

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	17 December 2012
Title:	Medium Term Financial Strategy Update
Reference:	4412
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Rob Carr

Tel: 01962 847508

Email: Rob.carr@hants.gov.uk

1. Executive Summary

- 1.1. The purpose of this report is to update Cabinet on the budget development process for 2013/14 and future years, although in the absence of any provisional Government grant figures, there is little further detail to report at this stage, although it is clear from the Government that the outlook for Local Government finance is likely to continue to be difficult until at least 2018.
- 1.2. Since the MTFFS update report over the summer, there has been an announcement around a further year of council tax freeze grant and it has also been possible to clarify the likely financial impact resulting from the localisation of council tax benefit.
- 1.3. There continues to be pressure in the area of adults and children's social care for which forward contingency funding will be required and this report outlines the proposed approach to providing for that funding in future years.
- 1.4. Based on current projections, it is still the view that the County Council will have broadly achieved its objective of meeting four years grant cuts in two years and therefore will be able to balance the budget in both 2013/14 and 2014/15 without the need for further budget reductions beyond the 2% annual efficiency targets already built into the forecast.
- 1.5. This not only puts the County Council in a very strong position in respect of the next two years budgets, but it also means that it has the time and the capacity to develop the next phase of service transformation and corporate efficiency work streams that will produce savings in time to deal with future reductions in Government funding from 2015/16 onwards.
- 1.6. This strong position is testament to the County Council's ability to plan ahead and ensure that it is appropriately placed to deal with the future challenges that lie ahead, at a time when most other authorities in the

country will be concentrating on balancing their budgets for the next two years.

2. Contextual information

- 2.1. It is normal practice at this time of the year to provide Cabinet with an update on the medium-term financial strategy (MTFS) taking into account the provisional Local Government finance settlement.
- 2.2. However, given the significant number of changes in the Local Government financial arrangements, such as the implementation of the Local Government resource review, business rate retention, replacement of council tax benefit with local schemes and the expectation that the last two years of the current Comprehensive Spending Review (CSR) are being reviewed by Government, the Local Government finance settlement for 2013/14 is not now expected until after the date of this Cabinet meeting.
- 2.3. This places the County Council in the same position that it has been for the last two years in that it is still very heavily reliant on receiving figures from the Government before it can start to assess the full impact of Government grant reductions on the budget over the next three years.
- 2.4. The Medium Term Financial Strategy that was approved by Cabinet in June 2012 set out a medium term forecast up to the 2015/16 financial year based on the following assumptions :-
 - Revenue Support Grant losses of 9%, 8% and 8.7% in 2013/14, 2014/15 and 2015/16 respectively. The 2015/16 reduction makes the assumption that the first council tax freeze grant will drop out in that year.
 - No assumed additional income arising from the business rates retention scheme that will be introduced in 2013/14.
 - Specific grant losses of 6% and then 5% in 2013/14 and 2014/15, matched by assumed reductions in Departmental expenditure.
 - Council tax increases of zero or low from 2013/14.
 - Pay increases of 1% for 2013/14 and 2014/15 and 2% for 2015/16
 - Annual Efficiency Target of 2% per annum.
- 2.5. Taking all of these factors into account, produced a cumulative deficit in the annual revenue budget of £34.2m by 2015/16. An update on this forecast cannot be provided as part of this report due to the late notification of the grant settlement which may not actually be until 24 December. The transformation themes identified by Cabinet in June 2012 will comprise the bulk of the workstreams to meet any deficit in next year.
- 2.6. The report also provides further information in respect of continuing social care pressures within the County affecting both Children's and Adult Services Departments and outlines a proposed approach to dealing with these and other potential contingency items from 2013/14 onwards.

- 2.7. A detailed forecast for Departmental budgets has been produced for 2013/14 taking into account various changes to the base level of spending (such as planned increases in social care costs and the dropping out of spending funded by reserves) and predicted inflationary increases, details of which are provided in Section 5.
- 2.8. All of this information is then consolidated into the latest forecast for the medium term albeit that we are still very heavily reliant on the draft Local Government finance settlement which is not due out until later in this month.

3. Local Government Settlement

- 3.1. Cabinet will be aware, that following the CSR 2010, grant announcements were made for Local Government for the two years 2011/12 and 2012/13. Despite national expectations that Local Government funding would be cut by around 28% over the four-year period, the County Council received a 25% reduction in funding in the first two years alone.
- 3.2. The County Council has made various predictions in previous medium-term financial strategy reports about the likely levels of grant reductions in 2013/14 and 2014/15. The report presented to Cabinet over the summer still assumed grant reductions of 9% and 8% respectively in those years.
- 3.3. The announcement for 2013/14 and 2014/15 is now not expected until very late in December, possibly the 24th, although some grant exemptions were provided as part of information published for the business rate retention scheme. This did show greater levels of grant reductions in the last two years of the current CSR, but this position was further complicated by the fact that some funding would potentially be returned to Local Government as a refund of new homes bonus money that would be top sliced in advance of need.
- 3.4. It has also been rumoured that the next settlement will be for three years providing us with figures up to the 2015/16 financial year. This will be helpful in terms of medium-term financial planning but the late announcement of the grant settlement will mean that budget setting timescales for 2013/14 will be very challenging.
- 3.5. More recent intelligence has suggested that further average grant reductions of around 25% can be expected in the next three years, but it is usually the case that the County Council comes out worse as a result of the distribution methodology used by the Government. Our current forecasts include grant reductions of 25.7% over this same three year period as detailed in paragraph 2.4.
- 3.6. Members will also be aware that a further year of council tax freeze grant has been announced for 2013/14 which will be paid at an assumed increased level of only 1%, compared to 2.5% which was used for previous freeze grant assumptions. This equates to £5.3 million for the County Council and would be paid on a one-off basis in both 2013/14 and 2014/15.

- 3.7. It has been assumed for future financial projections that the County Council will accept the council tax freeze grant in 2013/14 and this report asks Cabinet to confirm this planning assumption. This would mean that the County's council tax would have been at the same level for four years running.
- 3.8. In the absence of any grant figures for the next two or three years, it is still very difficult to predict what the financial landscape may look like over the medium-term particularly given the number and complexity of changes in Local Government finance system and therefore at this stage no further forecasts have been provided for the likely impact in 2015/16.

4. Revenue Pressures and Contingency Funding

- 4.1. The quarter two monitoring position which is presented elsewhere on this Cabinet agenda highlights a number of distinct but related pressures in the areas of adults and children's social care. The number of different variables, interactions and constantly changing client base means that in both areas it is difficult and complex to pin down the issues with absolute precision from a financial perspective, however, for the purposes of the forward budget there are various issues that need to be addressed as categorised below :-
- 4.2. **Complexity and Demography** – The medium-term financial strategy had already made assessments for the likely increases in both children's and adult social care for increasing numbers of adults and children in care and increased complexity which leads to higher average care package costs. In line with the existing policy, cash limit increases for both adults and children social care have been included in the provisional cash limits set out in the next section.
- 4.3. Previous budgets have allowed for around £1m growth per annum for Children's social care pressures, but to date, none of this funding has been allocated to the base budget as the Department has managed to contain increasing Children Looked After (CLA) costs within their overall bottom line budget. For 2013/14 this will not be possible as there continues to be increasing pressure in this sector due to the increasing total numbers of children generally, the continued impacts of the Baby Peter case, changes in law in particular relating to homeless 16 and 17 year olds and the fact that there are now better systems for recognising signs of neglect and abuse which inevitably leads to increased numbers of child protection plans, which have increased by 93% since 2008.
- 4.4. The proposed changes to cash limits in Appendix 1 seek to re-align base budgets for both Children's and Adult Services to reflect current trends in activity in these areas before considering other potential issues that may impact on the budget.
- 4.5. **Average Package Prices in Adult Social Care** – The detailed work that was carried out last year on adults complexity and demography is being monitored against current trends. The additions to cash limits proposed in the next section are based on the projections made for average package prices in future years as part of last years forecasting. The current trend in

average package prices is currently in excess of these amounts but it is thought that this may be down to current market conditions which will settle down over the longer term. However, should this assumption prove to be incorrect and average package prices continue to rise at a higher rate, then additional funding over and above what was allowed for in the MTFS will be required.

- 4.6. **One Off Costs of the Extra Care Programme** – It was always anticipated that the Extra Care programme would lead to some transitional costs and these have been crystallised in the current financial year with the current phase of the programme. There are potentially significant revenue implications of any further home closures as a result of holding vacant beds while closures are out to consultation and the cost of beds held in other homes for relocation of the clients. Whilst these costs are in effect one off costs, they will arise in each year that the Extra Care programme is in place and therefore appropriate contingencies will need to be set up.
- 4.7. **Changing Health Care Landscape** - The transition to the new health structures and the £20bn Quality, Innovation, Productivity and Prevention (QIPP) savings target have made an already challenging environment more difficult. The trend in earlier discharge from hospital continues to put more pressure on social care and community health services, as people are discharged with higher levels of dependency and complexity of care needs. The disinvestment in bed based health care has not been matched by a commensurate investment in community health services, placing the system under considerable strain. The NHS in Hampshire is currently focussed on narrow issues, such as length of stay, rather than whole systems reform as it grapples with a significant underlying deficit. We are working with Health colleagues to try to manage this position but there is inevitably more pressure in the whole system that could have a knock on impact on social care costs in the future.
- 4.8. **Children's Services Early Intervention Grant** – It is anticipated that there will be funding changes to the early intervention grant that is currently paid to local authorities which will have a bottom-line impact on children's services budget, although it is not yet confirmed how much this could be. In order to give children services sufficient time to properly address the implications of this potential loss in funding, it is suggested that the same approach is taken as with the 2010/11 grant cuts which is to provide full contingency funding during 2013/14 in the event that suitable proposals are not fully implemented to make full-year savings in that financial year.

5. Provisional Cash Limits

- 5.1. The Cabinet approved an updated Medium Term Financial Strategy in June this year which required Departments to make savings to meet an Annual Efficiency Target of 2% in 2013/14, assumed a pay increase of 1% in line with the Chancellors announcement for pay restraint and that 2.5% would be allowed for general increases in non pay costs for the year. It also assumed that any changes in specific grants in 2013/14 will also be 'passport' to the relevant service in line with the existing policy, taking account any need

for cash flow funding in 2013/14 to support the transitional period during development and implementation of any necessary savings.

- 5.2. Meetings were held during November and early December involving the Leader, Executive Member and relevant officers to consider the options for setting service budgets within the framework of a 2% reduction in expenditure in 2013/14 and businesses were consulted on the high level budget outlook as part of the Hampshire Business Conference held in October.
- 5.3. The Cabinet agreed proposals for the future direction of corporate services in October last year which included a target for achieving a higher 12% savings target for corporate services in 2012/13, by bringing forward the annual efficiency savings of 2% set for 2013/14 and 2014/15. It has been agreed that the annual savings arising from the additional 4% (£1.5m) will be used in the current and next financial year to fund the investment in the Integrated Business Centre but will be available from 2014/15 onwards on a recurring basis to help balance the budget.
- 5.4. The full MTFS approved in July 2011 also included a revised approach for the treatment of inflation which only allocated specific items directly to Departments with some elements being held back within contingencies. These principles have been used to produce provisional inflation allocations to Portfolios which have been included in the budget guidelines.
- 5.5. Other changes in respect of base adjustments for transfers between Departments, demographic pressures (for social care as outlined in paragraph 4.2), corporate savings allocations and other items have also been taken into account in setting the provisional guidelines shown in Appendix 1. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2012/13 position has been updated taking into account budget transfers to Academies.
- 5.6. Executive Members are asked to develop their budgets within the guidelines that have been set so that the Leader and Cabinet can make the final budget recommendations for 2013/14 at the meeting in February.

6. Medium Term Forecast

- 6.1. Section 3 outlines the current position in respect of the prospects for the Local Government grant settlement, which is not expected until late in December but which it is rumoured may be for a period of three years (to 2015/16).
- 6.2. At this stage therefore it is not possible to provide a detailed medium term forecast given that the key unknown element continues to be the levels of grant reductions over the next three years.
- 6.3. Based on the current projections for grant losses outlined in Section 3 and assuming that council tax rises are in line with the assumptions built into the medium term forecast, it is anticipated that the County Council will still be able to set a balanced budget for 2013/14 and 2014/15 without the need for

further savings targets above the 2% efficiencies already identified. Depending on the level of grant reductions in those two years, it may however be necessary to utilise some one off funding in order to balance the budget in 2014/15.

- 6.4. This strategy will mean that the County Council can rely on a period of relative financial stability over the next two years as it prepares for the challenges of what is to come from 2015/16 onwards. It also means that the County Council has the time and the capacity to develop the next phase of service transformation and corporate efficiency work streams that will produce savings in time to deal with future reductions in Government funding from 2015/16 onwards.
- 6.5. In the absence of any firm grant figures for the next three years it is not possible to update the medium term financial projections with any certainty and therefore the intention is to wait until the provisional settlement is released and then do an all Member briefing on 10th January 2013 covering what the forecasts look like for the next three financial years.

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 maintaining our existing assets and delivering a programme of new ones. The priority for the current and next financial year is to concentrate on the delivery of the approved capital programme which totals £550m over three years with £220m due to be completed or started in the current financial year.
- 7.2. Given the scale and timing of the capital programme it is possible that some schemes that were added do not necessarily reflect current priorities or phasing and therefore Directors have been asked to review the schemes in their capital programmes which will be reflected in the budget reports due to be considered by the County Council in February next year. Opportunities are also being explored to look at how schemes could be accelerated towards implementation should this prove necessary.
- 7.3. Indications from Government are that the review of local government finance currently being undertaken will seek to move resources away from revenue and into capital investment and it is therefore important that the County Council is in a strong position to respond to any opportunities that may arise as a result of these changes. Officers in Departments will therefore continue to work closely with Government Department colleagues to ensure that the County Council is aware of any potential shift in emphasis that might influence capital resource allocation in the future.

8. Recommendation(s)

It is recommended that Cabinet :

- 8.1. Notes the uncertain position regarding the medium-term financial strategy, particularly regarding the Government spending announcement which is not expected until late December.
- 8.2. Approves the provisional cash limits set out in Appendix 1.
- 8.3. Confirms that the budget should be prepared on the basis that the Council Tax Freeze Grant will be accepted for 2013/14.
- 8.4. Approves a high level medium term strategy that balances the next two financial years budgets through the use of one off funding if necessary in order to provide a period of stability to tackle further reductions from 2015/16 onwards.

Provisional Cash Limits 2013/14

	2012/13 Original £'000	Base Changes £'000	Efficiency Target (2%) £'000	Inflation £'000	Demog. & Complexity £'000	2013/14 Cash Limit £'000
Adults	302,466	(991)	(4,868)	5,681	10,000	312,288
Childrens - Schools	713,499					713,499
Childrens - Non Schools	166,622	(2,616)	(2,349)	1,290	2,000	164,947
ETE	107,676	1,652	(1,411)	1,884		109,801
P&R	88,442	6,916	(798)	23		94,583
Total	1,378,705	4,961	(9,426)	8,878	12,000	1,395,118

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):	

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. Equality objectives are not considered to be adversely affected by the items in this report.

2. Impact on Crime and Disorder:

2.1. The items in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

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

No specific proposals.

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

No specific proposals affecting adaptation to climate change.