

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Cabinet
<b>Date:</b>	20 June 2016
<b>Title:</b>	Medium Term Financial Strategy to 2020
<b>Reference:</b>	7482
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

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#### 1. Executive Summary

- 1.1. The purpose of this report is to update Cabinet on the budget development process for 2017/18 and to consider the medium term prospects for the County Council's finances to 2019/20.
- 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, placed it in a very strong position to produce a 'steady state' budget for 2016/17 and give itself the time and capacity to develop and implement the next phase of £98m of savings by 2017/18.
- 1.3. The budget for 2016/17 was balanced through the use of the Grant Equalisation Reserve, in line with the previous Medium Term Financial Strategy (MTFS) approved by County Council.
- 1.4. The outturn position for 2015/16 is set out in the 2015/16 – End of Year Financial Report to Cabinet presented elsewhere on this agenda and shows an overall under spend across Departments. This position is probably the best measure we have for demonstrating that the £102.5m removed from the budget following the Transforming the Council to 2015 (Tt2015) Programme has been successfully delivered.
- 1.5. This position is underpinned by the early delivery of savings as part of the Transformation to 2017 (Tt2017) Programme, which can be retained by Departments to help with future costs of change. The Chief Executive's report on Transformation to 2017 – Report No. 7 to Cabinet which is presented elsewhere on this agenda outlines the progress being made.
- 1.6. The County Council gross expenditure continues to be in the region of £1.9bn and the authority remains in a very strong financial position, which is

testament to the organisations ability to plan and ensure that it is appropriately placed to deal with the future challenges that lie ahead.

- 1.7. The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering Departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Grant Equalisation Reserve.
- 1.8. Following the Final Local Government Finance Settlement, the County Council is able to meet, on a one-off basis the additional deficit in 2017/18 and has identified sufficient resources to bridge the estimated deficit of £71m in 2018/19 enabling the continuation of this approach which has served the County Council well, as we start to move towards preparing for the next phase of transformation to take us to 2020. However, it is important to note that this significantly reduces future flexibility and introduces a higher element of risk into the strategy
- 1.9. Much of the funding utilised to close the gap in 2018/19 is one off but the critical review of the assumptions underpinning the medium term view also has a recurring impact which feeds through to the position for 2019/20. This serves to reduce the ongoing gap to be met through departmental savings by £20m from £140m to £120m.
- 1.10. As part of the Local Government Finance Settlement, the Government announced that it would offer a four-year settlement to authorities who can 'demonstrate efficiency savings' over the period up to 2019/20. To apply for this offer local authorities are required to confirm acceptance by 5pm on Friday 14 October 2016 and provide a link to their published efficiency plan.
- 1.11. It is intended that this MTFS and the themes set out for the next transformation programme are the efficiency plan for Hampshire County Council. However if a separate plan providing more detail around these agreed themes is considered a useful addition to support our application, it is proposed that the Director of Corporate Resources following consultation with the Chief Executive and the Leader of the Council is authorised to prepare and approve such a plan.
- 1.12. The County Council's workstream, cost reduction, efficiency and transformation programmes and the capital programme will all be reviewed to identify future opportunities. The emphasis will once again be on efficiency and cost reduction aligned with exploiting new digital capability. Increasing partnerships, trading and commercial opportunities will be evaluated at the same time to ensure continued focus on maximising value from every pound spent. The Chief Executive will report further to Cabinet in the autumn
- 1.13. The report also sets out proposals for new capital investment and financing, including the extension of Operation Resilience to the end of the decade to continue investment in the highways network. Further details are set out in Section 8.
- 1.14. The County Council's reserves strategy, which is set out in Appendix 2, 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 successfully implemented.

## **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) in order to inform and direct work on detailed budget planning that will take place over the summer.
- 2.2. The budget setting process for 2017/18 will be different to last year in that the majority of the decisions in respect of major changes to the budget were taken early, in the 2016/17 budget setting process. Other factors will still affect the budget, such as council tax decisions and social care pressures as outlined later in this report, but these will not be as significant as the savings programme that has already been put in place.
- 2.3. 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 under spends in each of the years since 2010/11, despite taking significant sums of money out of the budget.
- 2.4. 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.
- 2.5. This further level of reduction obviously increased the risk within the budget, in recognition of which, 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 Transforming the Council to 2015 (Tt2015) Programme.
- 2.6. The reports showed that overall there was good delivery of savings and management of pressures within the budget and where there were issues, these had mostly been anticipated and could be accommodated on a one off basis from Department's cost of change reserves.
- 2.7. The outturn position for 2015/16 is set out in the 2015/16 – End of Year Financial Report to Cabinet presented elsewhere on this agenda and shows an overall under spend across Departments. This position is probably the best measure we have for demonstrating that the £102.5m removed from the budget following the Tt2015 Programme has been successfully delivered and that the focus on strong financial management throughout the year has been effective.
- 2.8. It is too early to look at revenue monitoring information from 2016/17 but given that this year is in effect a 'steady state' position following the decision to roll up all of the savings into the Transforming the Council to 2017 (Tt2017) Programme the potential risks are lower than in 2015/16, although

we continue to face pressures within social care along with most other authorities providing these services.

- 2.9. The Chief Executive's report on Transformation to 2017 – Report No. 7 to Cabinet which is presented elsewhere on this agenda outlines the progress being made by departments as they continue with implementation of the programme to deliver the required savings and service transformation.
- 2.10. Progress is encouraging, although there are aspects in Children's Services and Adults', Health and Care which are particularly highlighted and are being carefully monitored. This combined with the effective management of the financial position across the authority in 2015/16 indicates that the County Council is well placed to maintain its record of strong financial management and delivery through 2016/17.
- 2.11. The focus of this report is therefore on the position for 2017/18, the medium term to 2020 and the proposed strategy and timetable for dealing with the predicted gap in each of those years.

### **3. The Council's Challenge**

- 3.1. Members will be fully aware that the County Council has been responding to reductions in government grant since the first reductions were applied in 2010/11 and then as part of the Comprehensive Spending Review (CSR) 2010.
- 3.2. It was thought at that stage that the period of austerity would last until the end of that CSR period (2014/15) and consequently the County Council planned and implemented four years worth of savings in two years; totalling £100m. By 2013, it was clear that the period of austerity would extend beyond this, at least to 2017/18, and work was therefore started on the Tt2015 Programme, to deliver a further £102.5m of savings by April 2015.
- 3.3. Subsequently a further programme of activity was developed to take the County Council through to 2017/18 and the Tt2017 Programme will deliver the next tranche of savings required which total an additional £98m. In line with 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, no Departmental savings targets have been built into the 2016/17 budget. Any early achievement of savings proposals during 2016/17 as part of the Tt2017 Programme may be retained by departments to use for cost of change purposes.
- 3.4. The Final Local Government Finance Settlement was announced on 8 February 2016, and provided definitive figures for 2016/17 and provisional figures for local authorities for the following three financial years to aid financial planning.
- 3.5. The settlement included an unexpected major revision to the methodology for distributing Revenue Support Grant (RSG), which had a major impact on Shire Counties and Shire Districts. The impact of the change in methodology was that the County Council had a reduction in grant of £48m

in 2016/17, equivalent to a 37.4% cut compared to an adjusted 2015/16 base level of grant and £29m higher than anticipated.

- 3.6. This reduction of £29m in Government grant, offset by an increase in council tax of 3.99% and collection fund surpluses left a budget gap, after the application of transitional funding, for 2016/17 of £44m to be addressed through a planned draw from the Grant Equalisation Reserve (GER) in line with the MTFs.
- 3.7. The figures for 2017/18, 2018/19 and 2019/20 set out in the settlement resulted in an increase in the County Council's revenue gap to be bridged in each of these years. In 2017/18 the bottom line impact was that a further £15m was required, on top of the £98m of savings to be delivered from Tt2017 Programme to deliver a balanced budget, and the revised gap in 2018/19 was £70m rising by a further £70m in 2019/20 to a cumulative figure of £140m.
- 3.8. This updated position reflects the changes set out in the settlement, assumed council tax increases each year of 3.99% in line with the government's amended approach, and likely pressures from social care demand and the National Living Wage (NLW).

#### **4. 2017/18 Budget**

- 4.1. It was recognised as critical that during 2016/17 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. The intention was therefore clearly stated that additional one off resources would need to be identified by April 2017 to meet the remaining predicted gap of £15m.
- 4.2. The allocation of transitional funding as a result of the final settlement announcement of £9.4m in 2016/17 and £9.3m in 2017/18 has enabled the gap in 2017/18 to be closed; managed through the GER.
- 4.3. This position is underpinned by the delivery of Tt2017 savings and whilst there are acknowledged timing issues, as previously reported to Cabinet, based on the current assessment the shortfall can be made up from departmental cost of change reserves on a one-off basis as savings come on line throughout 2017/18, leading to full implementation of the programme by 2018/19.

#### **IT Development Costs**

- 4.4. In considering the financial strategy for 2017/18 and going forward, consideration needs to be given to the current arrangements for prioritising and funding IT development costs.
- 4.5. For many years, the IT Department operated as a trading unit within the County Council, which meant that it sat outside of the normal cash limit process and everything that it spent had to be earned as income either

externally, internally from other Departments or through ad hoc projects and the capital programme.

- 4.6. This approach was relatively successful during periods of significant IT change and allowed IT to respond swiftly to Departments' requirements and priorities for IT systems, software, equipment and staff resources. By allowing IT to retain all of its income and under spends in the form of reserves, it also helped to smooth out the cyclical nature of some elements of IT spend between different financial years.
- 4.7. As the period of austerity unfolded and more corporate control and standardisation for IT systems was introduced, the trading unit methodology became less effective in dealing with the corporate demands and strategy for IT across the whole of the County Council. As a result, in 2012/13 the decision was taken to stop treating IT as a trading unit and to incorporate it as part of the cash limited services within Corporate Services.
- 4.8. This entailed centralisation of IT budgets that were traditionally held by Departments and gave a much greater corporate focus and control on the provision of IT services across the County Council. However, one area that was not tackled at the time was the funding of IT development resource that sat throughout the IT Department.
- 4.9. In essence, the overall budget for IT relied on the fact that each year, it required around £3m of project income to be earned internally from Departments and the capital programme in order to balance the bottom line. The funding for these projects, however, was found on a one-off basis each year from a variety of sources, such as Departmental in year under spends or cost of change reserves, grant income or contributions from Government or other sources, the capital programme or other major programmes of work that attracted corporate funding such as the new SAP platform or changes to underpin transformation savings.
- 4.10. Given that this source of funding was not built into ongoing revenue budgets there was no way of centralising it into IT's cash limit and therefore the previous methodology of IT having to earn this income has continued.
- 4.11. More recently, this has started to cause major issues with resourcing work required in particular to support the Tt2017 Programme and the Digital Programme approved by Cabinet last year. Prioritisation of IT development work is still to a certain extent driven by who has the funding available rather than through a corporately agreed prioritisation process.
- 4.12. This corporate prioritisation is essential for the delivery of future programmes, which cannot purely rely on the availability of funding in a particular area. For example there are key IT developments that are required in Adults', Health and Care to support future savings and yet this department traditionally has the lowest level of cost of change reserves due to the need to manage demand pressures throughout the year. It therefore makes no sense that high priority IT development work in Adults', Health and Care is not progressed due to lack of funding within that Department.
- 4.13. In considering the financial strategy from 2017/18, it is therefore proposed to re-align the IT development costs budget through an adjustment to cash

limits when these are agreed in December of this year allowing corporate prioritisation of this resource to take place.

## **5. Beyond 2017/18**

- 5.1. The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering Departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the GER.
- 5.2. Given that the shortfall in the interim year of 2018/19 is circa £70m this is clearly challenging and in February it was uncertain whether the County Council would be able to balance the position in this interim year through the use of one-off resources therefore potentially requiring two stages of savings to be made across 2018/19 and 2019/20.
- 5.3. The deliberate strategy that the County Council has followed to date for dealing with grant reductions during the prolonged period of austerity, which involves planning ahead of time, making savings in advance of need and using those savings to help fund transformational change to generate the next round of savings is well documented.
- 5.4. It was considered imperative to assess if the continuation of the strategy which has served the County Council so well could be maintained despite the scale of the gap in 2018/19. The Tt2017 Programme has already highlighted the longer timescales needed to make service changes in some areas, most notably adults' social care which make it even more important that we develop a realistic timeframe for delivery of the next phase of transformation.
- 5.5. Work has therefore been undertaken to critically review the assumptions underpinning the medium term position, to review reserves and complete a further "housekeeping" exercise. The results of this review, along with the use of remaining transitional funding, will serve to bridge the gap in 2018/19, enabling a continuation of this successful strategy. However it should be noted that this position entails assumptions about growth in the tax base and business rates income being made which would not normally be included at such an early stage.
- 5.6. While this is a balanced decision taking account of the need to be prudent whilst also managing risk, it is important to note that using this flexibility in this way significantly reduces our ability to respond to other financial shocks that may hit us over the period and as a consequence introduces a higher degree of risk into the financial position. In this context it is timely to highlight that in his budget in March 2016 the Chancellor announced the need for a further £3.5bn of savings from public spending, in the face of lower growth assumptions, which remain to be specified.
- 5.7. Much of the funding utilised to close the gap in 2018/19 is one off but the critical review of the assumptions underpinning the medium term view also has a recurring impact which feeds through to the position for 2019/20. This

serves to reduce the ongoing gap to be met through departmental savings by £20m from £140m to £120m assuming:

- A 3.99% council tax increase for each of the four years to 2019/20
- Departments continue to remain within cash limits.
- Successful implementation on a recurring basis of all the savings in the Tt2017 Programme with Departments achieving their full year recurring savings target for the programme by 2018/19.
- Costs of social care demand do not rise by more than we are predicting.
- The impact of the NLW on social care provision does not exceed current predictions.
- The anticipated reduction in ESG, which is pessimistically assumed to end from 2017/18 onwards, can in part be offset by savings in departmental spending, which will be explored as part of a wider piece of work.
- No further financial shocks during the period, including changes in government policy.

- 5.8. Whilst this is considered to be a realistic forecast overall, there are risks and no financial implications in relation to devolution have been included at this stage and in addition, no assumptions have been made about the impact of the move to 100% business rate retention.

### **Local Government Finance System – 100% Business Rate Retention**

- 5.9. The Government published a joint Spending Review and Autumn Statement In November 2015 which included funding for local government over the course of the Parliament and set out what was described as a “new deal for local government”.
- 5.10. As part of this the Government will allow local authorities to retain 100% of business rate revenues by the end of the Parliament and the uniform business rate will be abolished. The system of top ups and tariffs which redistributes revenues between local authorities will be retained.
- 5.11. The Department for Communities and Local Government (DCLG) have issued discussion papers to aid the development of this policy and will consult on these radical changes to the local government finance system to pave the way for the implementation of 100% business rate retention by 2020. The consultation will take into account the main resources currently available to councils, including council tax and business rates.
- 5.12. As part of these reforms, the revenue support grant will be phased out and to ensure that the changes are fiscally neutral additional responsibilities devolved to local authorities. For example, the government will consider transferring responsibility for funding the administration of Housing Benefit for pensioners and will also consult on options to transfer responsibility for funding public health. The government will consult on these and other additional responsibilities in 2016.

5.13. It will be important for stakeholders to highlight as part of this consultation the ability of local authorities to undertake their current statutory obligations as the financial pressures increase during the decade before new responsibilities are devolved. This should include making the case for a review of a range of duties including a number of areas where legislation has not kept pace with government policy and service developments, including by way of example:

- Home to School Transport – The current regulations are unchanged since 1948 and review to give the power to change eligibility criteria and apply means testing would seem timely.
- Concessionary Travel – There is a view that this new burden is not properly funded and the opportunity could be taken to review the statutory scheme for example in relation to hours of operation.
- Household Waste Recycling – Legislation recently introduced barring councils from charging residents any entry or exit fee for using a 'discretionary HWRC' service could be changed to allow the introduction of charges.
- Public Health – Exploration of options to charge for some former NHS services such as weight management support which may ensure provision continues.

5.14. As part of the Final Local Government Finance Settlement for 2016/17, the Government also announced that, as part of the transition to 100% business rates retention, there would be a 'Fair Funding Review' of authorities' funding needs. The review will be used to determine the transition to 100% business rates retention but the detail and process are still to be announced. Given the wide range of possible outcomes, any impact on Council funding cannot be determined at this stage and this does present a level of risk.

5.15. The consequences of all of these changes for the County Council, along with the outcome of the consultation about the future distribution of the New Homes Bonus (NHB) and changes to the role for local authorities in relation to schools are difficult to predict. The current financial position is therefore predicated on the knowledge available at this point in time.

## **6. Multi-Year Settlements and Efficiency Plans**

6.1. As part of the Local Government Finance Settlement, the Government announced that it would offer a four-year settlement to authorities who can 'demonstrate efficiency savings' over the period up to 2019/20. This offer, which is seen as supporting local authorities in strengthening financial management, provides authorities with greater but not absolute funding certainty.

6.2. As part of a written response to the Chair of the Local Government Select Committee the Communities Secretary has stated that

*"I can confirm that I expect the four year allocations confirmed in the final settlement on 10 February 2016 to be the amounts presented to Parliament each year, should councils choose to accept the offer. It is open to any*

*council to continue to work on a year-by-year basis, but I cannot guarantee future levels of funding for those that prefer not to have a four year settlement. I have also been clear that funding allocations in 2019/20 may be subject to the implementation of 100% business rate retention, something councils have asked for over decades and which we are working with the sector to deliver.”*

- 6.3. To ensure that the reforms are fiscally neutral local government will need to take on extra responsibilities and functions. DCLG and the Local Government Association will soon be publishing a series of discussion papers which will inform this and other areas of the reform debate.
- 6.4. The Government will also need to take account of future events such as the transfer of functions to local government, transfers of responsibility for functions between local authorities, mergers between authorities and any other unforeseen events. However, barring exceptional circumstances and subject to the normal statutory consultation process for the Local Government Finance Settlement, the Government has advised that it expects the announced funding amounts to be presented to Parliament each year.
- 6.5. It is recommended that the County Council seek to secure this funding certainty albeit that it results in a shortfall in 2019/20 as this is preferable to the alternative which would see the authority working on a year by year basis and undertaking annual planning. The future funding levels indicated in the Final Local Government Finance Settlement are shown below:

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Settlement Funding Assessment	190.8	156.1	136.3	117.6
of which:				
Revenue Support Grant	80.8	43.9	20.8	
Baseline Funding Level	110.1	112.2	115.5	119.2
Tariff/Top-Up	66.2	67.5	69.5	71.7
Tariff/Top-Up adjustment				(1.6)
Safety Net Threshold	101.8	103.8	106.9	110.3

- 6.6. To apply for this offer local authorities are required to confirm acceptance by 5pm on Friday 14 October 2016 and provide a link to their published efficiency plan.
- 6.7. No guidance has been issued about the contents of these plans covering the full period to 2020 as they need to be locally owned and locally driven. However, they need to show how this greater certainty can bring about opportunities for further savings and the benefits that this will bring to the local authority and the community.
- 6.8. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Government Association are organising two practitioner based events to consider what the Multi-Year Settlements and Efficiency Plan submissions

to DCLG should look like and include and the outcome of this will be assessed to ensure that the County Council are well placed to ensure acceptance by government of our application.

- 6.9. At this point it is intended that this MTFs and the themes set out for the next transformation programme are the efficiency plan for Hampshire County Council. However if a separate plan providing more detail around these agreed themes is considered a useful addition to support our application, it is proposed that the Director of Corporate Resources, following consultation with the Chief Executive and the Leader of the Council, is authorised to prepare and approve such a plan.

## **7. Transformation to 2019/20**

- 7.1. The high level medium term forecast to 2019/20 now requires the County Council to develop a transformation programme that will deliver £120m. Meeting this target 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 eight year period of austerity in the public sector.

### **Savings Required**

- 7.2. The decision to set savings targets on a flat line basis is part of the County Council's financial strategy and was chosen as it maintains a strong corporate approach and discipline to delivering the required savings.
- 7.3. This approach firmly focuses on delivery of savings, removing the distraction of debating the relative merits of different target setting methodologies. This also avoids any subjective debate about the relative merit of specific services and it is recognised that the key pressures felt within, for example, demand led social care services are increasing which is reflected in additional growth in these budgets as appropriate.
- 7.4. There has always been strong distinction made between savings targets and growth allocations which are made in recognition of growing demand and service pressures on a revenue or capital basis, for example social care, highways maintenance and waste disposal and the County Council's gross expenditure remains in the region of £1.9bn.
- 7.5. As we move towards 2020 we will need to understand more clearly the cost of our statutory duties and therefore the "floor" for our operating costs and work will be undertaken to develop this knowledge which we would expect to feed into any submission to the Fair Funding Review.
- 7.6. The continuation of the current approach for the next round of savings has been debated and the benefits of continuing with the approach of applying a flat line target were considered to be sufficient to maintain this strategy. However, where there are specific changes that can be legitimately considered relevant to a specific service / department, for example the Better Care Fund (BCF), then this will be applied as a justified and logical way to reduce the remaining savings required, in line with current policy regarding the 'passporting' of changes in government funding.

- 7.7. Translating the £120m into departmental savings targets to be delivered by April 2019 results in the following allocation which equates to further cash limit reductions of approaching 19% over the two years:

	<b>Tt2019 £'000</b>
Adults', Health & Care	55,732
Children's Services (Non-Schools)	30,132
ETE	19,005
P&R	15,131
<b>Total</b>	<b><u>120,000</u></b>

- 7.8. This is predicated on the Council's ability to meet, on a one-off basis, a very significant gap in funding in 2018/19 in order to give the longer lead in time for delivery. 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.
- 7.9. During the coming months there will be further clarity around a range of issues, including further detail about the plans for business rate retention and this along with potential changes, such as the ending of ring-fence for Public Health, will allow us to refine this position.
- 7.10. When the budget was set for 2016/17 it was re-iterated that at that stage cash limits had been cut significantly since the period of austerity began as demonstrated in the following table:

2012/13	2 year target	-16.0%
2013/14	efficiency target	-2.0%
2015/16	2 year target	-12.0%
2017/18	2 year target	<u>-14.5%</u>
		<b><u>-44.5%</u></b>

- 7.11. In broad terms a further £120m saving will take the cumulative reduction in cash limits to more than 63% over an eight year period.

### **Timescales**

- 7.12. Looking ahead to the programme to take us to 2019 we would propose a similar timeline to that adopted successfully for Tt2017, including a similar approach to consultation, and broad indicative dates are shown in Appendix 1.
- 7.13. Beyond this, autumn 2016 can see the initiation of the next phase of our transformation with sufficient lead in time to allow the robust and well

planned approach we have utilised in the past to be continued to achieve successful implementation.

7.14. In the past, the County Council has tackled the savings programmes by:

- Planning early and ensuring that everyone understands and is focused on what needs to be achieved.
- Giving itself the time and capacity to achieve the changes in services and structures required.
- Supplementing capacity and driving out savings through Corporate Workstream programmes.
- Providing investment for change by allowing Departments to keep underspends and providing other targeted funding where appropriate.

7.15. This strategy has served the County Council well throughout the period of austerity and recognising that the time, capacity and investment required to achieve the next phase of transformation will be even greater than before there is an overriding argument to maintain the proven formula at this stage.

7.16. Now is the time to consider the wider strategy for tackling the next phase of savings and further detail will then be developed 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.

7.17. The Chief Executive's Transformation to 2017 – Report No. 7 report to Cabinet presented elsewhere on this agenda explores progress to date. The challenges surrounding the delivery of the programme within Adults', Health and Care in particular are explored in more detail and a full review of the programme has been organised so that any necessary action can be taken to help ensure the programme remains on track to deliver. Cabinet will be updated on the outcome of the review when the next Transformation report is presented.

7.18. Looking ahead, whilst there are a number of risks, dependencies and external factors that will require on-going management input and attention and in a number of areas risks to delivery could actually increase rather than reduce, at least in the immediate term, 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. Alongside this continued management it is anticipated that in the autumn we will start to map out in more detail what the Transformation to 2019/20 Programme may contain within the broad themes identified.

7.19. On the basis that the future programme is formally launched in the autumn it would seem reasonable to give workstreams and Departments a period of around six months to develop detailed proposals that can be tested and challenged in time for formal decision making by Cabinet and Council before the autumn 2017.

7.20. Whilst this sits outside of the normal budget setting timetable, it is considered that February 2017 would be too soon to have properly

formulated and then challenge the detailed proposals, without disrupting delivery of the £98m of savings required from the current 2017 programme, and February 2018 would be too late in terms of providing sufficient lead in time to undertake the next phase of transformational activity, that will be even more challenging.

### **Programme Themes**

- 7.21. Some elements of the Tt2017 Programme are already planned to 'ramp up' as we approach 2019/20 and in addition, there are already other elements of work in train that will start to contribute to closing the gap in 2019/20, namely, fully exploiting the capability developing through the Digital Strategy that will help truly transform the way all services operate within the County Council, on going work on the Business Development Strategy and opportunities in respect of better and innovative use of assets.
- 7.22. However, whilst these pieces of work are progressing, it is important that we do not divert our focus onto the next transformation programme before we have the confidence that sufficient implementation work has been completed to achieve the 2017/18 savings programme.
- 7.23. This section therefore highlights the themes and workstreams that need to be developed and worked through, in line with the timescales set out above. This will form a coherent strategy to deliver savings of £120m by 31 March 2019 and is very much a confirmation of past themes to include:
- Redesigning services and developing new operating models for services consistent with the reducing financial envelope.
  - Evaluating the impact of further volunteering, shared ownership and co-design of services with partners.
  - Exploiting digital capability
  - Reviewing external spend and supply chain management
  - Managing demand through effective collaboration with partners, performance and early intervention.
  - Evaluating opportunities for further income generation.
  - Exploiting our assets
  - Using the capital programme to maximise economic impact on our business and our services and reviewing opportunities to bridge the revenue deficit through changes to the programme and its funding.
- 7.24. Given that this programme will increase the cumulative total of savings to £460m it is inevitable that some of the changes will involve service reductions in addition to efficiencies and income generation. One facet of the programme will therefore also include a review of our statutory duties and work to better understand the cost of meeting these.
- 7.25. The offer of a four-year settlement provides greater funding certainty which will allow the next savings programme to be developed and planned over a time period that is consistent with the successful approach adopted to date.

7.26. This will include time for effective consultation with residents and stakeholders to inform planning on future proposals to deliver a further £120m of savings. Where service specific options require further more detailed consultations this will also allow time for these to be carried out and further decisions to be made and implemented with sufficient time to deliver the required savings by April 2019.

## **8. Capital Strategy**

- 8.1. 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 and enhancing our existing assets and delivering a programme of new ones.
- 8.2. 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.
- 8.3. The County Council's capital aspirations are dependent upon finance being available and the sources of finance to support the capital programme are as follows:
  - Government capital grants – The Government has issued all of its support for local authorities' capital expenditure from 2011/12 onwards in the form of capital grants and not as borrowing allocations.
  - Prudential borrowing – Loans that the County Council may decide to raise in the knowledge that it will have to meet the principal repayment and interest charges from its own resources without any additional support from the Government. The County Council has to consider the impact of such loans on the revenue budget and prudential indicators.
  - Contributions from other bodies, which can include developers, the health service, other local authorities and the national lottery.
  - Capital receipts from the sale of land, buildings and other assets.
  - Contributions from the revenue budget including those held in the capital reserve.
- 8.4. There is an interrelationship between capital and revenue both directly and indirectly. Capital expenditure may be funded directly from revenue however the general pressures on the Council's revenue budget and Council Tax levels limit the extent to which this may be exercised as a source of capital funding.
- 8.5. Prudential borrowing does provide an option for funding additional capital development but one which then results in costs that have to be funded each year from within the revenue budget or from generating additional ongoing income streams.
- 8.6. Given the pressure on the Council's revenue budget in future years, prudent use has been made of this discretion to progress schemes in cases where there was a clear financial benefit. Such schemes focus on clear priorities,

and those that generate revenue benefits in future financial years, in the form of clear and measurable revenue savings or longer term income generation either directly or through council tax or business rate yield.

- 8.7. Given this link with revenue, as part of the Tt2019 Programme a review of the capital programme (and associated funding) will explore any avenues that would result in a positive impact on the revenue position and any net benefit could be applied as a justified and logical way to reduce the remaining savings required from departments.
- 8.8. Service improvement is at the heart of everything the County Council does and it is also important in the current financial climate that key services are able to continue and prosper. Therefore, whilst it is recognised that prudential borrowing and the resultant impact on revenue must be a key consideration, where there are specific priorities in line with the County Council's focus on service improvement then the programme will continue to be expanded where it is affordable to do so and delivers measurable revenue savings.
- 8.9. Operation Resilience is the County Council's long-term strategy designed to make Hampshire's roads more resilient to the effects of extreme weather and increasingly heavy traffic and recognising the importance of good roads for the county's economy.
- 8.10. Operation Resilience has provided additional capital funding, allowing programmes of work which have helped to improve the resilience of the carriageway and drainage assets whilst maintaining the serviceability of other highway assets. The strategy of providing more funding for planned structural maintenance and reducing the reliance on reactive maintenance supports the Asset Management principles that Hampshire has embraced ensuring that the revenue costs are contained.
- 8.11. The additional planned funding ends in 2016/17 and it is timely to extend this to the end of the decade to support this priority and continue to limit revenue costs which would otherwise grow as reactive maintenance increased.
- 8.12. The total capital investment required to bring the entire network up to a good standard runs into billions of pounds, without access to this level of available funding, the County Council must strike a balance between planned and reactive maintenance across the entire network.
- 8.13. The intention is to continue the current mechanism of utilising the NHB, which was originally intended to support infrastructure investment across the County and which is anticipated to be received up to and including 2019/20, to provide for £10m of additional capital funding per annum through a balanced combination of prudential borrowing and direct use of the NHB.
- 8.14. This additional £10m investment can be used along with the existing locally resourced programme, of circa £2m per annum, to put in place a continuing planned highways maintenance programme for a further four years from 2017/18.
- 8.15. The Workstyles Programme has been very successful and as part of the ongoing office accommodation strategy the County Council continue to

assess opportunities that clearly support the aims and objectives of the corporate Strategic Asset Management Plan which include:

- Identifying and implementing targeted revenue savings with costs benchmarked, with a particular focus on the corporate leasehold estate.
- Minimising expenditure by re-negotiation of terms, disposal, operation of breaks, freehold purchase, sub-letting, or sharing accommodation
- Introducing a programme of strategic freehold purchases governed by a clear set of criteria and objectives.

8.16. As set out in a confidential report to the Executive Member for Policy and Resources on 16 June 2016, entitled Fareham Parkway – Workstyle Office Accommodation Strategy Update, an opportunity has arisen due to the imminent expiry of the County Council leasehold interest in the Parkway building, Fareham (combined with the remaining additional space in the building shortly becoming available) to evaluate the future potential for this building within the County Council corporate office portfolio. There is a current and future service need for a hub in this area and strong demand from other County Council and partner services to either expand the County Council occupational requirements or relocate in the locality.

8.17. The total acquisition cost, which remains confidential as negotiations are ongoing, will need to be approved by County Council as an addition to the Capital Programme to be funded from prudential borrowing and the on going cost of borrowing and capital repayment can be met from the Workstyle revenue budget. The associated works budget can be approved by Cabinet as a one off addition to revenue for the year, to be met from General Contingencies.

8.18. This represents a unique opportunity to retain a building that has proven value to the County Council and importantly to convert a current revenue liability in to a capital asset. This decision will produce significant revenue savings, even after allowing for the cost of funding a freehold purchase and associated works and so is an example of a scheme which would fit with the criteria set out in paragraph 8.6, generating revenue benefits in future financial years, in the form of clear and measurable revenue savings.

8.19. The County Council's ability to continue to provide significant resources to invest in specific priorities 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.

## **9. Reserves Strategy**

9.1. The County Council's reserves strategy, which is set out in Appendix 2, is now well rehearsed and continues to be one of the key factors that underpin 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.

- 9.2. 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 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 MFTS.
- 9.3. As explained in the 2015/16 – End of Year Financial Report to Cabinet presented elsewhere on this agenda, the actual value of earmarked reserves has not been finalised within the accounts, but in overall terms the total value of earmarked reserves will increase in line with the MFTS as provision is built up in departmental cost of change reserves and in the GER ahead of a large draw in 2016/17. Other earmarked reserves will fall due to their use in line with their intended purpose, in particular in funding the capital programme and supporting revenue spend whilst savings programmes are put in place.
- 9.4. It is anticipated that reserves will fall at the end of 2016/17 and then rise again in preparation for a large draw to support the budget in 2018/19 with the overall trend showing a decline as we move towards the end of the decade.

## **10. Recommendations**

### **RECOMMENDATIONS TO CABINET**

- 10.1. Notes the revised position for 2017/18 and the anticipated use of the Grant Equalisation Reserve to balance the budget.
- 10.2. Notes the revised financial position for 2018/19 and 2019/20 and the fact that the gap in 2018/19 can be bridged through a combination of one-off and recurring funding.
- 10.3. Notes that although this significantly reduces future flexibility and introduces a higher element of risk it enables the continuation of the current financial strategy that the County Council operates and which has been so successful.
- 10.4. Notes the remaining gap of £120m for 2019/20 to be met by Departments through the next stage of transformation.
- 10.5. Approves the changed funding arrangements for IT development work outlined in Section 5.
- 10.6. Notes the intention to review the Tt2017 Programme again in the summer with a view to reporting back to Cabinet in the autumn on the position and the proposed content of the next transformation programme to take us to towards the end of the decade.
- 10.7. Notes the potential for formal decision making on the next transformation programme to take the County Council to 2019 being made before autumn 2017.

10.8. Approves the provisional Departmental savings targets outlined in paragraph 7.7.

10.9. Approves a one off addition to revenue of up to £700,000, to be met from General Contingencies in 2016/17 to provide for an element of works to ensure the Parkway building, Fareham, is capable of delivering to its full potential.

10.10. **It be a Cabinet recommendation to Council that:**

- a) The County Council submits an application for a four-year settlement and that this MTFS and the themes set out for the next transformation programme be approved as the efficiency plan for Hampshire County Council to be submitted in support of this application.
- b) Authority be delegated to the Director of Corporate Resources following consultation with the Chief Executive and the Leader of the Council to prepare and a separate plan providing more detail around these agreed themes if it is considered a useful addition to support our application.
- c) The capital investment of £10m per annum for four years, funded through a balanced combination of prudential borrowing and direct use of the NHB, to continue Operation Resilience be approved.
- d) The total acquisition cost of the Parkway building, Fareham, up to the maximum sum set out in a confidential report to the Executive Member for Policy and Resources on 16 June 2016, entitled Fareham Parkway – Workstyle Office Accommodation Strategy Update, be approved by County Council as an addition to the Capital Programme to be funded from prudential borrowing. *(The figure will be included in the report to Full Council once agreed, under authority given by the Executive Member for Policy and Resources).*

## **RECOMMENDATIONS TO COUNCIL**

### **Council is recommended to approve:**

- a) The submission of an application for a four year settlement and this MTFS and the themes set out for the next transformation programme as the efficiency plan for Hampshire County Council to be submitted in support of this application.
- b) The delegation of authority to the Director of Corporate Resources following consultation with the Chief Executive and the Leader of the Council to prepare and a separate plan providing more detail around these agreed themes if it is considered a useful addition to support our application.
- c) The capital investment of £10m per annum for four years, funded through a balanced combination of prudential borrowing and direct use of the NHB, to continue Operation Resilience.
- d) The total acquisition cost of the Parkway building, Fareham, up to a maximum sum set out in the confidential report to the Executive Member

for Policy and Resources on 16 June 2016 as an addition to the Capital Programme to be funded from prudential borrowing. *(The figure will be included in the report to Full Council once agreed, under authority given by the Executive Member for Policy and Resources).*

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

<b>Hampshire safer and more secure for all:</b>	Yes/No
<b>Maximising well-being:</b>	Yes/No
<b>Enhancing our quality of place:</b>	Yes/No

**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:**

- a) Equality objectives are not considered to be adversely affected by the proposals in this report but the 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 contains 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.

**Timeline for Development and Approval of Transformation to 2019 Programme**

<b>Item</b>	<b>Broad Dates</b>
MTFS to Cabinet	June 2016
MTFS to Council	July 2016
Initiation of 2019 transformation programme	September 2016
Initial opportunity assessment	By end of December 2016
Development of initial Departmental savings proposals following further review and clarification of the initial opportunity assessment	By end of April 2017
Internal scrutiny and peer review of savings proposals	By end of May 2017
Final draft of consultation document produced and approved	Mid May 2017
Public consultation period	End of May to mid July 2017
Collation and interpretation of responses	By end of August 2017
Savings proposals and consultation feedback considered by Cabinet and update of MTFS	September 2017
County Council to consider savings proposals and consultation feedback and update of MTFS	October 2017

## Reserves Strategy

### Introduction

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

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

At the time of writing this report, the actual value of earmarked reserves has not been finalised within the accounts, but in overall terms the total value of earmarked reserves will increase in line with the MTFS as provision is built up in departmental cost of change reserves to enable support of transformation and of revenue spend whilst savings programmes are put in place, and in the GER ahead of a large draw in 2016/17.

Currently at the end of the 2015/16 financial year the County Council's earmarked reserves together with the general fund balance stand at more than £497.3m an increase of just under £35.2m on the previous year.. This Appendix sets out in more detail what those reserves are for and outlines the strategy that the County Council has adopted and articulated in using reserves and more importantly in contributing to them.

### Reserves Position 31 March 2016

Current earmarked reserves together with the General Fund balance totalled £497.3m at the end of the 2015/16 financial year. The table below summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2014/15.

The narrative beneath the table explains in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

	<b>Balance 31/03/2015 £'000</b>	<b>Balance 31/03/2016 £'000</b>	<b>% of Total %</b>
<b><u>Fully Committed to Existing Spend Programmes</u></b>			
Capital Grants Unapplied	48,368	52,844	10.6%
Revenue Grants Unapplied	36,161	35,530	7.1%
General Capital Reserve	133,926	124,137	25.0%
Street Lighting Reserve	6,263	9,238	1.9%
Community Transport Reserve / Other	1,795	2,092	0.4%
	<b>226,513</b>	<b>223,841</b>	<b>45.0%</b>

	<b>Balance 31/03/2015 £'000</b>	<b>Balance 31/03/2016 £'000</b>	<b>% of Total %</b>
<b><u>Departmental / Trading Reserves</u></b>			
Trading Accounts	15,725	15,670	3.2%
Departmental - Cost of Change Reserve	42,651	53,927	10.8%
	<b>58,376</b>	<b>69,597</b>	<b>14.0%</b>
<b><u>Risk Reserves</u></b>			
Insurance Reserve	26,808	25,423	5.1%
Investment Risk Reserve	500	1,000	0.2%
	<b>27,308</b>	<b>26,423</b>	<b>5.3%</b>
<b><u>'Available' Reserves</u></b>			
Corporate Policy Reserve	3,976	5,109	1.0%
Invest to Save	9,461	9,077	1.8%
Corporate Efficiency Reserve	8,981	7,902	1.6%
Organisational Change Reserve	3,593	3,593	0.7%
Grant Equalisation Reserve	50,881	75,206	15.2%
	<b>76,892</b>	<b>100,887</b>	<b>20.3%</b>
<b><u>HCC Earmarked Reserves</u></b>			
	<b>389,089</b>	<b>420,748</b>	<b>84.6%</b>
Schools Reserves	52,462	55,950	11.4%
<b>Total Earmarked Reserves</b>	<b>441,551</b>	<b>476,698</b>	<b>95.9%</b>
General Fund Balance	20,598	20,598	4.1%
<b>Total Reserves and Balances</b>	<b>462,149</b>	<b>497,296</b>	<b>100.0%</b>

#### Fully Committed to Existing Spend Programmes

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

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

These reserves increased significantly in recent years following a change to International Financial Reporting Standards which required unapplied government grants to be shown as earmarked reserves and due to the fact that significant

revenue contributions were made to fund future capital investment using the surplus funds generated from the early achievement in savings (a deliberate strategy that is explained in more detail later in this paper).

These reserves do not therefore represent 'spare' resources in any way and are now being utilised as planned, falling by approaching £2.7m in 2015/16.

### Departmental / Trading Reserves

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

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

Departmental reserves are generated through under spends in annual revenue expenditure and Council policy was changed in 2010 to allow Departments to retain all of their under spends in order to provide resources to:

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

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

### Risk Reserves

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

The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns.

### 'Available' Reserves

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

This leaves other available earmarked reserves that are under the control of the County Council and which total £100.9m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of Government grant reductions, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and residents of Hampshire. They are broken down into four main areas:

**Corporate Policy Reserve** – This small reserve is available to fund new budget initiatives that are agreed as part of the overall budget. It offers the opportunity to introduce specific service initiatives that might not have otherwise gained funding and are designed to have a high impact on service users or locations where they are applied. Past initiatives have included:

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

**Invest to Save / Corporate Efficiency Reserve** – These reserves are earmarked to provide funding to help transform services in order to make further revenue savings in the future. Rather than just prop up the budget on a short term basis, the County Council feels it is a far more sensible policy to use available reserves to generate savings and improve services over the longer term, by re-designing services and investing in technology and other solutions that make services more modern and efficient.

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

The County Council, as a good employer, has attempted to manage the reduction in staff numbers as sensitively and openly as possible and introduced an enhanced voluntary redundancy scheme back in 2011. The scheme offered an enhanced redundancy rate for people who elected to take voluntary redundancy and this has been a highly successful way of managing the reductions in staff numbers, whilst maintaining morale within the rest of the workforce who are not required to go through the stress and uncertainty of facing compulsory redundancies.

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

Whilst this scheme has now closed an alternative approach has been approved which will continue to enable the reduction and transformation of the workforce required to deliver the significant savings needed in the medium term with the aim of minimising compulsory redundancies

Departments are still responsible for meeting the 'standard' element of any redundancy package, but the Organisational Change Reserve was put in place to meet the 'enhanced' element of the payment. The reserve was previously topped back up to provide funding to continue the voluntary redundancy scheme and following the previous (and final) Enhanced Voluntary Redundancy process. Provision is sufficient for any changes that will be required as part of the Tt2017 Programme and will be reviewed in line with the development of the next transformation programme and the consequent requirement for future organisational change.

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

In 2010/11, the County Council recognised that significant reductions in local government spending were expected and built in contributions as part of the MTFS over the CSR 2010 period from the GER in order to smooth the impact of the grant reductions.

It is clear that the period of austerity will continue until at least the end of the decade and therefore the County Council has taken the opportunity to increase the reserve in order to be able to continue the sensible policy of smoothing the impact of grant reductions without the need to make 'knee jerk' reactions to offset large decreases in grant.

It should be highlighted that the total 'Available Reserves' outlined above account approximately 20% of total reserves and balances that the County Council holds and of these have largely been set aside as part of a longer term strategy for dealing with the significant financial challenges that have been imposed on the County Council. In addition, the GER which comprises the majority of these 'Available Reserves', standing at £75.2m at the end of 2015/16, is in reality fully committed as the MTFS includes a net draw of £44m required to balance the budget in 2016/17 with the remainder to be utilised in 2017/18 and 2018/19.

The reserves detailed above represent the total earmarked reserves of the County Council and amount to £420.8m (before the planned material draw from the GER) as shown in the table on first page of this Appendix. In addition, the County Council is required to show schools reserves as part of its accounts and it must hold a minimum level of general balances, both of which are outlined below.

### Schools Reserves

Schools reserves account for nearly £56m or 11.4% of total reserves and balances. These reserves must be reported as part of the County Council's

accounts, but since funds are delegated to schools any surplus is retained by them for future use by the individual school concerned. Similarly, schools are responsible for any deficits in their budgets and they maintain reserves in a similar way to the County Council in order to smooth fluctuations in cash flow over several years.

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

### General Fund Balance

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

The current balance, unchanged from 2014/15, stands at £20.6m, which is close to the recommended minimum of around 2.5% of the budget requirement (£18.4m in 2016/17).

### Reserves Strategy

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

This approach is well recognised across local government and an article in the Municipal Journal by the Director of Local Government at the Chartered Institute of Public Finance and Accountancy stated

*“What reserves do allow authorities to do is to take a more medium term view of savings and expenditure and make decisions that give the best value for money. This is better than having to make unnecessary cost reductions in the short term because they do not have the money or funding cushion to allow for real transformation in the way they provide services.”*

We are now in an extended period of austerity which will last longer than anyone had previously predicted and the medium term view highlights a continued need for reserves to smooth the impact of reductions in funding and enable time for the planning and implementation of change to deliver savings.

The County Council's strategy for reserves was well established and operated effectively based on a cyclical pattern as follows:

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

This cycle was clearly evident during the last four financial years, with surplus funds generated in advance of need as part of budget setting and then

supplemented by further savings in the year. Savings in advance of need within Departments and savings in contingency amounts due to the successful implementation of the full early savings programme meant that the Council was able to provide:

- Departmental reserves to pay for the cost of change associated with their own transformation programmes
- Top up funding to the Organisational Change Reserve to provide resources to continue the very successful voluntary redundancy programme as a means of releasing staff in a sensitive and controlled manner that has helped maintain morale across the Council
- Funding within the Invest to Save Reserve to help support the Tt2017 Programme which will deliver the next phase of savings to 2017/18.
- Additional funds for the GER to help smooth the impact of grant reductions and give the County Council maximum flexibility in future budget setting processes

The financial landscape has significantly shifted and looking ahead the indications are that the next four years will be the most challenging period of the prolonged austerity measures which increases the potential necessity to use reserves to alleviate the initial and ongoing financial shocks over the next four years to 2020

A further review of all reserves will be undertaken and any changes will be reported later in the year as part of the development of the budget for 2017/18.