Enterprise M3 Local Enterprise Partnership (EM3 LEP) to help part fund the cost of the programme.

It is therefore recommended that £3.2m is added to the ETE Capital Programme to be funded from a combination of EM3 LEP funding and cost of change reserves.

118. **Electric Vehicle Purchase** – The Hampshire Transport Management (HTM) trading unit currently purchases vehicles that are then provided to departments for which charges are made. The County Council has been investing in Electric Vehicle (EV) charging points for some time now and has plans to increase the number available. Analysis shows that whilst the initial cost of EVs is higher than fuel based cars, the longer term running costs are cheaper, therefore the total cost of ownership over the life of the vehicle is broadly similar.

119. Given the County Council's commitment to climate change and carbon neutrality it is recommended that where the business need can be met by an EV then this will be supplied through HTM in the normal way with the cost to the department being similar to fuel based cars.

120. Since the EVs are more expensive to buy up front than fuel based cars it is predicted that an increase of £0.4m per annum in the Capital Programme for vehicle purchases will be needed, which will ultimately be recovered from charges to departments.

121. **Operation Resilience** – The financial monitoring position for ETE outlines the current challenges in respect of responding to the growth in reactive maintenance liabilities across the network, whilst the revenue maintenance funding has declined over time. Operation Resilience has been maintained at £10.0m for many years and is now built into the budget on a recurring basis, however even with this level of additional investment it is not possible to reverse the ongoing deterioration of the highway network.

122. Whilst Operation Resilience has been maintained at £10.0m per annum, this clearly buys less works than it did at the outset of the programme. It is therefore proposed to increase this amount by £3.0m for 2020/21 on a one off basis. This can be funded from spare New Homes Bonus, which was expected to decrease in 2020/21 but has actually gone up by around £600,000 from 2019/20 levels following the Provisional Local Government Settlement released in December 2019.

123. Whilst this provides some additional funding in 2020/21 that (subject to approval) may also be supplemented by a minimum of £2.0m from the winter maintenance budget in 2019/20, there is concern that demand for reactive maintenance will continue to significantly outstrip the available funding and it is therefore recommended in this report that the Director of Economy, Transport and Environment be given delegated authority in consultation with the Executive Member for Economy, Transport and Environment to move funding from Operation Resilience to reactive maintenance if required during the year up to a limit of £3.0m. Any transfer would be directed towards safety defects, emergency repairs or action to maintain the safety and operational integrity of the network.

124. The longer term aim would be to review the funding allocated to this service area following the Spending Review in summer this year and once the future of the New Homes Bonus as a source of funding has been clarified going forward. If achievable, the intention would be to permanently increase the ongoing funding for Operation Resilience by £3.0m per annum.

125. **Climate Change** – Following the declaration of a climate change emergency by the County Council last year, additional revenue resources have been agreed to take forward the Hampshire Vision 2050 work which incorporates climate change as one of the key themes.

126. Whilst much of this work concentrates on the wider actions that can be taken by residents, businesses and the public sector to reverse the impacts of climate change, the County Council will also want to invest in various different ways in order for it to be able to play its part in this important agenda.

127. It is therefore proposed to provide an initial allocation of up to £2.0m that can be used for capital or revenue purposes to provide funding that supplements existing funding streams and can be used to make a difference in terms of carbon neutrality or fund other specific initiatives that contribute to this agenda. This will be funded from the Corporate Policy Reserve, which was set up to progress policy initiatives of this sort.

128. The funding will initially be allocated to the Economy, Environment and Transport Capital Programme, with approvals for its use being taken through the Executive Member for that Portfolio.

Investing in Hampshire

129. Around five years ago a sum of £7.5m was added to the Capital Programme to provide funding for an initiative called Investing in Hampshire (IIH) which was designed to provide awards that would help to maintain important assets and services across the County. Since that time funding has been provided to a range of cultural and heritage assets, together with other items that provide significant benefit to the residents of Hampshire, most notably contributions towards new or improved hospice provision across the County.

130. In November last year, the Executive Member for Policy and Resources changed the criteria for IIH awards to include investment in the economy of Hampshire as well as its physical assets, which has wider benefits for residents and businesses alike.

131. The remaining fund now stands at around £1.3m and this report therefore proposes that £2.5m is allocated from the Policy and Resources Other Reserve to increase the sum available.

Section G: Local Government Finance Settlement

132. The SR2019 announcement took place on 4 September last year and 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.

133. 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.

134. Without the additional injection of funding, the County Council would have faced a revised deficit position of nearly £106m by 2021/22, but the additional resources bring us back to a broadly neutral position. It is worth highlighting that the additional grant from the £1bn, plus the 2% adult social care precept, generates additional resources of around £29m 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.

135. The Autumn Budget which was planned for 6 November was cancelled and it has now been announced that there will be a Spring Budget which will take place on 11 March 2020. The provisional Local Government Settlement announced on 20 December 2019 confirmed grant figures and council tax thresholds for 2020/21 in line with the SR2019 and the subsequent technical consultation.

136. The provisional settlement confirmed that the County Council will receive £16.8m of additional grant from the £1bn announced nationally. This is £3.0m less than we would normally receive if the funding was distributed based on the Adults Relative Needs Formula (as with previous social care grant funding).

137. The final Local Government Finance Settlement for 2020/21 is still awaited at the time of the publication of this report, however, it is not anticipated that there will be any major changes to the figures that were released in December last year.

Council Tax

138. In 2016/17 the Government implemented a clear shift in council tax policy following five years of freezing council tax, supported by the allocation of Council Tax Freeze Grant. The Government ended this support and have presumed that local authorities would put up their council tax by the maximum they are allowed each year since that point.

139. The MTFS approved by the County Council in November 2019 assumed that council tax will increase by the maximum permissible without a referendum in line with government policy. This will mean a council tax increase of 3.99%, of which 2% will contribute towards the increased costs of adults' social care

(subject to the final confirmation of the referendum limit by the Government), as recommended in this report, in line with the Government's policy and as set out in the County Council's MTFS.

140. This proposed increase will see the council tax for a Band D property increase by £49.41 per annum (approximately 95p per week) to £1,286.28.

141. This will generate around £25m of additional income but it is anticipated that Hampshire will have the second lowest council tax in 2020/21 of any county across the country and with this position continues to maintain strong performance both within its financial management and service provision. The average council tax across all counties in 2019/20 was just over £1,312, more than £75 higher than Hampshire's level in that year. If the County Council set its council tax at this average amount, it would receive around £40m a year more income than current levels.

142. Total income from council tax in 2020/21 is expected to be just over £668m and represents 84.3% of the total funding of the County Council's net budget. This compares to 73.6%% which was the position for 2011/12.

Section H: Service Cash Limits 2020/21

143. In January Cabinet considered a budget update report which set provisional cash limit guidelines for departments for 2020/21.

144. Appendix 3 sets out the cash limits agreed in January and provides information on adjustments that have been made subsequently, which are the result of changes to grants within the local government finance regime. Overall, cash limits have increased by £45.0m. This is due to an increase in DSG and in a similar way to the changes for 2019/20 this has not had a bottom line impact on the revenue budget for 2020/21 as it is the result of a change in a grant.

145. At this stage the 2020/21 pay award has yet to be agreed and the budget originally contained a 2% allowance for the April 2021 pay award, plus a further factor to deal with any changes arising from the National Living Wage (NLW).

146. The Conservatives set out in their manifesto plans to raise the NLW to £10.50 within the next five years and also to lower the age threshold from 25 to 21. Following the outcome of the election, this commitment was included in the Queen's speech, provided economic conditions allow. In line with this, the Government has recently announced that the NLW will rise from £8.21 to £8.72 on 1 April 2020 for workers over the age of 25, an increase of 6.2%. Whilst the County Council's pay framework is not immediately impacted by the planned increase, as the hourly rate for staff on Grade A (the lowest Grade) currently exceeds this by some way; standing at £9.00, the longer term aspiration is likely to result in a review of the framework.

147. The outcome and timing of this is uncertain, but in light of the Government's policy, and more immediately growing uncertainty as to how the employers will approach the pay award for 2020/21, provision for an additional 1% allowance

for pay has been built into the budget (circa £3.0m per annum) which will be held in contingencies along with the amount already set aside, until any pay award is agreed.

Section I: Service Budgets 2020/21

148. As explained in Section H, departments have been set cash limit guidelines for 2020/21 which include allowances for inflation, pressures and other agreed changes.

149. Appendix 4 provides a summary for each department of the main services under their control and shows the original budget for 2019/20, the revised budget for 2019/20 and the proposed budget for 2020/21. All departments are proposing budgets that are within their cash limits.

150. It is worth re-iterating at this stage that significant savings targets have been set since the period of austerity began. These have been applied on a straight line basis in accordance with the County Council's financial strategy as it maintains a strong corporate approach and discipline to delivering the required savings. There has always been a strong distinction made between savings targets and growth allocations which are made in recognition of growing demand and service pressures on a revenue or capital basis, for example social care, highways maintenance and waste disposal, and the County Council's gross expenditure is now more than £2.1bn.

Section J: 2020/21 Overall Budget Proposals

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

152. Appendix 5 sets out a summary of the overall revenue account starting with the cash limited expenditure for departments discussed above. The following paragraphs outline the other items that make up the overall revenue account and provide explanations for any significant variances compared to the 2019/20 budget.

153. **Interest on Balances and Capital Financing Costs** – The investment return figures include the benefit of the proposed pre-payment of pension contributions to the Pension Fund for the next three years, subject to this being signed off with the External Auditors and final actuarial calculations.

154. Delegated authority was given to the Deputy Chief Executive and Director of Corporate Resources to make the pre-payments if it was considered financially beneficial to do so. Initial calculations suggest that a saving of £3.0m per annum for three years (net of lost investment income) could be generated from the pre-payment of contributions and at this stage this has been contributed to the BBR in order to provide future resources for transformation activity and cash flow funding for future savings programmes.

155. It should be noted, however, that whilst there is expected to be a financial benefit as a result of the pre-payment, there are some risks associated with this course of action, in particular, the potential for a sudden downturn in the investment markets shortly after the pre-payment has been made. This would expose the full value of the pre-payment to the investment loss, which could deliver a worse outcome overall than if the payments had been made monthly as they are now. Adding funds to the BBR will also increase flexibility in the event that such a risk materialises and needs to be covered at the end of the three year period.

156. **Revenue Contributions to Capital Outlay (RCCO)** – Each year, revenue contributions are made to help fund the Capital Programme. The decrease of almost £0.5m is due to planned changes in contributions which are offset by amounts in other sections of the revenue account and therefore has no impact on the overall budget.

157. **Contingencies** – The budget for contingencies has fallen by more than £22.0m compared to the 2019/20 original budget. This mainly reflects the early allocation of contingency amounts held for social care, capital related investment and provision for corporate cash flow funding and enabling investment for the Tt2019 Programme; in line with the approved MTFS.

158. Existing contingency provisions in respect of key risk items, notably inflationary pressures (including the 2020/21 pay award which has yet to be agreed) and further cash flow funding for the Tt2019 Programme, have been retained in the base budget. These provisions represent the recommendation by the Deputy Chief Executive and Director of Corporate Resources, as the Authority's Chief Financial Officer (CFO) of a prudent approach to budgeting given the potential pressures the County Council faces. In addition to these contingencies, the County Council has access to sufficient reserves as part of an on-going strategy for the management of the County Council's financial resources over the medium term.

159. **DSG** –The increase in the DSG reflects the increase in funding announced by the Government in the SR2019, the detail of which was clarified in the subsequent schools' revenue funding settlement in December 2019.

160. **Specific Grants** – This income budget has been updated following grant notifications for 2020/21 and the increase is largely due to the additional funding for social care announced in the SR2019. In addition, it has been confirmed that the Teachers Pay Grant and a much increased Teachers Pension Grant will also continue for 2020/21.

161. **Pension Costs** – Following the latest triennial revaluation, the Pension Fund is now fully funded as a result of the improvement in investment returns over the period. The eradication of the deficit has removed the need for the past service payments that we are currently making and assumed would be needed in the future. However, the future service rate for the County Council has been set at 18.4% which is higher than the allowances made within the MTFS. Allowing for these changes there is a net saving for the County Council of £15.0m per

annum as set out in the Budget Setting and Provisional Cash Limits 2020/21 report approved by Cabinet in January.

162. 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.

163. With this in mind and considering the need to fund a £40.2m gap for the 2022/23 interim year, it was approved that savings arising from the favourable 2019 Pension Fund valuation would 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.

164. **Business Units** – The net trading position of business units has been updated, and whilst overall the current estimate is a net trading deficit, mainly as a result of the position in HC3S, it is always difficult to predict at this stage future income generation and generally the forecast improves as the year progresses. In any event, any losses at the end of the year will be met from earmarked reserves that the trading units hold.

165. **Earmarked Reserves** – Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account. However, there is a significant draw from earmarked reserves in 2020/21 due to the planned use of the BBR to balance the budget in 2020/21, as explained briefly in the paragraphs below.

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

167. The comprehensive Reserves Strategy, updated to include the figures at the end of March 2019, was presented to Council as part of the MTFS in November 2019 and is set out in Appendix 6.

168. The County Council holds reserves for many different reasons, but not all of these are available for general usage. Schools' balances are for schools' exclusive use and other reserves such as the Insurance Reserve are set aside as part of the Council's overall risk management strategy or are already planned to be used as is the case with the BBR which will be drawn on in 2020/21.

169. The Reserves Strategy highlights the point that the majority of reserves are set aside for specific purposes and are not available in general terms to support the revenue budget or for other purposes. In reality less than 16% of reserves, as at the end of 2018/19, are truly available to be used to support revenue spending and to help fund the cost of the change programmes across the County Council. In addition, the BBR which comprises the majority of these 'Available Reserves', standing at £65.0m at the end of 2018/19, is in reality largely committed to cash flow the safe delivery of the County Council's transformation programmes and to balance the budget in the interim years of 2020/21 and 2022/23.

170. **Use of General Balances** – The 2019/20 original budget assumed a net contribution to general balances of £0.9m and this prudent annual amount has been continued for 2020/21 in order to maintain general balances at circa 2.5% of the County Council's net budget requirement; in line with the CFO's recommended level.

171. Appendix 7 represents the CFO's view of the overall budget and the adequacy of reserves which must be reported on as part of the main budget proposals in accordance with Section 25 of the Local Government Act 2003. In particular, it considers risks within the budget and in the MTFS going forward, referencing the financial resilience of the Authority against the backdrop of the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Financial Resilience Index, and places this in the context of the recommended contingencies and balances set out in this report.

172. The Appendix also references the new Financial Management Code that was published by CIPFA in October last year. The Code has 17 Financial Management Standards, which authorities must be fully compliant with by 2021/22. The coming financial year (2020/21) therefore offers the opportunity for authorities to make changes to their arrangements in preparation for the full introduction in the following year.

173. A high level review of our performance against each of the Standards has been carried out by the CFO and not unexpectedly we are compliant in most areas. Where there are potential areas for improvement these have been highlighted in the Section 25 report.

Section K: Budget and Council Tax Requirement 2020/21

174. The report recommends that council tax is increased by 3.99% in 2020/21, in line with the MTFS and with government policy which assumes that local authorities will put up their council tax by the maximum they are allowed.

175. In addition to the recommended increase for council tax, there are other changes within the council tax calculation that have an impact on the budget. The council tax base represents the estimated number of houses eligible to pay council tax and the latest forecasts provided by the Districts which take into account expected growth and any adjustments for the impact of their Council

Tax Reduction Schemes result in additional income of £6.8m over and above that assumed previously, albeit that these forecasts may change before the budget is finally set.

176. The County Council is also notified by Hampshire Districts, of the estimated level of collection fund surpluses or deficits that need to be taken into account in setting the council tax for 2020/21. In addition to the figures for council tax, Districts are required to provide estimates of their surplus or deficit on the business rates collection fund, following the introduction of Business Rates Retention in April 2013.

177. For 2019/20 a net council tax collection fund surplus of almost £3.2m is anticipated of which only £1.5m was assumed in the original forecast. This has mainly arisen due to general increases in the council tax base during the year.

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

179. Similarly, Districts have provided estimates of what business rate income they expect to receive for 2020/21 based on their experience during the current financial year. These estimates have yet to be finalised and, given continuing experience about the risk and volatility surrounding this income, at this stage although they have been built into the budget position, it is likely they will change. We will await confirmation of final figures and any adjustment will be reported at County Council.

180. Taking account of all the budget changes outlined in this and previous sections of this report, the County Council can set a balanced 2020/21 budget as follows:

	£M
Technical Consultation - Change to Social Care Additional Funding	(3.0)
Updated Pay Award Assumptions	(3.0)
Tax Base Growth	6.8
One off Council Tax Collection Fund Surplus	1.7
One off Business Rates Collection Fund Deficit	(0.2)
Business Rates Income	0.8
Contribution to BBR	(3.1)
Balanced Budget	**0.0**

181. The table shows that in 2020/21, because of the changes, the County Council can make a contribution to the BBR to build the sum available for future years in line with the MTFS.

182. Local authorities are required to report a formal council tax requirement as part of the budget setting process and the recommendations to Council in this report show that the Council Tax Requirement for the year is £668,000,898.

Section L: Capital and Investment Strategy

183. 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 Ministry of Housing, Communities & Local Government (MHCLG) published its revised Investment Guidance which came into effect from April 2018.

184. 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. The County Council's Capital and Investment Strategy (Appendix 8) has been prepared for approval by full County Council.

185. The Treasury Management Strategy (TMS), as referenced below and set out in Appendix 9, supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and treasury investments, and the associated risks.

186. 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.

187. 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.

188. This Strategy covers:

- Governance arrangements for capital investment.
- Capital expenditure forecasts and financing.
- Prudential indicators relating to financial sustainability (see paragraphs 189 to 191).
- 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.

Prudential Indicators

189. The Prudential Code that applies to local authorities ensures that:
    - Capital programmes are affordable in revenue terms.
    - External borrowing and other long-term liabilities are within prudent and sustainable levels.
    - Treasury management decisions are taken in line with professional good practice.

190. Some of the limits have been altered to reflect the revised TMS and Capital and Investment Strategy although this does not expose the County Council to any greater levels of risk.

191. Appendix 8 also contains the Prudential Indicators required by the Code for the County Council which will now be submitted for approval by the full County Council in setting the budget for 2020/21.

Section M: Treasury Management Strategy for 2020/21

192. The CIPFA Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

193. The County Council's TMS (including the Annual Investment Strategy) for 2020/21; and the remainder of 2019/20 is set out in Appendix 9 for approval and fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

194. The TMS has been reviewed in light of current and forecast economic indicators and it remains broadly unchanged from last year, albeit that it is now complemented by the Capital and Investment Strategy (Appendix 8), which is explained in Section L.

Investments Targeting Higher Returns

195. Given the stability of the County Council's cash balances there was the opportunity during 2016/17 to increase the allocation for investments targeting higher returns, allowing further diversification, increasing the overall rate of

return and the income contributed to the revenue budget. In February last year It was approved that the allocation targeting higher yields increase to £235m from £200m.

196. The County Council’s higher yielding investment strategy continues to perform well, and figures reported as at the end of Month 8 (November) are outlined in the table below:

	30/11/2019 Value £M	30/11/2019 Return %
Local Authorities – Fixed Deposits	20.0	3.96
Local Authorities – Fixed Bonds	10.0	3.78
Pooled Property Funds	77.0	4.14
Pooled Equity Funds	52.0	5.90
Pooled Multi-Asset Funds	42.0	4.69
Other	0.1	5.68
Higher Yielding Investments	**201.1**	**4.67**

197. There continues to be national debate about local authorities investing directly in commercial property and both CIPFA and the MHCLG have expressed concerns about the potential risks, resulting in the revision of guidance.

198. The County Council utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. Pooled funds are managed by external specialist investment managers who are best placed to select the particular investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building. This generates high returns without the need to prudentially borrow, without the risk of owning individual properties and with the security of a much larger and diverse portfolio than could be achieved by the County Council on its own, even with our scale of investments.

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

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

201. When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. It is recommended that a further £2.0m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional amount to be targeted at higher yielding investments and will bring the total amount in the reserve to approaching £5.0m or just over 2.1% of the value of the investments.

202. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the County Council would avoid selling investments that realised a capital loss.

203. Going forward however, changes to International Financial Reporting Standards means that capital gains and losses on investments need to be reflected in the revenue account on an annual basis. There is currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next four years. However, given the greater future risk in this area it is proposed to continue to contribute towards the Investment Risk Reserve to reach 2.5% of the total amount invested (in line with the recommendation of 2.5% for the general fund balance).

Section N: Consultation

204. A consultation was undertaken against the background of the next stage of the County Council's transformation and efficiencies programme, Tt2021, to inform the overall approach to balancing the budget by 2021/22 and making the anticipated £80m additional savings required by April 2021.

205. The '*Serving Hampshire – Balancing the Budget*' Consultation that was carried out between 5 June and 17 July 2019 sought to understand the extent to which residents and stakeholders support the County Council's financial strategy and also sought residents' and stakeholders' views on options for managing the anticipated budget shortfall. The options necessarily extended beyond cost reduction and income raising possibilities to areas such as council tax increases, possible legislative changes and the organisation (structure) of local government in Hampshire.

206. The findings from the Consultation were provided to Executive Members and Directors during September 2019, to inform departmental savings proposals, in order for recommendations to be made to Cabinet and the full County Council in October and November 2019 on the MTFS and Tt2021 Savings Proposals. The results were also reported to Cabinet and County Council as part of the final decision making process and a summary is contained in Appendix 10.

207. Following the '*Serving Hampshire – Balancing the Budget*' Consultation any specific changes to services will be subject to further, more detailed consultation. It is intended that the outcome of this second round of

consultation will help to inform further detailed Executive decisions in the coming months.

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
Medium Term Financial Strategy Update and Transformation to 2021 Savings Proposals http://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=22267&PlanId=0&Opt=3#AI22852	Cabinet - 15 October 2019 and County Council – 7 November 2019
Budget Setting and Provisional Cash Limits 2020/21 (Cabinet) http://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=23686&PlanId=0&Opt=3#AI22843	6 January 2020
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:

The budget setting process for 2020/21 does not contain any new proposals for major service changes which may have an equalities impact. Proposals for budget and service changes which are part of the Transformation to 2021 Programme were considered in detail as part of the approval process carried out in Cabinet and County Council during October and November 2019 and full details of the Equalities Impact Assessments (EIAs) relating to those changes can be found in Appendices 5 to 8 in the October Cabinet report linked below:

http://democracy.hants.gov.uk/mgAi.aspx?ID=21194#mgDocuments

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

<u>REVENUE BUDGET – LIST OF APPENDICES</u>

1. Revised Budget 2019/20
2. Strategic Land Programme
3. Final Cash Limit Calculation 2020/21
4. Proposed Departmental Service Budgets 2020/21
5. Proposed General Fund Revenue Budget 2020/21
6. Reserves Strategy
7. Section 25 Report from Chief Financial Officer
8. Capital and Investment Strategy 2020/21 to 2022/23
9. Treasury Management Strategy Statement 2020/21 to 2022/23
10. Consultation

Revised Budget 2019/20

	Original Budget 2019/20 £'000	Adjustment £'000	Adjusted Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Variance £'000
Departmental Expenditure					
Adults' Health and Care	385,455	40,292	425,747	425,747	0
Children's – Schools	828,086	19,507	847,593	847,593	0
Children's – Non Schools	158,761	32,871	191,632	191,632	0
Economy, Transport and Environment	102,856	12,341	115,197	115,197	0
Policy and Resources	88,163	11,601	99,764	99,764	0
	1,563,321	**116,612**	**1,679,933**	**1,679,933**	**0**
Capital Financing Costs					
Committee Capital Charges	141,035	0	141,035	141,035	0
Capital Charge Reversal	(143,314)	0	(143,314)	(143,314)	0
Interest on Balances	(10,436)	(2,600)	(13,036)	(13,536)	(500)
Capital Financing Costs	42,101	(2,000)	40,101	38,601	(1,500)
	29,386	**(4,600)**	**24,786**	**22,786**	**(2,000)**
RCCO					
Main Contribution	8,404	(43)	8,361	8,361	0
RCCO From Reserves	0	(3,910)	(3,910)	(3,910)	0
	8,404	**(3,953)**	**4,451**	**4,451**	**0**
Other Revenue Costs					
Contingency	93,391	(43,227)	50,164	45,164	(5,000)
Dedicated Schools Grant	(764,228)	(4,126)	(768,354)	(768,354)	0
Specific Grants	(192,899)	(17,938)	(210,837)	(210,837)	0
Pensions – Non Distributed Costs	22,063	0	22,063	22,063	0
Levies	2,311	113	2,424	2,424	0
Coroners	1,821	39	1,860	1,860	0
Business Units (Net Trading Position)	454	(202)	252	252	0
	(837,087)	**(65,341)**	**(902,428)**	**(907,428)**	**(5,000)**
Net Revenue Budget	**764,024**	**42,718**	**806,742**	**799,742**	**(7,000)**
Contributions to / (from) Earmarked Reserves					
Transfer to / (from) Earmarked Reserves	(5,555)	(46,830)	(52,385)	(45,385)	7,000
Trading Units Transfer to / (from) Reserves	(313)	202	(111)	(111)	0
RCCO from Reserves	0	3,910	3,910	3,910	0
	(5,868)	**(42,718)**	**(48,586)**	**(41,586)**	**7,000**
Contribution to / (from) Balances	900	0	900	900	0
NET BUDGET REQUIREMENT	**759,056**	**0**	**759,056**	**759,056**	**0**

Appendix 1

	Original Budget 2019/20 £'000	Adjustment £'000	Adjusted Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Variance £'000
NET BUDGET REQUIREMENT	**759,056**	**0**	**759,056**	**759,056**	**0**
Funded by:					
Business Rates and Government Grant	(119,511)	0	(119,511)	(119,511)	0
Business Rates Collection Fund Deficit / (Surplus)	52	0	52	52	0
Council Tax Collection Fund Deficit / (Surplus)	(3,768)	0	(3,768)	(3,768)	0
COUNCIL TAX REQUIREMENT	**635,829**	**0**	**635,829**	**635,829**	**0**

Strategic Land Programme

1. Contextual Information

1.1 The creation of a Strategic Land Programme (SLP) back in 2008/09 built on an earlier approach to bring forward larger and strategic development opportunities, sometimes as master developer providing enabling infrastructure (highways and services), and always as a staged and managed programme to support the delivery of a long-term programme of capital receipts, together with other County Council priorities.

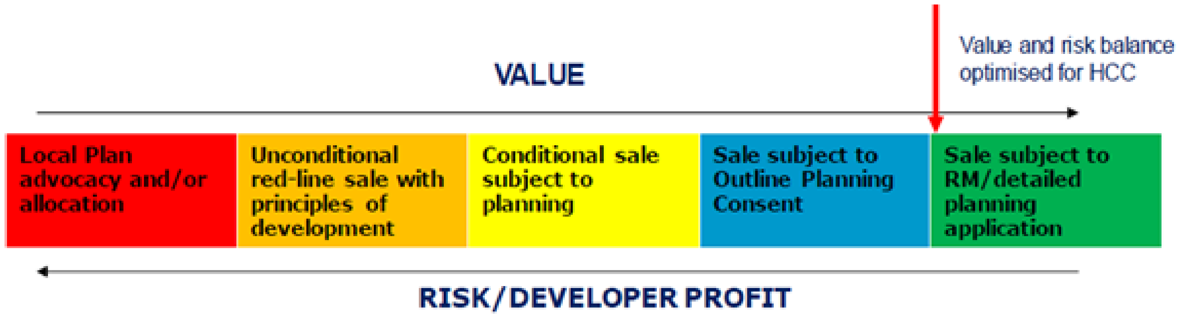
1.2 Development land value or receipts reflect the value of a completed development (GDV) less development costs and developer's profit. Land value reflects the amount of uplift arising from a change in use from say agricultural use (or other existing use value) to a more valuable alternative use, often residential. The level of uplift depends on the selected basis of sale and whether a site has been sufficiently de-risked, e.g. securing a Local Plan allocation or outline planning consent; the form of sale contract; the market conditions at the point of sale and importantly when the value is taken.

1.3 A "red-line" sale, with no planning consent or presumption in favour of development through a Local Plan allocation presents the purchaser with the highest level of risk and has a consequent impact on value. The level of discount in such circumstances could be up to 50% if the sale is sought unconditionally. Where a site is the subject of an option to purchase, the purchaser will pay an up-front premium (typically 2-5% of forecast value) and then will bear promotion and planning costs themselves but expect a 10-15% discount on the net market value.

1.4 Often this route is very protracted and does not afford the County Council any measure of control over the timing or form of development etc. The actual level of discount is difficult to demonstrate as early decisions over the land promotion and planning strategy for a given site mean that an either / or position can rarely be shown. On smaller sites (up to 10 dwellings) or smaller brownfield sites, a decision might be taken to undertake an unconditional sale, but on larger greenfield sites, with a high(er) level of development risk, the land value discount could prove very significant.

1.5 For strategic sites, the Local Plan and planning consent process is typically used to capture and enshrine (protect) value at the point of sale, with the cost of securing planning approval being recovered through enhanced land values. If costs increased thereafter (e.g. due to inflation on build costs, interest rate change etc.) these are then absorbed by the developer / purchaser. Figure 1 seeks to summarise the relationship between site value / return and developer risk / reward and identifies that the current approach seeks to optimise the value / risk balance for the County Council.

Figure 1: Optimising Value



1.6 Where the County Council seeks to change this approach and move into joint development of a site (as it has with Manydown), this is still subject to the approval of a full business case which assesses the additional costs and risks against the higher rewards that this may bring; in the form of future receipts or other returns.

2. Current Programme

2.1 The current programme includes around 18 sites located across Hampshire, ranging from just 100 units (in the case of Swing Swang Lane, Basingstoke) and up to 3,520 dwellings (in the case of Manydown Phase 1), and these will come forward on a whole or phased basis dependent on their size.

2.2 Up to 2030 around 10% of all new dwellings across Hampshire will be built on County Council owned land and 8% will be on sites within the SLP. These sites have been identified through the Local Plan process and promoted in response to a “call for sites” from the Local Planning Authorities and draft Plan process, pending their allocation.

2.3 The identified sites are at different stages of delivery as part of a rolling programme which reflects the position of the respective Local Plans and the associated allocation of sites. Key decisions through the Executive Member for Policy & Resources (EMPR) are taken around a site-specific planning, development and disposal strategy.

2.4 Whilst the approach taken varies dependent on the nature and scale of different sites, it will generally accord with the following stages set out in the Table 1:

Table 1: Development Stages

Stage	Purpose	Types of Activity	Duration
Local Plan Advocacy and Feasibility Stage (Stage A/B)	To make land available and to promote the site through the Local Plan process to secure an allocation for future development. This is often in response to an initial "call" for sites through to the Examination in Public (EiP) stage.	Preparation of a technical case to demonstrate why a site is suitable for consideration to be allocated in preference to other sites. Involves primary surveys, technical analysis and preparation of detailed submission documents by in-house and specialist consultants.	Can take up to 3 years (including attendance at an Inquiry) for smaller sites and / or involve several attempts in relation to the largest sites e.g. Manydown was promoted 3 times before allocation over a 15 year period.
Planning and Development Stage (Stage C/D)	Most sites within the programme are brought forward with an outline planning permission as this optimises the point at which best value can be secured and supports the most effective disposal / delivery strategy by de-risking the site for the eventual purchaser(s).	Preparatory surveys, production of a suite of documents relating to planning, urban design, transport and access and an Environmental Impact Assessment (EIA).	Dependent on the scale of the site, this stage can last 3-6 years with extensive pre-submission engagement. Complex Section106 agreements can take up to a year to finalise.
Proposed Delivery Strategy (Delivery and Sale Stage) (Stage E to I)	Wide range of options from a traditional option agreement or sale of the whole or part; provision of enabling servicing works (particularly on the larger sites); through to Joint Venture (JV) arrangements on the largest sites where a partner might bring both capital and / or delivery expertise and capacity.	The basis of disposal is a function of site scale: simpler approaches on sites up to 100 units; a probable master-developer approach on medium sites (500-1,000 units) to ensure a co-ordinated and managed delivery across several phases and a procurement led approach on the largest sites (1,000 units+) where working with a development partner to share risk and reward is recognised.	This stage can last around 6-9 months with a subject to contract only basis sale to 2-5 years on the largest and most complex sites. Involves in-house resources (property and legal) together with specialist advisors for the largest sites.

3. Strategic Land Budget

3.1 To support the delivery of the SLP, a Strategic Land Budget was established to accommodate the in-house and external consultant costs associated with the programme. This involves careful forecasting of expenditure across several years across multiple sites. Overall, revenue expenditure is forecast at approximately 10% of total receipts, with a range of between 1% and 11% spend per project depending on the planning / disposal strategy of individual projects and their scale. Across the programme this is a tenfold return i.e. for every £1 spent £10 worth of value might be realised, albeit on some sites the return against investment can be higher, and on others (often the smallest and largest sites) the return may be less

3.2 Given the long lead in period to securing a receipt, the Strategic Land Budget reflects a decision for upfront investment to realise an enhanced but deferred value. This investment is most speculative at the Feasibility Stage as it is not certain that sites will be accepted into a Local Plan at all or at the first time of promotion, but once allocated the surety of an enhanced receipt increases significantly.

3.3 The Planning and Development Stage is generally the most costly, but is also where site value is "captured" and enhanced the most, whilst the Delivery Stage is where the land value is actually realised. Table 2 below provides some examples of estimated cost in respect of two contrasting opportunities within the SLP.

Table 2: Cost Examples

Site / Selected Approach	Feasibility Stage	Planning and Development Stage	Delivery and Sale Stage	Cumulative Cost
Swing Swang Lane, Basingstoke Discrete 100 unit site to be sold with outline consent	£70,000 Local Plan Advocacy 2010-2016	£310,000 2019-2019 – secure Outline Planning Approval	£140,000 (est.) April 2019 to Summer 2020	£520,000
North of Winchester Street, Botley 375 dwellings involving outline consent with cumulative EIA	£247,500 Planning advocacy over two plan periods (2011-2016 and 2017+)	£1.165M Complex application process and interface with Botley Bypass (2016-2020)	£270,000 (est) Depends on sale strategy in phases or whole	£1.68m

3.4 The cost per site range from around 5% to 14% of the expected land value and will vary depending on the size and complexity of the scheme, along with other planning considerations.

3.5 The main budget report seeks a further injection of funding of up to £3.4m to progress the SLP over the coming year. This is a significant investment compared to the early years of the programme and reflects the additional cost associated with the Manydown Phases 1 and 2 and the increasing number and complexity of sites in the programme that have accumulated over time.

3.6 It should however be borne in mind that current forecasts predict that total spend over the life of the programme (based on current sites) will be around £28.6m and will generate significant capital receipts in the order of £290m gross (£260m net) - a tenfold return on investment.

4. Use of Funding

4.1 Given the length of time required to develop and sell sites, and the sometimes unpredictable nature of the planning process, the County Council does not build assumed receipts into its future capital investment planning.

4.2 For some sites, the receipts may already be partly earmarked to provide for infrastructure investment directly or consequentially associated with the developments, Botley being a good example of this, which will facilitate the delivery of a by-pass that has been badly needed in the area for many years.

4.3 The County Council will be considering its capital investment priorities later in the year and this will include the consideration of capital receipts that might be available over the next three years to support that investment. This will also need to consider the County Council's longer term approach to a Strategic Land pipeline to enable the County Council to continue with its current strategy into future decades.

4.4 This may prove more difficult in the current market as most sites suitable for future development already have options placed on them by commercial developers, but nonetheless there may be other opportunities that the County Council can explore that continue to generate future land value.

Final Cash Limit Calculation 2020/21

	December Cash Limit Guideline £'000	Grants £'000	Final Cash Limit 2020/21 £'000
Adults' Health and Care	421,336	0	421,336
Children's – Schools	856,963	45,014	901,977
Children's – Non Schools	208,613	0	208,613
Economy, Transport and Environment	109,553	0	109,553
Policy and Resources	97,714	0	97,714
	1,694,179	**45,014**	**1,739,193**

Notes:

Grants

- The increase for Children's – Schools is due to an increase in Dedicated Schools Grant (DSG) as first announced in the Spending Review in 2019 and then clarified in the subsequent revenue funding settlement in December 2019. It reflects the announcement of an increase in funding for Schools and High Needs nationally, with the national school's budget due to rise by £7.1bn over 3 years to £52.2bn. Additional funding has also been announced for Early Years in the form of an 8p per hour increase to the local authority's funding rate for two, three and four year old entitlements.

Adults' Health and Care Budget Summary 2020/21

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Director	**1,481**	**1,691**	**1,511**
Strategic Commissioning and Business Support	**15,172**	**16,654**	**14,614**
Transformation	**3,714**	**5,548**	**4,013**
Older Adults Community Services	125,484	134,546	120,407
Reablement	11,069	10,821	9,455
Older Adults	**136,553**	**145,367**	**129,862**
Learning Disabilities Community Services	106,657	112,445	116,115
Physical Disabilities Community Services	0	0	31,399
Mental Health Community Services	16,998	17,736	18,576
Contact Centre	1,248	2,544	2,530
Younger Adults	**124,903**	**132,725**	**168,620**
HCC Care	**42,173**	**42,277**	**43,885**
Governance, Safeguarding and Quality	**3,559**	**3,937**	**3,650**
Centrally Held	**5,482**	**25,130**	**4,962**
Total Adults' Services Budget	**333,037**	**373,329**	**371,117**
Public Health:			
Children and Young People (*)	23,800	23,800	22,667
Infection Prevention and Control	5	5	5
Mental Health and Wellbeing	2,121	2,121	1,921
Older People	866	866	866
Central (*)	2,924	2,924	2,814
Information and Intelligence	16	16	17
Nutrition, Obesity and Physical Activity	515	515	515
Drugs and Alcohol	9,245	9,245	8,576
Tobacco	2,209	2,209	2,209
Dental	180	180	180

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Health Checks (*)	1,211	1,211	1,211
Misc. Health Improvements & Wellbeing (**)	108	108	108
Sexual Health (*)	9,218	9,218	9,130
Total Public Health Budget	**52,418**	**52,418**	**50,219**
Adults' Health and Care Cash Limited Budget	**385,455**	**425,747**	**421,336**

* Includes mandated services

** Specific services include

- Domestic abuse services
- Mental Health promotion
- Some Children's and Youth Public Health services

Children's Services Budget Summary 2020/21

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Early Years	**78,076**	**82,495**	**81,673**
Individual Schools Budgets	557,372	556,338	584,200
Schools De-delegated Items	2,171	2,168	2,171
Central Provision Funded by Maintained Schools	2,998	2,992	2,894
Growth Fund	5,705	5,614	5,280
Schools Block	**568,246**	**567,112**	**594,545**
High Needs Block Budget Shares	33,656	33,632	34,711
Central Provision Funded by Maintained Schools	65	65	63
High Needs Top-Up Funding	67,129	67,320	85,037
SEN Support Services	5,095	5,095	5,073
High Needs Support for Inclusion	3,097	3,097	3,075
Hospital Education Service	589	1,263	1,370
High Needs	**109,631**	**110,472**	**129,329**
Central Block	**8,275**	**8,275**	**7,821**
Other Schools Grants	**63,858**	**79,239**	**88,609**
Total Schools Budget	**828,086**	**847,593**	**901,977**
Young Peoples Learning & Development	**772**	**387**	**400**
Adult & Community Learning	**334**	**5**	**5**
Asset Management	88	88	88
Central Support Services	(221)	19	60
Educational Psychology Service	1,712	1,712	1,842
Home to School Transport	31,684	31,677	33,340
Insurance	40	32	33
Monitoring of National Curriculum Assessment	46	46	46
Parent Partnership, Guidance and Information	214	264	270
Pension Costs (includes existing provisions)	2,465	2,412	2,412
School Improvement	1,744	1,838	1,838

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
SEN Administration, Assessment, Co-ordination & Monitoring	1,729	1,767	1,829
Statutory / Regulatory Duties	663	863	881
School Place Planning	0	58	58
Service Strategy & Other Ed Functions	**40,164**	**40,776**	**42,697**
Management & Support Services	**1,955**	**2,085**	**2,156**
Early Achievement of Savings	**0**	**8,122**	**8,122**
Other Education & Community	**43,225**	**51,375**	**53,380**
Services for Young Children	**1,368**	**1,396**	**1,406**
Adoption Services	3,777	4,123	4,029
Asylum Seekers	4,932	4,961	4,961
Education of Children Looked After	142	259	157
Fostering Services	14,590	15,199	16,187
Independent Fostering	7,804	12,808	16,129
Leaving Care Support Services	6,245	6,625	7,164
Other Children Looked After Services	4,623	7,033	8,483
Residential Care	22,151	30,468	39,850
Special Guardianship Support	4,220	5,329	5,812
Children Looked After	**68,484**	**86,805**	**102,772**
Other Children & Families Services	**1,357**	**1,055**	**1,098**
Direct Payments	1,906	2,004	2,271
Other Support for Disabled Children	244	244	250
Short Breaks (Respite) for Disabled Children	3,960	3,243	3,315
Targeted Family Support	3,742	4,918	4,850
Universal Family Support	38	38	38
Family Support Services	**9,890**	**10,447**	**10,724**
Youth Justice	**737**	**1,246**	**1,021**
Safeguarding & Young Peoples Services	**23,024**	**26,346**	**26,785**
Services for Young People	**642**	**996**	**1,041**

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Management & Support Services	**9,912**	**11,563**	**9,983**
Early Achievement of Savings	**0**	**281**	**281**
Non-Distributed Costs	**122**	**122**	**122**
Children's Social Care	**115,536**	**140,257**	**155,233**
Total Non-Schools Budget	**158,761**	**191,632**	**208,613**
Children's Services Cash Limited Budget	**986,847**	**1,039,225**	**1,110,590**

Economy, Transport and Environment (ETE) Budget Summary 2020/21

Service Activity	Original Budget (*) 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Highways Maintenance	16,101	17,881	17,075
Street Lighting	10,292	10,372	10,651
Winter Maintenance	5,732	5,732	5,677
Concessionary Fares	13,222	12,982	13,212
Other Public Transport	3,875	3,939	4,092
Traffic Management and Road Safety [1]	2,176	3,468	2,268
Strategic Transport [2]	1,045	4,477	1,780
Highways, Traffic and Transport	**52,443**	**58,851**	**54,755**
Waste Disposal [3]	44,914	50,337	48,699
Environment	547	307	619
Strategic Planning	762	1,195	932
Waste, Planning and Environment	**46,223**	**51,839**	**50,250**
Economic Development	**766**	**910**	**879**
Departmental and Corporate Support	**3,374**	**3,597**	**3,319**
Early Achievement of Savings	**50**	**0**	**350**
ETE Cash Limited Budget	**102,856**	**115,197**	**109,553**

The above budgets show the position for ETE in accordance with the current portfolios. Previously Economic Development and Environment & Transport were presented as two separate reports.

*The Original Budget has been restated to reflect Staffing and Operational support costs within the relevant areas, rather than these costs being shown separately as in previous reports.

[1] Revised budget includes one-off cash flow support covering the delayed Tt2019 parking saving.

[2] Revised budget includes exceptional one-off budget provision for bidding mainly relating to the Transforming Cities Fund.

[3] Revised and Proposed budgets include one-off cash flow support for the delayed Tt2019 waste contract savings

Appendix 4

Policy and Resources (P&R) Budget Summary 2020/21

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Legal Services	2,683	2,781	3,019
Transformation Practice	557	2,811	1,788
Strategic Procurement	607	1,478	1,742
Governance	2,760	2,872	3,097
Transformation and Governance	**6,607**	**9,942**	**9,646**
Finance	3,448	3,360	3,694
HR	2,589	3,056	2,905
IT	20,460	23,495	24,316
Audit	633	633	713
Customer Business Services	6,948	5,878	6,044
Corporate Resources Transformation	1,022	1,024	1,157
Corporate Resources Management	21	(361)	(13)
Corporate Resources	**35,121**	**37,085**	**38,816**
Communication, Marketing & Advertising	634	871	648
Insight & Engagement	640	700	746
Chief Executive's Office & Leadership Support	575	573	569
Customer Engagement Service	**1,849**	**2,144**	**1,963**
Corporate Services Budget	**43,577**	**49,171**	**50,425**
Corporate & Democratic Representation	66	66	66
Grants to Voluntary Organisations	232	232	237
Grants & Contributions to Voluntary Bodies	823	749	765
Southern Sea Fisheries [4]	307	0	0
Members Devolved Budgets	390	624	390
Rural Affairs [5]	200	0	0
Other Miscellaneous	441	476	378

[4] Moved to Central Corporate Levies budget
[5] Moved to CCBS Countryside & Rural Affairs Services

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
P&R Non-Departmental Budget (Direct)	**2,459**	**2,147**	**1,836**
Members Support Costs	1,584	1,587	1,621
Repair & Maintenance	8,375	8,355	8,635
Strategic Asset Management	1,259	4,637	1,264
Other Miscellaneous	311	311	318
P&R Non-Departmental Budget (Central)	**11,529**	**14,890**	**11,838**
Other Policy and Resources Budget	**13,988**	**17,037**	**13,674**
Transformation	558	753	577
Business Development Team	532	749	610
Rural Broadband	262	262	307
CCBS IT Budget	78	78	80
Transformation and Business Management	**1,430**	**1,842**	**1,574**
Regulatory Services	1,163	897	924
Business Support	553	430	454
Scientific Services	25	75	123
Asbestos	(8)	(11)	25
Community and Regulatory Services	**1,733**	**1,391**	**1,526**
Risk, Health & Safety	27	27	27
Sir Harold Hillier Gardens	64	64	64
Culture and Heritage	**91**	**91**	**91**
Corporate Estate	(206)	(206)	(205)
County Farms	(497)	(497)	(495)
Development Account	(348)	(348)	(346)
Sites for Gypsies and Travellers	11	41	29
Property Services	2,787	3,027	3,579
Office Accommodation / Workstyle	3,439	4,672	3,990
Facilities Management	3,318	3,032	3,312
Hampshire Printing Services	(80)	(92)	(50)
Segensworth Unit Factories	(12)	0	0
Print Sign Workshop	10	0	0

Service Activity	Original Budget 2019/20 £'000	Revised Budget 2019/20 £'000	Proposed Budget 2020/21 £'000
Property Services and Facilities:	**8,422**	**9,629**	**9,814**
Net Contribution to / (from) Cost of Change	296	(9)	617
CCBS P&R Services	**11,972**	**12,944**	**13,622**
Library Service	11,013	11,696	11,553
Energise Me Grant (Sport)	133	133	133
Community	49	0	0
Community Services	**11,195**	**11,829**	**11,686**
Countryside – Country Parks, Countryside Sites, Nature Reserves	1,470	1,750	1,717
Arts and Museums (including HCT grant)	2,619	2,533	2,434
Archives	695	705	689
Outdoors Centres	299	848	377
Community Grants	813	2,200	938
Great Hall	18	(1)	(5)
Culture & Heritage Services	**5,914**	**8,035**	**6,150**
Net Contribution to / (from) Cost of Change	371	(620)	787
CCBS Recreation & Heritage Services	**17,480**	**19,244**	**18,623**
Countryside – Rights of Way	1,112	1,062	1,001
Rural Affairs	0	272	275
Net Contribution to / (from) Cost of Change	34	34	94
CCBS Countryside & Rural Affairs Services	**1,146**	**1,368**	**1,370**
Total CCBS Cash Limited Budget	**30,598**	**33,556**	**33,615**
Policy & Resources Cash Limited Budget	**88,163**	**99,764**	**97,714**

Revenue Budget 2020/21

	Original Budget 2019/20 £'000	Adjustment £'000	Proposed Budget 2020/21 £'000
Departmental Expenditure			
Adults’ Health and Care	385,455	35,881	421,336
Children's – Schools	828,086	73,891	901,977
Children's – Non Schools	158,761	49,852	208,613
Economy, Transport and Environment	102,856	6,697	109,553
Policy and Resources	88,163	9,551	97,714
	1,563,321	**175,872**	**1,739,193**
Capital Financing Costs			
Committee Capital Charges	141,035		141,035
Capital Charge Reversal	(143,314)		(143,314)
Interest on Balances	(10,436)	(3,000)	(13,436)
Capital Financing Costs	42,101		42,101
	29,386	**(3,000)**	**26,386**
RCCO			
Main Contribution	8,404	(1,565)	6,839
RCCO From Reserves	0	1,045	1,045
	8,404	**(520)**	**7,884**
Other Revenue Costs			
Contingency	93,391	(22,042)	71,349
Dedicated Schools Grant	(764,228)	(49,140)	(813,368)
Specific Grants	(192,899)	(41,733)	(234,632)
Pensions – Non-Distributed Costs	22,063	(22,063)	0
Levies	2,311	117	2,428
Coroners	1,821	177	1,998
Business Units (Net Trading Position)	454	(318)	136
	(837,087)	**(135,002)**	**(972,089)**
Net Revenue Budget	**764,024**	**37,350**	**801,374**
Contributions to / (from) Earmarked Reserves			
Transfer to / (from) Earmarked Reserves	(5,555)	(3,194)	(8,749)
Trading Units Transfer to / (from) Reserves	(313)	318	5
RCCO From Reserves	0	(1,045)	(1,045)
	(5,868)	**(3,921)**	**(9,789)**
Contribution to / (from) General Balances	900	0	900
NET BUDGET REQUIREMENT	**759,056**	**33,429**	**792,485**

	Original Budget 2019/20 £'000	Adjustment £'000	Proposed Budget 2020/21 £'000
NET BUDGET REQUIREMENT	**759,056**	**33,429**	**792,485**
Funded by			
Business Rates and Government Grant	(119,511)	(2,031)	(121,542)
Business Rates Collection Fund Deficit / (Surplus)	52	156	208
Council Tax Collection Fund Deficit / (Surplus)	(3,768)	618	(3,150)
COUNCIL TAX REQUIREMENT	**635,829**	**32,172**	**668,001**

<u>Reserves Strategy</u>

1. Introduction

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

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

1.3 Six out of ten respondents (61%) to the County Council's public consultation called *Serving Hampshire – Balancing the Budget,* which ran for six weeks from 5 June to the 17 July 2019, agreed with the position that reserves should not be used to plug the budget gap.

1.4 At the end of the 2018/19 financial year the total reserves held by the County Council together with the general fund balance stood at almost £669.5m an increase of more than £23.8m on the previous year. The increase in reserves is largely due to capital grants unapplied i.e. received in advance of spend, for both the County Council and the Enterprise M3 Local Enterprise Partnership (EM3 LEP), with the latter being part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

1.5 In line with the Medium Term Financial Strategy (MTFS), it also reflects the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery. However, this increase in reserves was offset in part by a planned draw from the Grant Equalisation Reserve (GER), now repositioned as the Budget Bridging Reserve (BBR), to enable the County Council to continue its financial strategy, and to allow delivery of the more complex changes to be achieved safely within the Transformation to 2019 (Tt2019) Programme over a longer time period.

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

2. Reserves Position 31 March 2019

2.1 Current earmarked reserves together with the General Fund Balance totalled £669.5m at the end of the 2018/19 financial year. The table overleaf summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2017/18.

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

	Balance 31/03/2018 £'000	Balance 31/03/2019 £'000	% of Total %
General Fund Balance	22,398	21,398	3.2
Fully Committed to Existing Spend Programmes			
Revenue Grants Unapplied	21,541	14,251	2.1
General Capital Reserve	139,645	120,428	18.0
Street Lighting Reserve	26,491	27,006	4.1
Public Health Reserve	7,837	7,535	1.1
Other Reserves	1,057	937	0.1
	196,571	**170,157**	**25.4**
Departmental / Trading Reserves			
Trading Accounts	10,970	9,218	1.4
Departmental Cost of Change Reserve	88,690	118,895	17.7
	99,660	**128,113**	**19.1**
Risk Reserves			
Insurance Reserve	25,571	35,860	5.4
Investment Risk Reserve	2,000	2,957	0.4
	27,571	**38,817**	**5.8**
Corporate Reserves			
Budget Bridging Reserve	74,870	65,001	9.7
Invest to Save	32,109	29,201	4.4
Corporate Policy Reserve	5,889	6,397	1.0
Organisational Change Reserve	2,785	3,626	0.5
	115,653	**104,225**	**15.6**
HCC Earmarked Reserves	**439,455**	**441,312**	**65.9**
EM3 LEP Reserve	4,443	4,657	0.7
Schools' Reserves	37,252	26,868	4.0
Total Revenue Reserves & Balances	**503,548**	**494,235**	**73.8**
Total Capital Reserves & Balances	**142,069**	**175,228**	**26.2**
Total Reserves and Balances	**645,617**	**669,463**	**100.0**

General Fund Balance

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

2.4 The balance at the end of the 2018/19 financial year stood at £21.4m which was 2.8% of net expenditure at the beginning of 2019/20; as projected in the budget setting report approved in February 2019, and this is broadly in line with the current policy.

Fully Committed to Existing Spend Programmes

2.5 By far the biggest proportion of revenue reserves are those that are fully committed to existing spend programmes and more than £120.4m of this funding is required to meet commitments in the Capital Programme. These reserves really represent the extent to which resources, in the form of government grants or revenue contributions to capital, are received or generated in advance of the actual spend on projects.

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

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

2.8 These reserves do not therefore represent ‘spare’ resources in any way and are being utilised as planned in the coming years, as evidenced by the net draw of more than £26.4m in 2018/19.

Departmental / Trading Reserves

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

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

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

- Meet potential over spends / pressures in future years without the need to call on corporate resources.

- Manage cash flow funding issues between years where specific projects may have been started but not fully completed within one financial year.
- Meet the cost of significant change programmes.
- Meet the cost of standard redundancy and pension payments arising from the downsizing of the work force.
- Invest in new technology and other service improvements, for example the IT enabling activity associated with the Tt2019 and Transformation to 2021 (Tt2021) Programmes.
- Undertake capital repairs or improvements to assets that are not funded through the existing Capital Programme where this is essential to maintain service provision or maximise income generation.

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

2.13 All departments will be utilising their reserves to fund the activity to deliver the Tt2019 and Tt2021 Programmes and to fully cash flow the later delivery of savings if needed. The exceptions to this are Children's Services and Adults' Health and Care who will require some additional corporate support based on the current forecast of savings delivery across the transformation programmes, provision for which has made within the MTFS.

Risk Reserves

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

2.15 Each year the County Council sets aside an insurance provision to meet claims resulting from incidents that have occurred during the year, along with reserves to cover potential claims arising from incidents in that year but where the claims are received in the future.

2.16 Regular actuarial reviews on the overall Insurance Fund have provided assurance that the County Council has been setting aside appropriate levels of funding against future liabilities to date. However, the conclusions of the most recent review were that there was a need to adopt a long term approach to increasing that fund going forward, and the intention was to regularly review the Insurance Reserve and to make year end contributions that move the County Council towards the level outlined in the latest actuarial assessment.

2.17 To begin this, in 2017/18 £6.25m was added to the Insurance Reserve resulting in a net increase of £5m after the provision for that year, totalling £1.25m, was set aside. In 2018/19 the provision has reduced and there has been a net increase in the reserve of almost £10.3m. In light of this, and the fact that an actuarial review has been commissioned, the results of which will be available later in the year, no further additions to the Insurance Reserve were made in 2018/19.

2.18 The Investment Risk Reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns. Following changes to the accounting treatment of some investments going forward the main revenue budget report proposes an increase to this reserve which will bring the balance up to 2.1% of the total higher yielding investment portfolio, with a longer term aim to increase this to 2.5%.

Corporate Reserves

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

2.20 This leaves other available earmarked reserves that are under the control of the County Council and totalled more than £104.2m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of government grant, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and the residents of Hampshire. These reserves are broken down into four main areas:

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

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

2.23 It has become clear that the period of tight financial control will continue into the next decade and the County Council continues to take every opportunity to increase the reserve to be able to continue the sensible policy of smoothing the impact of funding reductions and service and inflationary pressures without the need to make ‘knee jerk’ reactions to deliver a balanced budget.

2.24 The net impact of the changes in the revenue account during 2018/19 mean that the BBR stood at just over £65.0m at the end of the 2018/19 financial year. This is in line with the financial strategy of supporting the revenue position as savings are developed and delivered on a two year cycle; or longer where appropriate.

2.25 Building the provision within the BBR 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 Tt2021 Programme and to cash flow the safe delivery of change in the medium term.

2.26 It has been agreed that where possible, the County Council will continue to direct spare one-off funding into the BBR 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 2019, 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.

2.27 Further additions have been included as part of developing the budget for 2020/21, notably following the savings resulting from both the favourable 2019 Pension Fund revaluation (which saw the eradication of the deficit and the removal of the need for the past service payments that we were making and assumed would be needed in the future), and also the pre-payment of pension contributions to the Pension Fund.

2.28 The table below summarises the latest forecast position for the BBR taking into account these additions, the requirement to balance the budget in the interim years of 2020/21 and 2022/23 and also to provide corporate funding to cash flow the next stage of transformation:

	£'000
Balance at 31 March 2018	**74,870**
Interim Year 2018/19	(26,435)
Contributions in year	16,566
Balance at 31 March 2019	**65,001**
Additions approved February 2019	14,811
MRP Holiday	21,000
Cash Flow for Tt2019	(40,000)
Cash Flow for Tt2021	(32,000)
Interim Year 2020/21	(28,400)
Forecast Balance 31 March 2022 (*)	**412**
Additions from valuation saving (3 Years)	45,000
Additions from pension pre-payment (3 Years)	9,000
Additions from 2020/21 Budget Setting	3,323
Interim Year 2022/23	(40,200)
Forecast Balance 31 March 2023	**17,535**
IT Investment for a Successor Programme	(10,000)
Cash Flow for Successor Programme	(32,000)
Forecast Deficit 31 March 2024	**(24,465)**

(*As per MTFS approved by County Council in November 2019)

2.29 The forecast balance begins at 31 March 2023 begins to make provision for the medium term as part of the County Council's overall longer term risk mitigation strategy. Whilst this amount is not insignificant it must be considered in the context of the size and complexity of the County Council's activities and both the level of uncertainty associated with the financial position beyond 2020 and scale of the complex and challenging transformation activity that is still to be implemented in full. For example, the table demonstrates that if the same levels of Tt2021 IT investment and cashflow funding were factored into the forward forecast, then we would currently face a deficit of nearly £25m by the end of 2023/24.

2.30 Further contributions will therefore need to be made as a minimum to support investment in any future savings programme and to cash flow any predicted late delivery in the more complex areas, as has been a feature for both the Tt2019 and Tt2021 Programmes.

2.31 **Invest to Save** – This reserve is earmarked to provide funding to help transform services to make further revenue savings in the future. Rather than just prop up the budget on a short term basis, the County Council feels it is a far more sensible policy to use available reserves to generate efficiencies and improve services over the longer term, by re-designing services and investing in technology and other solutions that make services more modern and efficient.

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

2.33 **Organisational Change Reserve** – The County Council is one of the largest employers in Hampshire and inevitably reductions in government funding, leading to reduced budgets, alongside the need to deal with service and inflationary pressures means that there is an impact on the number of staff employed in the future.

2.34 The County Council, as a good employer, has attempted to manage the reduction in staff numbers as sensitively and openly as possible and introduced an enhanced voluntary redundancy scheme back in 2011. The scheme offered an enhanced redundancy rate for people who elected to take voluntary redundancy. This has been a highly successful way of managing the reductions in staff numbers, whilst maintaining morale within the rest of the workforce who are not required to go through the stress and uncertainty of facing compulsory redundancy and since the scheme was introduced, voluntary redundancies account for the vast majority of the total number of staff that have left the organisation because of specific restructures and service re-design.

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

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

2.37 This reserve also funds aspects of management development approved under the Workforce Development Strategy to support a range of middle and senior management developmental work which has been critical to the delivery of transformation and has also been a key factor in the County Council's ability to recruit and retain the best senior staff.

2.38 It should be highlighted that the total 'Corporate Reserves' outlined above accounted for approximately 15.6% of the total reserves and balances that the County Council held at the end of the 2018/19 financial year, and these have largely been set aside as part of a longer term strategy for dealing with the significant financial challenges that have been imposed on the County Council. In addition, the BBR which comprises the majority of these 'available' Corporate Reserves, standing at more than £65.0m at the end of 2018/19, is in reality committed to balance the budget in the medium term, as set out in paragraph 2.28.

2.39 The reserves detailed above represent the total revenue reserves of the County Council and amounted to £494.2m at the end of the 2018/19 financial year, as shown in the table on the second page of this Appendix. Within this amount, the County Council is required to show other reserves as part of its accounts which are outlined below.

Enterprise M3 Local Enterprise Partnership (EM3 LEP) Reserve

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

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

Schools' Reserves

2.42 Schools' reserves accounted for almost £26.9m or 4.0% of total reserves and balances at the end of the 2018/19 financial year. Currently for presentational purposes only this amount includes the Dedicated Schools Grant (DSG) Deficit Reserve and the breakdown is shown below:

	£'000
Nursery and Early Years	284
Primary	39,275
Secondary	(3,530)
Special	4,585
General Schools' Reserves	40,614
DSG Deficit Reserve	(13,746)
Overall Schools' Reserves	**26,868**

2.43 Schools are facing increasing financial pressure relating to high needs and early years, both at an individual school level and within the overall schools' budget. This is reflected in the further fall in the value of schools' reserves in 2018/19.

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

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

2.46 The overall schools' budget is currently in deficit and this deficit will increase again this financial year with School's Forum agreeing for this to be carried forward and be funded from future years DSG allocations. The overall cumulative deficit in the DSG Deficit Reserve (which was included within overall schools' reserves for presentational purposes only) is expected to be £27.2m at the end of 2019/20. The Department for Education (DfE) have consulted on changes to the DSG to clarify that it is a ring-fenced specific grant separate from the general funding of local authorities and that any deficit is expected to be carried forward and does not require local authorities to cover it with their general reserves.

Capital Reserves

2.47 The Capital Grants Unapplied Reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

2.48 A sum of more than £175.2m was held within capital reserves and balances at the end of the 2018/19 financial year, although of this £39.7m related to the EM3 LEP which is included in the annual accounts, as the Council is the Accountable Body. EM3 LEP capital grants unapplied have increased as part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

3. Reserves Strategy

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

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

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

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

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

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

3.5 This cycle has been clearly evident throughout the decade, with surplus funds generated in advance of need as part of budget setting and then supplemented by further resources released in the year. Achievement in advance of need within departments and efficiencies in contingency amounts due to the successful implementation of change has meant that the Council has been able to provide material funding including the following:

- Departmental reserves to pay for the cost of change associated with their own transformation programmes and to manage service pressures.
- Funding within the Invest to Save Reserve to help support the Tt2019 Programme and Digital 2 that will underpin many aspects of the next phase of transformation.
- Additional funds to help smooth the impact of grant reductions, and safely manage the implementation of change, giving the County Council maximum flexibility in future budget setting processes.

3.6 It is recognised that each successive change programme is becoming harder to deliver and the challenges associated with the Tt2019 and Tt2021 Programmes are well known. The MTFS has made clear that delivery will extend beyond two years and provision has been made to ensure one off funding is available both corporately and within departments to enable the programmes to be safely delivered. Taking longer to deliver service changes, rather than being driven to deliver within the two year financial target, requires the careful use of reserves as part of our overall financial strategy to allow the time to deliver and also to provide resources to invest in the transformation of services. This further emphasises the value of our Reserves Strategy.

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

3.8 This increases the potential necessity to use reserves to alleviate the ongoing financial pressures in the coming years and we will continue to review all reserves regularly to ensure that there is sufficient financial capacity to cope with the challenges ahead.

3.9 In addition, while the overall level of reserves currently exceeds £0.6bn, it is also important to consider the level of the available resources in the context of the scale and scope of the County Council's operations, and it is a stark fact that when expressed in terms of the number of days that usable reserves would sustain the authority for, it would now be around 15. 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.

Section 25 Report from Chief Financial Officer

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

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

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

Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. Given the significance of the funding reductions announced to the end of the decade and the uncertainty surrounding the outcome of the next Comprehensive Spending Review (CSR), this report considers not only the short term position but also the position beyond 2020/21 in the context of the County Council's current Medium Term Financial Strategy (MTFS).

Robustness of Estimates in the Budget

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

Individual departments are then required to produce detailed estimates for services that come within the cash limits that have been set. More recently, the requirement to make savings has dominated the budget setting process and major transformation programmes have been put in place to effectively and corporately manage the delivery of savings within the required timescales, or as is more recently the case, to provide cash flow funding to support a longer delivery timescale for the more complex elements of the programme

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

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

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

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

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

A further £140m of savings were removed from the budget in 2019/20 and whilst some of this is expected to be delivered in later years, supported by corporate cash flow provisions, around £100m of the savings directly impact on the budget for that financial year. The current forecast outturn for 2019/20 as detailed in the main budget report shows that all departments are expected to be able to manage expenditure within the budgets that have been set, with previously agreed corporate support where required. This is a good indicator that the savings that have been put in place are working as intended and provide a stable financial base for the further challenges that lie ahead.

Budget 2020/21

The budget for 2020/21 has been produced in line with the process outlined in the section above and therefore I am content that a robust, Council wide process has been properly followed and driven through our Finance Business Partners working with the Operational Finance Team. Further oversight is then provided by the Head of Finance and me, in presenting the final budget and council tax setting report to Cabinet and County Council.

As part of the budget setting process last year a further £140m was removed from detailed budgets and this is reflected in the departmental summaries contained in Appendix 4. However, it has repeatedly been reported to Cabinet and County Council as part of the MTFS and updates on the Transformation to 2019 (Tt2019) Programme that delivery of these savings in some areas will extend beyond this financial year and in some cases on to 2021/22 before the full value of savings can be achieved.

This reflects the complexity of the savings programmes in the social care services in particular, and the fact that some of the changes will take time to implement and fully bed in and will not start to have a major impact until new cohorts of clients come into the service. Funding to meet the later delivery of these savings must first come from departmental cost of change reserves, but a corporate contingency over 2019/20, 2020/21 and 2021/22 of £40m was also provided as part of the 2018/19 budget setting process to support this position.

The overall budget position for 2020/21 was improved following the announcements made in the one year Spending Round (SR2019) in respect of social care funding, albeit that longer term this did not improve the expected two year gap to 2021/22 as a result of the increased growth beyond previous forecasts in both adults' and children's social care services. This was set out in full in the update of the MTFS that was presented to County Council in November last year.

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

Risks in the Budget 2020/21

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

a) **Government Funding and Policy** – The expectation within the public sector was that there would be a multi-year Spending Review over the Summer of 2019 that would provide funding announcements to government departments and local government alike.

As a result of uncertainty around Brexit and the wider political situation, a one year Spending Round was announced. Whilst this has given certainty for the 2020/21 budget setting process it still leaves the public sector on a ‘cliff edge’ in respect of future years and makes the question of longer term financial sustainability difficult to assess.

The provisional local government settlement was announced on 20 December 2019 and broadly confirmed the funding announcements contained in the SR2019 and these are reflected in the budget and council tax decisions contained in the main budget report.

Other significant changes to funding or policy during the year would have to be covered by contingencies or general balances, but generally once grant levels have been set in the final settlement due in January they do not change, although there have been in year changes implemented previously, for example reductions to the Public Health grant. At this stage therefore there is not thought to be any significant risk in this area for 2020/21 but it does have a major impact on future financial sustainability as discussed later in this Appendix.

b) **Social Care Demand Pressures** – By far the biggest impact in recent years has been the accelerating increase in the number and cost of Children Looked After. The Tt2019 Programme contains significant savings in this service area and current projections show that the number of children in care is starting to decline after many years of significant increase. This is a positive position, but it is currently failing to deliver the full value of predicted savings, since the costs of individual placements particularly within the Independent Fostering Agencies are spiralling upwards.

The current MTFS contains provision for expected growth in Children’s Services social care costs but does not currently include provision for the non-delivery of the Tt2019 savings over the longer term if the price of care continues to rise. This therefore represents a major risk in the budget going forward but has less impact in respect of the 2020/21 budget as the savings for this area were expected to be delivered on a longer time frame, which already has corporate cash flow support allocated.

For adults’ social care services, there has been a long period of relative stability which has meant that the annual growth forecasts have been in line with the actual activity experienced within the service. During the latter part of 2018/19 and throughout the current financial year growth in activity has started to rise at a greater rate and there have been further ‘stepped’ growth factors (such as increasing the rate of discharges from hospital) that have caused additional cost pressures.

These pressures were outlined in the MTFS reported to County Council in November last year and resulted in a stepped growth increase of £10.0m and an increase in the annual growth figure from £10.0m to £13.5m each year from 2020/21 onwards.

The additional costs in both children's and adults' social care services were partially offset by the increased funding announced by the Government in the SR2019, but still adds a significant burden to the longer term position that the County Council faces.

I am content that the budget for 2020/21 contains a realistic assessment of the likely growth we will face in the year, backed up by further contingency amounts and reserves if growth should be higher than forecast.

c) **Council Tax** – The Government has assumed that local authorities will increase council tax by the maximum permitted by the referendum thresholds and on this basis the recommended increase is 3.99%, of which 2% relates to adults' social care, in line with the thresholds included in the provisional local government finance settlement released on 20 December last year.

d) **Pay and Price Risk** – The budget originally contained a 2% allowance for the April 2020 pay award, which has yet to be agreed, plus a further factor to deal with any changes arising from the National Living Wage (NLW).

The Conservatives set out in their manifesto, plans to raise the NLW to £10.50 within the next five years and also to lower the age threshold from 25 to 21. Following the outcome of the election, this commitment was included in the Queen's speech, provided economic conditions allow. In line with this, the Government has recently announced that the NLW will rise from £8.21 to £8.72 on 1 April 2020 for workers over the age of 25, an increase of 6.2%. Whilst the County Council's pay framework is not immediately impacted by the planned increase, as the hourly rate for staff on Grade A (the lowest Grade) currently exceeds this by some way; standing at £9.00, the longer term aspiration is likely to result in a review of the framework. The outcome and timing of this is uncertain but the budget report includes provision for an additional 1% allowance for pay (circa £3.0m per annum) in light of the Government's policy, and more immediately growing uncertainty as to how the employers will approach the pay award for 2020/21.

Any deviations from this position will be managed in year and reflected in future forecasts, however the impact of variances in this area now tend to be immaterial compared to the growth in social care costs that we face every year.

Following the 2019 Pension Fund valuation, Hampshire County Council's employer's contributions rates have increased from 16.1% to 18.4%, which is reflected in the budget but has been fully funded from the eradication of the deficit contribution that we were previously paying.

Similarly, the impact of price inflation has been considered in setting the budget and it would take a major departure from the Council's assumptions to create a financial problem that we could not deal with.

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

1% last year does increase the risk in this area but is unlikely to impact in the foreseeable future due to our strong reserves and cash balances position.

On the investments side, the absolute value of estimated income for 2019/20 is circa £13.5m per annum, which is minimal against the County Council's overall budget, however, the change in investment strategy which moved part of the portfolio to medium term investments has increased the risk in the portfolio overall. This has been mitigated by the creation of an Investment Risk Reserve which will deal with any changes in valuations of investment and provide a buffer against any significant drop in returns. Contributions to this reserve are regularly reviewed to ensure adequate provision is made and the medium term aim is to increase the reserve to match 2.5% of the higher yielding investment portfolio.

The Adequacy of Reserves

The County Council's policy on general balances is to hold a minimum prudent level which based on the previous risk assessment is around 2.5% of net expenditure. The projected level of general fund balances will be 2.8% of net expenditure at the beginning of 2020/21.

Overall the level of earmarked reserves and balances that the County Council holds stood at £669.5m (including schools and the Enterprise M3 LEP reserve) at the end of March 2019 and these reserves, the majority of which are held for specific purposes as set out in the Reserves Strategy in Appendix 6, underpin the overall MTFS and the Capital Programme.

Those reserves that are available to support the revenue position are used sensibly to manage change and provide the time and capacity to properly implement savings plans that seek to minimise the impact on service users. Cash flow funding to support the Transformation to 2021 (Tt2021) Programme had already been included in our financial plans and stabilises the position at least up until 2022/23.

The remaining balance in the Budget Bridging Reserve (BBR) after this time is currently forecast to be circa £17.5m as outlined in Appendix 6 and this provides sufficient funding to meet the draw required for the interim year in 2022/23 following the injection of £18.0m a year for three years arising from the net savings in the deficit contribution for the Pension Fund (£15.0m) and the pre-payment of pension contributions (£3.0m). Whilst this is a positive position, further contributions will need to be made to support investment in any future savings programme and to cash flow any predicted late delivery in the more complex areas.

Whilst the majority of reserves are allocated for a specific purpose, as outlined in the Reserves Strategy, this does still provide flexibility in being able to manage the finances of the County Council going forward, compared to some County Councils whose total reserves stand at less than the BBR which we currently hold. I am therefore satisfied that the level of reserves is adequate to support the agreed financial strategy over the medium term.

CIPFA Financial Resilience Index

Following the events in Northamptonshire and a heightened national focus on the finances of local government more generally, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a Financial Resilience Index (FRI) which they consulted on last year. The index uses a range of financial information and other factors to generate a series of measures against which all authorities are 'stress tested'.

The original proposal was to produce a single consolidated score for each authority using the measures and to make this information publicly available. However, the consultation feedback (which Hampshire participated in) raised concerns that this may lead to the publication of a league table and have unintended consequences across the sector if used in a negative way. CIPFA responded to this feedback and have removed the consolidated score. Last year the information was only provided to CFOs to assist them in carrying out their role and in December 2019, the Index was once again provided to CFOs, but this was only in advance of it being made public later in the month.

The Index is broadly similar to what was published last year, but there are a few changes. Hampshire has once again fared well under the Index with only one indicator being classified as high risk. The summary below indicates the low and high risk areas identified in the Index:

Lower Risk Areas:

- The County Council scored well on most indicators relating to reserves, in fact Hampshire has the highest level of reserves of any County Council.
- The rate of use of its reserves and the reserves depletion time also came out as low risk.
- The council tax requirement as a proportion of total funding was also positive meaning that a high proportion of resources was generated locally and was therefore low risk as a continued income source.
- Hampshire has an outstanding children's social care Ofsted judgement and an unqualified External Auditors value for money assessment.

Higher Risk Areas:

- The level of unallocated reserves was flagged as high risk, which reflects the commentary in the Reserves Strategy in Appendix 6 that the majority of our reserves are set aside for a specific purpose. We are fully aware of this fact and the MTFS already provides for specific future funding that is essential to maintain our financial sustainability.

I am content that the results of the FRI, reflect what we already know about the financial sustainability of the County Council and is supported by the fact that there is now only one area flagged as high risk.

CIPFA Financial Management Code

In addition to the FRI outlined above, CIPFA have also published, during 2019, a Financial Management Code, designed to aid local authorities in assessing and developing their financial management activities across all areas of governance and management.

Hampshire has been instrumental in ensuring that the Code reflects as far as possible a practitioner's view of financial management within local government and is pleased that the final published version reflects a large proportion of the feedback provided to CIPFA.

Full compliance with the code is not required until 2021/22, but it has been published early to allow local authorities the time to assess their performance against the Code and make improvements or changes where required.

A high level review of the Code has been undertaken to assess areas where the County Council may have some areas for improvement, and this is set out in the following table:

Code Section	**Financial Management Standard**	**Hampshire County Council Position**
Section 5: Stakeholder engagement and business plans	L - The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	Whilst the County Council has regular contact with its key stakeholders in developing service priorities and collaborative working and consults widely in respect of changes to service provision, it is not systematic in engaging stakeholders in respect of strategic financial planning and budget setting and consideration could be given to how this could be improved and incorporated into the financial planning and budget setting cycle if appropriate.
Section 5: Stakeholder engagement and business plans	M - The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	The County Council's feedback in respect of this Financial Management Standard is that it would not want to dictate a specific documented option appraisal methodology across the whole Council as many of the more theoretical models are not appropriate for some of the decisions that are taken and are often disproportionate in terms of the effort required to complete them. Instead we ensure that all relevant decisions are supported by a clear business case that should be proportionate to the size and complexity of the matter being considered. Consideration should however be given to providing specific guidance to managers about the need for business cases and what they need to contain as a minimum.

Code Section	Financial Management Standard	Hampshire County Council Position
Section 6: Monitoring financial performance	O - The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.	Again, the feedback provided to CIPFA on the Standard was that it was inappropriate to concentrate on the balance sheet as a single issue and that this was not something that generally happened in practice. The draft guidance quoted various specific areas covered by this Standard including: • Capital investment and the maintenance of assets • Long and short term investments • Debt collection • Cash flow management • Borrowing • Reserves The County Council already has appropriate arrangements in place through other means to manage these risks and it is therefore not considered necessary to group them in this way for consideration by the leadership team. We will review the more detailed guidance and ensure that we are satisfied that all areas highlighted are appropriately covered.

Budget 2020/21 – Conclusion

Given the details outlined above, provided that the County Council considers the above factors and accepts the budget recommendations, including the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2020/21.

The Position Beyond 2021

The latest MTFS was approved by County Council in November last year and extended the planning horizon to 2022/23. After the announcement of a one year spending round for 2020/21, the next CSR is due to take place this year and will set the framework for public spending; hopefully over the next four years.

Local government finances will be impacted over this period not only as a result of the total amount of funding that will be made available but also as a result of the Fair Funding Review and the extension of Business Rate Retention, on which consultation papers have previously been published and the County Council has provided responses.

It is difficult at this stage to predict what the financial landscape will look like after 2020/21, and in reality, we will probably need to wait until December 2020 before we are in a position to understand the medium term financial prospects for the County Council and the need or otherwise for a further savings programme.

Clearly trying to make further savings on top of the £560m that will have been removed from the budget by April 2021 will be extremely challenging and is likely to be delivered once again over an extended period, placing further pressure on corporate funding to support this.

The MTFS highlighted the fact 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 continually cut some services to fund growth in others.

At this stage however, in the absence of the outcome of the CSR and other changes to the local government finance regime, the County Council must focus on delivery of the remaining Transformation to 2019 (Tt2019) Programme savings alongside the Transformation to 2021 (Tt2021) Programme and I believe it is well placed to do that underpinned by departmental reserves and the corporate funding that is already in place.

Carolyn Williamson

Deputy Chief Executive and Director of Corporate Resources

22 January 2020

Capital and Investment Strategy 2020/21 to 2022/23

1. Introduction

1.1 This 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.

1.2 This Strategy 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.

2. Governance

2.1 The County Council's Medium Term Financial Strategy (MTFS) ensures that we continue to invest wisely in our existing assets and deliver a programme of new ones in line with overall priorities and need. This is kept under review by the Corporate Infrastructure Group (CIG) which is chaired by the Director of Economy, Transport and Environment and includes representatives from his department, together with Officers from Children's Services, Adults' Health and Care, Property Services and the Head of Finance. The aim of the group is to ensure a co-ordinated approach to capital investment and major developments across the County Council.

2.2 In accordance with the MTFS, each year the Cabinet sets cash limit guidelines for a three year capital programme funded by local resources. Executive Members propose capital programmes within these cash limits together with schemes funded by government grants and other external sources. The proposed programmes are scrutinised by the relevant Select Committee. The final Capital Programme is then presented to Cabinet and to County Council in February each year.

3. Capital Expenditure and Financing

3.1 Capital expenditure is spending by the County Council on assets, such as land, property, the highway network or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.

3.2 The estimated level of capital expenditure (or ‘payment’) flows each year, together with forecasts of financing resources, are two of the factors considered in determining the size of the cash limit guidelines for the Capital Programme.

3.3 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. 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.

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

3.5 Expenditure flows in 2019/20 and the following three years will result from works in progress (schemes started in 2019/20 and earlier years) plus those arising from the proposed programme for 2020/21 to 2022/23, as Table 1 below shows:

Table 1: Forecast Capital Expenditure Flows

	2019/20 £’000	**2020/21 £’000**	**2021/22 £’000**	**2022/23 £’000**
Works in Progress at 31 March 2019 and Schemes starting in 2019/20	217,516	179,324	84,372	27,503
Programmes starting in 2020/21, 2021/22 and 2022/23		92,021	94,015	119,106
Land Acquisition	3,831	12,396	646	646
Total Expenditure Flows	**221,347**	**283,741**	**179,033**	**147,255**

3.6 In practice, expenditure flows in the years after 2019/20 may vary from those shown in Table 1 if further developer and other external contributions become available to fund additional capital schemes, or if the levels of government support differ from those currently assumed in the Capital Programme, which is presented in a separate report elsewhere on this Agenda.

Table 2 - Resources to Fund Capital Expenditure

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Prudential borrowing	42,808	53,241	31,481	10,332
Less repayments from capital	(13,598)	(5,026)	(6,898)	(7,474)
Capital grants	105,886	198,317	115,923	74,141
Contributions from other bodies including developers	37,475	42,108	32,363	55,623
Capital receipts	1,092	0	0	925
Revenue contributions to capital	8,307	6,839	6,411	6,303
New Resources in the Year	**181,970**	**295,479**	**179,280**	**139,850**
Draw From / (Contribution to) the Capital Reserve:	39,377	(11,738)	(247)	7,405
Total Resources Available	**221,347**	**283,741**	**179,033**	**147,255**

4. Prudential Indicators

4.1 The framework for the use of prudential borrowing, as updated by Cabinet in February 2006, includes:

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

4.2 As the loan repayments and interest charges must be financed by the County Council from its own resources, it is important that the use of prudential borrowing is very closely controlled and monitored.

4.3 The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). In order to ensure that over the medium term debt will only be for a capital purpose, the County Council should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Table 3: Ensuring Borrowing is Only for Capital Purposes

	31/03/20 Revised £M	31/03/21 Estimate £M	31/03/22 Estimate £M	31/03/23 Estimate £M
CFR	**794**	**824**	**822**	**793**
Debt				
Borrowing	300	290	280	272
PFI Liabilities	150	142	133	124
Total Debt	**450**	**432**	**413**	**396**

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

Affordable Borrowing Limit

4.5 The County Council is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower 'Operational Boundary' is also set as a warning level should debt approach the limit. The Operational Boundary is based on the County Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the County Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.

Table 4: Affordable Borrowing Limits

	2019/20 Revised £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M
Authorised Limit:				
Borrowing	740	780	790	770
PFI and Leases	190	180	170	160
Authorised Limit	**930**	**960**	**960**	**930**
Operational boundary:				
Borrowing	700	730	740	720
PFI and Leases	150	150	140	130
Operational Boundary	**850**	**880**	**880**	**850**

Ratio of Financing Costs to Net Revenue Stream

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

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Ratio	1.05%	1.49%	2.08%	2.48%

4.7 A low proportion is forecast, demonstrating that the cost of financing is minimised and the proportion of the revenue budget available for delivering services is maximised.

Incremental Impact of Capital Investment Decisions

4.8 This is an indicator of affordability that shows the impact of capital investment decisions on council tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved Capital Programme and the revenue budget requirement arising from the Capital Programme proposed for the next three years.

Table 6: Incremental Impact of Capital Investment Decisions

	2020/21 Estimate £	2021/22 Estimate £	2022/23 Estimate £
General Fund - increase in Annual Band D Council Tax	2.08	4.44	2.28

5. Minimum Revenue Provision (MRP) for Debt Repayment

5.1 Where the County Council finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. Statutory guidance requires the County Council to approve an Annual MRP Statement each year, and whilst it provides a range of options for the calculation of MRP, the guidance also notes that other options are permissible provided that they are fully consistent with the statutory duty to make prudent revenue provision.

MRP in 2020/21

5.2 Prior to 2015/16 the County Council calculated MRP for supported borrowing[6] on a 4% reducing balance basis. It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a 50 year straight line basis. To be more prudent the 50 years has been started from 2008 and the actual calculation is 1/43's. Had the County Council been applying the new policy of a 50 year straight line calculation starting in 2008 it would have made £67m less in MRP payments by 31 March 2016.

[6] Borrowing or use other forms of credit to finance capital expenditure, for which central government previously provided a revenue stream to support repayment of principal and interest.

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

5.4 The County Council will continue to apply the Asset Life or Depreciation Method (which are Options 3 and 4 from the range provided by the Guidance) in respect of unsupported capital expenditure funded from borrowing. Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section 106 Developers Contributions, MRP will not be applied.

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

5.6 Capital expenditure incurred during 2020/21 will not be subject to an MRP charge until 2021/22.

5.7 Based on the Authority's latest estimate of its CFR on 31 March 2020, the budget for MRP has been set as follows:

Table 7: MRP Budget

	31/03/2020 Estimated CFR £M	2020/21 Estimated MRP £M
Supported Capital Expenditure	455	0.0
Unsupported Capital Expenditure After 31/03/2008	163	9.8
Finance Leases and PFI	149	8.0
Transferred Debt	27	0.4
Total General Fund	**794**	**18.2**

6. Treasury Management

6.1 Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

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

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

6.4 The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. It therefore invests its funds prudently and has regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

6.5 The County Council's TMS, included as Appendix 9, to this report is scrutinised by the Audit Committee and approved by the County Council each year. Actual performance is reviewed by the Audit Committee and reported to Cabinet and County Council.

7. Investments for Service Purposes

7.1 The County Council's Commercial Strategy was set out in the update of the MTFS presented to Cabinet and County Council in October and November 2019. A summary of the Strategy is outlined below.

7.2 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 (JVs) that yield additional income or generate a return.

7.3 The second and fourth approaches listed above directly relate to this Capital and Investment Strategy, although it is the first and third approaches that contribute the most income on an annual basis to support the County Council's financial position. This is a deliberate outcome of the overall strategy and has been achieved through the pursuit of a range of initiatives targeting increased income generation but without over exposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business, or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.

Pooled Funds

7.4 Faced with a historically low interest rate environment, the County Council decided, as part of the 2014/15 strategy, to earmark £90m of its cash balances for investments appropriately targeting a higher yield of around 4%. The County Council agreed to increase this amount to £200m in 2017 and to £235m in 2019. This is in addition to £15m of long term investments that had been made for the Street Lighting PFI scheme. Higher yields can be accessed through investments in assets other than cash, such as equities, bonds and property. The County Council has made investments in property, equities and government bonds, as well as long term investments with other local authorities.

7.5 The principle mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long term investments, the amounts invested need to be taken from the County Council's most stable cash balances. The allocation of £235m has been based on half of the Council's forecast future minimum balance.

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

7.7 The County Council utilises pooled investment vehicles as the most appropriate means to access asset classes such as property or equities. The County Council could build its own direct portfolios of these investments, such as property, however**,** its total allocation of £235m for a diversified portfolio would not enable this to be done efficiently and effectively with the appropriate risk mitigation**.** Pooled funds are managed by external specialist investment managers who are best placed to select the particular investments and then manage them, for example for property investments managing the relationship with tenants and maintenance of the building.

Utilising Property Assets

7.8 The County Council utilises its own property to make a return. In areas where we already own buildings we are working with partners to utilise this space more effectively from a joint service provision point of view and at the same time making a return on the space we have provided. Further work is being undertaken to maximise the usage of space in existing buildings with a view to potentially offering whole buildings on the commercial market for lease. This approach enables the County Council to use existing assets to generate income with minimal risk, compared to buying additional property using prudential borrowing purely to try to make a financial return.

7.9 In addition to property rationalisation, the County Council is also making more efficient use of its existing office space. Investment in new technology as part of the Enabling Productivity Programme together with improved fire safety measures have increased the capacity of the Castle complex.

Developing Joint Ventures

7.10 There are a number of opportunities that the County Council can pursue either through its land holdings or through the relationships it has with partners or contractors that look at new and innovative ways of generating a financial return. To date the County Council has been helpful in responding to Borough Council Local Planning Authority requests for the potential use of its public land holdings for potential residential development. This will continue the stream of substantial capital receipts the County Council has benefitted from over recent decades to enable it to reinvest in existing services and ongoing transformation initiatives.

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

7.12 The largest site is Manydown in Basingstoke and in May 2016 the County Council, along with joint landowner Basingstoke and Deane, secured the allocation of the initial Manydown Phase 1 development for up to 3,520 dwellings to be provided in the period up to 2029. Following public consultation that has enabled the finalisation of a development masterplan, planning approval is now being sought to take the site forward.

7.13 Another area that the County Council can look to exploit is the relationships it has with its partners and contractors. There is already a long standing relationship with our waste disposal contractors Veolia that includes innovative ways of generating income for both parties. The long term contract allows the use of surplus capacity at our waste facilities for commercial purposes for which the County Council receives an income share. Similarly, provisions are in place for working with our highways maintenance contractor Skanska to develop joint ventures linked to the existing contract that will yield additional income for both parties. A third example is the superfast broadband contract with BT Openreach that includes mechanisms that provide a rebate to the County Council when take up is greater than the original estimates in Openreach’s commercial bid. To date, rebates and savings have added a further £7.8m of delivery to the programme without requiring additional capital funding from the County Council and further rebates are expected in the next few years.

7.14 With the primary aim of improving economic prosperity and related infrastructure within Hampshire, the County Council may consider granting loans to other organisations. To date, loans totalling £9.5m at market rates of interest have been approved to the Enterprise M3 Local Enterprise Partnership (EM3 LEP) and Farnborough International Ltd.

7.15 The development of all these opportunities is reported to Cabinet and, if additional capital schemes are proposed, County Council approval is sought to add them to the Capital Programme.

8. Knowledge and skills

8.1 The County Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

8.2 Staff attend training courses, seminars and conferences provided by the Chartered Institute of Public Finance and Accountancy (CIPFA), Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

8.3 CIPFA’s Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All Members were invited to a workshop presented by Arlingclose in November 2019, which gave an update of treasury matters. A further Arlingclose workshop has been planned for November 2020.

Investment Advisers

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

9. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy

9.1 This Capital and Investment Strategy has been developed alongside the TMS (Appendix 9) and the Reserves Strategy (Appendix 6). Together, they form an integrated approach adopted by the County Council to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget, whilst recognising and managing risk to an acceptable level.

9.2 The forward planning of capital investment and its funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Deputy Chief Executive and Director of Corporate Resources that the proposed Capital Programme is prudent, affordable and sustainable.

10. Links to Statutory Guidance and Other Information

10.1 The Local Government Act 2003, Section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:

- Ministry of Housing, Communities & Local Government (MHCLG) - Local Government Investment* MHCLG Investment.
- CIPFA’s Prudential Code 2017
- CIPFA’s Treasury Management Code 2017

(*Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, and a TMS in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document).

10.2 The County Council includes its non-treasury management Investment Strategy within this Capital Strategy. The TMS is a separate document reported to Cabinet and County Council, (Appendix 9).

10.3 The proposed Capital Programme is a separate document presented to Cabinet and County Council in a separate report elsewhere on this Agenda

Treasury Management Strategy Statement 2020/21 to 2022/23

1. Summary

1.1. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

1.2. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3. The purpose of this TMSS is, therefore, to present for approval the Treasury Management Strategy (including the Annual Investment Strategy) for 2020/21; and the remainder of 2019/20.

2. Introduction

2.1 In 2018 the Ministry of Housing, Communities & Local Government (MHCLG) produced new Investment Guidance including the requirement to produce an Investment Strategy. The County Council's Capital and Investment Strategy (Appendix 8) sets out the Council's broad approach to investment, including its capital programme, how this is funded, and investments held for service purposes or for commercial profit.

2.2 This Treasury Management Strategy (TMS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

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

2.4 Treasury risk management at the County Council is conducted within the framework of the CIPFA Code which requires the County Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.5 Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategy (Appendix 8).

3. External Context

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

Economic Background

3.2 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the County Council's TMS for 2020/21.

3.3 Gross Domestic Product (GDP) growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1%. Looking ahead, the Bank of England forecasts economic growth to pick up during 2020 as Brexit related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Quarter 4 2020, 1.8% in Quarter 4 2021 and 2.1% in Quarter 4 2022.

3.4 The headline rate of UK Consumer Price Inflation (CPI) remained the same in November 2019 at 1.5% year-on-year, although lower than highs of 2.1% in July and April 2019 and below the Bank of England target of 2%.

3.5 Labour market data continues to be positive with unemployment at 3.8%, the lowest level since 1975. The three month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019, providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

Credit Outlook

3.6 The recent Bank of England stress tests assessed all seven UK banking groups, with all seven passing the test. Major banks have steadily increased their capital for many years now, however the tests do not cover all banks and the Bank of England will seek to address issues with the tests in 2020, when Virgin Money / Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks.

3.7 Looking forward, the potential for adverse Brexit outcomes and / or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits continues to be recommended by the County Council's treasury advisors.

Interest Rate Forecast

3.8 The Council's treasury management adviser Arlingclose is forecasting that the Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on Brexit and continuing global economic slowdown.

3.9 The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7 to 2 vote to hold rates) that the Monetary Policy Committee (MPC) now believe this is less likely even in the event of a deal.

3.10 Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

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

4. Balance Sheet Summary and Forecast

4.1 On 30 November 2019, the County Council held £308m of borrowing and £590m of investments. This is set out in further detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below:

Table 1: Balance Sheet Summary and Forecast

	31/03/19 Actual £M	31/03/20 Estimate £M	31/03/21 Forecast £M	31/03/22 Forecast £M	31/03/23 Forecast £M
Capital Financing Requirement	781	794	824	822	793
Less: Other Long-term Liabilities					
- Street Lighting PFI	(104)	(100)	(96)	(91)	(86)
- Waste Management Contract	(53)	(50)	(46)	(42)	(38)
Borrowing CFR	**624**	**644**	**682**	**689**	**669**
Less: External Borrowing					
- Public Works Loan Board	(238)	(228)	(218)	(208)	(200)
- Other Loans (incl. LOBOs)	(45)	(41)	(41)	(41)	(41)
- Other Short-term Borrowing	(31)	(31)	(31)	(31)	(31)
Internal Borrowing	**310**	**344**	**392**	**409**	**397**
Less: Reserves and Balances	(669)	(591)	(625)	(656)	(670)
Less: Allowance for Working Capital	(210)	(210)	(210)	(210)	(210)
Resources for Investment	**(879)**	**(801)**	**(835)**	**(866)**	**(880)**
(Treasury Investments) / New Borrowing	**(569)**	**(457)**	**(443)**	**(457)**	**(483)**

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

4.3 It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through until 2021/22, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

4.4 The County Council intends to pay employer's Local Government Pension Scheme (LGPS) pension contributions in advance in April 2020 for the three years covering 2020/21 to 2022/23, with the initial reduction in cash balances offset by not then making monthly pension contributions. The lower contribution rate being charged as a result of paying in advance will generate a saving for the County Council across the three-year period that is greater than the investment income foregone.

4.5 Reserves and balances are initially due to reduce over the forecast period due to the anticipated funding of the Capital Programme, repayment of external debt, and use of the Budget Bridging Reserve (BBR) and are then forecast to increase as part of the Council's Reserves Strategy as set out in Appendix 6.

4.6 These factors result in the profile for investment balances shown in Table 1.

4.7 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2020/21.

5. Borrowing Strategy

5.1 The County Council currently holds £308m of loans, a decrease of £1m on the previous year, as part of its strategy for funding previous years' Capital Programmes. The balance sheet forecast in Table 1 shows that the County Council does not expect to need to borrow in 2020/21. The County Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £780m.

Objectives

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

Strategy

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

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

5.5 The County Council has previously raised the majority of its long-term borrowing from the PWLB, but the Government increased the margin on PWLB rates by 100 basis points (1%) in October 2019 making it a relatively expensive way to meet borrowing needs.

5.6 Alternative options should the County Council need to borrow any long-term amounts include banks, pension funds and local authorities as well as the potential to issue bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

5.7 The County Council may also arrange forward starting loans during 2020/21, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

Sources

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

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

Other Sources of Debt Finance

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

- Leasing.
- Hire purchase.
- Private Finance Initiative (PFI).
- Sale and leaseback.

LOBOs

5.11 The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost.

5.12 All of these loans have options during 2020/21, and although the County Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The County Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so. Total borrowing via LOBO loans will be limited to the current level of £20m.

Short-term and Variable Rate Loans

5.13 These loans leave the Council exposed to the risk of short-term interest rate rises. This risk is monitored through the indicator on interest rate exposure in the treasury management indicators in this report.

Debt Rescheduling

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

6. Investment Strategy

6.1 The County Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the County Council's investment balance has ranged between £569m and £677m, although lower levels are expected in the forthcoming year, as shown in Table 1.

6.2 The reduction in investment balances predicted for 2020/21 is largely the result of the intention to pay employer's pension contributions in advance in April 2020. This will be for the three years covering 2020/21 to 2022/23 for staff in the LGPS and will enable the County Council to make savings on pension contributions that outweigh the lost investment income. This can be done without impacting liquidity with the benefit of also reducing counterparty risk.

Objectives

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

Negative Interest Rates

6.4 If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

6.5 Given the increasing risk and very low returns from short-term unsecured bank investments, the County Council aims to continue to be diversified in more secure and/or higher yielding asset classes during 2020/21. This is especially the case for the estimated £340m that is available for longer-term investment.

6.6 Approximately 77% of the County Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers, pooled property, equity and multi-asset funds, and secured bank bonds.

6.7 Of the cash subject to bail-in risk, 17% is held in short-term notice accounts which are maturing before the end of the financial year, 56% is held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in, and 27% is held in certificates of deposit which can be sold on the secondary market. This diversification is a continuation of the strategy adopted in 2015/16. Further detail is provided at Annex B.

Business Models

6.8 Under the new IFRS 9, the accounting for certain investments depends on the 'business model' for managing them. The County Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Investments Targeting Higher Returns

6.9 As set out in the Capital and Investment Strategy (Appendix 8) , the County Council agreed in 2019 to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. Just over £201m of this allocation has now been invested, as shown in Annex B, with the remaining balance earmarked.

6.10 Without this allocation the weighted average return of the Council's cash investments based on investments held at 30 November 2019 would have been 0.97%; whereas the allocation to higher yielding investments has a weighted average return of 4.67% bringing the overall average return for the portfolio to 2.23%, as shown in the table below:.

Table 2: Weighted Average Returns

	Cash Balance 30/11/2019	**Weighted Average Return**
	£M	**%**
Short-term and Long-term Cash Investments	388.5	0.97
Investments Targeting Higher Yields	201.1	4.67
Total	**589.6**	**2.23**

6.11 The latest estimated value of investment income is circa £13.5m for 2019/20. However, as these balances and returns do not remain constant over the course of a year the figures are indicative, and the actual returns will form part of the outturn report at the conclusion of the financial year.

6.12 The County Council's overall investment balances will fall during 2020/21 as a result of the early payment of LGPS pension contributions explained above. The amount earmarked to investments targeting higher yields, however, reflects the County Council's long-term stable balances, and there is therefore no requirement to change this allocation of £235m.

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

6.14 When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. It is recommended that a further £2.0m is added to this reserve in line with this strategy to further protect the County Council's funds. This is prudent given the additional amount to be targeted at higher yielding investments and will bring the total amount in the reserve to approaching £5.0m or just over 2.1% of the value of the investments.

6.15 At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the County Council would avoid selling investments that realised a capital loss.

6.16 Going forward however, changes to IFRSs means that capital gains and losses on investments need to be reflected in the revenue account on an annual basis. There is currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next four years. However, given the greater future risk in this area it is proposed to continue to contribute towards the Investment Risk Reserve to reach 2.5% of the total amount invested (in line with the recommendation of 2.5% for the general fund balance).

6.17 The County Council's investments in pooled property, equity and multi-asset funds are summarised in Table 3 below:

Table 3: Pooled Fund Investments Capital Value at 30 November 2019

Pooled Fund Investments	**Principal Invested £M**	**Market Value 30/11/19 £M**	**Capital Growth (per annum) %**
Pooled Property	77.0	77.7	0.22
Pooled Equity	52.0	52.7	0.43
Pooled Multi-asset	42.0	43.2	1.47
Total	**171.0**	**173.6**	**0.48**

6.18 In addition to the capital growth shown in Table 3, the County Council has achieved income returns averaging 4.67% per annum from these investments in pooled funds, resulting in a total return of 5.15% per annum.

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

Investment Limits

6.20 The maximum that will be lent to any one organisation (other than the UK Government) will be £50m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, and investments in pooled funds, as they would not count against a limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£50m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£50m per group
Any group of pooled funds under the same management	£50m per manager
Registered Providers and Registered Social Landlords	£50m in total
Money Market Funds	50% in total
Real Estate Investment Trusts	£50m in total

Approved Counterparties

6.21 The County Council may invest its surplus funds with any of the counterparty types in Table 5 overleaf, subject to the cash limits (per counterparty) and the time limits shown:

Table 5: Approved Investment Counterparties and Limits

Credit Rating	Banks		Government	Corporates	Registered Providers	
	Unsecured	Secured			Unsecured	Secured
UK Govt	N/A	N/A	£ Unlimited 30 years	N/A	N/A	N/A
AAA	£25m 5 years	£50m 20 years	£50m 30 years	£25m 20 years	£25m 20 years	£25m 20 years
AA+	£25m 5 years	£50m 10 years	£50m 25 years	£25m 10 years	£25m 10 years	£25m 10 years
AA	£25m 4 years	£50m 5 years	£50m 15 years	£25m 5 years	£25m 10 years	£25m 10 years
AA-	£25m 3 years	£50m 4 years	£50m 10 years	£25m 4 years	£25m 10 years	£25m 10 years
A+	£25m 2 years	£50m 3 years	£25m 5 years	£25m 3 years	£25m 5 years	£25m 5 years
A	£25m 13 months	£50m 2 years	£25m 5 years	£25m 2 years	£25m 5 years	£25m 5 years
A-	£25m 6 months	£50m 13 months	£25m 5 years	£25m 13 months	£25m 5 years	£25m 5 years
None	£25m 6 months	N/A	£50m 25 years	N/A(*)	£25m 5 years	£25m 5 years
Pooled Funds & Real Estate Investment Trusts	£50m per fund					

*See paragraph 6.27

This table must be read in conjunction with the notes below

Credit Rating

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

Banks Unsecured

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

Banks Secured

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

Government

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

Corporates

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

6.27 The County Council will not invest in an un-rated corporation except where it owns a significant or controlling interest in the corporation, in which case a limit of £35m will for an investment of up to 20 years will apply.

Registered Providers Secured and Unsecured

6.28 Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled Funds

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

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

Real Estate Investment Trusts (REITs)

6.31 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Operational Bank Accounts

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

Risk Assessment and Credit Ratings

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

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

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

Other Information on the Security of Investments

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

6.36 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Liquidity Management

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

7. Treasury Management Indicators

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

Interest Rate Exposures

7.2 The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 6: Interest Rate Risk Indicator

	30 November 2019	Impact of +/- 1% Interest Rate Change
Sums Subject to Variable Interest Rates		
Investment	£272.9m	+ / - £2.7m
Borrowing	(£23.3m)	+ / - £0.2m

Maturity Structure of Borrowing

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

Table 7: Refinancing Rate Risk Indicator

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

7.4 Time periods start on the first day of each financial year.

Principal Sums Invested for Periods Longer than a Year

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

Table 8: Price Risk Indicator

	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£340m	£330m	£330m

8. Related Matters

8.1 The CIPFA Code requires the County Council to include the following in its TMSS.

Financial Derivatives

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

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

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

8.5 In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Investment Advisers

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

Markets in Financial Instruments Directive

8.7 The County Council has opted up to professional client status with its providers of financial services, including advisers, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the County Council’s treasury management activities, the Section 151 Officer believes this to be the most appropriate status

Annex A - Arlingclose Economic & Interest Rate Forecast January 2020

Underlying assumptions:

- The global economy has entered a period of weaker growth in response to political issues. The UK economy continues to experience slower growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations are low.

- Some improvement in global economic data and a more positive outlook for US / China trade negotiations has prompted worst case economic scenarios to be pared back.

- The new Conservative UK government will progress with achieving Brexit on 31 January 2020. The more stable political environment will prompt a partial return in business and household confidence in the short term, but the subsequent limited Brexit transitionary period, which the government is seeking to enforce, will create additional economic uncertainty.

- UK economic growth has stalled in Quarter 4 and inflation is running below the target of 1.5%. The inflationary consequences of the relatively tight labour market have yet to manifest, while slower global growth should reduce the prospect of externally driven pressure, although escalating geopolitical turmoil could continue to push up oil prices.

- The first few months of 2020 will indicate whether the economy benefits from restored confidence. The Government will undertake substantial fiscal easing in 2020/21, which should help support growth in the event of a downturn in private sector activity.

- The weak outlook for the UK economy and current low inflation have placed pressure on the Monetary Policy Committee (MPC) to loosen monetary policy. Two MPC members voted for an immediate cut in the last two MPC meetings of 2019. The evolution of the economic data and political moves over the next few months will inform policy, but upside risks to the Bank Rate are very limited.

- Central bank actions and geopolitical risks will produce significant volatility in financial markets, including bond markets.

Forecast:

- We have maintained our Bank Rate forecast at 0.75% for the foreseeable future. Substantial risks to this forecast remain, arising primarily from the Government’s policy around Brexit and the transitionary period.

- Arlingclose judges that the risks are weighted to the downside.

- Gilt yields remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.

- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
3-month money market rate													
Upside risk	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
1yr money market rate													
Upside risk	0.10	0.20	0.20	0.20	0.20	0.20	0.20	0.25	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
Downside risk	0.30	0.50	0.55	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
5yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.45	0.45	0.45
Arlingclose Central Case	0.50	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
Downside risk	0.35	0.50	0.55	0.55	0.55	0.60	0.60	0.65	0.65	0.70	0.75	0.75	0.75
10yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	0.75	0.80	0.80	0.85	0.85	0.90	0.90	0.95	0.95	1.00	1.05	1.10	1.10
Downside risk	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50
20yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.40
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50
50yr gilt yield													
Upside risk	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.40	0.45	0.45
Arlingclose Central Case	1.20	1.25	1.25	1.25	1.30	1.30	1.30	1.35	1.35	1.35	1.40	1.40	1.40
Downside risk	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.50	0.50

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%
PWLB Local Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 30 November 2019

Investments	**Balance 30/11/2019 £M**	**Rate 30/11/2019 %**	**WAM (*) 30/11/2019 Years**
Short Term Investments			
- Banks and Building Societies:			
- Unsecured	41.0	0.86	0.16
- Secured	50.1	0.85	0.42
- Money Market Funds	43.2	0.73	0.00
- Local Authorities	146.0	0.92	0.38
- Registered Provider	0.0	0.00	0.00
- Cash Plus Funds	10.0	1.45	N/A
	290.3	**0.89**	**0.30**
Long Term Investments			
- Banks and Building Societies:			
- Secured	43.2	0.95	2.14
- Local Authorities	55.0	1.40	1.85
	98.2	**1.20**	**1.98**
Long Term Investments – high yielding strategy			
- Local Authorities			
- Fixed deposits	20.0	3.96	14.30
- Fixed bonds	10.0	3.78	14.11
- Pooled Funds			
- Pooled property**	77.0	4.14	N/A
- Pooled equity**	52.0	5.90	N/A
- Pooled multi-asset**	42.0	4.69	N/A
- Other	0.1	5.68	0.41
	201.1	**4.67**	**14.24**
Total Investments	**589.6**	**2.23**	**1.69**

* WAM - Weighted Average Maturity

** The rates provided for pooled fund investments are reflective of the average of the most recent dividend return as at 30 November 2019.

	£M	%
External Borrowing		
PWLB Fixed Rate	(232.1)	(4.71)
Other Loans (including LOBO Loans)	(44.8)	(4.08)
Other Short-term Borrowing	(31.0)	N/A)
Total External Borrowing	**(307.7)**	**(4.61)**
Other Long-Term Liabilities:		
Street Lighting PFI	(99.9)	
Waste Management Contract	(49.5)	
Total Other Long-Term Liabilities	**(149.4)**	
Total Gross External Debt	**(457.1)**	
Investments	**589.6**	**2.23**
Net (Debt) / Investments	**141.5**	

Consultation

Summary of *‘Serving Hampshire – Balancing the Budget’* Consultation

The Medium Term Financial Strategy (MTFS) report was presented to Cabinet on 15 October 2019 and contained a summary of the headline findings from the ‘*Serving Hampshire – Balancing the Budget’* Consultation that was carried out by the County Council, between 5 June and 17 July 2019.

The Consultation was undertaken against the background of the next stage of the County Council’s transformation and efficiencies programme, *Transformation to 2021* in order to inform the overall approach to balancing the budget by 2021/22 and making the anticipated £80m additional savings required by April 2021.

The public consultation, which was similar in nature to an exercise completed two years ago ahead of Transformation to 2019 (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.

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.

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

Responses could be submitted through an online Response Form, available at www.hants.gov.uk/balancingthebudget or as a paper form, which was made available on request. An Easy Read version of the Response Form was also produced. Alternative formats were made available on request.

Unstructured responses sent through other means, such as email or as written letters, and received by the consultation’s close were also accepted. An Information Pack was produced alongside the consultation, providing information about each of the options presented.

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.

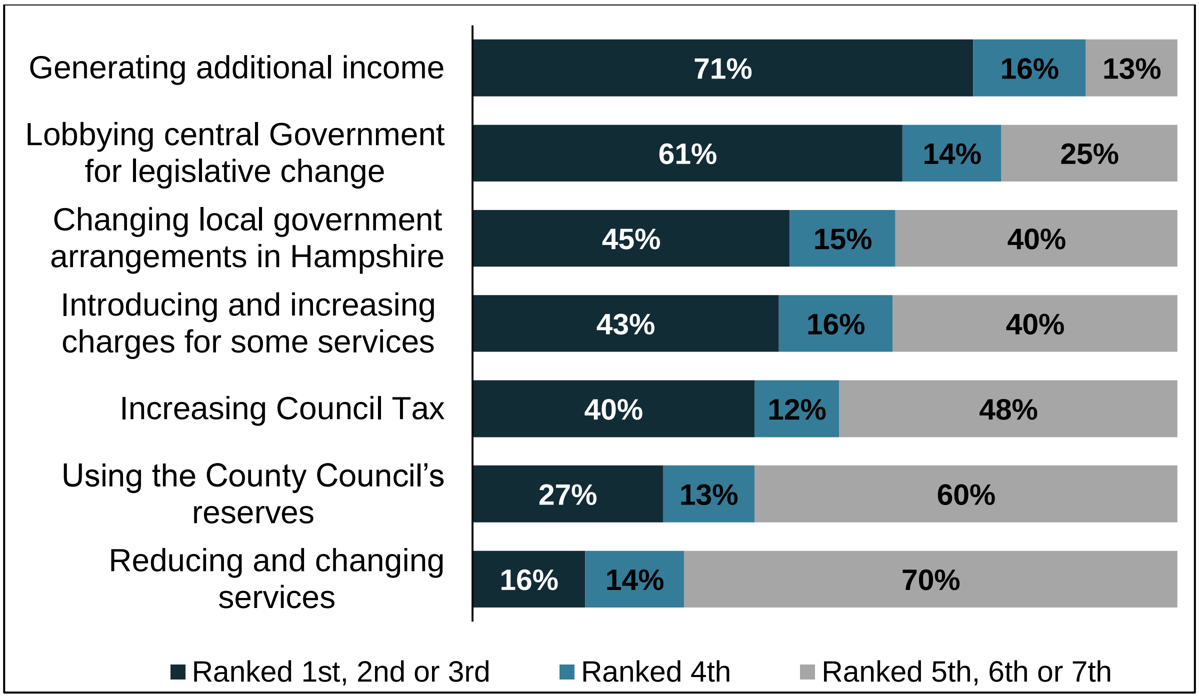
Headline findings from the consultation are set out below and the full findings report is also available:

- 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%).

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:



The findings from the Consultation were provided to Executive Members and Directors during September 2019, to inform departmental savings proposals, in order for recommendations to be made to Cabinet and the full County Council in October and November 2019 on the MTFS and Transformation to 2021 (Tt2021) Savings Proposals. Any specific changes to services will be subject to further, more detailed consultation.