

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	12 December 2016
Title:	Budget Setting and Provisional Cash Limits 2017/18
Reference:	7886
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

- 1.1. The purpose of this report is to set out the process and framework for the setting of the 2017/18 budget.
- 1.2. The budget for the current financial year was set on the basis that a draw from the Grant Equalisation Reserve of around £44m would be required to balance the budget, recognising the scale of the transformation and the lead in times for achieving the savings themselves, in order to give the time and capacity to achieve the savings targets set for 2017/18.
- 1.3. Savings targets for 2017/18 were approved as part of the 2015/16 budget setting process and detailed savings proposals have been developed through the Transformation to 2017 (Tt2017) Programme which were agreed by Cabinet and Full Council during October 2015. Work has also started on the Transformation to 2019 (Tt2019) Programme, which will look to deliver further savings of £140m, bringing the cumulative total of savings to £480m over a 10 year period. These proposals will be consulted on during the summer of 2017.
- 1.4. Given this position, no new savings proposals will be presented as part of the 2017/18 budget setting process but an update on the progress being made is provided in the transformation report presented elsewhere on this agenda.
- 1.5. The Medium Term Financial Strategy (MTFS) approved by the County Council in July 2016, confirmed that a planning assumption of a council tax increase of 3.99%, of which 2% will contribute towards the increased costs of adults' social care, has been used in the forward forecasts in line with the government's amended approach (that is built into their settlement calculations). In addition, it set out that a draw from the Grant Equalisation

Reserve is anticipated in order to balance the budget based on the assumed grant reductions next year announced as part of the four year settlement.

- 1.6. This report sets the framework for developing the detailed revenue budgets and capital programme that will be presented to Executive Members, Cabinet and County Council during January and February next year.

2. Contextual information

- 2.1. Previous financial updates around this time of the year have been heavily influenced by the timetable of release of information from the Government either around Comprehensive Spending Review (CSR) figures or specific grant figures for the next financial year.
- 2.2. The CSR and Autumn Statement were published together on 25 November 2015, with the Spending Review covering the period from 2016/17 to 2019/20.
- 2.3. As part of the Local Government Finance Settlement, the Government announced that it would offer a four-year settlement to authorities who could 'demonstrate efficiency savings' over the period up to 2019/20. To apply for this offer local authorities were required to confirm acceptance by 5pm on Friday 14 October 2016 and provide a link to their published efficiency plan.
- 2.4. The Medium Term Financial Strategy (MTFS) and the themes set out for the next transformation programme were approved as the efficiency plan for Hampshire County Council. A supplementary document was produced as an addition to support our application and the submitted [Efficiency Plan](#) is publicly available online. Confirmation has been received from the Government that our application for a four-year settlement has been approved and this will provide more financial certainty for the County Council over the period up to 2019/20.
- 2.5. This offer, which is seen as supporting local authorities in strengthening financial management, provides authorities with greater but not absolute funding certainty. Albeit that this greater funding certainty results in a shortfall in 2019/20 this is preferable to the alternative which would see the authority working on a year by year basis and undertaking annual planning.
- 2.6. For 2017/18, the County Council has therefore already been given an indication of its provisional grant figures and these figures are not expected to change significantly when the local government finance settlement is announced in December, although it is still possible that there may be variations that need to be taken into account when setting the budget in February.
- 2.7. Savings proposals for 2017/18 have already been agreed and the focus now is on implementation and delivery and an update on the progress being made is provided in the transformation report presented elsewhere on this agenda.
- 2.8. Looking ahead to the programme to take us to 2019 the MTFS proposed a similar timeline to that adopted successfully for the Transformation to 2017 (Tt2017) Programme, including a similar approach to consultation, and

broad indicative dates. Work has begun to map out in more detail what the Transformation to 2019 (Tt2019) Programme may contain within the broad themes identified and it is anticipated that the programme will be formally launched, following Cabinet approval early next year in order to start developing plans for meeting the expected budget gap in 2019/20.

- 2.9. Given this position, the main focus in setting the budget for 2017/18 is the production of the detailed revenue and capital budgets and this report sets out the framework for the detailed budget preparation process for next year.

3. Quarter 2 Financial Monitoring

- 3.1. The forecast revenue budget monitoring position for 2016/17 as at the end of [Quarter 2](#) was presented to Cabinet in November. This forecast indicates that the cumulative impact of numerous savings programmes, coupled with a relentless business as usual agenda and rising demand and expectations from service users means that pressures are now being felt in all departments. This is producing a different picture for 2016/17 and 2017/18 with some departments unlikely to remain within their cash limited expenditure positions.
- 3.2. The report explains that in 2016/17 it is currently anticipated that, with the exception of Children's Services, one-off funding will not be required, and in fact departments will once again be able to make a significant contribution to their cost of change reserves due to early delivery of Tt2017 savings.
- 3.3. However, it is highly likely that the position in Children's Services in 2016/17 can be managed through a combination of positive management action in the pressure areas, under spends elsewhere in the Department and the use of corporate contingencies as appropriate.
- 3.4. The pressures within social care departments are well documented and the sustained pressure on social care spending means that these services continue to be the highest risk and most volatile area of the County Council's budget. Demand changes happen throughout the year and these translate into financial implications for Adults' and Children's Services that need effective and active management oversight.
- 3.5. Given the challenge facing these departments in particular, the need for continued close monitoring remains vital and consequently, a further revenue monitoring update will be provided to Cabinet early in 2017.
- 3.6. The position for Adults' Health and Care and Children's Services is monitored regularly by the Director of Corporate Resources in meetings with the relevant Directors and longer term plans are being developed to balance the budgets (prior to considering the Tt2019 savings) albeit that this is based on a wide range of assumptions and predictions.
- 3.7. Further work has also been continuing to critically review the forward projections for Children's, in particular the relationship between CLA numbers and the financial impact of any increase (or decrease) which is complex. More sophisticated financial modelling is required and is being developed at pace by Finance staff and Children's Services colleagues.

- 3.8. As we move further through the financial year we will have a clearer picture of the likely outturn position for 2016/17 and each year we prepare a revised budget that is presented to Cabinet in January and which reflects the latest monitoring information as at the end of December. As well as considering the position for departments, we will take this opportunity to present the detail of the work undertaken and the findings.
- 3.9. In addition, corporately a more detailed review of non-departmental budgets (including contingencies) and reserves will be undertaken as part of the third quarter monitoring and in considering the 2016/17 revised budget position.

4. 2017/18 Budget Setting

- 4.1. The County Council has been following a deliberate strategy for dealing with reductions in government grant since the first reductions were applied in 2010/11 and then as part of the CSR 2010. This strategy involves planning ahead of time in order to give departments the maximum time and capacity for implementation, making savings in advance of need and then using those savings to help fund transformational change to generate the next round of savings.
- 4.2. This strategy has continued during the current budget process in that the Tt2017 Programme has been in place for some time to develop and deliver £98m of savings required to balance the budget for 2017/18. Detailed savings proposals for each Department were approved by Cabinet and County Council in October 2015, subject to further consultation where it was required, and have now moved to formal implementation.
- 4.3. It has always been acknowledged that the implementation of some proposals will be more challenging than others and may be subject to separate consultation exercises to fully understand the impacts of the proposals that are being made. Taking the time to get this right is very important for service users and the County Council and as such some savings may not be achieved in 2017/18 and will need to be supported on a one off basis.
- 4.4. A separate report updating the Cabinet on the progress of the Tt2017 Programme is presented elsewhere on this agenda and highlights positive progress on the achievement of savings against the targets set for the next financial year.
- 4.5. Since this programme is already in place, there are no new savings proposals to be considered as part of the 2017/18 budget setting process. However, it is still necessary for the County Council to go through the normal 'technical' process of setting provisional cash limits for Departments, asking them to prepare detailed budgets within those cash limits and then securing approval through Executive Members, Cabinet and finally County Council.
- 4.6. The next section of this report sets out the details of provisional cash limits for Departments for 2017/18, which take into account any base budget changes, reductions to reflect savings targets and the impact of inflation.

- 4.7. The MTFS approved in July 2016 assumed a council tax increase of 3.99%, of which 2% will contribute towards the increased costs of adults' social care, in line with the government's amended approach (that is built into their settlement calculations). In addition, it set out that a draw from the Grant Equalisation Reserve is anticipated in order to balance the budget based on the higher than anticipated grant reductions next year announced as part of the four year settlement.
- 4.8. Final details of the settlement for next year, plus information from district councils on collection fund surpluses and estimates of retained business rates is not currently available and will therefore be taken into account in setting the final budget in February next year.

5. Provisional Cash Limits

- 5.1. Provisional cash limits are set to enable departments to prepare their detailed budgets for the next financial year. These take account of changes in the base budget for example as a result of grant changes or transfers between departments, approved growth, inflation and savings targets that have been set for the year.
- 5.2. Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation and for the two year pay award covering the 2016/17 and 2017/18 financial years agreed earlier this year.
- 5.3. The triannual Pension Fund revaluation has now been undertaken and initial principles have been developed and the impact of actuarial review on both employer pension contributions and past service contributions will be incorporated in to the medium term financial forecast. Changes will subsequently be made to cash limits to reflect the planned increase of 1% per annum in employer pension contributions which will rise from the current rate of 13.1% to 17.1% by 2020/21.
- 5.4. This is typical across the country as investment returns in a low interest rate environment struggle to keep pace with people living much longer within a defined benefit pension scheme.
- 5.5. The calculation of the provisional cash limits is shown in detail in Appendix 1. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2016/17 position has been updated taking into account known changes such as increases in respect of the pupil premium and other grant related changes.
- 5.6. Chief Officers, with Executive Members are asked to develop their detailed budgets within the guidelines that have been set so that the Leader and Cabinet can make the final budget recommendations for 2017/18 at the meeting in February 2017.

6. Transformation to 2019

- 6.1. The Tt2017 Programme has been in place for some time and following approval of the detailed savings proposals in October 2015 departments

have been undertaking detailed work in order to implement the savings, with the aim that they are fully in place by spring 2017.

- 6.2. Allowing for the deferral of some £13m of Adults' savings, which are going to take longer to deliver, into 2017/18 it is currently estimated that £70m of the £99m programme target is likely to be secured by the end of 2016, rising to circa £86m by April 2017.
- 6.3. Looking ahead, whilst there are a number of risks, dependencies and external factors that will require on-going management input and attention, success with the Tt2017 Programme, over its extended time period will lay very solid and strong foundations for the inevitable and harder successor transformation programme.
- 6.4. The high level medium term forecast to 2019/20 now requires the County Council to develop a transformation programme that will deliver £140m. Meeting this target on top of the £340m that will have been delivered clearly represents the greatest financial challenge yet, coming as it does at the end of an eight year period of austerity in the public sector.
- 6.5. Savings targets which equate to further cash limit reductions for departments of approaching 19% over the two years were approved within the MTFS and these together with a further £20m from corporate savings make up the £140m target set for 2019/20.
- 6.6. Alongside continued management of the extended Tt2017 Programme, work is underway to map out in more detail what the Tt2019 Programme may contain within the broad themes identified.
- 6.7. The early stages of the new programme are based on an initial opportunity assessment that will involve a fundamental examination of each Department's spending and activities to explore where opportunities may exist for further savings. This will include key workstream areas already identified, such as a continuing focus on external spend and the digital strategy.
- 6.8. Even over a two year period, this is clearly a very challenging prospect given the value of savings that have already been taken out of the system and the additional effort and levels of transformation activity that are required to achieve further phases of savings. This programme will increase the cumulative total of savings to £480m and it is therefore inevitable that some of the changes will involve service reductions in addition to efficiencies and income generation.
- 6.9. The aim is for this process to be completed in spring next year to allow departments to develop their detailed savings proposals for Tt2019 and provide time for public consultation over the summer. The consultation feedback and the proposals can then be presented for consideration by Executive Members, Cabinet and County Council in autumn next year.
- 6.10. This will once again provide departments with the maximum time to allow the continuation of the robust and well planned approach we have utilised to date to achieve successful implementation and delivery of the required savings by April 2019.

7. Capital Investment

- 7.1. The County Council's capital programme has been maintained and expanded over recent years, continuing the trend of ensuring that we invest wisely in sustaining our existing assets and delivering a programme of new ones.
- 7.2. The timeframe for capital planning moves on each year and for the 2017/18 budget process, the programme will be extended into 2019/20. The table below shows the provisional capital guidelines that are being allocated to each department:

	2017/18	2018/19	2019/20
	£'000	£'000	£'000
Adults' Health & Care	481	481	481
Children's Services	100	100	100
ETE	11,929	11,929	11,929
Policy & Resources	3,852	3,852	3,852
Total	16,362	16,362	16,362

- 7.3. The capital guideline for ETE reflects the additional funding of £10m per annum for Operation Resilience (from 2017/18 for four years) that was added to the programme as part of the MTFS approved by the County Council in July 2016.
- 7.4. Cabinet is requested to approve these provisional guidelines to allow departments to prepare their detailed capital programmes for approval as part of the budget setting process in January and February next year.
- 7.5. The figures in the table above represent the 'locally resourced' allocations to the capital programme, which supplement other capital resources such as developers contributions, capital receipts, Government grant and borrowing that fund the overall capital programme. The total programme approved last February is shown in the table below and this will be updated as part of the budget setting process for 2017/18:

	Revised				
	2015/16	2016/17	2017/18	2018/19	Total
	£000	£000	£000	£000	£000
Adult's Health & Care	33,476	481	481	481	34,919
Children's Services	73,905	72,317	114,153	121,879	382,254
ETE	80,349	97,083	60,254	26,044	263,730
Policy & Resources	62,724	26,734	21,871	21,871	133,200
Total	250,454	196,615	196,759	170,275	814,103
		563,649			

- 7.6. The capital programme is reviewed and agreed annually. This sets out the levels of capital expenditure for each service and the main expectations of where the money will be spent, a large proportion of which is in relation to schools, including the provision of school places.
- 7.7. The provision of school places is a statutory responsibility of the local authority for which we continue to see a significant growth in pupil numbers across the county. The cost of building this new provision cannot be met in full by the traditional funding sources of government grant and developers' contributions.
- 7.8. The government's current policy is to use free schools as a way of meeting part of the school places demand. The free schools programme is an opportunity to bring in additional capital funding to support the Children's Services capital investment programme.
- 7.9. To take advantage of this funding it is recommended that additional resources of £580,000 are made available to enable the County Council to pursue funding through the free schools initiative and minimise calls on our capital resources. This revenue investment is relatively small in terms of the expected capital funding and will support feasibility and early design work to maximise our chances of securing the free school funding.
- 7.10. In addition, to maintain current capacity to ensure that we develop the best investment strategy for providing the required number of school number of places in the future it is recommended that funding of up to £116,000 per annum for five years from 2016/17 to 2020/21 to support continuing secondary school feasibility work is approved.
- 7.11. The County Council's ability to continue to provide significant resources to invest wisely in specific priorities (such as the significant Secondary School Places programme) in line with the County Council's focus on service improvement and to generate revenue benefits in future financial years, even in times of austerity, is a testament to the strong financial management and rigorous approach to planning and delivering savings that has been applied; and to the benefits that can be achieved from working at scale.

8. Recommendations

It is recommended that Cabinet:

- 8.1. Approves from contingencies a sum of up to £580,000 in 2016/17 to provide funding for the up front fees associated with developing a number of free school bids and up to £116,000 per annum for five years from 2016/17 to 2020/21 to support continuing secondary school feasibility work.
- 8.2. Approves the provisional cash limits for 2017/18 set out in Appendix 1.
- 8.3. Approves the capital guideline amounts for the next three years set out in paragraph 7.2.

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

Hampshire safer and more secure for all:	Yes
Maximising well-being:	Yes
Enhancing our quality of place:	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. 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:

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

1.2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely impacted by the proposals in this report but the County Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account.

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, but the County Council through the services that it provides through the revenue budget and capital programme ensures that prevention of crime and disorder is a key factor in shaping the delivery of a service / project.

3. Climate Change:

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

The revenue budget and capital programme contain measures that will assist in reducing our carbon footprint and changes to services are designed in such a way to also achieve this objective.

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

The County Council in designing and transforming its services will ensure that climate change issues are taken into account.

PROVISIONAL CASH LIMITS – 2017/18

	2016/17 Cash Limit £'000	Base Changes £'000	Inflation & Growth £'000	Tt2017 Savings Target £'000	2017/18 Cash Limit £'000
Adults' Health and Care	380,117	2,657	11,137	(43,100)	350,811
Children's – Schools	759,457	1,208			760,665
Children's – Non Schools	167,116	1,850	3,462	(20,502)	151,926
ETE	111,479	5,006	6,226	(14,697)	108,014
P&R	94,352	1,366	3,547	(11,701)	87,564
Total	1,512,521	12,087	24,372	(90,000)	1,458,980

Notes:**Base Changes**

- Largely relate to changes in grants and draws to and from reserves, including cost of change.
- Children's – Non Schools includes an adjustment of more than £2.8m as a consequence of the transfer of R&M budget provision from P&R back to schools.
- ETE includes an adjustment of approaching £4.3m to reflect the amended financing of the extended waste contract. This technical accounting adjustment sees budget being transferred to the department from a budget previously held corporately.
- P&R reflects the addition of circa £3m as per the MTFS to re-align the IT development costs budget, allowing corporate prioritisation of this resource to take place. This is partially offset by the transfer of R&M budget provision back to schools.

Inflation & Growth

- Includes 2 year pay award for 2016/17 and 2017/18.
- Reflects inflation for the waste contract and also agreed allowance for growth in volumes.