County Council 22 October 2015 – ANNEX to Item 10

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	5 October 2015
Title:	Medium Term Financial Strategy Update and Transformation to 2017 Savings Proposals
Reference:	6920
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

1.1. The purpose of this report is to present the detailed savings proposals from Departments as part of the Transformation to 2017 Programme and to consider the medium term prospects for the County Council's finances to 2019/20. It also takes the opportunity to update Cabinet on the financial monitoring position for 2015/16, including specifically the impact of the Better Care Fund on the County Council's future financial position.

1.2. The County Council's early action in tackling its forecast budget deficit over the 2010 Comprehensive Spending Review period and providing funding in anticipation of the tougher times to come, has placed it in a very strong financial position and has given the time and capacity to develop and implement the next phase of £98m of savings by 2017/18.

1.3. In line with the County Council's strategy of planning and delivering savings early, the proposals in this report are being presented at this stage (together with a summary of the results of the consultation carried out over the Summer) in order to allow sufficient time for full delivery of the savings including the requirement to undertake a second stage of consultations where this is necessary.

1.4. The report also extends the financial planning period to 2019/20, expected to be the final year of austerity for the public sector and examines the impact and strategy for dealing with new infrastructure investment such as the provision of additional Secondary School places, which is subject to a separate report on this agenda.

1.5. Whilst the County Council remains in a very strong financial position, this report outlines that with further grant reductions, ongoing social care and inflationary pressures and the national pressure to avoid council tax increases, the financial outlook to the end of the decade remains challenging. This report considers the financial strategy that may be developed to tackle this.

2. Contextual information

2.1. It is normal practice to provide Cabinet with an update on the Medium Term Financial Strategy (MTFS) in July each year in order to inform and direct work on detailed budget setting that will take place over the Summer.

2.2. The position is somewhat different this year since the main focus is to approve detailed savings proposals that will be implemented as part of the Transformation to 2017 Programme from April 2017. Further information in respect of the budget setting process for 2016/17 will be provided in December once further information is known following the Autumn statement expected in November.

2.3. An anticipated budget gap of £98m was predicted by the 2017/18 financial year and savings targets of £90m were allocated to Departments as part of the Transformation to 2017 Programme. The balance of £8m was to be met from housekeeping savings, targeted at inflation and debt management savings.

2.4. Since October 2014, once it was considered there was sufficient traction on the Transformation to 2015 Programme, work started on developing savings options through the Initial Opportunity Assessments (IOAs) that were completed in the early part of this year into the Transformation to 2017 Programme, underpinned as always by a number of cross cutting enabling themes such as Digital and the Business Support Review.

2.5. A comprehensive consultation process was carried out over the Summer to help inform and shape the final proposals that would be presented to Executive Members, Cabinet and County Council over the autumn for approval in order to provide sufficient time and capacity to fully implement the proposals as far as possible before April 2017.

2.6. Given the current stage of the Transformation to 2017 Programme, it was considered timely to look forward at the prospects for the next two financial years which will hopefully be the final two years of any Government Grant reductions. Social Care demography and complexity continues to be a major factor in considering the financial position for the authority and as we head to the end of the decade the recent announcement on the national living wage will also have a direct and indirect impact on the future costs of the Council, particularly in the area of adult social care. A further material factor in the form of provision of Secondary School places will also significantly influence the financial forecasts for the County Council.

3. Economic Outlook

3.1. At the start of the 2010 Comprehensive Spending Review (CSR) period, it was clear that any incoming Government would have to tackle the underlying structural deficit and bring down the national debt to GDP ratio. This process has taken longer originally expected and a further ‘mini’ spending review was carried out in 2013 which announced grant reduction figures for local authorities up to the 2015/16 financial year.

3.2. Original headline figures within the CSR 2010 assumed a 28% reduction in local government spending over the four year period. Whilst there has been a small increase in this overall amount, the distribution of the reductions, together with the additional reductions announced for 2015/16 has meant that the County Council has experienced Revenue Support Grant (RSG) reductions of just over 50% during this period, to the extent that RSG currently stands at only £116m out of a total gross budget of £1.9billion.

3.3. There were no further announcements in respect of potential future reductions in grant, referendum limits for council tax increases or the potential continuation of initiatives such as the Council Tax Freeze Grant (CTFG), other than to make it clear that the period of austerity was likely to last until at least 2019/20.

3.4. Following the General Election in May 2015, a budget announcement was made in July, but once again this did not provide any detailed information on the prospects for grant reductions within the local authority sector. Since this time, it has been announced that Government Departments have been asked to draw up plans to tackle real terms reductions of 25% and 40% over the next four years.

3.5. The County Council has been planning on the basis that it will receive a 10% per annum cash reduction in the grant that it receives over this period, and whilst this is within the upper boundaries of the potential reductions, this does not take into account the potential distribution of the savings, which are usually targeted more heavily to local government as a sector.

3.6. The County Council will therefore need to wait until the Autumn Statement in November at which point it will re-visit the assumptions built into its Medium Term Financial Strategy.

4. 2015/16 Financial Monitoring

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

4.2. 2015/16 represents a further milestone in this journey, given that a further £102.5m was removed from budgets in this year, taking the total to £242m since the grant reductions began.

4.3. This further level of reduction obviously increases the risk within the budget, which was partly reflected in the level of contingencies set aside for the year. In addition, in recognition of the increased risk, the Chief Executive asked for monthly 'financial resilience' reporting to be presented to the Corporate Management Team (CMT), that not only looked at the regular financial reporting carried out in previous years but also focussed on potential pressures in the system and the continued monitoring of the implementation and delivery of the Transformation to 2015 Programme.

The latest report to CMT on the financial resilience reporting shows that overall there is good delivery of savings and management within the budget and where there are issues, these have mostly been anticipated and can be accommodated on a one off basis from Department's cost of change reserves. There are however 3 areas that are worthy of further explanation.

Children Looked After

4.4. Cabinet will be aware that a recurring sum of £12.5m was added to Children's Services budget in 2015/16 to cover the increased numbers and costs of Children Looked After (CLA). This amount was based on projections produced at the start of this calendar year using a range of assumptions around continued growth and average cost.

4.5. Since the beginning of this financial year the number of CLA has begun to plateau, but the average cost of new placements is significantly higher than forecast within the £12.5m. At this stage therefore, assuming CLA numbers do not start to rise again, it is anticipated that the budget will be overspent by around £1.3m.

4.6. This amount can be accommodated within the separate contingency provision that was set aside for this purpose, but the budget will continue to be managed and monitored throughout the year and funding will only be provided if the budget continues to be exceeded. It may also be necessary to increase the forward budget based on further projections that will be carried out later in the year, but at this stage we will continue to monitor the trend of CLA as one of the high risk areas in the budget.

Agency Staff Costs

4.7. There has been a worrying trend since the beginning of the year in respect of the number of agency staff that are needing to be employed within Children's and Adults Social Services, which has given rise to predicted overspends in this area of £1.2m and £3.7m respectively.

4.8. There has been a significant increase in the use of agency staff compared with last year, partly as a result of staff leaving to join agencies. However, there are mitigations in place that should see this pressure reduce significantly, including the commitment within Children's Services to a 'memorandum of co-operation' across the south eastern region, which will help reduce costs and avoid staff leaving to join agencies through imposing a 12 month re-employment (via agency) restriction on any permanent staff who leave. Other recruitment and retention options are being considered within Children's Services and feature strongly as part of the transformation agenda, utilising the £4m DfE Innovation funding.

4.9. These measures will help to mitigate this predicted overspend and aim to tackle the underlying problems, but this may take some time to work through the system. In the meantime, any overspend will need to be managed within the bottom line position of each Department's budget or Departmental cost of change reserves will have to be used to meet any shortfall.

Better Care Fund

4.10. The Better Care Fund (BCF) was introduced by the Government as a means of pooling health and social care funding with a view to them working together to better integrate services, thereby improving outcomes for individuals in the system at the same time as releasing savings through more integrated, efficient working.

4.11. Adult Services included an amount of £20m of savings from BCF as part of their Transformation to 2015 Programme. At the time, this was highlighted as the single biggest overall risk within the whole of the budget, especially when put alongside the fact that 2015/16 was the first year that Adult Services had not been given additional funding to cover growth in complexity and demography.

4.12. Speed of delivery, as well as achieving the overall savings required, was also flagged as a major risk and therefore to mitigate these risks, appropriate contingency provision was included within the budget and a 'risk share agreement' was put in place with the Clinical Commissioning Groups (CCG's) which meant that for 2015/16 any one off shortfall in savings would be made up by cash payments shared across the County Council and the CCG's.

4.13. The Transformation to 2017 Programme – Report 4 that was presented to Cabinet in September, provided a detailed update on the position in respect of BCF. This highlighted that other than recurring savings generated by the County Council totalling £2.7m, no further progress has been made on releasing savings with the CCG's, although it was noted that the joint action taken with them has helped sustain the overall model of health and social care in the County, despite considerable pressures in the system.

4.14. Whilst this is positive news for service users within Hampshire, it does have significant implications for the County Council's budget going forward if the recurring savings delivery is not addressed. For 2015/16, the risk share agreement with the CCG's will ensure that the £20m is delivered and Adult Services have confirmed that through a combination of the recurring savings and other one off funding that has already been put aside they can meet their £8m share of the total BCF target.

4.15. However, following initial discussions, the CCG's have now confirmed that they are unable to enter into the risk share agreement for 2016/17 and therefore to avoid any future impact on the Medium Term Financial Strategy or delivery of the Transformation to 2017 Programme, it is necessary to address now the £17.3m non delivery of savings on a recurring basis. A full history of the financial arrangements around the Better Care Fund was outlined in Transformation to 2017 – Report 4, that was presented to Cabinet on 21 September 2015.

4.16. This explained that Adult Services have committed to the delivery of £10m of the total shortfall on a recurring basis as shown in the following table from 1 April 2016, which can be achieved without impacting on the savings required for the Transformation to 2017 Programme:

	£'000
Savings delivered to date	2,700
On-going allocation from S256 £21m – currently allocated to one off activity but available from 2016/17	4,049
Remove funding for early intervention activity	500
Review current hospital discharge arrangements	1,251
Remove availability of discharge to assess beds	1,500
	10,000

4.17. This leaves a recurring gap of £10m to be addressed. As explained above, the BCF programme, together with the change to the way in which complexity and demography pressures were dealt with in the budget represented the biggest single risk within the 2015/16 budget that was approved by the County Council.

4.18. In line with previous strategies, the County Council has sought to mitigate these greater risks through the provision of appropriate contingencies within the budget. A sum of £6m representing 30% of the BCF saving was therefore set aside within contingencies on top of the £4m annual funding currently provided to deal with the transitional arrangements of the Extra-Care programme, which reflects the double costs of care during the transitional phases of the programme, which are now complete. These two contingencies can therefore be re-directed to meet the gap of £10m.

4.19. Whilst this course of action does allow the County Council to deal with this funding issue quickly and decisively at this stage, it does however mean that the contingencies available to deal with any other potential adult social care issues has been diminished. It is therefore essential that we now focus on the delivery of the Transformation to 2017 Programme, containing costs within current cash limits and controlling demand within the system.

Treasury Management Mid-Year Report

4.20. The CIPFA Code of Practice on Treasury Management recommends that Treasury Management activity should be reported at least twice a year against the strategy that has been approved.

4.21. Attached at Appendix 1 is the mid-year monitoring report for 2015/16 that sets out the borrowing and investment activity that has been undertaken to date and how this compares to the prudential indicators that were set for the year.

4.22. Cabinet is asked to approve the report and recommend approval to full County Council, in line with the requirements of the Code of Practice.

5. Spending Review Consultation – Feedback

5.1. The County Council carried out a major spending review consultation from 26 May to 6 July on a range of options for finding further budget savings, including setting Council Tax, using reserves and making changes to the way in which services are delivered. The consultation was carried out through an open consultation and by means of a sample telephone survey and overall nearly 2,800 responses were received.

5.2. A detailed report on the results of the consultation was presented to Cabinet in September and highlighted that the majority of respondents (79%) supported the County Council's high level financial strategy for dealing with the reductions in Government Grant.

5.3. The results of the consultation were provided to Executive Members and Directors and have been taken into account in developing the final savings proposals that were presented to Executive Members during September and are repeated within Appendix 2 to this report. Where further, more detailed stage 2 consultations are required on savings proposals this is reflected in the Equality Impact Assessments outlined in the attached appendices.

5.4. Where proposals appear to be in conflict with the results of the consultation these have been addressed within the individual Executive Member reports. However, one issue in particular was flagged for re-consideration as part of the Children's Services proposals relating to services for Children with Disabilities.

5.5. The County Council had previously carried out a detailed consultation on options for removing short breaks for the carers of Children with Disabilities and based on the feedback from this consultation decided not to pursue the option as part of Transformation to 2015. However, given the additional savings target for Children's Services for Transformation to 2017, it was an option that needed to be re-considered as part of this programme.

5.6. Once again, a very high proportion of people did not want to make savings in services for vulnerable children and therefore based on this feedback it is recommended to Cabinet that this savings proposal is not taken forward into a stage 2 consultation.

5.7. This means that Children's Services will be £1.8m short against their savings target for 2017/18 which will need to be addressed on a recurring basis. Members will be aware that specific contingency provision was set aside for the potential increase in Children Looked After costs, over and above the £12.5m that was added to the budget. This was based on the possibility that the number and cost of placements could continue to rise at a higher level than had been forecast.

5.8. Section 4 highlighted the fact that current forecasts for CLA are £1.3m above the budget for 2015/16, but that actual numbers of children in care are beginning to plateau. Even allowing for a continued contingency provision within the budget for higher than anticipated increases in CLA, the £1.8m shortfall detailed above can be met from this source on a recurring basis and this will be adjusted when provisional 2016/17 cash limits are set for Departments in December this year.

5.9. The other key issue arising from the consultation feedback was respondent's views on council tax increases. 55% of respondents supported an increase in council tax of between 1% and 1.99% and 20% supported an increase of 3%, whilst 21% did not want any increase at all.

5.10. As part of the telephone survey, those respondents that supported a council tax increase generally wanted the additional resources that this generated to protect services for vulnerable adults and children. In considering these responses, the County Council must also look at the broader context of raising council tax at the current time. Key advantages of raising council tax at this time are:

- It would, as suggested in the consultation feedback, provide resources that could be used to replace savings proposals that affect vulnerable adults and children.
- Any increases are recurring in nature and therefore add to the base level of income each year.
- An increase in council tax is easy to implement and at the point the decision is formally taken, represents guaranteed income to the County Council.

5.11. However, these advantages must be balanced against wider financial and non-financial issues, including:

- At the current maximum increase of 1.99% (before a referendum is required) total income of £10m would be generated each year, which represents only just over 10% of the total savings required for Transformation to 2017 and would still therefore require a significant programme of savings in all areas.
- There is merit at this stage in continuing the implementation of savings rather than relying on council tax increases, since this provides early delivery of an overall savings programme that can be used to fund the cost of change within Departments, which has been used to significant effect as part of the Council's MTFS.
- Committing to a council tax increase at this stage removes any ability to rely on this at a later date should the financial position worsen for example due to higher than anticipated Government grant reductions.
- Adults and Children's Services are in the main targeted at a very small proportion of the County's resident population, whereas an increase in the council tax will affect every household in the County.
- The economy is still recovering and an increase in council tax tends to disproportionately hit the low paid at a time when the Government continues to reduce spending on welfare services, impacting on those same people.
- Billing authorities continue to change their Council Tax Support Schemes (which replaced council tax benefit) in a way that impacts on the lower paid / those on welfare benefits.

5.12. Clearly any final decisions on council tax increases are made by full County Council in February each year and at this stage, without having clear indications from Government on future financial settlements, the availability of council tax freeze grant and likely referendum limits it is not sensible to make any firm decisions at this point.

5.13. This report therefore continues to work on the previous planning assumption for council tax, which is no increase over the period of the MTFS to 2017/18.

5.14. This position will be reviewed following the Chancellor's Autumn statement before we lead into the formal council tax setting process in the new year. However, what the consultation process has provided, is a useful snapshot of resident's views on council tax increases which can be taken into account in developing the next stage of the MTFS and future budget setting.

6. Equality Impact Assessments

6.1. In addition to the public consultation process outlined above, a separate key part of the Transformation to 2017 programme is ensuring that we have carried out Equality Impact Assessments (EIAs) on all of the savings proposals that are being put forward.

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

- Appendix 3 – Adult Services
- Appendix 4 – Children's Services
- Appendix 5 – Economy, Environment and Transport
- Appendix 6 – Policy and Resources

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

6.4. A cumulative impact assessment for all of the savings proposals has also been produced and will be further updated as stage 2 consultations take place.

7. Savings Proposals

7.1. The savings proposals that have been put forward by Departments as part of the Transformation to 2017 Programme and have been recommended for submission to Cabinet and County Council by Executive Members are contained in Appendix 2.

7.2. Cabinet will be aware that the original target for Departmental savings was £90m but following the late one-off changes made to the 2015/16 budget as a result of consultation feedback received in respect of short breaks for families with children with disabilities and youth support services, Children's Services were required to meet a further £2.8m of savings on a recurring basis, which was therefore added to their Transformation to 2017 Programme target.

7.3. The total savings targets for each Department, compared to the proposals that are expected to be delivered (in cash terms) in 2017/18 and 2018/19 are as follows:-

	2017/18 Savings Target	**2017/18 Proposals**	**2018/19 Full Year**
	£'000	**£'000**	**£'000**
Adults	43,100	43,055	52,530
Children's - Non Schools	23,302	22,836	23,302
ETE	14,697	12,746	14,700
P&R	11,701	11,701	12,667
Total	**92,800**	**90,338**	**103,199**

7.4. Where there is a shortfall in savings proposals against the target, this has been explained in more detail in each of the individual Executive Member reports, but represents for the most part a time delay in achieving the full amount of the saving in 2017/18. Where this is the case, any shortfall will be met from Department's cost of change reserves, which have been built up, in part, to cover this eventuality.

7.5. Members will note that all Departments are predicting full year savings in 2018/19 at least equivalent to their savings targets.

7.6. Cabinet is requested to approve these savings proposals for submission to full County Council, with the exception of the proposal in respect of short breaks for the carers of Children with Disabilities where an increase in Children's Services cash limit from 2016/17 onwards of £1.8m is requested on an exceptional basis following two sets of consultation feedback that indicates that this specific proposal is not supported. This will be funded from a transfer from the contingency provision for increased growth in the numbers and cost of Children Looked After.

Housekeeping Savings

7.7. Members will recall that as part of the overall Transformation to 2017 Programme, a target of £8m was set for 'Housekeeping Savings' targeted mainly at inflation and treasury management savings. This reflected the fact that it is possible to make savings in these areas, given the scale of the numbers involved and importantly any contribution from this source reduces the impact on services provided by Departments.

7.8. In a similar process to previous years, a detailed analysis of inflation allowances built into the forward forecasts has been undertaken and it is still considered feasible to restrict inflation on expenditure headings that do not traditionally experience large scale inflationary pressures, or where the expenditure is such that Departments are able to manage inflation against demand.

7.9. Areas that have been targeted are learning and development budgets, stationery, furniture and equipment and employee related insurance costs. Withholding inflation on these areas generates savings against the forecast of £2m for both 2016/17 and 2017/18 producing an overall recurring saving of £4m towards Transformation to 2017.

7.10. Treasury management falls into two key areas, namely the principal and interest we pay on the loans we have taken out and the investment income we receive from the cash that we hold. As part of the Transformation to 2015 Programme, the County Council adopted a revised approach to some of its investment portfolio and as a result increased significantly the anticipated return from its overall investment portfolio with only a small marginal increase in risk.

7.11. Looking forward, as the County Council starts to use up its reserves and balances as part of its planned financial strategy, its cash holdings will reduce, so it is important to budget prudently for investment income as part of the base budget position. Given this position, it is not considered prudent at this stage to increase the estimated level of income from this source.

7.12. However, given the scale of the overall debt portfolio, the fact that the County Council has not taken out long term borrowing over the last few years and changes arising from the profile and arrangements around other debt costs (e.g. street lighting PFI) it is considered prudent at this stage to budget for a reduction of £4m in debt costs by the 2017/18 financial year.

7.13. This will deliver £4m towards the Transformation to 2017 Programme and the overall position will be kept under review as the financial climate changes. Longer term there are also opportunities which exist to examine the County Council's approach to providing for its Minimum Revenue Provision (MRP) that could either supplement or replace the savings mentioned above based on treasury management performance over the next few years.

8. 2016/17 Budget Setting

8.1. Given the financial strategy that the County Council operates, which works on the basis of a two year cycle of delivering Departmental savings to close the anticipated budget gap, there is limited activity at this stage associated with the development of the 2016/17 budget.

8.2. The forecasts in this report assume we will continue to work on the basis of a planning assumption of no increase in council tax, and in keeping with the current policy, any early delivery of savings by Departments will be available to them to fund their costs of change and meet any one off predicted shortfall in total savings against the target in 2017/18.

8.3. At this stage we are effectively 'working blind' for 2016/17 since the last detailed figures that were provided to local government were for the 2015/16 financial year and no specific indications on grant reductions, referendum limits or the potential continuation of Council Tax Freeze Grant have been announced.

8.4. The next key milestone will be the Autumn statement, where it is hoped that more detailed information will be announced to help with our planning assumptions, but this is not always the case and it is not unusual for us to find out our provisional grant allocations just prior to Christmas.

8.5. The process after this follows the normal budget setting pattern as in previous years, in that a further technical report on the 2016/17 budget will be presented in December this year that will provide Departments with provisional cash limits against which they can prepare their detailed budgets, that will be reported through to Executive Members, Cabinet and County Council.

8.6. Irrespective of the outcome of the Autumn statement and grant announcements, Members will recall that the financial strategy assumes a significant draw from the Grant Equalisation Reserve (GER) in 2016/17 in order to give the County Council the time and capacity to properly deliver the Transformation to 2017 Programme.

8.7. As at the end of 2014/15 the GER stood at £50.9m, which is expected to cover any predicted deficit that might arise in the budget for 2016/17.

8.8. It is anticipated that the current cycle of decision making concludes the savings planning aspect of the MTFS including the working assumption within this report of no council tax increase and as in previous years, any changes arising from future grant announcements will be balanced using the Grant Equalisation Reserve. This therefore moves the Transformation to 2017 Programme from planning into implementation.

9. Capital Investment

9.1. In previous years, the County Council has been able to utilise the early delivery of savings to generate surplus funds in order to supplement the capital programme. This has seen the programme climb to its highest ever level, reaching £876m over 4 years as part of the last budget setting process.

9.2. As the period of austerity has extended past the first 4 year Comprehensive Spending Review period, the opportunities for increased capital investment have declined and only minor additions to support specific initiatives have been added to the programme. Once again for 2016/17 only minor changes to the programme are anticipated and these will be contained in the update to the Capital Programme in February 2016.

9.3. Medium to longer term, the County Council is aware that in order to promote economic growth in the area there will be the need to provide for adequate infrastructure in the right place at the right time to support that growth. Key infrastructure requirements around supporting housing growth, highways provision and school places need to be factored into future capital investment planning and an important element of this is contained in a separate report on this agenda dealing with Secondary school places, for which an additional £500,000 has been requested to move to the next detail design phases of the programme.

9.4. The estimated net funding deficit of £155m in the Secondary places programme, will be the subject of further discussions with the DfE, Developers and District Councils in the area to consider a range of options as to how this shortfall could be met.

Furthermore, in considering the Medium Term Forecasts in the next section, some allowance has been made for new prudential borrowing to fund additional capital expenditure in the later stages of the period covered by the strategy.

10. Medium Term Forecast

10.1. Given the nature of local government finances, uncertainties around future Government grant reductions and the large number of variables and assumptions within the overall model, it is difficult to predict with any certainty what the position is likely to be for the 2016/17 financial year let alone looking further ahead to 2019/20.

10.2. However, it is always possible to produce a high level forecast based on a range of assumptions, which for the period to 2019/20 are set out below :

- Departments continue to meet their Transformation to 2015 savings proposals and remain within cash limits.
- Departments achieve their full year recurring savings target for Transformation to 2017 Programme by 2018/19.
- Average grant reductions for the period equivalent to a 10% cash reduction in all grant streams received.
- Public sector pay continues at 1% per annum in line with the Chancellor's announcement.
- Inflation levels broadly similar to previous years.
- Additional Care Act costs assumed to be funded by the Government
- No other new unfunded Government burdens during the period
- Prudential borrowing costs for future infrastructure investment.

10.3. Taking these factors into account would generate a further gap of £105m over the two year period 2018/19 and 2019/20.

10.4. There are however, two further factors that are worthy of consideration at this stage. Firstly, there is the impact of the announcement on the national living wage which is set to increase to around £9 per hour during this period. It is anticipated that this could increase the costs of the Council's workforce by up to £5m by 2019/20 and will also have a major impact on the price we pay for social care services in the private sector.

10.5. This is potentially a major issue for the provision of adult social care services across the whole country with some authorities predicting increased costs of many tens of millions of pounds, which if accurate would mean that the long term viability of adult social care would be at risk and we would have to ask the Government to re-consider the funding for social care following its decision to implement a national living wage. It is not possible to predict what impact this might have on the future financial projections at this stage, but it is clearly something that will need to be closely watched.

10.6. Secondly, the approach to increased social care growth was changed for the period 2015/16 to 2017/18 in terms of the amounts that were provided for adults and children's social care in the forward forecasts. Whilst this approach was justified during this period to help manage social care growth against a backdrop of needing to find recurring savings, it is not felt that this is sustainable in the longer term and therefore a further annual provision of £10m a year (as a planning assumption) is suggested for both 2018/19 and 2019/20.

10.7. Taking these two factors into account would give a two year gap of £130m that would need to be addressed as part of a new Transformation to 2019 programme.

10.8. This level of budget deficit on top of the £340m that will have been delivered by 2017/18 clearly represents the greatest financial challenge yet, coming as it does at the end of an 8 year period of austerity in the public sector.

10.9. Whilst the current approach to developing large scale savings programmes has served the County Council well to date, it is likely that a slightly different approach may be required for what it is hoped will be the final stage in this journey.

10.10. The time to consider the wider strategy for tackling the next phase of savings will be when we consider that there is sufficient traction and delivery on the Transformation to 2017 Programme, since achievement of that programme is as important as the one to come, if we are to ensure that we do not compound the potential deficit that we face.

10.11. Early indications of options for closing the gap could include:

- Council tax increases, with each 1% increase over the period generating around £5.0m of additional income per annum.

  More radical options around treasury management and the Minimum Revenue Provision that could create short to medium term one off gains as part of a much longer term strategy.
- Taking advantage across all services of the Digital platform and tools that will be put in place for Transformation to 2017 and beyond
- Opportunities that devolution under a Wider Hampshire model might bring both in service and financial terms
- Continuing to change the way that we interact with our customers and the way in which they access services
- Extending the work that we are doing to transform operating models
- Tackling, as ever, external spend as a key workstream
- Greater levels of partnership working and income generation as part of an evolving business strategy across the County Council

10.12. As difficult as the next phase of savings is likely to be it is still worth reminding ourselves that the County Council remains in a very strong financial position, delivering on its savings programmes, keeping within cash limits and having the financial capacity to invest in the transformation of our continually high performing services, whilst at the same time isolating the residents of the County from council tax increases for the last five years.

11. Reserves Strategy

11.1. The County Council's reserves strategy is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services but also to give the time for the changes to be properly planned, developed and implemented.

11.2. We have made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of austerity, although it was always recognised that the eventual planned use of the reserves to support :

- Funding of the capital programme
- Investment in transformation
- Supporting the overall revenue budget through the grant equalisation reserve

would mean that a tipping point would come and we would expect to see reserves start to decline as they are put to the use in the way that they were intended as part of the wider Medium Term Financial Strategy.

11.3. That tipping point has now arrived and during 2014/15 total reserves reduced from £481m to around £462m. Whilst this does not represent a significant reduction in the overall value of reserves, it does mark the point where we would now expect them to decline steadily as we move towards the end of the decade.

12. Recommendations

It is recommended that Cabinet:

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

12.2. Approves the mid-year report on Treasury Management activity at Appendix 1 and recommends this to County Council for approval.

12.3. Confirms that in the absence of further information expected in the Autumn Statement to continue with the current council tax policy which is a planning assumption of no increase.

12.4. Approves the savings proposals in Appendix 2 after taking due regard of the consultation feedback and Equality Impact Assessments and recommends these to County Council for approval with the exception of the proposal for short breaks for the families of children with disabilities.

12.5. Approves a £1.8m increase in the cash limit for Children's Services from 2016/17 onwards as outlined in paragraph 7.6

12.6. Approves the strategy for dealing with the Better Care Fund savings proposals as outlined in Section 4.

12.7. Approves a sum of £500,000 to progress the next stages of the Secondary schools programme, to be met from general contingencies.

Integral Appendix A

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
Corporate Improvement plan link number (if appropriate):	

Integral Appendix A

Other Significant Links

Links to previous Member decisions:	
Title	Reference/Date
Transformation to 2017 - Revenue Savings Proposals http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1775	6869 - Executive Member for Culture, Recreation and Countryside – 14 September 2015
Transformation to 2017 – Revenue Savings Proposals http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1595	6888 - Executive Member for Economy, Transport and Environment – 15 September 2015
Transformation to 2017 – Revenue Savings Proposals http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1784	6889 - Executive Lead Member for Children's Services – 16 September 2015
Transformation to 2017 – Revenue Savings Proposals http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1796	6921 - Executive Member for Adult Social Care – 17 September 2015
Transformation to 2017 – Revenue Savings Proposals http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1651	6892 - Executive Member for Policy and Resources – 21 September 2015
Transformation to 2017 Programme – Report Number 4 http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1613	6906 - Cabinet 21 September 2015
Transformation to 2017: Consultation Outcomes http://www3.hants.gov.uk/councilmeetings/meetingsummary.htm?date_ID=1613	6942 - Cabinet 21 September 2015

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. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 (‘the Act’) to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

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

1.2. The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

1.3. Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

1.4. Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionally low.

1.5. **Equalities Impact Assessment:**

Given that this report deals with a large number of options and proposals for savings as part of the Transformation to 2017 Programme, the individual EIAs have been appended to the report to aid the decision making process.

2. Impact on Crime and Disorder:

Some of the proposals may have an indirect impact on crime and disorder and where this is the case it will be taken into account as part of the implementation of the proposal.

3. Climate Change:

3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable

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

Not applicable