

LEADER'S BUDGET SPEECH (ITEM 9)

Determining the Council Budget is one of the major responsibilities we have as elected Councillors and it is something that can only be done by the full Council. It is in recognition of that massive responsibility on us all, I present the revenue budget for 2016/2017. As in previous years I am grateful for the assistance of Councillor Kendal, Executive Member for Income and Capital Receipts who has assisted in the preparation of the Budget and will present particularly the Capital element of the Budget. I am of course particularly grateful to our Director of Corporate Resources and her staff and I pay tribute to her excellent oversight of our finances and her advice.

The County precept of course dwarfs the other elements of Council Tax demands that are sent out by the Districts which contain elements from Police, Fire, Parish Councils as well as the District Councils themselves but it is the County Council with its major responsibilities for Adult Care and Child Care not to mention highways that sets the lion's share- approx. 75%.

Chancellors of the Exchequer like to pluck rabbits out of the hat when they set national budgets but I have no rabbits as our finances are open and transparent and the pressures on us are well known. No surprises. Also unlike Chancellors, and indeed NHS Finance Directors, in local government we are required by law to set a balanced budget. No deficit financing here.

For the last 5 years we have frozen the County precept and administered our finances such that Hampshire County taxpayers currently have the second lowest county precept in the country. This year out of necessity the Budget contains a proposal to increase the precept by 3.99%.

In setting our budget I always bear in mind our priorities, those who use and need our services, especially vulnerable children and adults who need care. We also have a responsibility to the residents who pay for these services and they do not want tax bills that go up year on year. A fair balance has to be struck.

For 6 years we have kept the county precept at the same level, this year because of the funding settlement - its changed formula and the axing by the Government of the Council Tax freeze grant we have no option but to raise the tax. In real terms taking into account inflation over those 6 years it will still be less than it was in 2010. And you will see in the consultation taken in the autumn the majority of the respondents did recognise a limited tax rise could be appropriate.

In the funding settlement proposed just before Christmas, 17th December was the date, the Government recognised that Councils with responsibility for Adult Social Care could raise their precept by 2%. In their calculation of our Core spending Power, a new concept, they went further and assumed we would increase our precept by that amount although they have asked us to prove money so raised will be spent on Adult Care. No problem there. Increased pressure and therefore the

spend on Adult Care far exceeds the £10million approximately that a 2% rise will produce. That money is needed and will be well spent.

In the settlement the council tax freeze element of Government grant was also abolished – that was worth 1% another £5million lost and in fact the Core spending assumption I referred to assumes we will increase tax by the 1.99% allowed before triggering a referendum. Referendums are very expensive and unpredictable things and I would not recommend going down that route.

The very worst element of the settlement was to come with the revision of the funding formula diverting significantly more money to metropolitan areas and taking it off shire counties. We were bracing ourselves for a £20million cut and indeed had prudently planned for that and then with no consultation we were told we would lose not the expected and planned for £20million but £48million.

A staggering and totally unexpected amount.

I understand the Chancellor has to aim eventually to balance the national budget, you cannot keep loading debt upon debt on our children and grandchildren so I recognise the need for financial stringency. I equally recognise that areas of deprivation need support from the Government but there was a shock element of this announcement for which we could not have prepared and the new formula seems to treat residents in shire areas very poorly indeed.

For instance the Revenue Support Grant (RSG) for Hampshire in 2016/17 was announced to be £139.80 per dwelling. A reduction of over 37%. The average reduction for shire counties was 34% so we were worse hit than the average.

The reduction in Metropolitan areas was 22% against our 37% reduction.

So a Metropolitan area like Manchester now gets RSG grant per dwelling of £441.23 against dwellings in Hampshire of £139.80- more than 3 times as much. I hear talk of northern power houses it seems more like northern power vacuum to me, sucking up huge subsidies.

The change was unfair, especially the unexpected nature of it and I do now wish to pay tribute to Hampshire's APPG Group of MPs who with other county's MPs lobbied the Secretary of State, along for my part, and I know the current Leader of UKIP who thinks I didn't do enough, I wrote personally to the Prime minister and the Chancellor and the Secretary of State pointing out the unfairness of this as well as supporting action by CCN and LGA.

As a result of those joint endeavours, at the beginning of this month, the Secretary of State announced transitional payments especially to shire counties and districts who were hardest hit and in Hampshire's case we were allocated transitional payments of £9million for this year and another £9 million for next. Hampshire's grant was the second highest. Only Surrey got more with £12 million for this year and £12 million for next. The districts also got payments with Winchester doing particularly well- apparently under the obscure formula Winchester was the only District to get a Rural Services Delivery element.

I am grateful to the Secretary of State for that transitional relief and for our MPs for their efforts on our behalf and I wish more of my letters could earn £18million for Hampshire.

However we must not get carried away. The £48 million we have lost is for this year and every year after. The £9 million transitional grant is only for this year and next. So we still have a huge extra pressure immediately and no glimmer of light at the end of the tunnel.

If there is any element of relief in this, is that we had the Grant Equalisation Reserve (GER) which we have always used to help us ease the path of making reductions, by doing so in a planned way.

Rather than spend those reserves as if there were no tomorrow, as so often the opposition parties here would have had us do, we have kept the GER. However the shocks to the system this year mean we have in one fell swoop had to use those reserves. At one time it looked as it would be reduced to £0.5million. That is a miniscule sum for an organisation that employs close on 10,000 people directly and has a gross revenue budget to manage of approximately £1.9 billion.

Thank goodness we ignored the opposition Parties last year. The Liberal Democrats wanted us to take £8million from the reserves last year to spend on their pet projects and UKIP wanted us to take £7.5million. Had we done that and spent that money on services we would find ourselves now having to make cuts of twice that amount because now there would effectively be no Grant Equalisation Reserve.

I suspect Councillor Thornber will be able to remind how much those reserves would have been depleted in earlier years, if we had listened to opposition groups, which would have made our situation today dire indeed.

That is why I have no doubt that we must accept the prudent advice of our Director and put that £9m that my and the MPs lobbying achieved, straight into the GER. Now is not the time to pretend there will never be further shocks.

The Government are quite clear they are aiming for removing RSG altogether by the end of the Parliament - I think some more letters are called for to ensure we get a fair share of NNDR which will have to replace it.

In the meantime it is imperative during the next 14 months that the County Council is not distracted from delivering the Tt2017 Programme, irrespective of the financial outlook in the years beyond 2017/18. Any failure to deliver recurring sustainable savings for 2017/18 will only serve to worsen the position. It is therefore intended to review reserves and complete a further "housekeeping" exercise, in order that additional one off resources can be found by April 2017 to meet the remaining predicted gap of £15m.

Fortunately because of our forward financial planning I do not have to present any new savings proposals other than those already indicated last year. This is a difficult budget made possible because of our past prudence.

We have had to propose a 3.99% increase in Council Tax I am not happy in doing that but our consultation tells us it is acceptable to residents and despite the increase it will mean that Hampshire's precept will now be the lowest of any County in the Country and our services compare favourably with any.

I commend the revenue budget and recommendation and will hand over to Councillor Kendal to take up through the capital element of the budget.

Councillor Roy Perry
Leader
Hampshire County Council

[CHECK AGAINST DELIVERY]

Budget Speech PART 2 – Councillor Mel Kendal

This is about the twentieth budget since the Conservative Group obtained control of this council in 1997. That first budget, which I remember well, was designed to put back £1 million into the Schools budget which the Lib-Lab pact had taken out to balance the budget because they shied away from the necessary back room efficiency savings which I was then tasked to find as a new-boy Chair of the then Education Finance Committee.

Every efficiency saving proposed by our Conservative Group over the last 19 years has been opposed by the Liberal Democrats as the main opposition group. And let us never forget that when we took over the finances, the reserves of this Council were so low after the Lib-Lab pact era that the government auditor was forced to include a warning in his official letter to the council.

Yet year after year since then, not only have they opposed any efficiency saving budget, they have also criticised our method of building up the reserves again. Indeed over the last decade all that I have heard from them every year is that we should dig into these reserves, despite our open publication of a very clear reserve strategy.

Let me draw attention to page 62 of the Cabinet report where once again we set out the guiding principles:

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

So to summarise that, we look ahead, we act early, squirrel away the early savings into the necessary reserve accounts. We then see how much we must use to create the next round of efficiency savings to meet our budget, and then how much we can invest in capital programmes, for schools, for roads, for improving quality of care for Adults and Children.

We knew long ago that our revenue expenditure would be impacted by government grant reductions. Years ago we set up the Grant Equalisation Reserve to mitigate the variables from year to year in Government grants.

Year after year we defended that Reserve from Liberal Democrat calls to spend it on their next indispensable item. They continually demanded maintaining existing process without understanding the need to focus on outcomes for our services first. Each year it has been a different revenue item that they have wanted us to fund or to maintain unchanged, denying the possibility for efficiency savings in that revenue item.

Now that we have notice of a virtual elimination of Government grant in Hampshire with the cut of £48 million in our grant this year, we need almost all of that Equalisation Reserve. The transitional relief of £9 million, subsequently granted after

the sterling efforts by our Leader, along with any future revenue or capital savings, will be needed to rebuild that Equalisation Reserve for next year and then the period to 2019.

And we keep hearing that we should be bolder in our actions relating to creating new areas of income generation. This ignores what we have achieved with the IBC, or with our joint procurement frameworks which are of such a high standard that our previous Chief Executive is now an adviser to Government on procurement savings. It ignores what we have done in Property Services where the expansion of that section is bringing in income of over £30 million. Or the Street Lighting PFI of over £128 million providing new lights and much lower costs. Or Operation Resilience which gave an extra £10 million a year for the last 7 years, and which together with other funds has helped pour another £100 million at least into rebuilding roads since we set it up. Or the millions being invested in extra-care facilities to replace outdated care homes, which again was opposed by the Liberal Democrats. It ignores the joint work with Basingstoke on developing Manydown to generate both capital receipts and ongoing income - a probable model for our future land and housing developments. It ignores the continuing work on investments designed to save on energy costs which have also had the effect of reducing our carbon output by 23% against a target of 20% by 2015.

Some of our reserves will not be needed to meet liabilities until well defined dates in the future. Deposit returns on those funds are very low. So we have invested the matching asset for that liability in Loans to Councils, and in long lease pooled property funds. In pooled property funds the unit price mechanism provides capital appreciation, or the opposite, as well as dividends arising from the long lease rental income. We can realise any capital appreciation without worrying about finding a buyer for a particular building at a particular time. So about £65 million is invested for our future needs at rates well above cash returns. The average running yield is just under 5%. It also removes that tranche of reserve from any particular bank bale in, if a bank with which we have deposits were to fail.

So far I have dealt with our prudent approach to savings and to reserves, and the extent to which we invest our temporary reserve funds.

Lastly I just want to update you on our Capital Programme.

You will find the full details in the appendices and the summary on page 2 of the Capital Report to Cabinet. I just want to highlight a few points:

- the capital programme is again been increased this year by our
- recommendation, not reduced despite our revenue side challenges
- it exceeds over £814million over the four year period
- it includes £230 million for school places as well as £182 million for major repairs to schools and some of our other buildings
- it includes £29 million for highways and £113 million for road schemes of
- which £61.7 million was successfully bid from LEPS

My colleague Councillor Woodward and Stuart Jarvis have done very well in this regard as the fee income from these LEP schemes helps support our overall capacity just as the income from Property Services fees equally bolsters our capacity thanks to Karen Murray and her section.

The capital programme increase includes a recommendation for an extra £2 million for Whitehall Bordon development, an extra £1.6 million for the Queens Roundabout in Farnborough and a provision for up to £35 million to be invested in extra care for young adults as required. This continues the bold approach we are taking to tackling the problems of tomorrow in meeting the needs of young adults needing extensive care as well as the needs of frail adults in later life.

The totality of this capital programme, the biggest for any county council, is evidence of good, well defined, conservative, financial management:

- making sure the money is there for taxpayers when needed
- return of the capital when needed
- no undue risks
- careful forward planning

These are the principles I have supported and argued for in this Council for 19 years. I sing the same song today, and it is the song I shall be singing as long as I am a councillor.

So today I commend the recommendations on pages 3 and 4 in the report to you as proposed by the Leader and ask for your support for them.

Councillor Mel Kendal
Executive Member for Income & Capital Receipts
Hampshire County Council

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