

**HAMPSHIRE COUNTY COUNCIL****Decision Report**

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	7 February 2014
<b>Decision Maker:</b>	Council
<b>Date:</b>	20 February 2014
<b>Title:</b>	Revenue Budget and Precept 2014/15
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<b>Report From:</b>	Director of Corporate Resources

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## **1. Executive Summary**

- 1.1. The purpose of this report is to set out the County Council's proposals for the revenue budget and precept for 2014/15 and to approve savings proposals to help close the budget gap in 2015/16 as part of the Transforming the Council to 2015 programme.
- 1.2. 2014/15 is the last year of the 2010 Comprehensive Spending Review period, which saw the start of the major grant reduction programme across the public sector. The County Council's early response to these reductions has placed it in a very strong position for the 2014/15 budget, which will be balanced without the need for additional savings targets using the Grant Equalisation Reserve in line with the Medium Term Financial Strategy agreed last February.
- 1.3. This will give the County Council the time and capacity it needs to produce savings for the 2015/16 financial year, although the expectation is that a large proportion of these will have a beneficial impact during 2014/15, which can be used by Departments to fund the next phase of transformation and efficiency savings.
- 1.4. The report recommends a further freeze in the council tax level, meaning it will now have been at the same level for the fifth year running. Government grant equivalent to a 1% increase (£5.3M) will be paid to compensate for the lost income and is payable for both 2014/15 and 2015/16.
- 1.5. Financial performance in the current year remains strong, with the main pressure being around the increasing demand for Adult and Children's

social care. Both Departments have action plans in place to contain this pressure within 2014/15 based on current projections, but as in previous years further funding has been set aside within contingencies to manage this potential risk during the year.

- 1.6. During January individual Executive Members have been considering their revenue budget proposals with the Leader and Cabinet and this report consolidates these proposals together with other items that make up the total revenue budget for the County Council in order to recommend a budget, precept and council tax to full County Council on 20 February 2014.
- 1.7. The report also sets out proposals for new capital investment and financing which are contained within the Capital Programme that is presented elsewhere on today's agenda.
- 1.8. 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 change given the complexity of local government accounting for the current year, following the changes made to Business Rates and Council Tax Support Schemes. Revised figures will therefore be presented to full County Council and this report seeks delegated authority for the Director of Corporate Resources in consultation with the Leader and Chief Executive to make these changes as appropriate.

## **2. Background**

- 2.1. Following the CSR announcement in 2010 local government was anticipating an average 28% reduction in Government funding across the Country. However, the distribution of the reductions and the fact that the County Council is a 'floor' authority has meant that the County Council has experienced Revenue Support Grant reductions of over 43% during this period.
- 2.2. The final grant settlement for 2014/15 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 last year, which confirmed that the County Council will have a further reduction in grant of 14.1% equivalent to just under £22.3 million.
- 2.3. The Chancellor announced last year that a further grant would be available in 2014/15 to those authorities that agreed to freeze the council tax for a further year, equivalent to the income from a 1% council tax increase, estimated at £5.3 million for the County Council. This grant would be payable for the next two years and beyond.
- 2.4. A key pressure for the Council, as it is nationally, continues to be around adults and children's social care services and this is expected to continue into future years. The reports produced for the Executive Members of both Adults and Children's services highlighted a number of areas that will need to be addressed in setting the overall budget.
- 2.5. In December last year Cabinet received a budget update report that set provisional cash limit guidelines for Departments, taking into account

inflation and base changes for items such as demographic pressures. This report confirms the cash limits that will be applied to Departments next year and for 2015/16 and the individual reports approved by Executive Members during January all show that the proposed budgets are within the 2014/15 cash limit guidelines that have been set.

### 3. Revised Budget 2013/14

- 3.1. During the current financial year there have been a number of changes to the original budget that need to be taken into account, some of which have been reported to Cabinet through the quarterly budget monitoring reports. In addition, it is also timely to review some of the high-level numbers contained within the revenue budget in order to assess the likely impact on the outturn position for the end of this year.
- 3.2. Appendix 1 provides a summary of the original budget that was set for 2013/14 together with adjustments that have been made during the year. The proposed Revised Budget for 2013/14 is then set out for information. The variance between the adjusted and revised budget gives an indication of any one off resources that may be available at the end of the year that could be used to support new capital investment or provide additional contributions to the grant equalisation reserve. The paragraphs below explain the main adjustments that have been made to the budget during the year:
- 3.3. **Departmental Spending** – Departmental spending has increased by £23.6 million, the reasons for this are highlighted in the table below:

	<b>£M</b>
Reduction in schools budget due to Academy conversions	(4.8)
Increase in Pupil Premium funding	10.3
New grant for Local Welfare Provision	1.6
New grant for PE & Sports	2.3
Net increases in other specific grants	2.1
Adults – transitional costs of the Extra-Care programme	4.0
Childrens – additional social work teams and redesign of early help	2.0
Funding for election costs from contingencies	1.3
Waste management – uplift for 13/14 volumes and inflation	1.4
Use of cost of change reserves	4.2
Other Net Changes	(0.8)
Total	<u>23.6</u>

- 3.4. **Revenue Contributions to Capital Outlay (RCCO)** – The increase in RCCO reflects changes made to the capital programme and financing made 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 2013/14.
- 3.5. **Contingencies** – the reduction in contingencies is mainly the result of transfers made to Departmental budgets during the year.
- 3.6. **DSG and Specific Grants** – The reduction in DSG is due to the transfer of funding as a result of Academy conversions during the year, this is offset by a reduction in the schools budget shown above. The increase in specific grants is mainly due to an increase in the per pupil premium.
- 3.7. All of these changes have had a minimal impact on the bottom line of the revenue account as they mainly represent transfers between different areas of the budget.

#### **Revised budget 2013/14**

- 3.8. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2013/14. 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. As part of the quarterly monitoring reports presented to Cabinet it is anticipated that there will be under spends in Departmental budgets by the end of the year, however in line with current policy all of these underspends can be transferred to Departmental earmarked reserves to be used to fund the cost of change in future years and therefore would still have no impact on the bottom-line position of the revenue account.
- 3.9. The forecast position for the majority of services is break even against the revised cash limits reflecting the fact that most Departments are managing their bottom line positions to contain spending pressures or are using any surplus to meet the cost of change in the year instead of drawing from reserves.
- 3.10. **Interest on Balances** - The County Council adopts a prudent approach to estimating for interest on balances given the number of different variables involved. Cash balances have continued to remain high and the Council's strategy of a rolling programme of longer term investments are yielding better overall rates than estimated as reported in the quarterly monitoring reports. It is anticipated that this may yield an additional £3.2 million by the end of the year. These surplus funds, which have been generated each year will be taken into account in setting the budget for next year, together with a revised strategy towards investments, which are designed to produce higher yields whilst still protecting the Council's capital. This revised strategy is reflected in the Treasury Management Strategy attached at Appendix 14.
- 3.11. **Capital Financing Costs** – The estimates for 2013/14 were prepared on the basis that the base rate would begin to rise during this financial year and that the County Council would take out long term borrowing to fund the

approved capital programme. Current predictions are that it seems unlikely that any rate rises will happen in the near future. In addition, since the County Council has sufficient cash reserves there is no need to take out long term borrowing at this stage particularly since this would attract a high 'cost of carry' when comparing short term to longer term interest rate levels. The estimates for 2013/14 have therefore been revised taking these factors into account and show a saving of £4.75 million in the overall capital financing costs for the year.

- 3.12. **Contingencies** – The key items within this budget relate to risk contingencies set aside to reflect the major change and savings programmes that were being embarked on during the year, allowance for waste disposal inflation and disposal costs, together with some other centrally held contingencies in respect of pay and price increases.
- 3.13. At this stage of the year 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 which have not been used, together with other sums set aside for income risk and interest rate risk. In total, these items amount to £8.2 million which can be declared as savings against the revised budget.
- 3.14. Taking this £8.2 million, together with the £7.95 million available from capital financing and interest on balances gives a grand total of £16.15 million that can be used on a one-off basis to support future capital investment, which is discussed in later sections of this report.
- 3.15. The available resources, must be set in the context of the size and complexity of the County Council's gross budget and the efficiency and change programme that has been implemented in recent years. Contingency sums are set aside for a variety of purposes and it is only now at this late stage in the year that these resources can be deployed for other purposes with greater certainty.

#### **4. Settlement**

- 4.1. The local government finance settlement is traditionally announced late in the calendar year and provides grant figures for individual authorities. The overall methodology used by the Government for distributing grant amongst the different tiers of local government is incredibly complex and ever changing. Previous changes to methodology mean that Hampshire should have suffered greater grant losses in the past, which have been dampened by the use of 'floors and ceilings' in the calculations, which limit excessive gains and losses for individual authorities. Hampshire is a 'floor' authority and grant levels would be even lower without this mechanism in place.
- 4.2. Whilst this does provide some protection from the full loss of grant that would otherwise be experienced, it does also mean that Hampshire will always receive the maximum level of grant loss in future settlements. The cumulative impact of this means that Hampshire has one of the lowest levels of grant funding per head of upper tier authorities, as shown in Appendix 2.

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- 4.3. Appendix 3 provides comparative information about council tax levels currently in place and also shows that Hampshire has the fourth lowest council tax in the country. These two issues combined mean that Hampshire is one of the lowest funded County Councils in the country and yet continues to provide high quality services, whilst making further efficiencies and improvements in response to the Government's grant reduction programme.
- 4.4. The final Local Government finance settlement in respect of 2014/15 is still awaited at the time of the publication of this report. Overall, the provisional settlement funding has decreased by 7.6% from 2013/14 to around £248 million. This is split between the new funding streams as follows:

	<b>£M</b>
Retained Business Rates	42.7
Business Rate Top up from Government	64.4
Revenue Support Grant	140.9
	<u>248.0</u>

- 4.5. The key features of the provisional settlement for 2014/15 were as follows:
- A reduction of 10.6% in upper tier funding nationally (equivalent to formula funding plus council tax support funding) which includes a further 1% arising from the cut in Government Departmental Expenditure Limits (DELs)
  - A reduction in the Early Intervention Grant of £2.4 million
  - An small increase in the Learning Disability Grant, which will be passported to Adult Services
  - The inclusion of the 2013/14 council tax freeze grant in the settlement funding
  - The announcement that New Homes Bonus Funding will be retained in its current form (worth around £6 million in 2014/15), which will be used for investment in the highways infrastructure as explained in Section 12.
- 4.6. The provisional settlement does not as yet contain any compensation for the 2% cap in business rate income, which will be paid in a separate grant. Details of the compensation have yet to be announced.
- 4.7. The overall funding regime for local government is significantly more complicated following the implementation of Business Rates Retention and local Council Tax Support Schemes. In simple terms however, the December announcement (after adjusting for movements of grants in and out of the main settlement) is a reduction of £1.4M against the forecasts

reported in December last year, mainly as a result of the further reductions in DELs.

- 4.8. The Chancellor had also announced that there was to be a fourth year of council tax freeze grant to be made available, equivalent to a 1% increase in council tax (£5.3M). This grant will be payable for two years and beyond.
- 4.9. Of more significance was the announcement that Council Tax Freeze Grant relating to the years 2011/12, 2013/14, 2014/15 and 2015/16 would be 'base lined' into future funding settlements. For Hampshire County Council this would be equivalent to £29.1 million of additional funding (assuming a council tax freeze in 2015/16) that it was assumed would drop out in 2016/17. This would clearly significantly help the Council's financial position in future years if the full amount of funding was base lined.
- 4.10. There has been much speculation within the public sector as to exactly what this announcement means and the extent to which the base lining will fully compensate Councils for the loss of grant. A recent teleconference held by Brandon Lewis MP confirmed that this funding was in addition to the existing DCLG Departmental Expenditure Limit and therefore the expectation is that this will come through as additional grant funding to replace the £29.1 million due to drop out in 2016/17.

## 5. Service Cash Limits 2014/15

- 5.1. In December 2013 Cabinet considered a budget update report which set provisional cash limit guidelines for Departments for 2014/15. Appendix 4 sets out those cash limits and provides information on adjustments that have been made since this time.
- 5.2. Overall, cash limits have increased by £2.9 million, compared to the cash limits approved in December, the main reasons for which are shown in the table below:

	<b>£M</b>
Increase in Dedicated Schools Grant	5.2
Increase in Pupil Premium	2.6
Decrease in Supporting Troubled Families Grant	(1.0)
Technical adjustment relating to funding for schools capital repairs	(4.3)
Other net changes	0.4
<b>Total</b>	<b>2.9</b>

- 5.3. In a similar way to the changes for 2013/14 very few of these amendments have a bottom-line impact on the revenue budget as they represent

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transfers between Departments or as a result of changes in grants, contingencies, in earmarked reserves or revenue contributions to capital.

- 5.4. The savings proposals presented to individual Executive Members were divided into 'Firm' proposals i.e. those that can be fully taken into account as part of the budget setting process for 2014/15 and 'Other' proposals that will be developed and implemented during 2014/15 in order to take effect from April 2015 in order to meet the savings targets set for 2015/16 as part of the Transforming the Council to 2015 Programme.
- 5.5. Since no formal savings targets were set for 2014/15, any proposals that have an impact in that financial year will reduce Departmental spending below their cash limit, with the balance being available to Departments as a contribution to their cost of change reserves in line with the current Council policy.
- 5.6. The exceptions to this are Adult Services who were required to make £3.018 million of savings that had slipped from previous years and Children's Services who were required to make £6.308 million of savings to offset the loss of Early Intervention Grant during 2013/14, for which cash flow funding was made available to give them sufficient time to properly draw up and implement the necessary savings.
- 5.7. Taking these items into account, the overall Departmental budgets which are set out in Appendix 8 and discussed in more detail in Section 7 are compared to the revised cash limits in the following table:

Department	Cash Limit	Net Budget	Variance (Under) / Over
	£'000	£'000	£'000
Adults	332,134	324,571	(7,563)
Children's Services	887,982	887,982	-
Economy, Transport and Environment	113,794	109,732	(4,062)
Policy and Resources	132,806	127,212	(5,594)
<b>Total</b>	<b>1,466,716</b>	<b>1,449,497</b>	<b>(17,219)</b>

## 6. Savings Proposals

- 6.1. The Medium Term Financial Strategy assumes that savings in the order of £93M will be required to help balance the budget by 2015/16. Departmental targets equivalent to 12% of budget, together with other savings expected from areas such as inflation savings and additional investment income were set as part of the 'Transforming the Council to 2015' programme.

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- 6.2. Corporate workstreams have been developed that will deliver the bulk of the savings by 2015/16. Each Department retains responsibility for achieving its Departmental savings target and has been developing further proposals alongside the Corporate Workstreams to ensure the 12% target can be met.
- 6.3. As explained in Section 5, savings proposals have been divided into two categories, namely, 'Firm' proposals i.e. those that can be fully taken into account as part of the budget setting process for 2014/15 and 'Other' proposals that will be developed and implemented during 2014/15 in order to take effect from April 2015.
- 6.4. Details of the 'Firm' proposals are summarised by Corporate Workstream in Appendix 5 and are set out in detail in Appendix 6. These savings have been fully reflected in the 2014/15 Departmental budgets as set out in Appendix 8.
- 6.5. The 'Other' savings proposal, by their nature, are transformational or are still under development. In many cases they may also be subject to public consultation before they can be fully implemented.
- 6.6. Given the developmental and transformational nature of these savings, most of which are at an early stage, a summary of key theme areas for each Department has been provided at Appendix 7 and show a total range of savings of £45 million to £54 million. These proposals will be the subject of detailed monthly monitoring.
- 6.7. Cabinet are considering the savings proposals as part of this report and is recommending that the County Council approve cash limits as part of the overall Budget and Policy Framework for both 2014/15 and 2015/16. Both sets of savings proposals will continue to be developed, refined and then implemented mainly during 2014/15, and possibly into 2015/16 subject to all of the necessary and appropriate consultation, scrutiny and Executive decision making that may be required, which will be dependent on the nature of the individual proposals themselves.
- 6.8. Given the strategic importance of ensuring that these savings are achieved, the Chief Executive intends to implement more vigorous detailed monitoring of performance against the savings targets, which will include the timescales and process for consultation, procurement and Executive Member decision making where appropriate. This monitoring will continue throughout 2014/15 and 2015/16 and updates will be provided to Cabinet in a similar way to previous years.
- 6.9. The proposals for both 'Firm' and 'Other' savings contained in Appendices 6 and 7 have already been considered by Executive Members at their decision-making days during January as part of the budget setting process and consultation on the proposals has either already been or will be carried out with stakeholders and interested parties and each of the Council's Select Committees have had the opportunity to review and comment on the budget proposals which would have been taken into account in the decision making meeting of the relevant Executive Member.

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- 6.10. Further public or staff consultation where necessary will be undertaken for some proposals and in some cases this will need to be formally reported back to an Executive Member for a decision. Should the consultation exercise change the financial impact of the proposal then the Department will need to manage the cash flow impact of any shortfall whilst an alternative savings strategy is put in place.
- 6.11. Departments have carried out risk assessments for the proposals and any key risks or issues are contained in the narrative to the proposals set out in the Appendix. In addition Departments have carried out a screening for equality impact on all budget decisions. This work was supported by trained equalities leads and service managers and was approved by Departmental management teams.
- 6.12. This identified that there will be an impact on staff and services as a result of some of the budget proposals. Where potential negative or adverse impact has been identified, we have or will put in place proportionate and relevant responses to mitigate this.
- 6.13. On the whole however, the proposals contained in this paper lend themselves to improved, modernised or transformed services, or to different models of delivery and where possible, provide greater choice for, and greater involvement of, service users.

## **7. Service Budgets 2014/15**

- 7.1. As explained in Section 5 Departments have been set cash limit guidelines for 2014/15 which are based on the adjusted 2013/14 budgets. The underspends against cash limits reported in Section 5 together with any further savings during the year can be transferred to Departmental reserves and used to fund any future costs of change.
- 7.2. Appendix 8 provides a summary for each Department of the main services under their control and shows the original budget for 2013/14, the revised budget for 2013/14 and the proposed budget for 2014/15. The overall net cash limited budgets for all Departments remain in line with the positions reported to Executive Members at their Decision Day meetings, although the 2014/15 budget figures for Policy and Resources now reflect the removal of budgets for the 'firm' savings proposals consistent with the presentation for other Departments.
- 7.3. Fees and charges have been raised where there is scope to do so in policy and economic terms, and the inflation allocation has been calculated on the basis that charges are increased in line with the allowance for inflation on expenditure, taking into account areas where it is not necessarily possible to increase charges due to the nature of the arrangements with the clients that we do business with (for example where a fixed income contribution has been agreed in the past). Details of income reviews and charges were set out in the budget reports for Executive Members.

## 8. Workforce Implications

- 8.1. The savings proposals contained in Appendix 6 assume an estimated 201.5 FTE reduction in the workforce for 2014/15, rising to 277.3 in a full year, although the actual figures will be subject to the various restructuring and staff consultation processes which will be undertaken during the year.
- 8.2. The management of staffing reductions has previously and will continue to be done in a planned and controlled way by the use of a recruitment freeze, redeployment of staff where possible and a successful voluntary redundancy scheme, which has been used to effectively and sensitively manage staff reductions at what is a very difficult time.
- 8.3. Appendix 9 provides a summary of the workforce changes that are expected to happen in 2014/15 and take account not only of the anticipated reduction in posts as a result of the savings proposals but also other changes and transfers that will impact on Departments during the year, this includes changes arising from the full year impact of the 2013/14 budget. A high-level explanation of the main changes within the Departments is also provided within the Appendix.
- 8.4. The summary of workforce changes contained in Appendix 9 is a snapshot at the time budget approvals are given. As Departments work through their 2014/15 savings proposals, the actual impact on jobs will be updated and reported to Cabinet in the normal way. The numbers in the Appendix exclude the impact of the capital programme and joint working, the latter of which is expected to add around 200 FTEs during this calendar year.

## 9. 2014/15 Overall Budget Proposals

- 9.1. Whilst service budgets make up the vast majority of the overall 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.
- 9.2. Appendix 10 sets out a summary of the overall revenue account starting with the cash limited expenditure for Departments that have been discussed above. The following paragraphs outline the other items that make up the overall revenue account and provide explanations for any significant variances compared to the 2013/14 budget.
- 9.3. **Interest on Balances and Capital Financing Costs** – The net reduction of just under £3.2 million is made up of increased investment income of £5 million which reflects historic levels of investment income (which have previously not been taken into account in the budget), together with a revised approach for dealing with the investment portfolio which is set out in more detail in section 5 of Appendix 14.
- 9.4. This increased investment income has been partially offset by increased capital financing costs of £1.815 million, reflecting the funding required for the street lighting PFI contract, the capital programme and changes in the loan portfolio.

- 9.5. **Pension Costs** - Under previous accounting rules, technical adjustments in respect of IAS 19 were made within the budget for the treatment of pension costs, however, these did not have an impact on the bottom line of the revenue account. Following a change in the way that past pension contributions are treated, over £13 million of pension costs have been moved out of Departments and are included in the central revenue account.
- 9.6. Following the triennial review in 2013 it has been confirmed that future increases in the deficit contribution amount will be capped at 8% per annum for 5 years starting in 2015/16, compared to the previous recovery plan assumption of 12% per annum. These additional costs have already been taken into account in MTFS projections.
- 9.7. **Revenue Contributions to Capital Outlay (RCCO)** - Each year, revenue contributions are made to help fund the capital programme. The increase in RCCO for 2014/15 is mainly due to the change in the funding arrangements for increased highways maintenance works and specific capital investment priorities as outlined in section 12 below.
- 9.8. **Contingencies** - The budget for contingencies has decreased by around £8.9 million over the 2013/14 original budget. This mainly reflects the transfer of funding to Departmental cash limits in respect of previous budget decisions (for example the full year impact of early years help and additional safeguarding resources).
- 9.9. In addition, as part of the 'Housekeeping' Corporate Workstream a review was undertaken of inflation management which resulted in inflation savings on certain categories of expenditure. The £1.8 million saving from this review is reflected as a saving within the inflation allowances contained within the contingency budget.
- 9.10. Contingency provisions in respect of key risk items such as Extra-Care transition costs and increased demand for social care services have been retained in the base budget and these provisions represent the recommendation by the Director of Corporate Resources of a prudent approach to budgeting given the potential pressures the County Council faces. In addition to these contingencies, the County Council has access to significant reserves as part of an on-going strategy to for the management of the County Council's financial resources over the medium term.
- 9.11. The contingency budget has also been adjusted to take account of a number of strategically important issues that will impact on the Council over the medium term. The Chief Executive is currently considering the methodology and capacity required to ensure that the implementation of the Better Care Fund is successful across Hampshire both in terms of continuing to provide appropriate health care resources, whilst also achieving the £20 million financial savings required for investment in Adult Social Care, which is identified as the single biggest risk in the balancing of the 2015/16 budget.
- 9.12. In addition, the County Council also needs to look beyond the current Transforming the Council to 2015 programme and start to prepare for the next financial challenge to 2017/18. It is important that the County Council

has the continued capacity and resources to deliver the required savings through further transformational change and the commissioning of a second Private Sector Partner (PSP) will be pivotal in ensuring that we maintain the access to dedicated, specialist, skilled individuals who will drive and challenge the County Council to achieve this.

- 9.13. This has been a key element of the Transforming the Council to 2015 Programme and has contributed directly and indirectly to proposals in the areas of external spend, the Integrated Business Centre and sold services which have generated 'firm' savings in the order of £20 million in a full year.
- 9.14. **Dedicated Schools Grant** - The reduction in this budget reflects the conversion of a number of schools to academies, the grant for which now goes directly to those organisations.
- 9.15. **Specific Grants** - This income budget has increased by £28.7 million, £19.1 million of which relates to the increase in the pupil premium mainly as a result of the increase in the per pupil amount for looked after children from £900 to £1,900, which is also effective from the first day of care rather than after six months.
- 9.16. Other grant increases relate to PE and Sports (£3.8 million) and the expected increase in the Public Health grant of £3.675 million.
- 9.17. **Council Tax Freeze Grant** – Although it appears that there has been no movement in this grant budget, this masks the fact that £5.3 million received for the 2013/14 council tax freeze has now moved directly into formula grant, but has been replaced by additional grant of the same value arising from the recommendation to County Council in this report that council tax be frozen for 2014/15.
- 9.18. **Coroners Service** – Although the Coroners Service is reported as part of the Policy and Resources budget, it does not form part of the cash limit, as the County Council has no control over the level of spending within this service. It is therefore shown as part of the overall revenue account and it is anticipated that based on recent years spending patterns that the funding will remain the same for 2014/15. Spending is of course dependent on the number of cases arising during the year and any spend in excess of this amount will be met from contingencies.
- 9.19. **Earmarked Reserves** - Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account. However, the significant additional draw from earmarked reserves in 2014/15 reflects the recommendation to use £25.1 million of the Grant Equalisation Reserve to balance the budget for 2014/15 in line with the Medium Term Financial Strategy approved last February.
- 9.20. 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 grant equalisation reserve which is utilised over a number of years in order to dampen the

impact of grant reductions and for 2014/15 to provide the time and capacity to develop savings for implementation as part of the Transforming the Council to 2015 Programme.

9.21. A comprehensive Reserves Strategy was presented as part of the MTFS update to Cabinet in July 2013 and set out the purpose and intended use of earmarked reserves that the Council holds. This has been repeated for information at Appendix 11. It is worth re-iterating that of the total reserves available, only 19.1% were truly available. Of this amount, nearly a third will be used to balance the budget in 2014/15 in order to sensibly give the time and capacity to deliver savings as part of the Transforming the Council to 2015 Programme.

9.22. The County Council's approach to reserves as a key strand of delivering its Medium Term Financial Strategy has been in place for a number of years and has been very successful. As part of the annual audit of accounts, the External Auditors are required to give a view on the arrangements in place for value for money and to assess the Council's financial resilience during the grant reduction programme. In providing an opinion for 2012/13 the External Auditor commented :

*“Looking forward, the level of financial challenge is increasing with significant additional savings required in the medium term. The Council has arrangements in place to develop sustainable solutions to deliver the required savings and a sound level of reserves to mitigate changes in the financial environment and to facilitate the continued implementation of the transformation agenda.”*

9.23. **Contribution to General Balances** –The 2014/15 budget assumes a net draw from general balances of £7.1 million, representing the use of unspent contingencies carried forward from 2012/13 in order to provide adequate contingency levels within the budget up until the 2014/15 financial year. This would leave a General Fund balance of £20.6 million by the end of 2014/15.

9.24. Appendix 12 represents the Director of Corporate Resources view of the overall budget and the adequacy of reserves which must be reported on as part of the main budget proposals in accordance with Section 25 of the Local Government Act 2003. In particular, it considers risks within the budget and in the MTFS going forward and sets this in the context of the recommended contingencies and balances set out in this report.

## **10. Budget and Council Tax Requirement 2014/15**

10.1. Although this report recommends taking the council tax freeze grant for 2014/15, there are still other changes within the council tax calculation that can have an impact on the budget. The County Council is notified by Hampshire Districts, of the estimated level of collection fund surplus or deficits that needs to be taken into account in setting the council tax for 2014/15. For this year, 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.

- 10.2. For 2014/15 a net council tax collection fund surplus of just under £6.5 million is anticipated which is £5.0 million above the level assumed in the original forecast for the year. This has mainly arisen due to general increases in the council tax base during the year, but also as a result of local Council Tax Support Schemes (CTSS) which replaced council tax benefit from April 2014. The impact of these schemes was difficult to predict in terms of changes in council tax base and collection rates and indications are that the reductions are nowhere near as great as originally anticipated.
- 10.3. These gains have however been offset by deficits within the collection of business rates. Firstly it is predicted that there will be losses in the current year compared to what the County Council had forecast of around £1.9M. This is mainly as a result of the fact that Districts are having to accrue in 2013/14 for potential losses arising from all backdated appeals, whereas under the old regime these would have only been reflected at the point the appeal was decided. This means there is a one off hit against income collection during 2013/14 and is giving rise to deficits in virtually all Districts in Hampshire.
- 10.4. Secondly, Districts have provided estimates of what Business Rate income they expect to receive for 2014/15, based on their experience during the current financial year. Latest estimates show that income will be £1.425 million lower than assumed in the budget forecast for next year. However, details of the compensation grant that Hampshire is due to receive following the lower national increase in business rates have yet to be notified and will therefore increase resources in the final budget.
- 10.5. In addition, paragraph 4.7 outlined the fact that following the provisional settlement in December last year, the County Council has received a further reduction in Revenue Support Grant of £1.4 million, which feeds into the overall Council Tax collection.
- 10.6. The financial update report presented to Cabinet in December 2013, forecast that £25.4 million would need to be drawn from the Grant Equalisation Reserve to balance the budget in 2014/15. Taking all of the items in this section into account means that an additional £300,000 is available to support the revenue expenditure of the County Council with no increase in the council tax level for 2014/15. This will have the effect of reducing the required draw from the Grant Equalisation Reserve to balance the budget for the year from £25.4 million to £25.1 million.
- 10.7. Local authorities are required to report a formal council tax requirement as part of the budget setting process and the recommendations to Council later in this report show that the Council Tax Requirement for the year is £497.038 million.

**11. 2015/16 Budget**

- 11.1. The Government has announced provisional grant figures for 2015/16 alongside the 2014/15 settlement and the reductions for Hampshire are greater than previously announced. Taking these changes together with more detailed work on the 2014/15 and 2015/16 budgets gives an expected deficit in the budget of around £100 million by 2015/16.
- 11.2. The Transforming the Council to 2015 Programme was designed to meet the projected budget gap at the time of just under £93.2 million which was made up as follows :

	<b>£'000</b>
Investment and Inflation Management	5,000
Corporate Services 4% Release	1,500
12% Departmental Targets	85,161
Business Strategy Opportunities	<u>1,500</u>
<b>Total</b>	<b><u>93,161</u></b>

- 11.3. Since this time, it is estimated that the Investment and Inflation Management workstream will deliver savings of £10.1 million over the two years, mainly as a result of an alternative approach to investment management, which is set out in more detail in the Treasury Management Strategy attached at Appendix 14.
- 11.4. This will take the total savings up to £98.3 million and would require a small draw from the Grant Equalisation Reserve to balance the budget, albeit that the final settlement and other figures in respect of collection funds and business rates will not be known for some time yet.
- 11.5. As explained in Section 6, savings proposals are being recommended by Cabinet to full County Council for approval for both the 2014/15 and 2015/16 financial years to reflect the fact that appropriate authority needs to be given to pursue the proposals through the correct processes before they can be fully implemented. The lead in time for some of these savings, given their transformational nature is such that authority is required now to deliver savings that come into affect in April 2015.
- 11.6. Whilst the ranges set out in Appendix 7 give some flexibility for delivery against the overall savings targets, Departments are required to come within their overall cash limits for that year. The following table provides provisional cash limits for 2015/16 within which Departments are required to develop their budgets :

	<b>Provisional Cash Limit £'000</b>
Adult Services	294,486
Children's - Schools	725,617
Children's - Non Schools	143,055

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Environment and Transport	100,600
Policy and Resources	116,546
	<u>1,380,304</u>

- 11.7. Any changes to the cash limits will be updated during 2014/15 to take account of inflation and other base changes and these will be reported to Cabinet in due course.

## 12. Capital Investment Priorities

- 12.1. The Capital Programme represents the most significant financial contribution made by local government to the public service infrastructure of the County. Its economic benefits are significant in terms of providing future capacity for public services and the benefits that flow from the jobs and economic activity it creates.
- 12.2. Following the approval of the Capital Programme presented elsewhere on today's agenda, it is proposed to :
- a) Review future levels of capital receipts
  - b) Consider opportunities to accelerate implementation in the programme (e.g. Extra-Care Provision)
  - c) Examine the potential for joining up and collaborating with other organisations and their capital spending (e.g. LEPs) for maximum impact
  - d) Explore the feasibility for opportunities to fund and support major development in Hampshire (e.g. Whitehill Borden)
  - e) Evaluate the risks and benefits of investing in or borrowing on behalf of other organisations in order to pump prime or lever in further capital investment into the County, including the assessment of counterparty risks and other appropriate criteria in line with the Treasury Management Strategy.
- 12.3. Turning to the existing capital programme, a major injection of capital investment was added to the programme as part of the 2012/13 budget process and activity since then has been focussed on delivering a programme in excess of £0.5 billion over a three year timeframe.
- 12.4. Additional schemes totalling £26.5 million were added as part of the 2013/14 budget which targeted investment in key strategic areas such as extension of super fast broadband and the energy programme.
- 12.5. For the 2014/15 budget it is proposed once again to add additional funding for specific capital investment priorities that have been developed since the last time the programme was updated.
- 12.6. Appendix 13 details the capital schemes that Cabinet is recommending to County Council for approval and these total £33.1 million. The appendix

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also provides a narrative for each of the schemes and their purpose. Details of the Investing in Hampshire capital provision will be reported to the Executive Member for Policy and Resources later in the year, which will include details of the application process and the assessment criteria that will be applied in approving capital grants.

- 12.7. The sources of funding for these schemes is shown in the table below and utilises all of the £16.15 million underspend in the 2013/14 revenue budget that is explained in Section 3.

	<b>£'000</b>
P&R 'Other' Reserves	1,750
Unallocated Capital Payments Reserve	3,626
New Homes Bonus - Unallocated 2013/14 provision	3,905
Disposal of site fees in P&R (carried forward)	1,182
Advantageous Land Purchase in P&R (carried forward)	1,067
Capital Receipts	5,374
2013/14 Revenue Underspend	<u>16,150</u>
	<b><u>33,054</u></b>

### Highways Maintenance

- 12.8. In addition to these specific scheme additions, Officers have been reviewing the arrangements in respect of Operation Resilience, which since 2011, has provided an additional £10M per year through prudential borrowing to fund this enhanced planned maintenance programme. It is worth considering at this point, that the total length of roads in Hampshire that need maintaining amount to 5,500 miles, equivalent to travelling from Lands End to John O'Groats and back again, three and a half times.
- 12.9. The total capital investment required to bring the entire network up to a good standard runs into billions of pounds, without access to this level of available funding, the County Council must strike a balance between planned and reactive maintenance across the entire network. The funding arrangement for Operation Resilience was therefore established on the premise that planned investment in the durability of the highways network would help to reduce the call on the maintenance budget in subsequent years, and it was therefore affordable to transfer an amount to revenue from the locally resourced programme to cover the cost of the associated borrowing while retaining a similar standard of highway maintenance.

The programme has been very successful in enabling the County Council to undertake significant additional planned maintenance activities which have improved resilience, but in the last eighteen months the severe weather, and in particular the combination of very wet weather followed by freezing conditions, has significantly impaired the condition of the network. This has undermined the original rationale for reducing the locally resourced programme. It is now considered necessary to reconsider this approach, and a new investment programme needs to be developed.

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- 12.10. Section 4 outlined the fact that the Local Government Settlement announcement in December confirmed that New Homes Bonus funding would continue to be retained in its current form, following a Government consultation that proposed removing part or all of this funding from County Councils.
- 12.11. This is welcome news and means that this funding can now be used for the purposes for which it was intended, namely to support infrastructure investment across the County.
- 12.12. It is proposed to use the New Homes Bonus (NHB) funding of £6 million per year together with the existing locally resourced programme to put in place a £12 million per annum investment in planned highways maintenance for the next three years. This will be achieved by using £5 million of the NHB as 'cash' funding and the balance of £1 million to fund prudential borrowing to bring the total annual programme up to £12 million.
- 12.13. This significant investment is vital to support restoration of the highways infrastructure of the County and will allow the County Council to maintain its approach of a planned programme of structural repairs and maintenance, based on asset management principles, which ensure funding is directed to the most effective treatments to improve the strength and integrity of roads, to better withstand the impacts of bad weather and increasing heavier traffic.
- 12.14. The annual programme, based on a 'worst-first' approach, typically enables long term repair and improvements at around 300 sites, with approaching 100 miles of roads being re-surfaced, roughly 10 miles of footways improved and drainage improvements at around 50 sites on average. The additional funding will also ensure that the recovery of highway condition through pothole repairs and local patching can also be accelerated, which will be very important after the damage caused by last years freeze and the exceptionally wet weather in December and January.
- 12.15. These schemes and the associated funding have already been included in the capital programme update presented in a separate report on this agenda, subject to full County Council approval on 20 February.

**13. Treasury Management Strategy and Investment Strategy for 2014/15**

- 13.1. The County Council is required to adopt a treasury management strategy and an annual investment strategy for 2014/15 and these are set out in Appendix 14 for approval.
- 13.2. The strategy has been reviewed in light of the continuing turmoil in the world economy and the revised borrowing strategy reflects the intention of taking a more active approach to managing the portfolio of existing borrowing.

- 13.3. It also includes changes to the approach to investment management, which takes a longer view and a wider diversification of the portfolio in order to increase net yields, whilst at the same time minimising risk and protecting capital in line with the key elements of the investment strategy.

The revised approach to investments is expected to yield a total income of £7.5 million per annum to the Authority by the 2015/16 financial year, but at the moment only £6.5 million of this has been taken into account in the forward forecasts for the budget. The balance of £1.0 million will be used to create an investment risk reserve to guard against potential investment losses in the future.

#### **14. Prudential Indicators**

- 14.1. The prudential code that applies to local authorities ensures that:
- Capital programmes are affordable in revenue terms
  - External borrowing and other long-term liabilities are within prudent and sustainable levels
  - Treasury management decisions are taken in line with professional good practice
- 14.2. Some of the limits have been altered to reflect the revised treasury management and investment strategy although this does not expose the County Council to any greater levels of risk.
- 14.3. Appendix 14 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 2014/15.

#### **15. Consultation**

- 15.1. A variety of forms and methods have been utilised to seek the views of the public, businesses, employees and the unions on the budget and savings programme, including an on line survey.
- 15.2. A summary of the approach and the key issues arising from the consultation can be found at Appendix 15 to the report.

#### **16. Recommendations**

The following decisions are sought based upon the recommendations from the Leader and Cabinet to the County Council on the 2014/15 budget and council tax, that:

- 16.1. The revised budget for 2013/14 contained in Appendix 1 be approved.
- 16.2. The updated cash limits for Departments for 2014/15 as set out in Appendix 4 and paragraph 11.6 for 2015/16 are approved
- 16.3. The savings proposals for 2014/15 and 2015/16 as set out in Appendix 6 and Appendix 7 are approved.

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- 16.4. The proposed service budgets for 2014/15 (which include the implications of the annual review of charges) as set out in Appendix 8 are approved.
- 16.5. The workforce implications of changes to the budget and the savings proposals are set out in Appendix 9 are approved
- 16.6. The overall budget for the County Council for 2014/15 as set out in Appendix 10 be approved.
- 16.7. The reserves strategy as set out in Appendix 11 is noted.
- 16.8. The capital investment priorities as set out in Appendix 13 are approved and delegated authority be given to the Executive Member for Policy and Resources to decide at his formal decision days the allocation of funding to strategic infrastructure schemes and the process and criteria for allocating capital grants under the Investing in Hampshire initiative.
- 16.9. Estimated general balances of just under £20.6 million at 31 March 2015, be approved (paragraph 9.23).
- 16.10. Delegated authority be given to the Director of Corporate Resources, following consultation with the Leader and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by District Councils or any late changes in the final Local Government finance settlement.
- 16.11. **It be a recommendation to Council that**
  - a) The Chief Financial Officer's report under Section 25 of the Local Government Act 2003 be taken into account when the Council determines the budget and precept for 2014/15 (Appendix 12)
  - b) The Revised Budget for 2013/14 set out in Appendix 1 be approved.
  - c) The Revenue Budget for 2014/15 (as set out in appendices 8 and 10) be approved.
  - d) The provisional cash limits for 2015/16 set out in paragraph 11.6 be approved
  - e) The capital investment proposals set out in Appendix 13 be approved
  - f) The total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2014, be £748.018 million.
  - g) The **council tax requirement** for the County Council for the year beginning 1 April 2014, be £497.038 million
  - h) The County Council's band D council tax for the year beginning 1 April 2014 be £1,037.88 as in 2013/14
  - i) The County Council's council tax for the year beginning 1 April 2014 for properties in each tax band be :

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	£
Band A	691.92
Band B	807.24
Band C	922.56
Band D	1,037.88
Band E	1,268.52
Band F	1,499.16
Band G	1,729.80
Band H	2075.76

- j)** Precepts be issued totalling £497.038 million on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	60,797.30
East Hampshire	46,802.77
Eastleigh	41,934.45
Fareham	40,974.40
Gosport	24,794.10
Hart	37,544.47
Havant	38,002.43
New Forest	68,581.20
Rushmoor	29,540.17
Test Valley	44,164.00
Winchester	45,761.97

- k)** The treasury management and annual investment strategies, prudential and financial health indicators for 2014/15 be approved, in accordance with the recommendations in Appendix 14.

**RECOMMENDATIONS TO COUNCIL****Council is recommended to approve:**

- a) The Chief Financial Officer's report under Section 25 of the Local Government Act 2003 and take this into account when determining the budget and precept for 2014/15 (Appendix 12)
- b) The Revised Budget for 2013/14 set out in Appendix 1.
- c) The Revenue Budget for 2014/15 (as set out in appendices 8 and 10)
- d) The provisional cash limits for 2015/16 as set out in paragraph 11.6
- e) The capital investment proposals as set out in Appendix 13
- f) That the total **budget requirement** for the general expenses of the County Council for the year beginning 1 April 2014, be £748.018 million.
- g) That the **council tax requirement** for the County Council for the year beginning 1 April 2014, be £497.038 million
- h) That the County Council's band D council tax for the year beginning 1 April 2014 be £1,037.88 as in 2013/14
- i) The County Council's council tax for the year beginning 1 April 2014 for properties in each tax band be:

	£
Band A	691.92
Band B	807.24
Band C	922.56
Band D	1,037.88
Band E	1,268.52
Band F	1,499.16
Band G	1,729.80
Band H	2,075.76

- j) Precepts be issued totalling £497.038 million on the billing authorities in Hampshire, requiring the payment in such

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instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authorities area as determined by them and as set out below:

Basingstoke and Deane	60,797.30
East Hampshire	46,802.77
Eastleigh	41,934.45
Fareham	40,974.40
Gosport	24,794.10
Hart	37,544.47
Havant	38,002.43
New Forest	68,581.20
Rushmoor	29,540.17
Test Valley	44,164.00
Winchester	45,761.97

- k)** The treasury management and annual investment strategies, prudential and financial health indicators for 2014/15, in accordance with the recommendations in Appendix 14.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	yes
<b>Maximising well-being:</b>	yes
<b>Enhancing our quality of place:</b>	yes

**Section 100 D - Local Government Act 1972 - background documents**

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

Document

Location

None

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. Departments have carried out a screening for equality impact on all budget decisions. This work was supported by trained equalities leads and service managers and was approved by Departmental management teams.
- 1.2. This identified that there will be an impact on staff and services as a result of some of the budget proposals. Where potential negative or adverse impact has been identified, we have put in place proportionate and relevant responses to mitigate this.
- 1.3. On the whole however, the proposals contained in this paper then themselves to improved, modernised or transformed services, or to different models of delivery and where possible, provide greater choice for, and greater involvement of, service users.

### **2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime although some of the savings proposals relate to services that have an indirect impact on crime and disorder and this issue will be taken into account, together with any necessary consultation in reviewing the proposals before any final decision is made

### **3. Climate Change:**

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

Many of the County Council's services and the way in which they are delivered can have an impact on our carbon footprint and energy consumption and these issues are taken into account when changes or alternative service delivery options are considered.

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

Many of the County Council's services and the way in which they are delivered can have an impact on climate change and these issues are taken into account when changes or alternative service delivery options are considered in order to reduce the longer term impacts of the Council's action in this regard.

## **REVENUE BUDGET – LIST OF APPENDICES**

1. Revised Budget 2013/14 (*page 29*)
2. Comparative Funding per Head – Graph (*page 31*)
3. Comparative Council Tax Levels – Graph (*page 32*)
4. Final Cash Limit Calculation 2014/15 (*page 33*)
5. Summary of 2014/15 Savings by Corporate Workstream and Department (*page 35 – landscape*)
6. ‘Firm’ Savings Proposals 2014/15 (*page 37 – landscape*)
7. ‘Other’ Savings proposals 2015/16 (*page 55 – landscape*)
8. Proposed Departmental Service Budgets 2014/15 (*page 65*)
9. Workforce Changes 2014/15 (*page 71*)
10. Proposed General Fund Revenue Budget 2014/15 (*page 73*)
11. Reserves Strategy (*page 75*)
12. CFO’s Section 25 Report (*page 83*)
13. Summary of Capital Investment Priorities (*page 89 - landscape*)
14. Treasury Management Strategy (*page 93*)
15. Summary of Budget Consultation (*page 117*)

*Page numbers for the Appendices are provided above, however, due to the requirement to show some of these in ‘landscape’ for formatting purposes (also highlighted above), please note that the page number appears on the right hand side, half way up the page for these Appendices rather than at the bottom.*

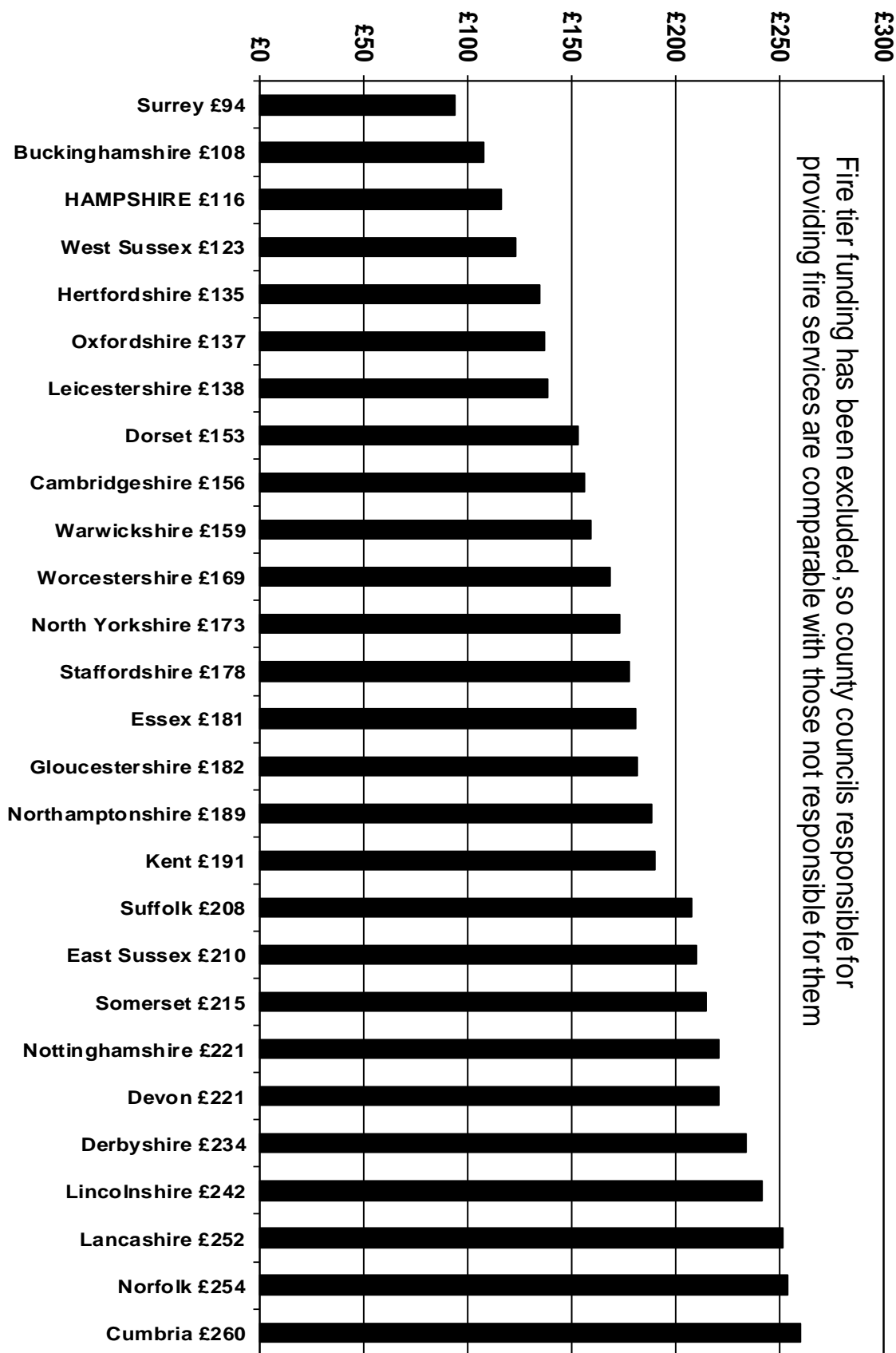
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## Revised Budget 2013/14

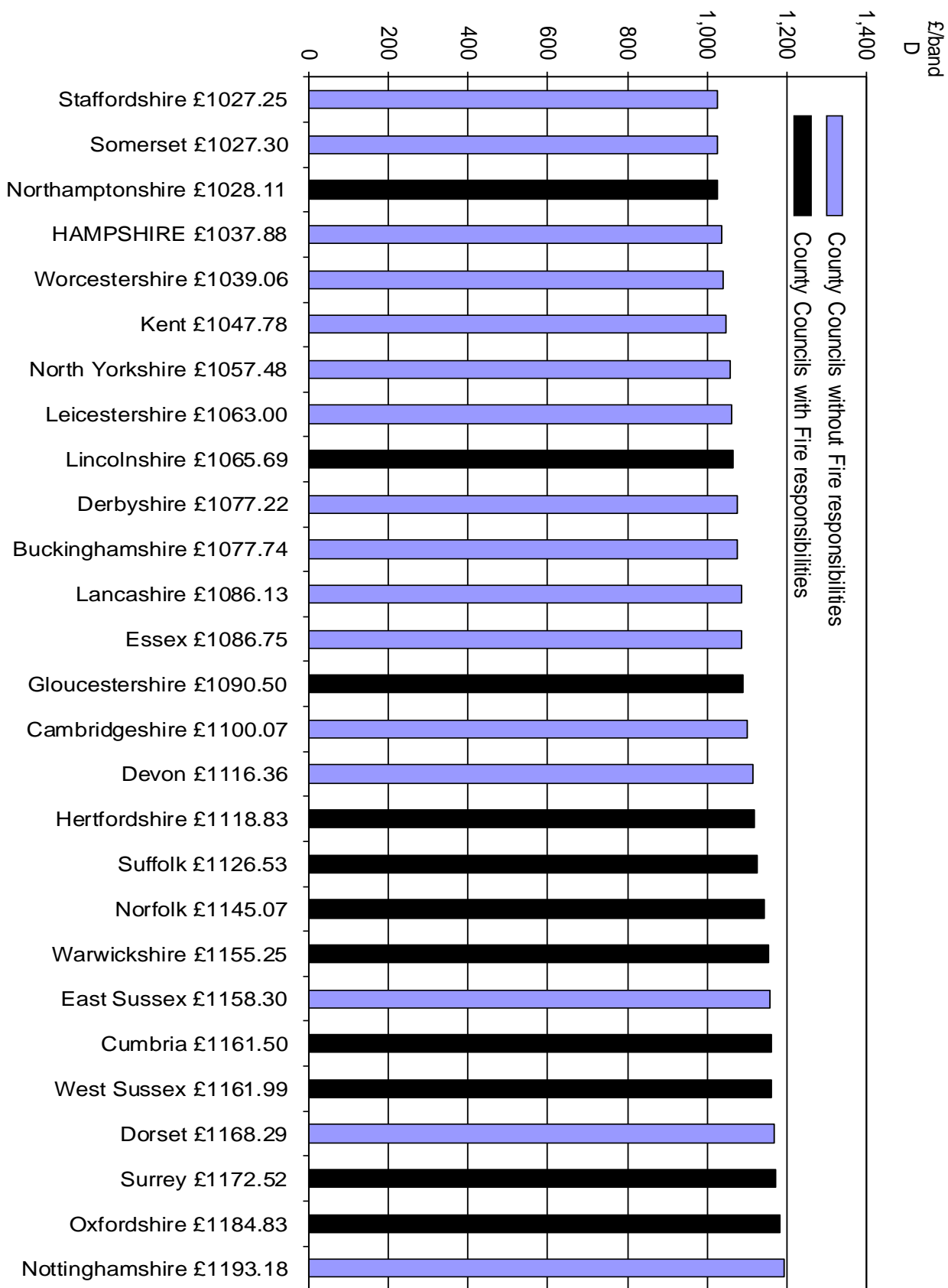
	Original Budget 2013/14 £'000	Adjustment £'000	Adjusted Budget 2013/14 £'000	Revised Budget 2013/14 £'000	Variance £'000
<b><u>Departmental Expenditure</u></b>					
Adults	313,732	9,612	323,344	323,344	0
Children's - Schools	706,338	7,505	713,843	713,843	0
Children's - Non schools	160,916	4,023	164,939	164,939	0
Economy, Transport and Environment Policy and Resources	109,946	2,447	112,393	112,393	0
	132,841	8	132,849	132,849	0
<b>TOTAL</b>	<b>1,423,773</b>	<b>23,595</b>	<b>1,447,368</b>	<b>1,447,368</b>	<b>0</b>
<b><u>Capital Financing Costs</u></b>					
Committee Capital Charges	115,378	(3,582)	111,796	111,796	0
Capital Charge Reversal	(115,887)	3,582	(112,305)	(112,305)	0
Interest on Balances	(750)	0	(750)	(3,950)	(3,200)
Capital Financing Costs	68,395	0	68,395	63,645	(4,750)
	<b>67,136</b>	<b>0</b>	<b>67,136</b>	<b>59,186</b>	<b>(7,950)</b>
<b><u>Pension and IAS 19 Costs</u></b>					
Pensions Interest and Return on Assets	18,150	0	18,150	18,150	0
Contribution from Pension Reserve	(27,321)	(13,151)	(40,472)	(40,472)	0
IAS 19 Departments	1,184	13,151	14,335	14,335	0
Non Distributed costs	21,329	0	21,329	21,329	0
Soft Loan	(10)	0	(10)	(10)	0
	<b>13,332</b>	<b>0</b>	<b>13,332</b>	<b>13,332</b>	<b>0</b>
<b><u>RCCO</u></b>					
Main Contribution	12,772	4,002	16,774	16,774	0
Funded by Dedicated Schools Grant (DSG)	6,959	2,487	9,446	9,446	0
RCCO From Reserves	3,887	2,253	6,140	6,140	0
	<b>23,618</b>	<b>8,742</b>	<b>32,360</b>	<b>32,360</b>	<b>0</b>
<b><u>Other Revenue Costs</u></b>					
Contingency	30,254	(11,921)	18,333	10,133	(8,200)
Dedicated Schools Grant	(695,538)	2,316	(693,222)	(693,222)	0
Specific Grants	(92,249)	(18,859)	(111,108)	(111,108)	0
Council Tax Freeze Grant	(5,300)	0	(5,300)	(5,300)	0
Flood Protection Levy	572	31	603	603	0
Coroners Expenditure	1,320	11	1,331	1,331	0
Business Units (Net Trading Position)	553	(425)	128	128	0
	<b>(760,388)</b>	<b>(28,847)</b>	<b>(789,235)</b>	<b>(797,435)</b>	<b>(8,200)</b>
<b>Net Revenue Budget</b>	<b>767,471</b>	<b>3,490</b>	<b>770,961</b>	<b>754,811</b>	<b>(16,150)</b>

	Original Budget 2013/14 £'000	Adjustment £'000	Adjusted Budget 2013/14 £'000	Revised Budget 2013/14 £'000	Variance £'000
<b>Net Revenue Budget (Repeated)</b>	<b>767,471</b>	<b>3,490</b>	<b>770,961</b>	<b>754,811</b>	<b>(16,150)</b>
<b><u>Contributions from Earmarked Reserves</u></b>					
Use of Earmarked Reserves	(108)	(1,662)	(1,770)	14,380	16,150
Trading Units Transfer to / (from) Reserves	(444)	425	(19)	(19)	0
RCCO From Reserves	(4,037)	(2,253)	(6,290)	(6,290)	0
	<b>(4,589)</b>	<b>(3,490)</b>	<b>(8,079)</b>	<b>8,071</b>	<b>16,150</b>
Draw from General Balances	(7,100)	0	(7,100)	(7,100)	0
<b>BUDGET REQUIREMENT</b>	<b>755,782</b>	<b>0</b>	<b>755,782</b>	<b>755,782</b>	<b>0</b>

**COMPARATIVE GRANT FUNDING PER HEAD – 2014/15**



**COMPARATIVE COUNCIL TAX LEVELS – 2013/14**



**Cash Limit Calculation 2014/15**

	<b>December Cash Limit Guideline</b>	<b>Changes</b>	<b>Final Cash Limit 2014/15</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Adult Services	332,134	-	332,134
Children's - Schools	717,916	7,701	725,617
Children's - Non Schools	161,866	499	162,365
Environment and Transport P&R (excluding Public Health)	113,794	-	113,794
Public Health	97,642	(5,264)	92,378
	40,428	-	40,428
	<b>1,463,780</b>	<b>2,936</b>	<b>1,466,716</b>

**Notes:**

The increase to the Schools budget reflects increases in the Dedicated Schools Grant and Pupil Premium.

The increase in the Non-Schools budget for Children's Services reflects additional spending on social care which will be funded from contingencies set aside for this purpose.

The decrease in the P&R cash limit reflects a decrease in the supporting troubled families budget following a decrease in grant and an increased contribution to RCCO following a technical change in the funding arrangements for schools capital repairs.

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**Summary of Savings by Corporate Workstream and Department – 14/15**

<b>Corp. W'stream Ref.</b>	<b>Description</b>	<b>Adult Services</b>	<b>Children's Services</b>	<b>ETE</b>	<b>CCBS</b>	<b>Corporate Services</b>	<b>P&amp;R Other</b>	<b>TOTAL</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
ES2	External Spend	6,897						6,897
ES3	External Spend		1,198					1,198
ES5	External Spend – Highways			1,990				1,990
ST1	Enabling and working with communities Organisational development & learning & development				81			81
ST2			60					60
SC1	Social Care	2,242						2,242
SC3	Children's Services sub-streams Senior management & other workforce savings		85	108	325	1,500		3,212
FE1				1,279				
FE2	Staff overheads and running costs	100	135	418		225		878
FE4	ICT cost reduction					415		415
FE5	Workstyle				1,400			1,400
FE6	Integrated Business Centre (IBC)					427		427
	<b>Sub-Total Corporate Workstreams</b>	<b>9,239</b>	<b>1,586</b>	<b>3,687</b>	<b>1,806</b>	<b>2,567</b>	<b>-</b>	<b>18,885</b>
	<b>Departmental</b>	<b>1,342</b>	<b>4,722</b>	<b>375</b>	<b>297</b>	<b>551</b>	<b>373</b>	<b>7,660</b>
	<b>Total Savings</b>	<b>10,581</b>	<b>6,308</b>	<b>4,062</b>	<b>2,103</b>	<b>3,118</b>	<b>373</b>	<b>26,545</b>

## Summary of Savings by Corporate Workstream and Department – Full Year

Corp. W'stream Ref.	Description	Adult Services	Children's Services	ETE	CCBS	Corporate Services	P&R Other	TOTAL
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
ES2	External Spend	10,070						10,070
ES3	External Spend		4,187					4,187
ES5	External Spend – Highways			3,762				3,762
ES6	External Spend – IT					625		625
ES7	External Spend Repair and Maintenance				237			237
ST1	Enabling and working with communities Organisational development & learning & development				244			244
ST2			80					80
SC1	Social Care	2,242						2,242
SC3	Children's Services sub-streams Senior management & other workforce savings		715					715
FE1			877	2,237	325	1,500		4,939
FE2	Staff overheads and running costs	100	385	700		475		1,660
FE4	ICT cost reduction					1,551		1,551
FE5	Workstyle				2,000			2,000
FE6	Integrated Business Centre (IBC)					1,297		1,297
	<b>Sub-Total Corporate Workstreams</b>	<b>12,412</b>	<b>6,244</b>	<b>6,699</b>	<b>2,806</b>	<b>5,448</b>	<b>-</b>	<b>33,609</b>
	<b>Departmental</b>	<b>1,342</b>	<b>5,971</b>	<b>575</b>	<b>528</b>	<b>719</b>	<b>476</b>	<b>9,611</b>
	<b>Total Savings</b>	<b>13,754</b>	<b>12,215</b>	<b>7,274</b>	<b>3,334</b>	<b>6,167</b>	<b>476</b>	<b>43,220</b>

## Summary of Savings – 2014/15

### Expenditure Reduction Options

Department / Committee	2014/15		Full Year	
	£000	FTE	£000	FTE
Adult Services	10,581	73.2	13,754	73.2
Children's Services	6,308	14.9	12,215	32.1
Economy, Transport & Environment	4,062	34.0	7,274	59.0
Policy and Resources	5,594	79.4	9,977	113.0
<b>Total Savings Proposals</b>	<b>26,545</b>	<b>201.5</b>	<b>43,220</b>	<b>277.3</b>

**Adult Services**  
**Expenditure Reduction Options – 2014/15 Firm Proposals**

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£'000	FTE	£'000	FTE
<b>Departmental Workstreams</b>								
AS1	E	OP/PD in-house Domiciliary care	Reconfiguring of the Community Response Team (CRT) full year effect	Savings achieved in the prior year	600		600	
AS2	E	OP/PD Domiciliary care	Implementation of Electronic Domiciliary Care Monitoring (EDCM)	Savings achieved in the prior year	742		742	
<b>Total of Departmental Workstreams</b>					<b>1,342</b>	<b>0</b>	<b>1,342</b>	<b>0</b>
<b>Corporate Workstreams</b>								
AS3	E	OP/PD Domiciliary Care	Commissioning a new delivery model for OP/PD care at home, working with fewer providers who are incentivised through payment by results to continually maintain and re-able clients. Flexibility in provision of care for clients is also a primary objective	Achieved through more efficient commissioning with a limited impact on clients, Tender Feb 2014 for April 2015 start	1,000		3,900	
AS4	E	OP/PD Domiciliary Care	Promoting Telecare and Telehealth to replace lower level interventions, reduce dependency and to support clients in their home environment for longer	Ensure only eligible needs of clients are met. Improved outcomes for clients through promoting independence	855		855	

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£'000	FTE	£'000	FTE
AS5	E	OP/PD Residential Care	Maximising the benefits of the existing Extra-Care settings and expanding the programme to support clients in their home environment for longer	Achieved through more efficient commissioning and service provision to improve outcomes for clients	164		164	
AS6	E	OP Day Care	Streamlining contracts to ensure that the capacity commissioned matches actual current demand, i.e. removing excess capacity	Achieved through more efficient commissioning with a limited impact on clients	175		175	
AS7	R	OP In-house Day Care	Removal of under-used capacity	Achieved through more efficient commissioning with a limited impact on clients	250		250	
AS8	E	Supporting People	Review of all Supporting People contract areas. Refocusing spend to those with the highest need by applying the eligibility criteria	Providing a more targeted service which will result in reduced services to clients who do not meet the eligibility criteria	4,112		4,112	
AS9	R	OP In-house Residential Services	Restructuring of in-house residential homes	Home closures as agreed by Cabinet in December 2013. Transitional arrangements are in place to meet the on going needs of the residents	1,992	69.8	1,992	69.8
AS10	E	Support to adult social care	Removing HQ posts by re-aligning priorities and resources	These are efficiency savings achieved through natural churn and deletion of vacancies	100	3.4	100	3.4

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£'000	FTE	£'000	FTE
		services						
AS11	E	LD - EDCM	Implementation of EDCM across LD services, ensuring that only care received is paid for and that better contract monitoring aids shaping packages to actual needs. Project with three largest providers is in progress and will be rolled out in line with new contracts commencing April 2015	More efficient commissioning with limited impact on clients	591		864	
<b>Total of Corporate Workstreams</b>					<b>9,239</b>	<b>73.2</b>	<b>12,412</b>	<b>73.2</b>
<b>Total Savings – Adult Services</b>					<b>10,581</b>	<b>73.2</b>	<b>13,754</b>	<b>73.2</b>

## Children's Services

### Expenditure reduction options - New Savings Proposals to Meet Target for 2014/15

Ref.	Savings Type	Service Activity	Description	Impact/Issues	2014/15		Full Year	
					£'000	FTE	£'000	FTE
CS1	T	Early Help	Integration of services: targeted youth support and locality teams, commissioning for local need. Development of single points of access and delivery.	More efficient access to a range of services. Reduced funding to voluntary and community sector.	883	1.0	2,952	20.1
CS2	E	Social Care training	Revised participation in social work degree and professional qualifications through targeted provision.	More targeted training reflecting current requirements.	60		80	
CS3	E	Children and Families	Review of social care contract management and other discretionary spend	Minimal impact as services will be procured more cost effectively and some areas are already underspending	135		1,595	7.0
CS4	E	Educational Psychology	More targeted core services and increased income generation.	More efficient use of resources.	50		390	

Ref.	Savings Type	Service Activity	Description	Impact/Issues	2014/15		Full Year	
					£'000	FTE	£'000	FTE
CS5	E	Various services	Review management arrangements for the workforce development team, SEN service; joint working with the Isle of Wight; efficiencies in invoice processing; facilities management efficiencies.	More effective working practices and other management efficiencies.	458	7.4	1,227	5.0
<b>Total Corporate Workstreams</b>					<b>1,586</b>	<b>8.4</b>	<b>6,244</b>	<b>32.1</b>
CS6	R	Services for Young Children	Reduced support and challenge to private voluntary and independent sector	Reduced discretionary capacity to provide various forms of support to PVI sector but no reduction of provision of places	820		1,189	
CS7	R	Services for Young Children	Withdrawal of supplementary children's centres grants – an unforeseen balance of contract savings used in the initial development of new commissioning arrangements	Reduced funds available for exceptional support	850		1,264	
CS8	R	School Improvements and Standards	Reduced funding to core business unit and other support services - more targeted provision and sold services	Potential indirect risk on educational outcomes; variable school resistance to pay for services	1,456		1,626	
CS9	T	Hampshire Futures	Remodelling of 14-19, careers advice, outdoor education and apprenticeships	Minimal impact due to increased external funding	986	4.5	986	

## Appendix 6

Ref.	Savings Type	Service Activity	Description	Impact/Issues	2014/15		Full Year	
					£'000	FTE	£'000	FTE
CS10	R	Hampshire Youth Offending Team	Reduced contribution to partnership - management and overhead savings	Impact on overall partnership dependant upon on other partner and Youth Justice Board funding	200	2.0	300	
CS11	E	Various services	Withdrawal of administrative funding to Local Children's Partnerships, Schools Employee Support Line, school uniform grants, insurance savings	Potential impact on consistency of LCPs; schools to decide if they wish to continue funding other services	410		606	
<b>Total Departmental Savings</b>					<b>4,722</b>	<b>6.5</b>	<b>5,971</b>	<b>-</b>
<b>Total Savings – Children's Services</b>					<b>6,308</b>	<b>14.9</b>	<b>12,215</b>	<b>32.1</b>

**ETE Department  
Expenditure Reduction Options – 2014/15 Firm Proposals**

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
ES5	E	Highways Maintenance	Savings from the current Term Highways contract and reviewing operational delivery methods across all aspects of highways and winter maintenance.	Potential reduction in ability to respond to non-safety issues.	1,865		3,425	
ES5	E	Street lighting	Reduced energy costs from more efficient equipment and increased dimming.	Minimal impact on highway users and residents anticipated.	125		337	
FE2	I	Planning and environmental services	Generate additional external funding to retain in-house specialist skills <sup>(1)</sup> .		163		309	
FE2	I	Economic Development	Reprioritisation of operational activity/explore options to develop shared service approaches <sup>(1)</sup> .		66		92	
FE1	E	Senior management & other workforce	Reduce senior management numbers as part of corporate approach. Restructure whole department to deliver sharper focus on core services and support new models of service delivery		1,279	34	2,237	59

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year		
					£000	FTE	£000	FTE	
FE2	E	Departmental operational support	General efficiency savings/increase external customer base for research services <sup>(2)</sup> .			189		299	
<b>Total of Corporate Workstreams</b>					<b>3,687</b>	<b>34</b>	<b>6,699</b>	<b>59</b>	
ET1	E	Public Transport	Further savings on Concessionary Fares scheme administration/greater use of digital media in meeting statutory requirement to promote travel information.			195		215	
ET2	R	Traffic and Transport	Review funding to the Police and Crime Commissioner for additional Village 30 enforcement work/reduced contingency requirement. Review funding provision for services operated by District councils under agency arrangements. Also, review school crossing patrol provision not meeting current criteria.	Village 30 funding provided under joint agreement with Hampshire Police and Crime Commissioner. Agency arrangements provided under joint agreement with District Councils.		180		360	
<b>Total of Departmental Savings</b>					<b>375</b>	<b>-</b>	<b>575</b>	<b>-</b>	
<b>Total Savings – ETE</b>					<b>4,062</b>	<b>34</b>	<b>7,274</b>	<b>59</b>	

<sup>(1)</sup> Proposals also include operational cost savings

<sup>(2)</sup> Proposals also include expanding external customer base to retain specialist skills.

**CCBS  
Expenditure Reduction Options – 2014/15 Firm Proposals**

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
FE5	T	Workstyle	Reviewing the current Workstyle hub solutions and considering further collaboration and consolidation opportunities including, where possible, with external providers and partners	No impact as this is continuing current approach for office accommodation	1,400		2,000	
ES7	E	External spend Repair and Maintenance	Review of the term maintenance contract arrangements to do more for less	Increased pressure on funding for urgent health and safety matters			237	
FE1	E	Senior management restructure in Trading Standards	New staffing structure to meet new service strategy	This will have minimal impact on the service as it is anticipated that a similar level of service can be delivered with less staff (management in particular) and at lower grades.	325	7	325	7
ST1	R	Enabling and working with communities	Reduction in revenue grants to community organisations and staffing restructure focused on reducing management to protect direct services.	Alternative sources of funding will need to be sought by external community organisations.	81	1	244	1
<b>Total of Corporate Workstreams</b>					<b>1,806</b>	<b>8</b>	<b>2,806</b>	<b>8</b>

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
1	I	Registration	Review of pricing strategy in response to on-going high demand for marriage and civil partnership ceremonies.	Minimal impact as demand continues to be high	105		105	
2	E	Business support	Restructure of management team and support staff and a review of facilities management including HQ security, cleaning and postal services. Increased income from increased trading activity of the sign workshop	Anticipated minimal impact. Proposals are being developed which combine a number of measures: vacancy management; re-shaping of roles and creation of capacity at lower grades; joint working with other departments and Police and Fire and improved efficiency of service provision	172	3.4	383	5
3	I	Great Hall	Income generation opportunities at the Great Hall through increase to suggested donation, increased visitor numbers and spend per visitor due to improved offer following Great Hall improvement project. Visitor numbers expected to increase for commemoration of 100 year anniversary of the Great War.	No impact as the income increase is voluntary and based on an improved offer.	20		40	
<b>Total of Departmental Savings</b>					<b>297</b>	<b>3.4</b>	<b>528</b>	<b>5</b>
<b>Total Savings CCBS</b>					<b>2,103</b>	<b>11.4</b>	<b>3,334</b>	<b>13</b>

**Corporate Services (excluding Public Health)  
Expenditure Reduction Options – 2014/15 Firm Proposals**

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
FE1	E	Corporate Services	Release of additional 4% saving generated by Corporate Services restructure in 2012/13	No impact already fully embedded	1,500		1,500	
FE6	T	Corporate Resources - IBC	Savings relating to the IBC and associated restructuring	Main savings arising through reductions in staff numbers enabled through new processes supported by technological changes. Changes for Departments being addressed through the business readiness workstream within the project.	752	56	1,622	72
FE6	E	Corporate Resources - IBC	<i>Licensing costs that have to be met as part of the IBC project</i>	<i>Highlighted so that comparison to Departmental target is accurate</i>	(325)		(325)	
ES6	E	IT - Software	Software contracts and software asset management - consolidation of software estate and review of and renegotiation of contracts	Potentially impact on some services needing to transfer to corporate standard software.			275	
FE4	E	IT - Hardware	Greater reuse of IT equipment together with a review of the maintenance contract and contract for mobile phones. Reduce wireless costs through new technology to improve efficiency of management and administration.	Need to manage customer expectation for new equipment and ensure re-cycled kit meets customer need.			320	

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
FE4	E	IT - disk storage	Review options for lower cost disk storage through alternative technology and improved housekeeping of data to be stored.	Users will need to understand and implement housekeeping of data. Dependent on a new contract tendered in 2013.			200	
FE4	T	IT - data centre	Review options for reducing the operating costs of the data centre, e.g. remote support to reduce 24/7 on-site staffing	Need to minimise risk of data centre failure and maintain service quality on which departments, services and customers depend.			150	tbc
FE4	T	IT - Support	Review staff mix and level of service provided by the help desk alongside greater self-service and automation.	Need to encourage staff to use self-service and manage customer expectation of level and speed of response from help desk support. Invest to save in automation tools required.	50	2	150	6
ES6	E	IT - HPSN2	Review of cost and scope of HPSN2 Contract with suppliers.	Aim will be to maintain service quality increase capacity and at reduced cost			250	
ES6	E	IT - Resourcing	Reduction in use and cost of external contractors by reviewing contract length, day rates, productivity and by growing internal skills and capacity	Greater investment in internal and permanent staff. Risk of insufficient resource and/or skill to meet customer demands will be managed by improved forward planning			100	

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
FE4	E	IT - Management	Review of IT Processes to reduce management 'burdens' and challenge requirements. Together with staffing restructure	Improved capacity to lead the service	365		495	
FE4	I	IT - Management	Recalibration of pricing strategy and operating model	Increased productivity and effectiveness to reduce operating costs, especially for external business and growth.			236	tbc
FE2	E	Policy & Governance	Removal of vacant posts and associated savings within Communications and Performance	Reduced capacity and less flexibility	225	2	225	2
FE2	E	Policy & Governance	Restructure within Policy and Governance	Reduced capacity and less flexibility			250	7
<b>Total of Corporate Workstreams</b>					<b>2,567</b>	<b>60</b>	<b>5,448</b>	<b>87</b>
1	R	Corporate Resources - Hantsdirect	Reduction in the size of the face to face team.	No impact on the service due to changes the way this service is being delivered.	136	7	183	8
2	E	Corporate Resources - Audit Services	Restructure within Audit Services	No impact - system efficiencies have enabled service commitments to be absorbed within the existing team	87	1	87	1

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
3	E	Corporate Resources - Hantsdirect	Introduction of an automated workforce management system and automated voice technology for simple services	Better scheduling of resources would enable the use of fewer call handlers and reduced unproductive time. Customers would be dealt with by an automated system rather than by call handlers for simple services.			71	4
5	R	Corporate Resources - Hantsdirect	Removal of resource earmarked for use for additional Blue Badge enforcement	No impact - it was believed that additional enforcement in this area may be required. Current arrangements are sufficient and additional enforcement activity is not required therefore this resource is no longer required.	48		48	
6	E	Corporate Services - Central Budgets	Reduction in centrally held housekeeping budgets	No impact - efficiencies possible as a result of centralising budgets from across Corporate Services.	80		80	
7	E	Policy & Governance	Health Watch Contract Savings	None	150		150	
8	R	Policy & Governance	Reduction in Community Planning Budget	None	50		50	

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year		
					£000	FTE	£000	FTE	
9	I	Policy & Governance	Additional income generation within Legal Services	None			50		
<b>Total of Departmental Savings</b>						<b>551</b>	<b>8</b>	<b>719</b>	<b>13</b>
<b>Total Savings Corporate Services</b>						<b>3,118</b>	<b>68</b>	<b>6,167</b>	<b>100</b>

**Policy and Governance Non-Departmental Budgets  
Expenditure Reduction Options – 2014/15 Firm Proposals**

Ref.	Savings Type	Service Activity	Description	Impact / Issues	2014/15		Full Year	
					£000	FTE	£000	FTE
1	E	External Audit Fee	Reduced fee following a tender exercise by the Audit Commission to outsource the work of its in-house audit practice	None	74		74	
2	E	Various Corporate Budgets	Review and housekeeping of centrally held budgets	None	255		255	
3	E	Members Support Costs	Historic underspend due to reductions in support costs.	None	22		22	
4	R	Grants to Council of Voluntary Services	Reduction in grants	CVS are expected to review their operations in order to reduce their costs in line with the grant funding which they receive.	16		100	
5	R	Grants to Other Bodies	Reduction in grants	Organisations are expected to review their operations in order to reduce their costs in line with the grant funding which they receive.	6		25	
<b>Total Savings - Non-departmental Budgets</b>					<b>373</b>		<b>476</b>	
<b>Total Savings - P&amp;R</b>					<b>5,594</b>	<b>79</b>	<b>9,977</b>	<b>113</b>
<b>Grand Total – All departments</b>					<b>26,545</b>	<b>201.5</b>	<b>43,220</b>	<b>277.3</b>

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### Transformation to 2015 – Adult Services Key Proposals

Ref	Service Area	Corporate Workstream	Description of Proposal	Key Actions and Timescales	Anticipated 2015/16 Saving £'000
AS12	OP/PD - Extra-Care Housing	External Spend	Maximising the benefits of the existing Extra-Care settings and expanding the programme to prolong the amount of time clients are able to maintain independence	Impact of on-going programme. Four schemes open, fifth opens spring 2014. Seven further schemes in development EIA has been completed	450 - 550
AS13	LD – Re-provisioning	External Spend	Re-commissioning contracts for LD supported living, ensuring consistency of support and cost levels	Re-provisioning procurement process will start in February 2014 and will be concluded in time for a contract start date of April 2015 Consultation with providers was carried out in 2013 EIA is underway	2,900 - 3,300
AS14	LD - Extra-Care Housing	External Spend	Developing more cost effective supported living model by grouping housing in ECH type schemes and linking existing shared houses to be able to share support/pool direct payments	On-going programme. Two schemes open, third approved January 2014. Further schemes to be identified by March 2014 EIA has been completed	1,100 - 1,300
AS15	In house Residential care	Social Care	Review of under-utilised capacity	Closure of three homes approved December 2013	300 - 500

Ref	Service Area	Corporate Workstream	Description of Proposal	Key Actions and Timescales	Anticipated 2015/16 Saving £'000
AS16	Health Better - Care Fund efficiencies	Further efficiencies	Use of the BCF fund to underpin demography and complexity demands, which is wholly in line with the DH stated purposes of the fund to protect social care services	2014/15 plan to be agreed by Health & Wellbeing Board February 2014 2015/16 plan by February 2015	20,000
AS17	HQ - workforce	Further efficiencies	Review of the overall workforce and operating model taking into account the upcoming Care Bill	Staff consultation to take place in Autumn 2014 EIA to be completed	150 - 250
AS18	Supporting People	External spend	Further review of Supporting People	Decision to be made by March 2014 EIA to be completed.	3,600 - 4,200
<b>Total – Adult Services</b>					<b>28,500 - 30,100</b>

### Transformation to 2015 - Children's Services Key Proposals

Ref	Service Area	Corporate Workstream	Description of Proposal	Key Actions and Timescales	Anticipated 2015/16 Saving £'000
CS12	Children with Disabilities	External Spend	Review of services for children with disabilities and their carers (options include: residential and respite care, short breaks, speech & language). Review of grants to the voluntary sector, including the possibility of a single process across all children's services with more flexible criteria.	Staff and Public consultation, where relevant, will be carried out by September 2014 and proposals will be implemented by April 2015. Procurement processes, where relevant, will start in October 2014 and will be concluded by April 2015. EIA required to be completed and has been started.	2,500 - 3,500
CS13	Services for Young Children	Departmental	Re-shaping the support and challenge to the private, voluntary and independent sector	Consultation with Schools Forum in March 2014; firm implementation plans by September 2014 and implementation by April 2015	3,500 - 5,000
CS14	Early Help	External Spend	Further development of integrated early help services. Review of grants to the voluntary sector, including the possibility of a single process across all children's services with more flexible criteria.	Grant changes to be implemented from April 2015. Consultation with stakeholders will be carried out by September 2014 and proposals implemented by April 2015.	800 - 1,200

<b>Ref</b>	<b>Service Area</b>	<b>Corporate Workstream</b>	<b>Description of Proposal</b>	<b>Key Actions and Timescales</b>	<b>Anticipated 2015/16 Saving £'000</b>
CS15	Partnerships	Departmental	Joint working with public health and the national health service, including a review of CAMHS.	Proposed Implementation date April 2015 Staff consultation and consultation with partners (JCHCB) will be carried out by September 2014. EIA required to be completed.	2,000 - 4,000
<b>Total – Children’s Services</b>					<b>8,800-13,700</b>

## Transformation to 2015 – Economy, Transport and Environment – Key Proposals

Ref	Service Area	Corporate Workstream	Description of Proposal	Key Actions and Timescales	Anticipated 2015/16 Saving £'000
1	Public Transport	External Spend	County-wide review of subsidised bus services and community transport consistent with the principles of the 2011 review. Also to review discretionary aspects of the Hampshire Concessionary Fares Scheme.	Consultation during 2014/15. Draft Concessionary Fares Scheme published by December 2014.	1,250-1,500
2	Recycling and Waste Disposal	External Spend	Explore options for financial and other benefits to the County Council from extending the existing waste disposal contract together with Household Waste Recycling Centres service provision review.	Negotiations with current waste contract provider underway. Consultation on HWRC service levels and options during 2014 will inform the new management contract from February 2015.	4,000-6,000 <sup>(1)</sup>
3	Review of funding contributions to departmental external partnerships	Departmental	Explore options to reduce funding contributions.	Depends on securing the agreement from partners which may not be possible.	50-100
<b>Total - ETE</b>					<b>5,300-7,600</b>

(1) HCC Share

### Transformation to 2015 – Policy and Resources – Key Proposals

Ref	Service Area	Corporate Workstream	Description of Proposal	Key Actions and Timescales	Anticipated 2015/16 Saving £'000
1	Library Service	Strategic Transformation	New library strategy to consider options for re-provisioning a few small libraries and changes to the mobile service to reduce the number of underused stops to make it more efficient. Also staffing re-structure	Consultation with staff, library users and potential partners for service delivery will be carried out during 2014/15.	300
2	Community Safety	Strategic Transformation	To give notice to cease the Accredited Community Safety Service by the end of 2014 and honouring existing contracts	Consultation with staff and other organisations providing similar services will commence early in 2014.	1,500

<b>Ref</b>	<b>Service Area</b>	<b>Corporate Workstream</b>	<b>Description of Proposal</b>	<b>Key Actions and Timescales</b>	<b>Anticipated 2015/16 Saving £'000</b>
3	Countryside Service	Departmental	A strategic review of the countryside estate in relation to potential development, including maximising income generation and collaborative working arrangements. Consideration of transferring some in-house estate management work to external provider. Targeted reduction in management posts. Reduced support to one Joint Management Committee	Strategic review will be carried out during 2014 and will include market analysis of potential providers of estate management work.	275 - 340
4	Arts and Museums	Departmental	Interim Trust Board to be established early 2014.	Interim Trust status in early 2014 including staff consultation with a report back to key stakeholders prior to final consideration planned for March 2014.	80 - 100
5	Archives and Records	Departmental	Detailed service review planned including consideration of further partnership working with Trusts and other local authorities and exploring opportunities for increased income.	Detailed service review will continue in 2014	80 - 100

<b>Ref</b>	<b>Service Area</b>	<b>Corporate Workstream</b>	<b>Description of Proposal</b>	<b>Key Actions and Timescales</b>	<b>Anticipated 2015/16 Saving £'000</b>
6	Property Services including Corporate Estate and County Farms	Departmental	More efficient delivery through revised work scheduling and management restructuring and increased income from new sources.	Detailed service review will continue in 2014	190 - 240
7	Outdoor Centres	Departmental	A strategy to reduce expenditure across the service with improved systems and processes together with management and other back office staffing reductions and improved partnership working both internally and externally. The strategy will also focus on generating new income streams and consider investment in new provision as part of a wider income generating stream.	Strategy will be developed during 2014 and business cases developed for service investment as part of the income generating strategy	40 – 50
8	Sport	Strategic Transformation	Exploring options to achieve health and wellbeing outcomes through sport with other partners including another host authority or community interest company.	Discussions with potential partners will take place during 2014 together with consultation with staff	20 - 25

Ref	Service Area	Corporate Workstream	Description of Proposal	Key Actions and Timescales	Anticipated 2015/16 Saving £'000
9	Policy and Resources Grants	Departmental	Reduction in Member's Devolved Grants		70-100
10	Corporate Expenses	Departmental	Reductions in the Corporate Expenses budget in line with average spend.		30
<b>Total – P&amp;R</b>					<b>2,585 – 2,785</b>
<b>Grand Total – All departments</b>					<b>45,185 – 54,185</b>

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**Adult Services  
Budget Summary 2014/15**

<b>Service Activity</b>	<b>Original Budget 2013/14 £000</b>	<b>Revised Budget 2013/14 £000</b>	<b>Proposed Budget 2014/15 £000</b>
Service Strategy and Regulation	501	507	519
Older People (aged 65 or over)	127,992	130,975	135,996
Adults under 65 years with Physical or Sensory Impairment	32,326	32,331	34,290
Adults under 65 years with Learning Disabilities	109,655	110,914	113,699
Adults under 65 years with Mental Health Needs	13,649	13,125	12,968
Supported Employment	446	488	489
Other Adult Services	1,651	3,134	3,035
Supporting People	25,445	25,776	21,775
Unallocated Budget	1,916	5,759	1,465
Non-distributed Costs	151	335	335
<b>Total</b>	<b>313,732</b>	<b>323,344</b>	<b>324,571</b>

**Children's Services  
Budget summary 2014/15**

<b>Service Activity</b>	<b>Original Budget 2013/14 £000</b>	<b>Revised Budget 2013/14 £000</b>	<b>Proposed Budget 2014/15 £000</b>
<b>Schools budget</b>			
Individual Schools budgets	537,082	529,806	526,944
De-delegated items	3,936	3,991	3,953
High Needs block	79,283	81,757	84,861
Early Years block	58,342	57,872	59,959
Central Provision within schools budget	9,936	9,750	9,211
Other grants	17,759	30,667	40,689
<b>Total Schools Budget</b>	<b>706,338</b>	<b>713,843</b>	<b>725,617</b>
<b>Non-schools budget</b>			
Other Education & Community – Special Education	4,931	5,196	4,963
Other Education & Community – Learner Support	34,136	33,930	33,435
Other Education & Community – Access	758	822	699
Young People's Learning Development	2,068	2,082	1,599
Adult Learning and Community	1,167	736	158
Services for Young Children	18,482	18,445	17,061
Youth Support Services	6,958	6,815	6,770
Strategic Management	4,553	4,587	4,028
Assessment and Care Management	17,394	18,406	19,433
Children Looked After	44,391	45,474	46,113
Family Support Services	15,076	15,670	15,316
Youth Justice	2,218	2,506	2,198
Other Children and Families Services	7,413	8,624	7,734
Asylum Seekers	700	493	493
Central Budgets	671	1,153	2,365
<b>Total Non-schools budget</b>	<b>160,916</b>	<b>164,939</b>	<b>162,365</b>
<b>Total Children's Services budget</b>	<b>867,254</b>	<b>878,782</b>	<b>887,982</b>

**ETE Department  
Budget summary 2014/15**

<b>Service Activity</b>	<b>Original Budget 2013/14 £000</b>	<b>Revised Budget 2013/14 £000</b>	<b>Proposed Budget 2014/15 £000</b>
Highways Maintenance	32,848	33,059	32,144
Public Transport	19,249	19,328	19,481
School Crossing Patrols	1,122	1,122	1,132
Road Safety	969	969	789
Traffic Surveys	87	87	87
Parking Services	-95	-95	-97
Staffing & Operational Support (Highways & cross-departmental)	14,390	14,699	13,536
<b>Total Highways, Traffic and Transport</b>	<b>68,570</b>	<b>69,169</b>	<b>67,072</b>
Waste Disposal Contract	36,489	37,374	38,389
Waste Management non-contract	1,171	1,246	1,185
Planning and Development	2,488	2,802	1,913
Chichester Harbour Conservancy	183	183	187
<b>Total Waste, Planning and Environment</b>	<b>40,331</b>	<b>41,605</b>	<b>41,674</b>
<b>Economic Development</b>	<b>845</b>	<b>1,032</b>	<b>986</b>
Rural Affairs <sup>(1)</sup>	200	0	0
<b>Net Budget</b>	<b>109,946</b>	<b>111,806</b>	<b>109,732</b>
<b>Early achievement of savings – firm proposals</b>	<b>0</b>	<b>0</b>	<b>4,062</b>
<b>Total – Cash Limit</b>	<b>109,946</b>	<b>111,806</b>	<b>113,794</b>

(1) Rural Affairs budget transferred back to Policy and Resources during 2013/14.

**Policy and Resources  
Budget summary 2014/15**

	<b>Original Budget 2013/14</b>	<b>Revised Budget 2013/14</b>	<b>Proposed Budget 2014/15</b>
<b>Service Activity</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Culture, Communities and Business Services:</b>			
<b>Business Services:</b>			
Business Services	210.7	73.3	181.0
Rural Broadband	92.5	103.4	93.0
Sir Harold Hillier Gardens	471.9	471.9	465.0
<b>Business Support:</b>			
Office Accommodation/Workstyle	6,802.8	7,293.7	5,687.0
Facilities Management	2,812.8	2,810.3	2,850.0
Business Support/Risk, Health & Safety	1,587.9	1,540.6	1,331.0
<b>Community:</b>			
Regulatory Services	3,879.1	3,740.7	3,395.0
Community Grants & Policy Fund	1,680.3	1,670.3	1,653.0
Sport	210.4	195.6	210.0
Community	340.3	334.6	296.0
Library Service	12,923.0	13,416.2	12,970.0
<b>Culture &amp; Heritage:</b>			
Countryside	3,017.8	3,115.6	3,053.0
Outdoors Centres	466.1	475.4	443.0
Arts & Museums	2,775.3	2,978.9	2,813.0
Archives	944.3	987.4	956.0
<b>Property Services:</b>			
Direct Services	(856.9)	(826.4)	(893.0)
Repair and Maintenance	3,630.1	(398.9)	(548.0)
Property Services	1,224.4	1,389.5	1,266.0

	<b>Original Budget 2013/14</b>	<b>Revised Budget 2013/14</b>	<b>Proposed Budget 2014/15</b>
<b>Service Activity</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Other Direct Services:</b>			
Public Health:			
- Central Public Health	2,181.0	2,217.0	2,349.0
- Information and Intelligence	43.0	39.0	39.0
- Nutrition, Obesity and Physical Activity	655.0	1,155.0	1,810.0
- Drugs & Alcohol	9,291.0	9,431.0	9,439.0
- Tobacco	2,857.0	3,173.0	3,149.0
- Dental	294.0	364.0	180.0
- Children 5-19	3,561.0	5,361.0	6,161.0
- Health Checks	839.0	1,289.0	1,447.0
- Miscellaneous Health Imp & Wellbeing	94.0	2,704.0	4,204.0
- Sexual Health	9,815.0	10,904.0	11,534.0
- Infection, Prevention & Control	-	116.0	116.0
- Unallocated	7,123.0	-	-
Grants to Voluntary Organisations	412.3	542.7	262.0
Grants/Contributions to Councils of Community Service and other bodies	1,013.6	1,013.6	1,042.0
Members Devolved Budgets	624.0	624.0	624.0
Supporting Troubled Families	1,899.0	2,361.4	939.0
Other Direct and Corporate Services	874.0	2,347.5	716.0
<b>Corporate Services:</b>			
Policy and Governance:			
- Legal	2,265.5	2,125.6	2,028.0
- Governance	1,243.0	1,345.2	1,347.0
- Performance & Communications	1,508.1	1,587.3	1,351.0
- Policy & Programmes	1,641.9	1,571.4	1,391.0
Strategic Business Development	596.7	1,421.4	1,226.0
Corporate Resources:			
- Customer and Business Services	7,319.6	7,404.7	8,265.0
- HR	2,574.5	1,788.1	1,941.0
- Finance	5,284.6	5,324.0	3,825.0
- Audit	707.9	725.6	652.0
- IT	20,449.0	19,175.2	19,854.0
Other Corporate Services	2,866.1	4,726.6	2,565.0

	<b>Original Budget 2013/14</b>	<b>Revised Budget 2013/14</b>	<b>Proposed Budget 2014/15</b>
<b>Service Activity</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Members Support Costs	1,747.8	1,747.8	1,726.0
Other Central Support Services	847.4	891.4	809.0
<b>Total P&amp;R Budget</b>	<b>132,840.8</b>	<b>132,848.6</b>	<b>127,212.0</b>
Coroners	1,319.6	1,331.0	1,331.0
<b>Transfers (to) / from reserves:</b>			
School Library Service	(53.4)	38.1	(48.0)
Hampshire Wardrobe	-	(2.4)	-
River Hamble	(60.5)	20.6	(27.0)
Caretaking and Cleaning Support Service	(8.9)	(17.9)	-
Segensworth Unit Factories	(12.0)	(12.0)	(12.0)
Hampshire Printing Services	(61.0)	(50.6)	(33.0)
Corporate Procurement County Supplies	(31.0)	(117.5)	(92.0)
HC3S	(68.0)	(68.0)	(398.0)
Hampshire Transport Management (HTM)	(29.0)	(34.0)	(51.0)
EFS	-	-	-
EPS	(55.0)	-	(113.0)
<b>Government Grants:</b>			
Inshore Fisheries and Conservation	(204.0)	(204.0)	(204.0)
Supporting Troubled Families	(1,599.0)	(1,599.0)	(639.0)
Local Reform and Community Voices	(540.0)	(540.0)	(540.0)
Public Health Grant	(36,753.0)	(36,753.0)	(40,428.0)
<b>Total net expenditure</b>	<b>94,685.6</b>	<b>94,839.9</b>	<b>85,958.0</b>

**Workforce Statement (Full Time Equivalent)**

<b>Department / Service</b>	<b>Estimated FTE's at 31/03/2014</b>	<b>Estimated FTE's at 31/03/2015</b>	<b>Net Variation</b>
Adult Services	2,901	2,828	(73)
Children's Services - Non schools	2,480	2,494	14
Economy, Transport and Environment	739	705	(34)
Policy and Resources	3,712	3,755	43
	<b>9,832</b>	<b>9,782</b>	<b>(50)</b>
<b>Staffing variations for 2014/15 are:</b>			
	<b>Transfers and other changes</b>	<b>Impact of new savings proposals</b>	<b>Total 2014/15 changes</b>
<b>Adult Services</b>			
Restructuring of In house Residential provision		(70)	(70)
Review and realignment of Management and Support		(3)	(3)
<b>Children's Services - Non schools</b>			
Additional investment in Child Protection	29		29
Impact of savings proposals		(15)	(15)
<b>Economy, Transport and Environment</b>			
Restructure of ETE department		(34)	(34)
<b>Policy and Resources</b>			
Apprentice posts	4		4
Posts supported by new funding sources and capital programme	31	(1)	30
Temporary increase in Workstyle to deliver Transformation to 2015	(7)		(7)
Adjustment to bring in line with agreed establishment	5		5
Posts filled by agency staff/external consultants/reserves on temporary basis	25		25
Impact of savings proposals		(78)	(78)
Transfer to Solent Cultural Trust	(88)		(88)
Growth relating to increased demand for school lunches	157		157
Changes resulting from restructuring/redundancy	(9)		(9)
Additional posts to support re-procurement of contracts and admin resource	4		4
	<b>151</b>	<b>(201)</b>	<b>(50)</b>

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## Revenue Budget 2014/15

	Original Budget 2013/14	Adjustment	Budget 2014/15
	£'000	£'000	£'000
<b><u>Departmental Expenditure</u></b>			
Adults	313,732	10,839	324,571
Children's - Schools	706,338	19,279	725,617
Children's - Non schools	160,916	1,449	162,365
Economy, Transport and Environment	109,946	(214)	109,732
Policy and Resources	132,841	(5,629)	127,212
<b>Net Budget</b>	<b>1,423,773</b>	<b>25,724</b>	<b>1,449,497</b>
Contributions to Cost of Change Reserves	0	17,219	17,219
<b>TOTAL</b>	<b>1,423,773</b>	<b>42,943</b>	<b>1,466,716</b>
<b><u>Capital Financing Costs</u></b>			
Committee Capital Charges	115,378	(3,582)	111,796
Capital Charge Reversal	(115,887)	3,582	(112,305)
Interest on Balances	(750)	(5,000)	(5,750)
Capital Financing Costs	68,395	1,467	69,862
	<b>67,136</b>	<b>(3,533)</b>	<b>63,603</b>
<b><u>Pension and IAS 19 Costs</u></b>			
Pensions - Int and Expected Ret on Assets	18,150	0	18,150
Contribution from Pension Reserve	(27,321)	(16,116)	(43,437)
IAS 19 Departments	1,184	16,116	17,300
Non Distributed costs	21,329	0	21,329
Soft Loan	(10)	0	(10)
	<b>13,332</b>	<b>0</b>	<b>13,332</b>
<b><u>RCCO</u></b>			
Main Contribution	12,772	9,278	22,050
Funded by Dedicated Schools Grant (DSG)	6,959	(275)	6,684
RCCO From Reserves	3,887	14,692	18,579
	<b>23,618</b>	<b>23,695</b>	<b>47,313</b>
<b><u>Other Revenue Costs</u></b>			
Contingency	30,254	(8,873)	21,381
Dedicated Schools Grant	(695,538)	3,926	(691,612)
Specific Grants	(92,249)	(28,685)	(120,934)
Council Tax Freeze Grant	(5,300)	0	(5,300)
Flood Protection Levy	572	34	606
Coroners Expenditure	1,320	11	1,331
Business Units (Net Trading Position)	553	(1,181)	(628)
	<b>(760,388)</b>	<b>(34,768)</b>	<b>(795,156)</b>
<b>Net Revenue Budget</b>	<b>767,471</b>	<b>28,337</b>	<b>795,808</b>

	Original Budget 2013/14 £'000	Adjustment £'000	Budget 2014/15 £'000
<b>Net Revenue Budget (Repeated)</b>	<b>767,471</b>	<b>28,337</b>	<b>795,808</b>
<b><u>Contributions from Earmarked Reserves</u></b>			
Use of Earmarked Reserves	(108)	(22,590)	(22,698)
Trading Units Transfer to / (from) Reserves	(444)	1,181	737
RCCO From Reserves	(4,037)	(14,692)	(18,729)
	<b>(4,589)</b>	<b>(36,101)</b>	<b>(40,690)</b>
Use of General Balances	(7,100)	0	(7,100)
<b>BUDGET REQUIREMENT</b>	<b>755,782</b>	<b>(7,764)</b>	<b>748,018</b>

## Reserves Strategy

### Introduction

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

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

At the end of the 2012/13 financial year the County Council's earmarked reserves together with the general fund balance stood at nearly £419M. This Appendix sets out in more detail what those reserves are for and outlines the strategy that the County Council has adopted (but perhaps not articulated) in using reserves and more importantly in contributing to them.

### Reserves Position 31 March 2013

Current earmarked reserves together with the General Fund balance totalled £418.8M at the end of the 2012/13 financial year. The table below summarises by purpose the total level of reserves and balances that the County Council holds.

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.

	<b>Balance 31.3.2013 £'000</b>	<b>% of Total %</b>
<b><u>Fully Committed to Existing Spend Programmes</u></b>		
Capital Grants Unapplied	74,967	17.9%
Revenue Grants Unapplied	18,448	4.4%
General Capital Reserve	89,316	21.3%
Street Lighting Reserve	2,395	0.6%
Community Transport Reserve / Other	1,550	0.4%
	<b>186,676</b>	<b>44.6%</b>
<b><u>Departmental / Trading Reserves</u></b>		
Trading Accounts	13,780	3.3%
Departmental - Cost of Change Reserve	30,601	7.3%
	<b>44,381</b>	<b>10.6%</b>

	<b>Balance 31.3.2013 £'000</b>	<b>% of Total %</b>
<b><u>Risk Reserves</u></b>		
Insurance Reserve	22,043	5.3%
Local Government Resource Review	6,150	1.4%
	<b>28,193</b>	<b>6.7%</b>
<b><u>'Available' Reserves</u></b>		
Corporate Policy Reserve	1,979	0.5%
Invest to Save	10,154	2.4%
Corporate Efficiency Reserve	9,235	2.2%
Organisational Change Reserve	10,018	2.4%
Grant Equalisation Reserve	48,460	11.6%
	<b>79,846</b>	<b>19.1%</b>
<b><u>HCC Earmarked Reserves</u></b>		
	<b>339,096</b>	<b>81.0%</b>
Schools Reserves	44,870	10.7%
	<b>383,966</b>	<b>91.7%</b>
<b>Total Earmarked Reserves</b>	<b>383,966</b>	<b>91.7%</b>
General Fund Balance	34,795	8.3%
	<b>418,761</b>	<b>100.0%</b>
<b>Total Reserves and Balances</b>	<b>418,761</b>	<b>100.0%</b>

#### Fully Committed to Existing Spend Programmes

These reserves, which account for nearly half of total reserves are already fully committed in the main to existing revenue or capital programmes. They really represent the extent to which resources, in the form of government grants or revenue contributions to capital, are received or generated in advance of the actual spend on the project.

Specifically, the street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments in future years.

These reserves have 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 have been 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 paper).

These reserves do not therefore represent 'spare' resources in any way.

### Departmental / Trading Reserves

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

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

Departmental reserves are generated through under spends in annual revenue expenditure and Council policy was changed a few years ago to allow Departments to retain all of their under spends in order to provide resources to :-

- Meet any potential overspends in future years without the need to call on corporate resources
- Manage cash flow funding issues between years where specific projects may have been started but not fully completed within one financial year.
- Meet the cost of standard redundancy and pension payments arising from the down sizing of the work force
- Invest in new technology and other service improvements, for example the new Children's Services integrated system
- Undertake capital repairs or improvements to assets that are not funded through the existing capital programme where this is essential to maintain service provision or maximise income generation.
- Meet the cost of significant change programmes and restructures such as the Corporate Services Review implementation, which is being fully funded from planned savings within the Corporate Services Department.

By utilising reserves in this way, and allowing Departments and Trading areas to retain under spends or surpluses it encourages prudent financial management as managers are able to ensure that money can be re-invested in service provision without the need to look to the corporate centre to provide funding. This fosters strong financial management across the County Council and is evidenced by the strong financial position that the County Council is in at this point in time.

### Risk Reserves

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

On 1<sup>st</sup> April 2013, the Government introduced two new schemes that have an impact on the financial stability of local government. Business rates retention

transferred both risk and potential reward to local authorities in that a proportion of locally generated business rates is now retained by local councils and fire authorities. Whilst this does introduce the potential for this income base to grow if there is economic growth, it also means that there is the potential for lost income should the business rate base decline.

In addition, local Council Tax Support Schemes were introduced on 1<sup>st</sup> April and replaced the national scheme for council tax benefits. The national funds were distributed amongst authorities to compensate for the loss of council tax income, but these were reduced by 10%. On top of this reduction in funding, Councils face further risk in the form of increasing numbers of claimants due to economic factors or due to the increased publicity around the schemes. If claimant numbers increase, the Government does not provide any additional funding and therefore the costs of this fall on the local authorities.

Both of these changes represent a significant risk transfer from central to local government and therefore a separate risk reserve has been created to mitigate potential losses arising from these sources in order to soften the impact on the budget setting process in any one year.

#### 'Available' Reserves

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

This leaves other available earmarked reserves that are under the control of the County Council and total nearly £80M 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 reductions, 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 residents of Hampshire. They are broken down into four main areas :-

**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. Past initiatives have included :

- Targeted speech and language therapy
- Apprenticeship and graduate placement schemes
- Funding for rural grants
- Funding for troubled families programme
- Olympic legacy
- The 'Have Your Say' community bidding budget

**Invest to Save / Corporate Efficiency Reserve** – These reserves are earmarked to provide funding to help transform services in order to make further revenue savings in the future. Rather than just prop up the budget on a short term basis,

the County Council feels it is a far more sensible policy to use available reserves to generate savings and improve services over the longer term, by re-designing services and investing in technology and other solutions that make services more modern and efficient.

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

The County Council as a good employer has attempted to manage the reduction in staff numbers as sensitively and openly as possible and introduced a voluntary redundancy scheme back in 2011. The scheme offers an enhanced redundancy rate for people who elect to take voluntary redundancy and 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 redundancies.

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

As explained above, 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 was recently topped back up to provide funding to continue the voluntary redundancy scheme as part of the TtC to 2015 programme.

Further information on the use of this reserve has been provided in the next section of this Appendix.

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

In 2010/11, the County Council recognised that significant reductions in local government spending were expected and built in contributions as part of the Medium Term Financial Strategy over the CSR 2010 period from the Grant Equalisation Reserve in order to smooth the impact of the grant reductions.

Over the last few years, it has become clear that the period of austerity will continue for much longer than planned and therefore the County Council has taken the opportunity to increase the reserve in order to be able to continue the sensible policy of smoothing the impact of grant reductions without the need to make 'knee jerk' reactions to offset large decreases in grant

Further information on the use of this reserve has been provided in the next section of this Appendix.

It should be highlighted that the total 'Available Reserves' outlined above account for only 19.1% of total reserves and balances that the County Council holds and of these, 7.5% have 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.

### Schools Reserves

Schools reserves account for nearly £45M or 10.7% of total reserves and balances. These reserves must be reported as part of the County Council's accounts, but since funds are delegated to schools any surplus is retained by them for future use by the individual school concerned. Similarly, schools are responsible for any deficits in their budgets and they maintain reserves in a similar way to the County Council in order to smooth fluctuations in cash flow over several years.

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

### General Fund Balance

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

The current balance stands at £34.8M, which includes £16M carried forward from the 2012/13 financial year that will be used to provide planned contingency support of £8M per year in the budget during 2013/14 and 2014/15. After this planned usage, the balance will return back to the recommended minimum of 2.5% of the budget requirement (£18.8M).

### Use of Reserves

The absolute level of County Council reserves have continued to increase over the last few years as part of a deliberate strategy for dealing with the extended period of austerity. This strategy is explained in more detail in the next section, but the purpose of this section is to highlight the fact, through a couple of real examples, that whilst the absolute level of reserves continues to increase, this masks the fact that reserves are being used constantly to manage the finances of the County Council.

The tables below show for the Organisational Change Reserve and the Grant Equalisation Reserve, the movements that have taken place since 2010/11 and the planned use of the reserves over the next few years.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Organisational Change Reserve</b>						
<b>Opening Balance</b>		<b>3,511</b>	<b>8,119</b>	<b>10,018</b>	<b>9,018</b>	<b>3,018</b>
Planned Use	(6,489)	(1,738)	(618)	(1,000)	(6,000)	(3,018)
Planned Contribution in Year	10,000	6,346				
Additional Contribution in Year			2,517			
<b>Closing Balance</b>	<b>3,511</b>	<b>8,119</b>	<b>10,018</b>	<b>9,018</b>	<b>3,018</b>	<b>0</b>

<b>Grant Equalisation Reserve</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
<b>Opening Balance</b>	<b>22,415</b>	<b>18,680</b>	<b>32,180</b>	<b>48,460</b>	<b>41,452</b>	<b>21,971</b>
Planned Use (2011/12 MTFS)	(3,735)	(4,500)	(4,500)	(4,200)	(3,600)	
Planned Use (2014/15 MTFS)				(2,808)	(15,881)	
Planned Contribution in Year			8,190			8,490
Additional Contribution in Year		18,000	12,590			
<b>Closing Balance</b>	<b>18,680</b>	<b>32,180</b>	<b>48,460</b>	<b>41,452</b>	<b>21,971</b>	<b>30,461</b>

These examples show that for many of the reserves that the County Council holds, the movements are a combination of draws from and contributions to the reserve in line with the financial strategy that the County Council has put in place and it is therefore important to look in more detail at the use of reserves rather than just concentrate on the absolute level contained in the annual accounts.

### **Reserves Strategy**

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

This approach is well recognised across local government and a recent 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.”*

It is now clear that the period of austerity will last longer than anyone had previously predicted and therefore it is possible that the County Council will have to take a longer term view of its financial strategy than the traditional 3 to 4 years that it has used in the past. A core strand of this strategy going forward will be the continued use and replenishment of reserves in line with the strategy and ensuring that there is sufficient financial capacity to cope with the challenges ahead, possibly up to 2020.

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

- Planning ahead of time and implementing efficiencies and savings in advance of need

- Generating surplus funds in the early part of the programme
- Using these resources to fund investment and transformation in order to achieve the next phase of savings.

This cycle was clearly evident during 2011/12 and again within the 2012/13 outturn position that was reported to Cabinet in June. Savings in advance of need within Departments and savings in contingency amounts due to the successful implementation of the full early savings programme meant that the Council was able to provide :

- Departmental reserves to pay for the cost of change associated with their own transformation programmes
- Top up funding to the organisational change reserve to provide resources to continue the very successful voluntary redundancy programme as a means of releasing staff in a sensitive and controlled manner that has helped maintain morale across the Council
- An additional £5M within the Invest to Save Reserve to help with the Transforming the Council to 2015 programme that will deliver the next phase of savings to 2015/16.
- Additional funds for the Grant Equalisation Reserve to help smooth the impact of grant reductions and give the County Council maximum flexibility in future budget setting processes

The expectation is that the Transforming the Council to 2015 programme will also generate early savings that will increase the level of balances in the future albeit there will be planned reductions and use of reserves as outlined in this paper.

Looking further ahead, a similar strategy can be applied in looking to make savings up to 2017/18, allowing planned reductions to be made and providing resources to support the next transformation programme.

It is important to highlight that the strategy the County Council has adopted means that if we are in a position that reserves begin to decrease, it may be a sign that there is something wrong within the savings programme or financial strategy that might therefore need to be addressed. In any event, it needs to be stressed that the strong financial position that the County Council finds itself in is not an accident and is one about which we should be proud.

### **Section 25 report, Local Government Act 2003**

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

- the robustness of the estimates included in the budget
- 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 made available to the County Council in making its final decision.

The CIPFA guidance on reserves and balances provides the general framework for considering the adequacy of reserves. A risk assessment has been made of the cost and demand pressures on budgets, insurance liabilities, achievement of budget savings and adverse winter conditions which support the proposed level of balances of approximately £20m forecast for the end of 2014/15. This assessment has not changed significantly from last year and must also be set in the context of new contingency amounts proposed in the budget that mitigate the key risks that have been identified, taking into account the fact that the savings programme is not required to deliver until the 2015/16 financial year.

Similarly the level of reserves is scrutinised each year and the protocol on the purpose, use, control and review of each reserve has previously been agreed and remains in place. A full report on the County Councils earmarked reserves is attached at Appendix 9 and sets out the purpose and level of the main reserves that are held. The level of reserves provides the County Council with financial resilience over the medium term and can be used to address the future financial challenges it faces in a planned way.

Section 25 concentrates primarily on the uncertainty within the budget year rather than the greater uncertainties in future years. However future uncertainties, particularly for the County Council in respect of the continued impact of the Government's austerity measures also inform the need for reserves and balances in the medium term. The current financial position involving savings targets increases the risk of overspending, together with demand led spending pressures in social care during a recession and potentially periods of higher inflation. However, some of the specific issues around adults and children's social care pressures have been built into the forward budget and have therefore been addressed through that route.

The budget report is the conclusion of a detailed process of prior consultation and consideration throughout the current year by Cabinet.

The County Council's policy on balances is to hold a minimum prudent level which on the basis of the risk assessment is around 2.5% of net expenditure after allowing for the proposed use of general reserves as set out in the budget report. This is a level which is comparable with the last three years, and remains relatively low compared with other equivalent local authorities. The risks

associated with being a floor authority and thus receiving the biggest reduction in government grant and of needing to achieve significant savings in service expenditure to balance the budget continue to justify this level of reserves.

The level of uncertainty for the budget year is also narrowed down as the budget strategy is developed during the year and defined in the performance and risk management and earmarked reserves paragraphs in the budget report.

In setting the budget the County Council should have regard to the strategic, operational and financial risks facing the County Council. The County Council has an overall risk management framework which covers these issues. The forward budget plan and reserves take into account the main risks and uncertainties, including:

- Inflation
  - a pay freeze has operated for a number of years, but in 2013/14 an award of 1% was granted. The budget for 2014/15 allows for 1% pay inflation in line with the Chancellor's expectations for public sector pay. Given the continued period of austerity it is not considered that there are significant risks associated with future pay awards.
  - price inflation has been set at 2.2%. Given the volatility of both the retail and consumer price indices during the last year, containing price increases at an average 2.2% may prove challenging, depending upon market factors.
  - short-term interest rates remain low following the continued nervousness within global financial markets and base rates are not expected to increase for some time. However, this does mean that any long term borrowing carried out in 2014/15 attracts a high 'cost of carry' since longer term rates are influenced by gilt prices and not the current base rate. Decisions on when long term borrowing is undertaken will therefore have an impact on the revenue account next year.
  
- Pay drift
  - increments are not budgeted for and services will need to secure efficiency savings to offset these. Past trends suggest that this can be managed, but this does become more challenging as the Council downsizes in response to grant reductions.
  - Employer contributions to the Hampshire Local Government Pension will begin to rise in 2014/15 in line with the agreed deficit recovery plan, however, following the 2013 valuation, the

increase in the deficit contribution is lower than originally planned.

- Better Care Fund
  - The Government will provide around £75 million funding to Hampshire as part of the Better Care Fund (BCF) initiative. £20 million of this is existing funding that is already accounted for as a Section 256 transfer from Health as part of the 2014/15 budget. The remaining £55 million constitutes for the most part current health service expenditure and will therefore require the 'de-commissioning' of such services in order to free up this funding. Over the next 12 months, the County Council will work closely with the 5 Clinical Commissioning Groups (CCG's) in Hampshire to release the first £20 million of this £55 million, which is required from 1<sup>st</sup> April 2015 to support the significant budget pressures arising from growth in Adult Services resulting from increased demography and complexity. This aspect of the budget constitutes the biggest risk to the County Council in achieving its financial plans for 2015/16 and therefore needs to be robustly programme managed towards successful achievement, but as it involves other organisations, the County Council is not in sole control of the outcome.
- Savings and redeployments built in to the budget
  - There are no savings built into the budget other than for Children's Services who are required to offset the loss of Early Intervention Grant and Adult Services who have slipped savings from previous years. These amounts together with the early achievement of other Departmental savings are factored into the budgets in 2014/15 and are expected to be fully achieved. Any non achievement for the required savings in Adults and Children's will be met from their cost of change reserves.
- Income
  - there is an annual review to maximise and increase income at least in line with costs which is referred to in Section 8 of the report and reported in greater detail to Executive Members. The increased reliance on the generation of income as a means of closing the budget gap exposes the County Council to greater levels of risk compared to reducing budgets outright. The total level of 'sold services' and other income contributions across the County Council is now in the region of £100m and a specific risk contingency has therefore been included to mitigate this risk in the revenue budget.

- Achievement of budget plan
  - There is a well established and sound history of very close achievement of outturn to budgets, which is further supported by performance during 2013/14 which is predicting spend within budget across Departments, despite the fact that £140m has been removed over the last 4 years.
- Strength of financial information and reporting arrangements
  - Budget monitoring throughout the year is now based on a much greater risk based approach across the Departments in the County Council. The success of Departments in staying within budget is a good indicator of the robustness of the monitoring arrangements.
- Capital programme
  - capital strategy, asset management plans and the local transport plan have all previously been accredited with the highest scores in the former comprehensive performance assessment.
  - Despite reductions in capital receipts over the last few years, the capital programme has been supplemented by additional revenue contributions that have allowed high priority investment to proceed, which continues as part of this budget.
- Level of borrowing and outstanding debt
  - the issues are fully covered in the treasury management strategy and prudential indicators appendix to the budget report. The County Council continues to internally borrow, both to reduce the exposure risk of investments in the market and to avoid the 'cost of carry' of taking out long term borrowing at a time when short term rates are so cheap. This does increase the risk of having to borrow in the future during a period of rising interest rates, but this is justified given the short term financial challenges within the revenue budget.
  - the current policy on temporary unsupported borrowing for specific projects results in the financing costs being contained within the forward budget plan cash limits without an additional impact on the council tax payer, but also provides a focus for the collection of the required funding streams to mitigate the financing costs charged to the Department.
- Contingent Liabilities
  - the County Council self-insures, so it finances all its own liability claims. The liabilities are uncertain but to cover these a

provision is maintained for known liability claims and a reserve is maintained to deal with fluctuations in liabilities and in the level of fire damage reinstatement, which now stands at around £22m.

- Annual Governance Statement
  - the Chief Financial Officer has the responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources concerned.
  - the review of the effectiveness of the system of internal financial control is informed by the work of the managers within the County Council, by internal audit and the External Auditors in its annual governance report and other reports.
  - the Audit Committee receives and reviews the annual governance statement and the external audit governance report.
  
- External Auditors
  - gave an unqualified opinion on the 2012/13 accounts, and an unqualified opinion on the County Council's arrangements to secure value for money and maintain its financial resilience.
  
- Other risks
  - there are potential legal claims outstanding and other possible risks which past trends suggest can be met from balances if required. There is no known significant risk or liability which requires a provision, contingency or reserve not already allowed for in the budget report.
  - though Government grants have been confirmed for 2014/15 and provisional figures given for 2015/16, the County Council's grant calculated from the formula is still below the grant floor in 2014/15. The policy on the use of the grant equalisation reserve has provided mitigation against grant loss in previous years, but there is a significant increase in the use of the reserve for 2014/15 as part of a deliberate policy to plan and implement savings to close the recurring gap in the budget from 2015/16 onwards.

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.

Carolyn Williamson

Director of Corporate Resources

24th January 2014

**CAPITAL INVESTMENT PRIORITIES**

<b>Scheme</b>	<b>£000</b>	<b>Description</b>
Investing in Hampshire	9,000	<p>Hampshire has a rich and diverse heritage and the County Council has always sought to provide support and develop strong links with the organisations that have responsibility for running and maintaining the most significant facilities and heritage assets.</p> <p>It is important that the County Council has the capacity to invest in Hampshire as a place and in organisations and facilities that are unique to the County. It is therefore recommended that the 2014/15 to 2016/17 capital programme incorporates £3m per annum for capital grants to support these types of organisations and facilities.</p> <p>This is formalising a long held policy to support the major tourist attractions across the County and give capacity to support the wider economic, cultural and social wellbeing benefits that these facilities, their visitors and tourism play in the local economy</p>
Investing in Country Parks	5,700	<p>A major programme of investment is planned for our country parks was considered by the Executive Member for P&amp;R at his meeting in December. This investment will provide much needed repair and improvement to existing infrastructure together with the introduction of a new range of facilities to enhance the offer at these important sites. The investment will also increase income to the sites but is subject to securing external grant funding of £4.2M and assumes the generation of capital receipts of £3M from sales of assets within the parks themselves</p>
ETE Major Project Bidding Resources	2,000	<p>Resources to support major bidding rounds was included in the update of the capital programme in 2012/13 and was programmed over two years. Given the success of the Councils bidding during this period, a further £2 million of additional funding is planned over 2014/15 and 2015/16 to support future grant bidding rounds.</p>

Scheme	£000	Description
P&R - Continuation of higher feasibility budget	860	Similarly, additional resources were added to the programme in 2012/13 and 2013/14 to support the feasibility budget within Policy and Resources Capital Programme and it is proposed that this is continued into 2014/15 and 2015/16.
Strategic Purchase of Farm Land	1,994	An opportunity to purchase additional farm land has arisen within the County. In order to maintain an on going level of operational farming land within the County estate, an offer has been made to acquire the site. The cost shown includes repair and improvement costs in order to make the site fully fit for purpose.
Improvements to nursing and residential accommodation	1,000	A provision is being made for improvements to County Council owned residential and nursing accommodation, which will fund planned works to enhance the environment and safety of residents, visitors and staff.
PSN Compliance - IT Kit for Adults and Children's Services	3,000	<p>The Public Services Network (PSN), provided by the Government is used by the public sector for safe and secure data transfer and shared usage. In particular information held and shared in respect of social care clients is of course highly sensitive and confidential. The Government has changed the compliance arrangements for the PSN which forbids access to certain parts of the network through non-Council owned equipment.</p> <p>This has significant implications in Adults and Children's services who access the systems from personal computers or devices. This is provision is seen as a maximum investment that is still subject to a full business case in terms of future business requirements and operating procedures.</p>

Scheme	£000	Description
Corporate Estate - Planned Repairs and Refurbishment	2,500	An additional provision of £5 million over two years was added to the programme for enhanced planned repairs on the corporate estate in 2012/13. This helps to maintain our assets to an appropriate standard and reduces the need for reactive maintenance in the future. A further provision of £2.5 million is suggested over the next two years that will also provide some funds for much needed refurbishment of some areas of our administrative buildings.
Strategic Infrastructure Investment	7,000	A provision of £7 million is being added to the capital programme to provide for contributions to infrastructure requirements at strategic developments such as Whitehill Borden and Wellborne. It will also provide funding to address some of the major problems in respect of flooding across the County which are currently under investigation. The specific allocations for these purposes will be approved by the Executive Member for Policy and Resources as scheme requirements become clear.
<b>Total Schemes</b>	<b>33,054</b>	

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## Treasury Management Strategy and Investment Strategy 2014/15 to 2016/17

### 1 Summary

- 1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the Department for Communities and Local Government's (DCLG) Investment Guidance.
- 1.2 As per the requirements of the Prudential Code, Hampshire County Council adopted the CIPFA Treasury Management Code at its meeting on 18 February 2010. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 1.3 The purpose of this TMSS is, therefore, to approve:
- Treasury Management Strategy for 2014/15
  - Annual Investment Strategy for 2014/15, including proposals for changes to the investment of the County Council's cash balances to increase the yield earned on investments.
  - Prudential Indicators for 2014/15, 2015/16 and 2016/17 shown in Appendix D
  - Minimum Revenue Provision (MRP) Statement shown in Appendix E
- 1.4 The County Council has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 1.5 **This Report recommends the following be approved:**
- **Treasury Management Strategy and Annual Investment Strategy for 2014/15, (and for the rest of 2013/14) including:**
  - **Prudential Indicators for 2014/15, 2015/16 and 2016/17 – Appendix D**
  - **Minimum Revenue Provision (MRP) Statement – Appendix E**
  - **That authority is delegated to the Director of Corporate Resources to manage the Council's investments according to the risk assessment process in the Investment Strategy and to amend the list of approved**

**counterparties, cash limit and duration limit (up to the maximum cash limit and duration outlined in this Strategy) as appropriate to most effectively manage the Council's investments.**

## **2 Economic Outlook**

- 2.1 The flow of credit to households and businesses is slowly improving but is still below pre-crisis levels. The fall in consumer price inflation (CPI) from the high of 5.2% in September 2011 to the Bank of England's target of 2.0% in December 2013 will allow real wage increases (i.e. after inflation) to slowly turn positive and aid consumer spending.
- 2.2 The Bank of England's Monetary Policy Committee (MPC) through its recent Forward Guidance is committed to keeping interest rates low for an extended period, using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider whether or not to raise interest rates, subject to certain conditions. Unemployment fell to 7.1% in January 2014.
- 2.3 Stronger growth data in 2013 (0.4% in Q1, 0.7% in Q2 and 0.8% in Q3) alongside a pick-up in property prices mainly stoked by Government initiatives to boost mortgage lending have led markets to price in an earlier rise in interest rates than warranted under Forward Guidance and the broader economic backdrop. The Council's treasury management advisers, Arlingclose, forecast that the MPC will maintain its resolve to keep interest rates at their current level of 0.5% into 2017, until the recovery is convincing and sustainable. A more detailed economic and interest rate forecast provided by Arlingclose is attached in Appendix A.
- 2.4 The credit risk of banking failures has diminished, but not dissipated altogether. Regulatory changes are afoot in the UK (Banking Reform Act 2014), and Europe (EU Bank Recovery and Resolution Directive) to move away from the bank 'bail-outs' of previous years to bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. In the event of a 'bail in' investors funds would be top-sliced to meet the losses of the failing bank and restore it to an acceptable level of financial health, resulting in a capital loss to those investors. This is already manifest in relation to holders of subordinated debt issued by the Co-operative Bank (which the Council does not invest in) whose investment has been partially converted into less valuable equity. As a result, to mitigate the greater risk to bank investments posed by the prospect of 'bail-ins', the County Council will look to reduce the exposure of its cash investments to any individual counterparty, as well as continue to invest in only those institutions that are assessed as lower risk by meeting its credit criteria.

### 3 Balance Sheet Position and Capital Financing Requirement

3.1 As at 31 December 2013 the County Council had £373m of borrowing and £544m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

	31.3.13 Actual £m	31.3.14 Estimate £m	31.3.15 Estimate £m	31.3.16 Estimate £m	31.3.17 Estimate £m
Capital Financing Requirement	705	761	769	761	739
Less: Other long-term liabilities					
- Street Lighting PFI	-60	-93	-119	-116	-113
- Waste Management Contract	-74	-70	-65	-60	-55
<b>Borrowing CFR</b>	<b>571</b>	<b>598</b>	<b>585</b>	<b>585</b>	<b>571</b>
Less: External borrowing					
- Public Works Loan Board	-306	-296	-281	-270	-248
- Market Loans (LOBOs)	-73	-73	-73	-73	-73
<b>Internal (over) borrowing</b>	<b>192</b>	<b>229</b>	<b>231</b>	<b>242</b>	<b>250</b>
Usable reserves	-419	-404	-401	-410	-420
Working capital	-176	-181	-185	-190	-195
<b>Resources for investments</b>	<b>-595</b>	<b>-585</b>	<b>-586</b>	<b>-600</b>	<b>-615</b>
<b>New borrowing or (investments)</b>	<b>-403</b>	<b>-356</b>	<b>-355</b>	<b>-358</b>	<b>-365</b>

3.2 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 Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Internal borrowing has the dual advantages of reducing the Council's investment balances exposure to counterparty risk and its cost of carry, the difference between the cost of borrowing and the return on investment if funds are borrowed before they are actually required.

3.3 The Council's CFR is forecast to increase in the current and next financial year, in particular as the Street Lighting PFI programme continues to be rolled out. The Council's reserves are forecast to remain stable and therefore the relatively small increase in borrowing CFR (activity that could result in actual

borrowing) can be absorbed by the Council's cash balances.

- 3.4 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2014/15 and the following two years.

#### **4 Borrowing Strategy**

- 4.1 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.
- 4.2 The Council currently holds £373m of loans made up of £300m of loans from the Public Works Loan Board (PWLB) and £73m of market loans. These loans were taken between 1989 and 2011, when the Council's cash balances were considerably lower than they are today, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 1 shows that the Council has investment resources that give the option to borrow internally to fund the capital programme, rather than take out new loans.
- 4.3 Internal borrowing has the dual advantages of reducing the County Council's investment balances exposed to counterparty risk and its cost of carry - the difference between the cost of borrowing (currently 4% for a 20 year PWLB maturity loan) and the return on investment (currently less than 1%) if funds are borrowed before they are actually required. Internal borrowing has therefore been the County Council's preferred source of borrowing for a number years and is the strategy for 2014/15 and the coming years in the current interest rate environment.
- 4.4 The benefits of internal 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. If the benefits from reducing the internally borrowed position are sufficient then the Council will enter into new long-term borrowing agreements, whilst remaining within its authorised limit for borrowing of £870m.
- 4.5 In addition, the Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.
- 4.6 If long-term borrowing is necessary the County Council will investigate potential

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

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Council to operate in the UK
- UK public and private sector pension funds (except the Hampshire Pension Fund)
- capital market bond investors
- special purpose companies created to enable joint local Council bond issues.

4.7 **Debt Rescheduling:** 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. There is currently no financial benefit to the Council in using any of its current reserves to repay loans, as the premium that is added by the PWLB to any loans that are repaid is still relatively expensive for the loans in the portfolio in comparison to the returns available from continuing to invest reserves. However, consideration will continue to be given to any advantageous opportunity to reduce or restructure the debt portfolio in the future.

4.8 The County Council's £73m market loans are 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 Authority has the option to either accept the new rate or to repay the loan at no additional cost. In the current interest rate climate it is unlikely that any lender will exercise their options but there remains an element of refinancing risk. The Council will take the option to repay any LOBO loan at no cost if it has the opportunity to do so.

## 5 Investment Strategy – options for higher yielding investments

5.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £447m and £664m, and similar levels are expected to be maintained in the forthcoming year.

5.2 Both the CIPFA Code and the CLG Guidance require the 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 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 receiving unsuitably low investment income.

- 5.3 The yield that the County Council can achieve from its current investments is decreasing due to the combination of Bank of England's base rate being held at 0.5% and the Government's Funding for Lending Scheme, which is reducing the banks' need to attract investments. The average yield on the County Council's investments as at 31 December 2013 was 0.88%. Options to increase the income that the County Council receives have been considered by the Transformation to 2015 programme, as part of the Council's overall strategy for managing further reductions in funding over the coming years.
- 5.4 As shown in Table 1 above the County Council's total cash balances are expected to remain relatively stable over the medium term. It is proposed that £90m of the cash balances could be used to target higher returns. This amount has been set at a relatively small percentage of the County Council's total cash balance and based on the stability of the County Council's reserves. The proposed allocations of the cash balances are as follows in order to target an overall 2% return over the next 5 years.

**Table 2: Proposed investment allocation**

Asset class	Indicative allocation	Expected average annual return in the next 5 years
Cash – banks and building societies (less than 1 year)	£220m	1.20%
Cash – other Local Authorities (up to 5 years)	£200m	1.96%
Higher yielding investments	£90m	4.00%
Total/Weighted average	£510m	2.00%

- 5.5 Investments with other local authorities form part of the current Investment Strategy and are usually made for up to 5 years, but the County Council has a total of £15m of investments with three other local authorities made in 2012, which were for up to 24 years at an average rate of 3.94% per annum. These were made on an exceptional basis as part of the business case for the Street Lighting PFI scheme, however further long-term investments (up to 30 years) with other local authorities could be made by the County Council to create a high yielding segment of its portfolio as shown in the table above.

There are a number of advantages for the County Council in making long-term investment with other local authorities:

- Security of capital – investors with local authorities are protected by Local Government legislation that allows repayment from future Council Tax revenues if debts or investments are not repaid on time.
- Level of returns – are currently in line with what the County Council would

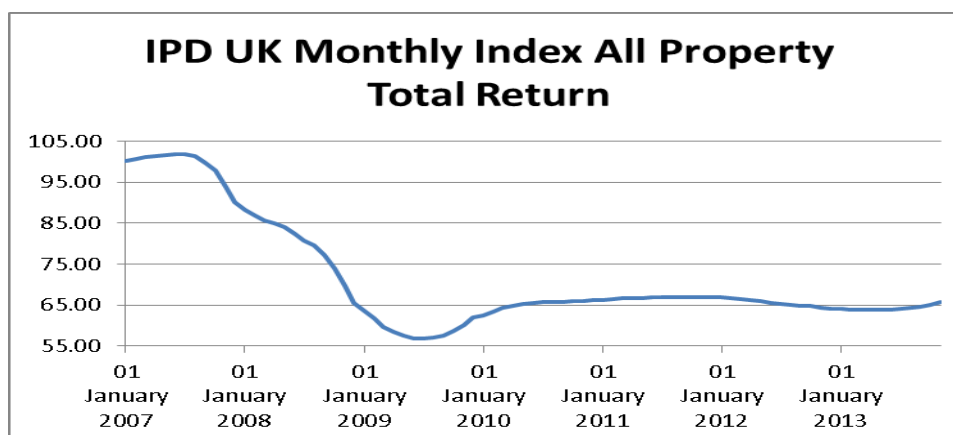
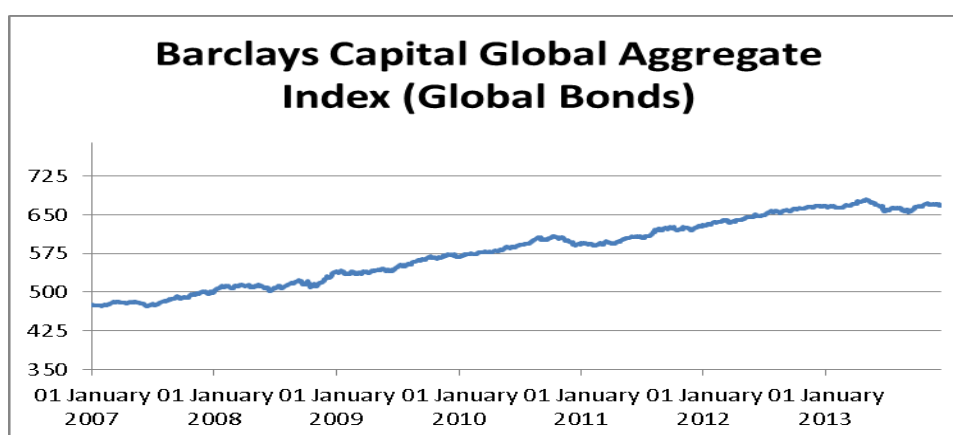
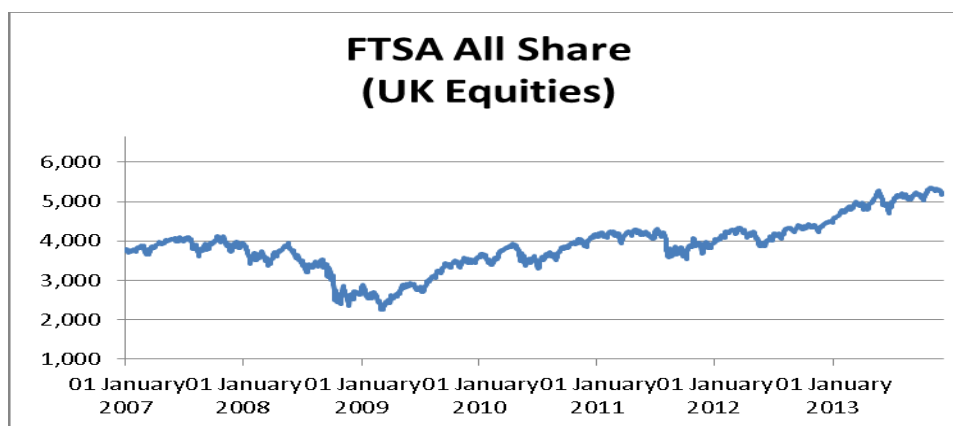
be targeting from high yielding investments of around 4% pa.

- No entry fees.
- Ability to end the arrangements – although the investments can be for a fixed term of up to 30 years, the County Council's treasury management advisor Arlingclose, can broker deals with other local authorities looking to borrow that would have 6 monthly break clauses. This would enable the County Council to recall its funds if they were required, for example if its cash balances fell very significantly. The County Council would only incur a financial penalty if it recalled the investment and interest rates had changed to the extent that a discount on repayment was due.

5.6 The alternative to further long-term local authority investments as a source of higher yielding investments is investment in other asset classes, such as:

- Property pooled funds – large well established funds that purchase properties with good covenants and long leases linked to Retail Price Inflation (RPI). Property funds should deliver relatively stable annual returns from rental income and offer good diversification from the alternative of equity investments. The only specific disadvantage of these funds is that with one exception of a specific Local Authority fund, these investments would have to be accounted for as capital expenditure and income when the investment is ultimately sold.
- Equity income funds – either UK or Global funds focussing on companies which produce strong income i.e. dividend returns. These funds are likely to underperform general equity market returns but also suffer less volatility in their value.
- Pooled bond funds – funds investing in both corporate and government debt either in the UK or globally. These funds should offer steady income streams from the bond coupons, which whilst generally lower than equity income should also suffer less volatility in their overall value.
- Multi-asset (or Absolute Return) funds – pooled funds investing in a range of asset types including equities, bonds and alternative investments (such as hedge funds). These funds typically aim to pay an annual return to investors and emphasise capital protection.

5.7 All of these asset classes have variable values determined by the markets they are traded on. The graphs below show the changes in index values since 2007 for each of the three main asset classes of equities, bonds and commercial property. The indices are for total returns, both capital growth in the asset's values and income from dividends, interest or rent.



5.8 Each investment within the higher yielding portfolio would be subject to detailed due diligence taken from Arlingclose or similar experts, which could include those advising the Pension Fund, but it is important to be clear about the risks that the new asset classes pose:

- Loss of capital – this would be mitigated by the due diligence in the selection of funds and diversification in the portfolio. However, at any given point, particularly in the short-term, the value of the investment may be less than the amount originally invested. In other words, the County Council would not get all its money back if it wished to redeem in the short-term. In the longer term, it would be hoped that the value of the investment would recover, but there is always the risk that the County

Council invests at the 'wrong time', i.e. the investment value was at a peak level which it takes a number of years to return to. The graphs above highlight not only the volatility in the values of investments but also the potential that equities and bonds values are at or near a peak and the risk of loss of value is possibly heightened in the short-term.

- Illiquidity – given the variability of capital values and the possibility at any given time the value of the investment may be less than the amount originally invested, these types of investments should generally be held over at least the medium (5 years) and not viewed as a source of short-term liquidity. The amount of funds that could be invested in these type of assets have been set based on the stability of the County Council's reserves that indicate that these funds can be invested at least for the medium term. The relatively small amount of funds that have been set aside for potential investment in these sorts of assets mean that even if the Council's cash balances were to fall, investments in this portfolio would not have to be sold or recalled at an inopportune time, when the value may be below that which the County Council had invested and would result in a loss.
  - Entry and exit fees – there is a bid/offer spread for buying and selling these type of investments, this is particularly significant for property funds where transaction costs (e.g. stamp duty) are high and can be as much as 7%. In practice this mean that the County Council's investment will immediately be worth less than it has paid following its initial investment, and if there is no appreciation in capital values it is likely to take more than a year's income return to recover this loss. There may be the opportunity to minimise the bid/offer spread through buying and selling on the secondary market but opportunities cannot be guaranteed. The bid/offer spread will be taken into account for each investment as part of the due diligence assessment.
  - Volatility in returns – but returns can be expected to be much higher than cash investments over at least the medium term.
- 5.9 In order to generate higher investment returns the preferred option is long-term investments with other local authorities, where the County Council's capital will not be at risk, rather than investing in riskier asset classes, such as equities, bonds and property. This is dependant on being able to find enough local authorities wanting long-term loans, which Arlingclose advise it is reasonable to assume, although this is unproven. If there are not sufficient opportunities to fill the £90m allocation for higher yielding investments with long-term local authority investments, then suitable investments in equities, bonds and property as outlined in this report will be utilised.

## 6 Investment Strategy

- 6.1 The Council may invest its surplus funds with any of the types of counterparties in Table 3 below, subject to the cash and duration limit shown.

**Table 3: Approved Investment Counterparties**

Counterparty	Cash limit	Time limit
Banks and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's meets the Council's minimum rating of A- or equivalent (see Appendix C for the current list)	£80m each	2 years
The Council's current account bank (NatWest) if it fails to meet the above criteria	£70m	Over night
UK Central Government (irrespective of credit rating)	unlimited	5 years
UK Local Authorities (irrespective of credit rating)	£40m each	30 years
UK Registered Providers of Social Housing whose lowest published long-term credit rating is A- or higher. Formerly known as Housing Associations, Registered Providers of Social Housing are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed.	£20m each (no more than 50% of total funds with registered providers)	5 years
Money market funds: These funds are pooled investment vehicles consisting of money market deposits and similar instruments. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager.	£30m each (no more than 50% of total funds with MMFs)	n/a
Other pooled funds: pooled bond, equity and property funds that offer enhanced returns over the longer term, but are potentially more volatile in the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments.	£20m each, £90m in total (no more than 10% of funds total value when investing)	n/a
Any other organisation, subject to an external credit assessment and specific advice from the Council's treasury management adviser	£80m each	2 years

- 6.2 The counterparty limit for banks and building societies is being reduced from £90m to £80m, which is being set to allow for peaks in the cash balance, such as when Revenue Support Grant is received in April and May. Operationally the amount invested with any individual counterparty will be reduced, through the use of more counterparties that meet the Authority's credit criteria. This will ensure that the Council has a greater level of diversification in its cash

investments across a range of creditworthy counterparties, which is increasingly important to mitigate the risk of the loss of the Council's capital in a bank 'bail-in' as banking regulations change as outlined in paragraph 2.4. This reflects a lower likelihood that the UK and other governments will support failing banks as the 'bail-in' provisions in the Banking Reform Act 2014 and the EU Bank Recovery and Resolution Directive are implemented.

6.3 **Approved Instruments:** The Council may lend or invest money using any of the following instruments:

- interest-bearing bank accounts,
- fixed term deposits and loans,
- callable deposits where the Council may demand repayment at any time (with or without notice),
- callable loans where the borrower may demand repayment at any time, but subject to a maximum of £170m in total,
- certificates of deposit,
- bonds, notes, bills, commercial paper and other marketable instruments, and
- shares in money market funds and other pooled funds.

6.4 Investments may be made at either a fixed rate of interest, or at a variable rate linked to a market interest rate, such as LIBOR, subject to the limits on interest rate exposures below. Investments are generally made with mainly UK high-street banks and building societies (shown in Appendix C), which the Council can place investments with directly into call accounts or term deposits. The Council also considers investing in other counterparties, mainly overseas banks (shown in Appendix C), where it can only invest in certificates of deposit. Throughout the coming year counterparties that were previously only accessible via certificates of deposit may accept direct investments, and therefore these distinctions are not fixed.

6.5 **Liquidity management:** The 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 Council's forecast medium term financial position (summarised in Table 1) and forecast short-term cash balances.

6.6 **Current Account Bank:** The Council's current account is held with NatWest, which is currently rated at the minimum A- rating in Table 2. Should the credit ratings fall below A- the Council may continue to deposit surplus cash with

NatWest providing that investments can be withdrawn on the next working day, and that the bank maintains a credit rating no lower than BBB- (the lowest investment grade rating).

- 6.7 **Risk Assessment and Credit Ratings:** The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the 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.
- 6.8 Where a credit rating agency announces that a A- 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.
- 6.9 **Other Information on the Security of Investments:** It is accepted that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.
- 6.10 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 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 Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, Treasury Bills or Gilts 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.

- 6.11 The current list of approved counterparties and current duration limits for investments is shown in Appendix C. It is recommended that authority is delegated to the Director of Corporate Resources to manage the Council's investments according to the risk assessment process outlined above and to amend the list of approved counterparties, cash limit and duration limit (up to the maximum cash limit and duration outlined in this Strategy) as appropriate to most effectively manage the Council's investments.
- 6.12 **Specified Investments:** The CLG Guidance defines specified investments as those:
- denominated in pound Sterling,
  - due to be repaid within 12 months of arrangement,
  - not defined as capital expenditure by legislation, and
  - invested with one of:
    - the UK Government,
    - a UK local Council, parish council or community council, or
    - a body or investment scheme of "high credit quality".
- 6.13 **Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Council defines 'high credit quality' organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in Table 4 below.

**Table 4: Non-Specified Investment Limits**

	<b>Cash limit</b>
Total long-term investments	£250m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£170m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£420m

## 7 Treasury Management Indicators

- 7.1 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. This limit has been increased in line with the proposal to make long-term investments with other local authorities to increase the yield from the investment portfolio. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2014/15	2015/16	2016/17
Limit on principal invested beyond year end	£250m	£250m	£250m

- 7.2 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the principal borrowed or invested will be:

	2014/15	2015/16	2016/17
Upper limit on fixed interest rate investment exposure	£250m	£250m	£250m
Upper limit on variable interest rate investment exposure	£750m	£750m	£750m
Upper limit on fixed interest rate borrowing exposure	£810m	£800m	£770m
Upper limit on variable interest rate borrowing exposure	£810m	£800m	£770m

- 7.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate, therefore the limit for fixed interest rate exposure is in line with the limit for investment beyond the 2014/15 year-end. The limits for exposure to fixed and variable rate borrowing have been set to give the Council maximum flexibility in the event of debt rescheduling.

- 7.4 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	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%

## 8 Other Items

- 8.1 There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.
- 8.2 **Use of Financial Derivatives:** The Authority 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 Authority 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 will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.
- 8.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit. The use of financial derivatives is not planned as part of the implementation of the Treasury Management Strategy and any changes to this would be reported to members in the first instance.
- 8.4 **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.
- 8.5 Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA and other appropriate organisations.
- 8.6 **CIPFA's Code of Practice** requires that the 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. Members of the Finance and General Purposes Committee were invited to a workshop presented by Arlingclose on 19 November 2013, which gave an update on treasury matters.
- 8.7 **Investment Advisers:** The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly

review meetings with the Director of Corporate Resources and her staff and Arlingclose.

- 8.8 **Investment of Money Borrowed in Advance of Need:** The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks. The total amount borrowed will not exceed the authorised borrowing limit of £870m.

## Appendix A – Arlingclose Economic & Interest Rate Forecast December 2013

Arlingclose's projected path for short term interest rates remains flat. Markets are still pricing in an earlier rise in rates than warranted under Forward Guidance and the broader economic backdrop. The MPC will not raise rates until there is a sustained period of strong growth. However, upside risks weight more heavily at the end of our forecast horizon.

Arlingclose continue to project gilt yields on an upward path through the medium term. The recent climb in yields was overdone given the soft fundamental global outlook and risks surrounding the Eurozone, China and US.

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
<b>Official Bank Rate</b>													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	1.00
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
Downside risk													
<b>3-month LIBID rate</b>													
Upside risk	0.20	0.25	0.30	0.35	0.40	0.50	0.55	0.60	0.65	0.70	0.75	0.90	0.95
<b>Arlingclose Central Case</b>	<b>0.45</b>	<b>0.45</b>	<b>0.50</b>	<b>0.55</b>	<b>0.65</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.75</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>
Downside risk			0.05	0.10	0.20	0.30	0.30	0.30	0.30	0.30	-0.35	-0.35	-0.35
<b>1-yr LIBID rate</b>													
Upside risk	0.35	0.30	0.35	0.40	0.45	0.50	0.60	0.70	0.75	0.75	0.75	0.80	0.80
<b>Arlingclose Central Case</b>	<b>0.90</b>	<b>0.95</b>	<b>0.95</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>1.15</b>	<b>1.20</b>	<b>1.25</b>	<b>1.30</b>	<b>1.40</b>	<b>1.40</b>
Downside risk	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5-yr gilt yield</b>													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Arlingclose Central Case</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.60</b>	<b>1.65</b>	<b>1.70</b>	<b>1.75</b>	<b>1.85</b>	<b>1.95</b>	<b>2.10</b>	<b>2.30</b>	<b>2.50</b>	<b>2.50</b>
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
<b>10-yr gilt yield</b>													
Upside risk	0.50	0.50	0.50	0.65	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Arlingclose Central Case</b>	<b>2.55</b>	<b>2.60</b>	<b>2.65</b>	<b>2.70</b>	<b>2.75</b>	<b>2.80</b>	<b>2.85</b>	<b>2.90</b>	<b>3.00</b>	<b>3.10</b>	<b>3.30</b>	<b>3.50</b>	<b>3.50</b>
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.75	-0.80	-0.80	-0.80
<b>20-yr gilt yield</b>													
Upside risk	0.50	0.75	0.75	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Arlingclose Central Case</b>	<b>3.25</b>	<b>3.30</b>	<b>3.35</b>	<b>3.40</b>	<b>3.45</b>	<b>3.50</b>	<b>3.55</b>	<b>3.65</b>	<b>3.75</b>	<b>3.85</b>	<b>4.05</b>	<b>4.15</b>	<b>4.15</b>
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80
<b>50-yr gilt yield</b>													
Upside risk	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Arlingclose Central Case</b>	<b>3.45</b>	<b>3.50</b>	<b>3.55</b>	<b>3.60</b>	<b>3.65</b>	<b>3.70</b>	<b>3.75</b>	<b>3.80</b>	<b>3.85</b>	<b>3.95</b>	<b>4.05</b>	<b>4.15</b>	<b>4.15</b>
Downside risk	-0.50	-0.50	-0.50	-0.50	-0.55	-0.60	-0.60	-0.60	-0.65	-0.70	-0.75	-0.80	-0.80

## Appendix B – Existing Investment & Debt Portfolio Position

	31.12.2013 Actual Portfolio £m	31.12.2013 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	300	
Other Loans	73	
<b>Total External Borrowing</b>	<b>373</b>	<b>4.93</b>
Other Long Term Liabilities:		
Street Lighting PFI	93	
Waste Management Contract	70	
<b>Total Gross External Debt</b>	<b>536</b>	<b>-</b>
Investments:		
Direct Deposits (banks and building society)	343	0.79
Certificates of Deposit	0	-
Money Market Funds	5	0.45
Other Local Authorities	181	0.83
Other Local Authorities (PFI savings)	15	3.94
<b>Total Investments</b>	<b>544</b>	<b>0.96</b>
<b>Net Investments</b>	<b>8</b>	<b>-</b>

**Appendix C – Current approved counterparty list and duration limits**

Long-term credit rating			Country/ Domicile	Counterparty	Maximum Duration
Moody's	FITCH	S&P			
Direct deposits (e.g. call accounts, term or notice deposits)					
A2	A	A	UK	Barclays Bank	12 months
Aa3	AA-	AA-	UK	HSBC Bank	12 months
A2	A	A	UK	Nationwide Building Society	12 months
Aa3	AA-	AA-	Sweden	Svenska Handelsbanken	12 months
A2	A	A	UK	Lloyds TSB	6 months
A3	A	-	UK	Close Brothers	100 days
Aa3	AA-	AA-	UK	Goldman Sachs International Bank	100 days
A3	A-	-	UK	Leeds Building Society	100 days
A3	A	A-	UK	NatWest	overnight
A2	A	A	UK	Santander UK	overnight
Certificates of deposit					
A1	AA-	AA-	UK	Standard Chartered	12 months
Aa2	AA-	AA-	Australia	Australia and NZ Banking Group	12 months
Aa2	AA-	AA-	Australia	Commonwealth Bank of Australia	12 months
Aa2	AA-	AA-	Australia	National Australia Bank	12 months
Aa2	AA-	AA-	Australia	Westpac Banking Corp	12 months
Aa3	AA-	A+	Canada	Bank of Montreal	12 months
Aa2	AA-	A+	Canada	Bank of Nova Scotia	12 months
Aa3	AA-	A+	Canada	Canadian Imperial Bank of	12 months
Aa3	AA	AA-	Canada	Royal Bank of Canada	12 months
Aa1	AA-	AA-	Canada	Toronto-Dominion Bank	12 months
Aa3	AA-	AA-	Finland	Nordea Bank Finland	12 months
A2	A+	A	Germany	Deutsche Bank AG	12 months
Aaa	AAA	AAA	Netherland	Bank Nederlandse Gemeenten	12 months
Aa2	AA-	AA-	Netherland	Rabobank	12 months
Aa3	A+	A+	US	JP Morgan Chase Bank	12 months
Aa3	A+	AA-	Finland	Pohjola Bank	6 months
Aa1	AA-	AA-	Singapore	DBS	6 months
Aa1	AA-	AA-	Singapore	Oversea Chinese Banking	6 months
Aa1	AA-	AA-	Singapore	United Overseas Bank	6 months
A2	A+	A	Germany	Landesbank Hessen-Thuringen	100 days
A2	A+	A+	Netherland	ING Bank	100 days
A1	A	A	Switzerland	Credit Suisse	100 days

Long-term credit rating			Country/ Domicile	Counterparty	Maximum Duration
Moody's	FITCH	S&P			
A2	A+	A+	France*	BNP Paribas	Suspended
A2	A	A	France*	Credit Agricole CIB/SA	Suspended
A2	A	A	France*	Societe Generale	Suspended

\* Investing with French Banks is currently suspended as France does not currently meet the minimum sovereign rating of AA-

## Appendix D - Prudential Indicators 2014/15

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

**Estimates of Capital Expenditure:** The Council's planned capital expenditure and financing may be summarised as follows.

<b>Capital Expenditure and Financing</b>	<b>2013/14 Revised £m</b>	<b>2014/15 Estimate £m</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>
<b>Total Expenditure</b>	<b>222</b>	<b>284</b>	<b>218</b>	<b>166</b>
Capital receipts	14	8	14	6
Government Grants	63	114	96	92
Capital reserve	9	41	18	1
Revenue contributions	26	29	29	28
Capital contributions (from other bodies)	18	31	31	21
Contributions from reserves	6	19	4	5
<b>Total Financing</b>	<b>136</b>	<b>242</b>	<b>192</b>	<b>153</b>
Supported borrowing	30	4	0	0
Prudential borrowing	21	9	26	13
Finance lease	35	29	0	0
<b>Total Funding</b>	<b>86</b>	<b>42</b>	<b>26</b>	<b>13</b>
<b>Total Financing and Funding</b>	<b>222</b>	<b>284</b>	<b>218</b>	<b>166</b>

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

	31.03.14 Revised £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Capital Financing Requirement	769	761	739	717

The CFR is forecast to increase over the coming years before falling as capital expenditure financed by debt is matched by the resources put aside for debt repayment.

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

	31.03.14 Revised £m	31.03.15 Estimate £m	31.03.16 Estimate £m	31.03.17 Estimate £m
Debt				
Borrowing	369	351	343	321
Finance leases	163	184	176	168
<b>Total Debt</b>	<b>532</b>	<b>535</b>	<b>519</b>	<b>489</b>

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

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

Operational Boundary	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	630	620	620	600
Other long-term liabilities	170	190	180	170
<b>Total Debt</b>	<b>800</b>	<b>810</b>	<b>800</b>	<b>770</b>

**Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit

provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	660	640	640	630
Other long-term liabilities	210	230	220	210
<b>Total Debt</b>	<b>870</b>	<b>870</b>	<b>860</b>	<b>840</b>

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Revised	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
General Fund	7.58%	7.53%	7.40%	7.30%

**Incremental Impact of Capital Investment Decisions:** This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed earlier in this report.

Incremental Impact of Capital Investment Decisions	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
General Fund - increase in annual band D Council Tax	£1.41	£3.30	£4.09

**Adoption of the CIPFA Treasury Management Code:** The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition on 18 February 2010

## Appendix E – Annual Minimum Revenue Provision Statement 2014/15

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

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

The DCLG Guidance requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The four MRP options available are:

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method

*NB This does not preclude other prudent methods.*

**MRP in 2014/15:** Options 1 and 2 may be used only for supported (i.e. financing costs deemed to be supported through Revenue Support Grant from Central Government) capital expenditure funded from borrowing. Methods of making prudent provision for unsupported capital expenditure include Options 3 and 4 (which may also be used for supported capital expenditure if the Council chooses).

The Council will apply Option 1/Option 2 in respect of supported capital expenditure funded from borrowing and Option 3/Option 4 in respect of unsupported capital expenditure funded from borrowing.

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

Capital expenditure incurred during 2014/15 will not be subject to a MRP charge until 2015/16.

## Summary of consultation with communities on the County Council's spending priorities in relation to the Budget 2014/15

### Consultation approach

A variety of forums and methods have been utilised to seek the public's views on the County Council's spending priorities for 2014/15. The methods used were as follows:

- Dialogue with businesses
- 'Open' survey to all residents across Hampshire was carried out in November 2013 with the purpose of obtaining residents' views on which of the County Council's services they valued most, to inform spending priorities and on-going service improvements. The survey was promoted using various means including the County Council's website, social media, the Hampshire Association of Local Councils, the voluntary and community sector, and County Council service user groups. In addition, paper copies of the survey were publically available in Hampshire libraries and Discovery Centres as well as in other local authority public buildings.
- Dialogue with the voluntary and community sector
- Dialogue with Trade Union representatives
- Dialogue with senior managers and staff.

### Summary of findings from consultation with businesses

- On 16<sup>th</sup> January, The Leader and Director of Corporate Resources met with the Hampshire Chamber of Commerce to discuss the proposals for the County Council's 2014/15 Budget.
- The current position in respect of balancing the need to respond to Government grant reductions whilst keeping council tax low to help households during this difficult financial period was acknowledged along with the fact that Hampshire's decision to freeze council tax for four years in a row may be rewarded by the inclusion of funding in future baseline grant settlements.
- Other key issues that were discussed were the County Councils commitment to the Broadband programme and the proposed roll out, together with the current problem of flooding across the County, which the Council has sought to begin to address by the inclusion of a provision for infrastructure investment in the capital investment priorities identified in Section 12.
- Proposals for closer links and exchange of information with the Hampshire Business Alliance were discussed and will be progressed over the coming year.

### Open survey with Hampshire residents

- The results of the survey revealed that respondents placed the **most importance** on areas which:
  - Help vulnerable and older people
  - Maintain roads and pavements
  - Deal with anti-social behaviour and improve community safety
  - Save costs by sharing services with other public sector organisations.

- The respondents indicated a willingness to 'do more themselves' online as a method of reducing costs.
- They were unwilling to pay more council tax or pay for essential services, such as the disposal of waste.
- Suggestions for efficiencies focussed on reducing the general operational and running costs of the County Council and securing more value for money.

A more detailed document setting out the survey results can be found online.

#### **Engagement with the voluntary and community sector:**

- The County Council has regular dialogue with the voluntary and community sector (VCS) through the Hampshire Voluntary Sector Consortium. A presentation on the budget proposals was made to the consortium in December, facilitating discussion and exploration of related funding issues.
- The County Council is developing 'engagement schedules' which will provide a vehicle for early engagement of the VCS in the design and development of County Council services, including the early notification of potential commissioning opportunities.

#### **Trade Unions:**

- There has been a regular and ongoing programme of discussions and updates with Trade Unions.

#### **Hampshire County Council employees**

- A communications plan for staff has been operating alongside the public and community consultation on the implication of budget reductions. Staff have received regular communications from the Chief Executive through regular bulletins, as well as specific managers' briefings. Additional communications and staff engagement activities have been undertaken within each of the departments, including via newsletters from Directors outlining the proposals and implications for each department, as well as staff briefings and road shows. Staff were given the opportunity to feedback through various established mechanisms, including *Employee Voice*. Dedicated 'Transformation' intranet pages have also provided information to staff on key developments, which are regularly updated.