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NOTICE OF MEETING

Meeting	Cabinet
Date and Time	Tuesday, 19th July, 2022 at 10.30 am
Place	Ashburton Hall, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

Carolyn Williamson FCPFA
Chief Executive
The Castle, Winchester SO23 8UJ

FILMING AND BROADCAST NOTIFICATION
This meeting may be recorded and broadcast live on the County Council's website and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on the County Council's website.

AGENDA

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

3. MINUTES OF PREVIOUS MEETING (Pages 5 - 16)

To confirm the minutes of the previous meeting

4. **CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

5. **DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

6. **WORKING TOWARDS ECONOMIC RECOVERY** (Pages 17 - 34)

To consider a report of the Chief Executive regarding the County Council's continuing recovery activities resulting from the COVID-19 pandemic.

7. **2021/22 - END OF YEAR FINANCIAL REPORT** (Pages 35 - 104)

To consider a report of the Director of Corporate Operations regarding the 2021/22 End of Year Financial report.

8. **DEVELOPING A MEDIUM TERM FINANCIAL STRATEGY** (Pages 105 - 124)

To consider a report of the Director of Corporate Operations regarding the medium term financial strategy.

9. **SOCIAL CARE FUNDING REFORMS INCLUDING FAIR COST OF CARE** (Pages 125 - 134)

To consider a report of the Director of Adults' Health and Care regarding social care funding reforms and the fair cost of care.

10. **SERVING HAMPSHIRE - 2021/22 YEAR-END PERFORMANCE REPORT** (Pages 135 - 172)

To consider a report of the Director of HR, OD, Communications and Engagement regarding the County Council's performance in the context of the *Serving Hampshire* Strategic Plan for 2021-2025.

11. **ECONOMIC STRATEGY** (Pages 173 - 272)

To consider a report of the Director of Economy, Transport and Environment to outline the first draft of the Economic Strategy.

12. **LOCAL ENTERPRISE PARTNERSHIPS (LEP) INTEGRATION** (Pages 273 - 284)

To consider a report of the Director of Economy, Transport and Environment to update the Cabinet on the current Central Government guidance for Local Enterprise Partnership (LEP) integration into Upper Tier authorities as part of Devolution Deals and to present a number of options for the actions required.

13. **HAMPSHIRE COUNTY COUNCIL CLIMATE CHANGE INITIATIVES – PROGRESS REPORT** (Pages 285 - 296)

To consider a report of the Director of Culture, Communities and Business Services providing a progress update surrounding delivery of the programme of climate change initiatives relating to the operational activities of the County Council.

ABOUT THIS AGENDA:

On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact members.services@hants.gov.uk for assistance.

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

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AT A MEETING of the Cabinet of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Tuesday, 21st June, 2022

Chairman:
* Councillor Rob Humby

* Councillor Roz Chadd
* Councillor Nick Adams-King
* Councillor Liz Fairhurst
* Councillor Steve Forster
* Councillor Edward Heron
* Councillor Kirsty North
* Councillor Russell Oppenheimer
* Councillor Jan Warwick

Also present with the agreement of the Chairman: Councillors Carpenter, Hayre, Glen and Withers.

56. **APOLOGIES FOR ABSENCE**

All Cabinet Members were present and no apologies were noted.

57. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3, Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

58. **MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 15 March 2022 were reviewed and agreed.

59. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman gave congratulations on behalf of the Cabinet to Emma Noyce the Assistant Director for Culture and Information Services, on being awarded the British Empire Medal as part of the Queen’s Platinum Jubilee Honours, in recognition of the role she and her team played in ensuring public libraries continued to play a role supporting communities throughout the coronavirus pandemic.

The Chairman highlighted that it was Armed Forces Week and a flag raising ceremony had taken place the day before to demonstrate the County Council’s support for the armed forces. He thanked Cllr Joy and Cllr Withers who had been involved in organising associated events.

60. **DEPUTATIONS**

No deputations were received at this meeting.

61. **WORKING TOWARDS ECONOMIC RECOVERY**

Cabinet considered a report of the Chief Executive regarding the County Council's continuing recovery activities resulting from the COVID-19 pandemic, focusing on working towards economic recovery.

An overview of the report was given. It was reported that an updated prospectus for the County Deal was expected to be presented to Cabinet in July. The Leader commented that this timing would allow for feedback from District Council Leaders. He thanked the previous Leader for the work undertaken on the County Deal to date.

It was also noted that it was proposed to stand down the Local Outbreak Engagement Board (LOEB). The Leader thanked all staff for their hard work during the pandemic period. The Executive Member for Adult Services and Public Health noted that the LOEB could be resurrected in future if there was need.

The recommendations in the report were considered and agreed. A decision record is attached to these minutes.

62. **HEALTH AND SOCIAL CARE SYSTEM RESILIENCE REPORT**

Cabinet considered a report of the Director of Adults' Health and Care regarding the key activities undertaken across the health and social care system in the past year to maintain system resilience in the discharge of people from hospital settings.

An overview of the report was given. It was reported that while average length of stay in hospital had reduced, individuals often had a higher level of need that needed supporting when they came out. While historically the health and care system experienced increased pressure in the Winter period, the system was increasingly under pressure year round.

It was noted that national funding to support hospital discharge had been received during the pandemic but this would not be continuing. Conversations were taking place with the NHS locally on the use of other budgets to continue to support the good work that had been established.

The Leader expressed thanks to the teams that had worked closely with NHS colleagues to help support discharge during the pandemic.

The recommendations in the report were considered and agreed. A decision record is attached to these minutes.

63. **HAMPSHIRE MINERALS AND WASTE PLAN DEVELOPMENT SCHEME**

Cabinet considered a report of the Director of Economy, Transport and Environment regarding an update to the Hampshire Minerals & Waste Development Scheme.

It was reported that a timetable for a partial update of the Hampshire Minerals and Waste Plan had previously been agreed by County Council in February 2021. A number of reasons had caused a delay including a number of government consultations on related policy areas, and it was now proposed to revise this timetable. The revised timetable included an opportunity for public consultation on the Draft Plan Partial Update towards the end of 2022.

The recommendations in the report were considered and agreed. A decision record is attached to these minutes.

64. **RESPONSIBILITIES FOR EXECUTIVE FUNCTIONS AND SELECT COMMITTEE FUNCTIONS**

Cabinet considered a report of the Chief Executive regarding the revised Executive Portfolios and consequential changes to Select Committee Functions.

The Leader commented on the changes to Executive portfolios including strengthening the importance of economic development and including Inclusion and Diversity within the portfolio of the Executive Member leading on Human Resources.

The recommendations in the report were considered and agreed. A decision record is attached to these minutes.

Chairman,

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HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	21 June 2022
Title:	Working Towards Economic Recovery
Report From:	Chief Executive

Contact name: Carolyn Williamson, Chief Executive

Tel: 01962 845252 **Email:** carolyn.williamson@hants.gov.uk

1. The decision:

Cabinet:

1.1 Endorses the continued positive progress and direction of travel of a Pan-Hampshire County Deal to include the Hampshire Unitary Authorities and District Councils should they wish, as set out in the Levelling Up White Paper.

1.2 Agrees the disbanding of the Local Outbreak Engagement Board as a Sub-Committee of Cabinet, and that its responsibilities revert to Cabinet on a business-as-usual basis.

1.3 Agrees the updated membership of the Cabinet Sub-Committee on Economic Growth and Recovery as: the Executive Member for Policy, Resources and Economic Development, the Deputy Leader and Executive Lead Member for Children's Services, the Executive Member for Commercial Strategy, Estates and Property, and the Executive Lead Member for Transport and Environment Strategy.

1.4 Notes the continued COVID recovery work across the Departments, commends the exceptional commitment of all staff in ensuring the County Council continues to perform at a high level for the benefit of residents of all Hampshire and wider partners.

2. Reasons for the decision:

2.1 To provide Cabinet with an update on the progress on economic recovery, now the Covid-19 pandemic is moving into a 'learning to live with Covid-19' phase, particularly with respect to the County Deal.

3 Other options considered and rejected:

3.1 None

4 Conflicts of interest:

4.1 Conflicts of interest declared by the decision-maker: None

4.2 Conflicts of interest declared by other Executive Members consulted: None

5 Dispensation granted by the Conduct Advisory Panel: None

6 Reason(s) for the matter being dealt with if urgent: Not applicable

7 Statement from the decision maker:

Approved by:	**Date:**
--	21 June 2022
Chairman of Cabinet Councillor Rob Humby	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	21 June 2022
Title:	Health and Social Care System Resilience report
Report From:	Director of Adults' Health and Care

Contact name: Graham Allen

Tel: 0370 779 5574 **Email:** graham.allen@hants.gov.uk

1. The decision:

1.1 Cabinet support:

i) The continuation of services and efforts to support effective discharge pathways in order to maintain and build on progress and performance described in this report and in-line with the Health and Care Act (Royal Assent April 28) and the accompanying White Paper - Integration and Innovation: working together to improve health and social care for all, published on 11 February 2021.

ii) All efforts to recognise and secure continued funding to support the health and care system to avoid admission and support discharges to enable our exemplary local efforts, described in this report, to support our residents and the efficiency and efficacy of NHS services.

1.2 Cabinet note:

iii) Overall performance remains strong and still within the most extraordinary circumstances to support residents to be discharged from hospital settings and return to their appropriate place of residence or optimum place of suitable care.

iv) The efforts of all staff and partner organisations working across the two ICSs in maintaining safe, appropriate and resilient discharge pathways, within a new national operating framework, introduced at pace since 2020 are being maintained as our operating framework (at surge capability) continues to prove to be resilient and responsive. Significant operating challenges present themselves as national discharge funding falls away – but ever resilient, the partner discussions are turning quickly to what can be funded locally or where appropriate to reduce service levels with a continued emphasis on timely hospital discharges and flow.

v) The operating landscape and culture of health and care has changed beyond measure, as a consequence of COVID-19 and an ambition to see provision, relationships and outcomes described in this report continue unabated, in line with the Council's approach to supporting our residents.

2. Reasons for the decision:

2.1 This report seeks to provide an overview and update Cabinet on key activities and issues related to acute hospital system resilience throughout the period of response to COVID-19. The situation has been and remains incredibly challenging and dynamic in terms of the issues faced and the response required.

3 Other options considered and rejected:

3.1 None

4 Conflicts of interest:

4.1 Conflicts of interest declared by the decision-maker: None

4.2 Conflicts of interest declared by other Executive Members consulted: None

5 Dispensation granted by the Conduct Advisory Panel: None

6 Reason(s) for the matter being dealt with if urgent: Not applicable

7 Statement from the decision maker:

Approved by:	**Date:**
---	21 June 2022
Chairman of Cabinet Councillor Rob Humby	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	21 June 2022
Title:	Hampshire Minerals and Waste Plan Development Scheme
Report From:	Director of Economy, Transport and Environment

Contact name: Melissa Spriggs

Tel: 0370 779 7153 **Email:** melissa.spriggs@hants.gov.uk

1. The decision:

1.1. That the Cabinet:

a) Recommends that the County Council approves the Hampshire Minerals & Waste Development Scheme – Update, which sets out a revised timetable for the partial update of the Hampshire Minerals & Waste Plan, comes into effect from July 2022.

2. Reasons for the decision:

2.1. The Hampshire Minerals & Waste Development Scheme which sets out the timetable and programme for plan-making including when public consultation will take place was approved by the County Council and came into effect on 25 March 2021.

2.2. The timetable for preparing the Partial Update to the Hampshire Minerals & Waste Plan has required revision and the Development Scheme needs to be updated to reflect the revised timetable.

2.3. The Development Scheme forms part of the Development Plan, alongside the Hampshire Minerals & Waste Plan and therefore, requires approval by the County Council.

3. Other options considered and rejected:

3.1. The option to not update the Development Scheme was rejected, as Hampshire County Council and the partner Authorities have a duty to maintain the Development Scheme[1] and keep it under review.

[1] Planning and Compulsory Purchase Act 2004(16) - https://www.legislation.gov.uk/ukpga/2004/5/section/16

4. Conflicts of interest:

4.1. Conflicts of interest declared by the decision-maker: none

4.2. Conflicts of interest declared by other Executive Members consulted: not applicable

5. Dispensation granted by the Conduct Advisory Panel: none.

6. Reason(s) for the matter being dealt with if urgent: not applicable.

7. Statement from the Decision Maker:

Approved by:	**Date:**
--	**21 June 2022**
Chairman of Cabinet **Councillor Rob Humby**	

HAMPSHIRE COUNTY COUNCIL

Executive Decision Record

Decision Maker:	Cabinet
Date:	21 June 2022
Title:	Responsibilities for Executive Functions and Select Committee Functions
Report From:	Chief Executive

Contact name: Barbara Beardwell

Tel: 03707 793751 **Email:** barbara.beardwell@hants.gov.uk

1. The decision:

1.1 That the allocation of responsibility for Executive Functions at Appendix 1 of the Report is noted by Cabinet, and reported to the County Council at the County Council meeting on 14 July 2022.

1.2 That the revised allocation of responsibilities for Select Committee Functions contained at Appendix 2 of the Report is recommended by Cabinet for approval by the County Council.

2. Reasons for the decision:

2.1 To advise Cabinet as to the revised Executive Portfolios and to seek Cabinet's recommendation to the full Council of consequential changes to Select Committee Functions.

3 Other options considered and rejected:

3.1 None

4 Conflicts of interest:

4.1 Conflicts of interest declared by the decision-maker: None

4.2 Conflicts of interest declared by other Executive Members consulted: None

5 Dispensation granted by the Conduct Advisory Panel: None

6 Reason(s) for the matter being dealt with if urgent: Not applicable

7 Statement from the decision maker:

Approved by:	**Date:**
--	21 June 2022
Chairman of Cabinet Councillor Rob Humby	

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	19 July 2022
Title:	Working Towards Economic Recovery
Report From:	Chief Executive

Contact name: Carolyn Williamson, Chief Executive

Tel: 01962 845252 **Email:** carolyn.williamson@hants.gov.uk

Purpose of this Report

1. This regular report to Cabinet summarises the County Council's continuing recovery activities resulting from the COVID-19 pandemic. The focus for this report is working towards economic recovery. As indicated in the previous report, as the crisis continues to subside and learning to live with Covid-19 becomes the norm, reports will now focus primarily on economic recovery unless there is a matter of significance to report.

Recommendations

It is recommended that Cabinet:

2. Notes the analysis of the economic impact and issues highlighted which emphasises that the County Council continues to use its scale and influence to contribute to economic recovery in Hampshire, including the consolidation of regeneration and growth partnerships, going forward.

3. Endorses the County Council's continued ambition and commitment for a Pan-Hampshire County Deal, recognising the significant opportunity for a Deal to enable the County Council's economic ambition, catalyse significant investment and benefit the lives of residents and communities.

4. Earmarks a sum of £100,000 from Corporate Services Cost of Change to support the future development of potential devolution arrangements and the full establishment of Regeneration and Growth Partnerships.

5. Notes the continued COVID recovery work across the Departments, commends the exceptional commitment of all staff in ensuring the County

Council continues to perform at a high level for the benefit of residents of all Hampshire and wider partners.

Executive Summary

6. This report provides an analysis of the economic impact and outlines those issues that the County Council continues to use its scale and influence to contribute to the county's and sub-region's economic recovery going forward. It will be particularly important to consolidate the emerging Regeneration and Growth Partnerships initiative which was approved by Cabinet in February 2022 and will streamline, and better co-ordinate initiatives aimed at supporting local economic growth and physical regeneration of town centres and other economically important areas.

7. The report outlines the position on economic recovery and action taken alongside the continued development of the opportunities that arise from the devolution of powers, resources and funding through a County Deal, and the potentially significant contribution a Deal could make to both economic recovery and the longer-term economic ambition. A draft County Deal prospectus has now been developed with contributions from a range of stakeholders over the past 9 months, and the County Council stands ready to negotiate a Deal with Government. It also notes the current national political uncertainty and will report back to Cabinet with further detail along with a finalised prospectus when there is greater clarity on Government's Levelling Up and devolution ambition and approach and consider the most appropriate timeframes for engagement with Government. As with all negotiations, any final proposal will be considered in line with the County Council's governance requirements.

8. The report outlines the continued COVID recovery work across the Departments, commending the exceptional commitment of all staff in ensuring the County Council continues to perform at a high level for the benefit of residents of all Hampshire and wider partners.

The current economic challenge and our response

9. The Russian invasion of the Ukraine continues to represent a major exogenous shock to an economy that has already been under strain from Covid related lockdowns, supply bottlenecks, labour shortages and rising energy prices.

10. Inflation reached a new highpoint in May with the Bank of England expecting prices to continue to increase by over 10% later this year that will drive a sharp fall in real household incomes. The latest forecasts from both, the Bank of England and Office for Budget Responsibility suggests that stagnation in real income growth is set to continue even once this inflationary shock passes through the economy. Forecasts are also now starting to suggest that inflation may take longer to come down to the Bank of England target rate.

11. Rising geopolitical tensions, sky rocketing energy prices, and the emergence of the cost-of-living crisis are driving our economy into a very sharp slowdown with the Bank of England warning of recession later this year with calendar year GDP growth broadly flat in 2023. The most recent Organisation for Economic Co-operation and Development (OECD) forecast also predicts stagnating economic performance with the UK going from the strongest growth in 2022 to the weakest level of economic growth amongst the G7 nations in 2023.

12. Hampshire's economy, that has just recovered from the worst recession in living memory that saw its economic output decrease faster than both the national and regional average, is set to be hit by another sharp slowdown if not an outright recession.

13. The cost-of-living crisis is expected to constrain growth in consumer spending, the main driver of economic growth. With business investment and demand for exports subdued there is little room for economic growth although a fall in imports implies that net trade alongside government spending should contribute to economic growth.

14. Household incomes in Hampshire are on average around 5% above the national average but at the economic sub-area level disparities range from about a quarter above the average to about a fifth below the national average. The difficult year ahead might have been more manageable if it came on the back of a living standard boom, but Hampshire's poorest households and young people are more vulnerable given that they spend a greater share of their income on necessities like food and energy.

15. Consumer-facing services are still recovering from the impact of the pandemic, and they tend to provide employment opportunities for Hampshire's young people. These activities are more exposed to the downturn in consumer spending than production or business-to-business services.

16. The labour market in Hampshire continues to defy expectations of a slowdown – unemployment is low, and it has remained broadly stable, PAYE employment reached another record high and the number of online vacancies recovered in May. However, growth was slower than a year ago and there are some signs of a slowdown in monthly national data.

17. Hampshire SMEs have received £734.7 million under all Covid-19 grant schemes but the last two SME business grant schemes closed at the end of March and businesses have now started paying back Bounce Back Loans.

18. To ease the strain on households from the worst cost-of-living crisis in living memory UK government introduced a £15 billion support package in May of this year.

19. The Levelling Up and Regeneration Bill was published on 11 May. It is in this context and the language of 'breathing new life' into failing places, their economies, towns, and high streets, that the County Council increasingly has to position itself to secure essential future resources. This comes on the back

of the perception that the South East has to ‘stand on its own two feet’, and that it can look after itself.

20. It is in these difficult times that the County Council cannot afford any complacency and working with its partners will have to deal with its own diminishing resources to support its most vulnerable people and communities and continue to provide wider public services.

21. Regardless of the underlying realities of ‘levelling up’ and the scale and scope of poverty and deprivation that continues to prevail in some of Hampshire’s towns, cities and estates, it will increasingly be down to fiscal freedoms and flexibilities to enable places like Hampshire to leverage its economy to both fund its future and reduce demand on highly complex and complicated public services, especially those targeted on vulnerable communities as well the day to day universal services everyone relies on whether it is to get to work, succeed at school, or care for children and the elderly.

22. Businesses will only invest here if they have confidence in the investment framework, that infrastructure will be built, that the skilled workforce will be accessible, flexible and in place, that their homes will be affordable and their schools, colleges and universities and places of leisure, culture, and sport, will thrive.

23. The wider pan-Hampshire area is a major net contributor to the exchequer, and it is essential that it continues to make substantial regional and national contribution to economic growth and public finances. However, to optimise it Hampshire needs a full recognition by Government. This is why, as set out in this report, the County Council is continuing to push for a bold and ambitious County Deal. It is only by altering the relationship and strength of the collaboration with Central Government that a new transformational Deal for Hampshire residents, communities and businesses can be secured. This is why the County Council is so actively supporting the pan-Hampshire area in putting a credible offer to Government for such a Deal.

Economic Impact and Recovery from Covid-19

24. Official data from the UK Office for National Statistics (ONS) has corroborated our view that the impact of the pandemic on Hampshire’s economy (Hampshire & Isle of Wight) has been greater than both the regional and national average. Thus, in terms of the impact on the economy, business stock and workplace-based employment the impact on Hampshire has been greater than the average.

25. Preliminary estimate suggests that economic output (GVA) in Hampshire contracted by -10.4% in 2020 compared to -9.4% in the South East and -9.8% in UK. In GDP terms, which in addition to GVA includes the impact on VAT and other indirect taxes, Hampshire’s economy contracted by 11.1%, again faster than both the national and regional average.

26. At local level Southampton lost 13.8% of its annual output (GVA) and its economy (GDP) shrunk by 14.5% in 2020. The impact on the city was much greater than on other areas in Hampshire. Adjusted for inflation Southampton's economic output in 2020 was smaller than in 2004.

27. The impact on Central Hampshire was above the Hampshire average which is perhaps unsurprising given the structure of its economy - greater exposure to agriculture and consumer-facing services such as accommodation & food and lower share of the broad public sector and production (including utilities).

28. The impact on Central Hampshire was significant but its past performance was considerably stronger than in Southampton. Its growth was strong in 2019 and over the pre-pandemic decade (3.1% p.a.) Southampton contracted by 3.6% in 2019 and it had on average the slowest growth in Hampshire over the pre-pandemic decade (0.9% p.a.).

29. South Hampshire's economy was more resilient to the impact of the pandemic than the Hampshire average and over the pre-recession decade its growth was on average about 1.5 times faster than in Southampton.

30. Portsmouth and the Isle of Wight did better than the Hampshire average in 2020 but that is in large part thanks to their industrial structure – relatively high share of production activities, public administration and defence and utilities. This is often seen as a 'blessing' during consumer driven downturns, but it can 'constrain' economic recoveries.

31. During the Great Financial Recession of 2008/9 Hampshire and its service industries were far more resilient to the impact of the recession than the UK average. However, at the aggregate (the economy wide) and sectoral level Hampshire was less resilient in 2020 than the UK economy.

32. The impact on economic output in Hampshire's accommodation & food services was about four times as large as the all-sector Hampshire average. Preliminary data suggests that in terms of economic output most consumer-facing services in Hampshire fared worse than nationally.

33. Hampshire's public administration & defence and utilities expanded in 2020 and faster than nationally but several large sectors such as manufacturing, construction, transport, and wholesale & retail contracted faster than the national average.

34. Economic output in Hampshire's higher value-added traded services contracted in 2020 but at a much slower pace than in other service activities or production. This was also the case during the 2008/9 recession, but Hampshire's information & communication sector contracted faster than the all-sector average and much faster than the UK average in 2020. This sector finds it hard to recruit skilled labour in Hampshire with rising job vacancies for 'programmers and software development professionals'.

35. Economic output in several higher value-added and knowledge intensive sub-sectors such as scientific research & development, service activities auxiliary

to finance & insurance and telecommunication expanded in Hampshire in 2020.

36. Estimated growth in Hampshire in 2021 and the first quarter of this year was slightly faster than the national average but a sharp slowdown in business activity, consumer spending and economic growth is underway. However, the labour market in Hampshire continues to defy expectations of a slowdown in demand but there are some signs of a slowdown in monthly national data.

37. The numbers of unemployed and young unemployed people not adjusted for seasonal factors in Hampshire decreased slightly in May. PAYE employee numbers increased by 3,420 (or 0.4%) but employment growth has slowed down on an annual basis. Online vacancies recovered in May (+3.9%), following a decrease in April.

38. Early estimates indicate that median monthly PAYE pay in Hampshire increased by 5.3% in May compared to the same time a year ago. The flurry of higher pay settlements in June suggests that high inflation is beginning to feed into faster wage growth across the country.

39. The labour market in Hampshire remains very tight and it appears as if the cost-of-living crisis had little impact on the overall demand for labour in Hampshire in May. However, it is likely that it has affected demand for labour in non-essential consumer-facing services that are in employment terms overrepresented by young people.

40. Our preliminary estimate suggests that Hampshire's economy expanded by 0.9% in the first quarter, slightly faster than the national average but the economy contracted at the beginning of the second quarter. However, the fall in monthly GVA in April (around -0.3%) was not as bad as it looks since the fall was largely driven by a reduction in NHS Test and Trace activity. The fall in output nonetheless increases the chance that the economy is slipping into recession.

41. Survey evidence suggests that May saw a sharp slowdown in business activity and the volume of new orders (a leading indicator of short-term growth) in the region but the fact that a measure of business activity from purchasing managers did not fall means that the economy could be holding up a little better that initially feared.

42. Retail sales decreased by 0.5% in May following a small rise in April, which suggests that the decline in household's spending power from surging inflation is starting to hit consumer spending a bit harder. Nevertheless, consumer spending has not sunk but it has rather softened over the previous two months.

43. Consumer prices in the UK increased by 9.1% in May, up from 9.0% in April. The increase in inflation was driven by rising food prices which continue to constrain household's spending power and weigh on discretionary spending. Firms in the South East continuing to face rising costs exacerbated by the war in Ukraine, with input cost prices in May reaching a new record high according

to the latest survey of purchasing managers. Official forecasters expect inflation to increase to over 10% later this year with core inflation remaining higher for longer which suggests that interest rates could increase faster than anticipated.

44. The tailwinds from the reopening of the economy have therefore faded, having been overcome by headwinds of soaring prices, supply delays, labour shortages and increasingly gloomy prospects for the economy that is reflected in the latest consumer sentiment that fell to its lowest ever score in May since records began in 1974.

45. The weakness in household incomes and sentiment suggest that there is a real risk of continuous falls in real consumer spending over the coming month which could tip the economy into a recession. Stagflation fears that have intensified in the UK and other advanced economies have also been embedded in the latest independent forecasts. The Bank of England warned of recession later this year with calendar year GDP growth broadly flat in 2023.

46. To tackle rising inflation the Bank has been forced to increase the rates at a time when there is a sharp slowdown in economic activity. The rates increased from 1% in May to 1.25% in June, a new 13-year high but still well below the historic average. A sharp slowdown in business activity is unlikely to deter the Bank of England from hiking interest rates at its August meeting. Markets expect the base rate to peak at around 2% but since inflation next year is likely to be higher than initially thought the rates may increase to closer than 3% over the next 18 months.

47. At the beginning of the second quarter fiscal position was considerably better than expected in October's Budget which added more pressure on the Chancellor to launch a big package of measures to help households cope with the cost-of-living crisis.

48. UK government announces £15 billion support package to households across the UK, of which the most vulnerable households will receive support of at least £1,200 this year, including a new one-off £650 cost of living payment to more than 8 million low-income households on Universal Credit, Tax Credits. All households will receive a £400 discount on their energy bills from October. This will be partly funded by a new temporary Energy Profits Levy on oil and gas firms expected to raise around £5 billion over the next year.

49. The larger-than-expected rise in public borrowing in May implies that borrowing could overshoot the 2022/23 forecast of £99bn which will in turn limit the ability of the Chancellor to cut taxes and provide additional grants to households.

50. Business investment remains subdued and the start of the second quarter marked a sharp fall in demand for workspace in Hampshire's main commercial markets – offices, industrial and leisure & hotels. Increasing economic headwinds and structural change within some sectors are to weigh on commercial property take-up over the near term.

51. The short-term economic recovery action planning continues to be undertaken by the County Council. The County Council understands that the recovery from Covid has been uneven at local level and that the sharp slowdown in economic activity that is currently underway is equally going to be unevenly distributed across Hampshire. This places greater emphasis on place-based strategies and major regeneration initiatives, including breathing new life into our towns, city centres and high streets. The Council seeks to work on a collaborative basis with individual local authorities to develop bespoke place-based strategies and initiatives for faster recovery from Covid and stronger development and growth of Hampshire.

52. It is proposed that the foundation for this collaborative approach would be a stronger focus on co-production and co-delivery and a governance model that would involve Executive Lead Member for Transport & Environment Strategy representing the County Council on strategic governance boards and the Executive Director for Economy Transport & Environment representing the County Council on delivery arrangements.

53. Replicating this model across all Local Authorities that share our aspirations for a collaborative approach to place-based initiatives through the development of local regeneration and growth partnerships and that are able to demonstrate how to accelerate economic recovery, is an emergent opportunity. This approach will bring consistency and coherence and allow for deeper insight into prioritisation as well as secure good practice and recovery from Covid. More detail is provided in the forthcoming March Cabinet Report.

54. *Economic Intelligence Dashboard* (Annex 1) produced in late June contain additional information on the current economic trends and business intelligence (the most up to date at the time of writing).

County Deal

55. As has been previously reported, a County Deal has the potential to strengthen economic recovery across Hampshire as a whole and deliver major strategic economic initiatives and programmes. This would be achieved through securing substantial new functions, powers, and resources to enhance place-based leadership at regional, sub-regional and local levels for the benefit of local residents, including leveraging significant investment funding from Government and the private sector.

56. In November 2021, a Statement of Common Ground, was agreed by all Leaders, setting out the ambition to explore opportunities for a potential County Deal. It was agreed by:

Hampshire County Council – Cllr Keith Mans
Basingstoke and Deane Borough Council – Cllr Ken Rhatigan
Bournemouth Christchurch and Poole Council – Cllr Drew Mellor
East Hampshire District Council – Cllr Richard Millard
Eastleigh Borough Council – Cllr Keith House
Fareham Borough Council – Cllr Seán Woodward

Gosport Borough Council – Cllr Graham Burgess
Hart District Council – Cllr David Neighbour
Havant Borough Council – Cllr Alex Rennie
Isle of Wight Council – Cllr Lora Peacey-Wilcox
New Forest District Council – Cllr Edward Heron
Portsmouth City Council – Cllr Gerald Vernon-Jackson
Rushmoor Borough Council – Cllr David Clifford
Southampton City Council – Cllr Dan Fitzhenry
Test Valley Borough Council – Cllr Phil North
Winchester City Council – Cllr Lucille Thompson

57. In December 2021, a draft County Deal prospectus was endorsed by Cabinet. This evidenced a clear functional socio-economic geography of the Pan-Hampshire region and its strong economic foundation as a net contributor to the UK economy. The draft prospectus outlined a range of opportunities and associated strategic proposals that would have a measurable positive impact on the lives of residents and would form the basis for further discussions with stakeholders and Government.

58. In February 2022, the much-awaited government White Paper, Levelling Up the United Kingdom, was published. This set out an ambition to extend, deepen and simplify devolution across the country, and commits to establishing a new model of Combined Authority that would enable devolution deals to be agreed by County Councils and/or Unitary Councils, encouraging collaboration where relevant with District Councils.

59. Within the White Paper the Government announced 9 Wave 1 areas which will be negotiated first. These are:
    - Cornwall;
    - Derby and Derbyshire;
    - Devon, Plymouth and Torbay;
    - Durham;
    - Hull and East Yorkshire;
    - Leicestershire;
    - Norfolk;
    - Nottinghamshire and Nottingham; and
    - Suffolk.

60. The White Paper also set out the governance framework for devolution against a range of potential functions, with Level 3 being the most powerful and Level 1 being the least powerful but noting that there will be scope to negotiate further powers, on a case-by-case basis, and an opportunity to adopt innovative local proposals to address specific challenges and opportunities.

    - **Level 3**: A single institution or County Council with a directly elected Mayor (DEM), across a Functional Economic Area (FEA) or whole county area.

- **Level 2**: A single institution or county council without a DEM, across a FEA or whole county area.

- **Level 1**: Local authorities working together across a FEA or whole county area e.g., through a joint committee.

61. Although no potential Deals in the South East will be immediately progressed in the Wave 1 pilots, there has continued to be an active dialogue and engagement with officials and Ministers. These meetings strongly encouraged the continued work and development of the proposals outlined in the draft prospectus shared with Cabinet in December. This was mirrored by Cabinet endorsing the continuation of the work and direction of travel for a Hampshire County Deal at its meetings in February and March 2022, including the development of aligned Regeneration and Growth Partnerships at a District Council level.

62. In March 2022, a final round of collaborative workshops were completed with Partners, building on the initial collaborative work performed in November and December 2021 and importantly finalising the scope of opportunities to explore and form the basis of starting any negotiation with Government in the context of the now published White Paper. The draft December prospectus for change has therefore now been updated to reflect this.

63. In April 2022, the 5 County / Unitary Leaders met with the Parliamentary Under Secretary of State as a continuation of the collective engagement with Government. This meeting was extremely constructive, and the Minister was complementary of the emerging ambition of the proposals and the professionalism of the work that has been performed so far. The Minister clarified that County Deals are expected to include whole County areas and was not aware of any Deal that would split a County between two or more separate Deals. As expected, and in accordance with the White Paper, the Minister was clear that with the level of ambition in the Pan-Hampshire proposal, there would be new governance requirements including a requirement for some form of Directly Elected Leader.

64. In May 2022, following the Queen’s Speech, the Levelling Up and Regeneration Bill was published, setting out further clarity on the expected governance of a County Deal through a Combined County Authority (CCA). Key points of clarity in the Bill are:

    - There cannot be 2 or more CCA’s across a single County Area.
    - The previous language of a “Mayor” will not be prescribed.
    - Public Consultation would be required as part of finalising proposals for a CCA.
    - The Secretary of State may make regulations establishing a CCA for an area only if:

        - The Secretary of State considers that to do so is likely to improve the economic, social, and environmental well-being of some or all of the people who live or work in the area.

- The Secretary of State considers that to do so is appropriate having regard to the need:
- To secure effective and convenient local government, and
- To reflect the identities and interests of local communities
- The Secretary of State is satisfied that the proposal will achieve the stated purpose of establishing a CCA.
- The constituent councils' consent, and
- Any public consultation required has been carried out.

65. The County Council therefore stands ready to negotiate a devolution Deal with Government through a County Deal and remains fully committed to the ambition and opportunities of a Deal as set out in this paper and previously reported to Cabinet to benefit the lives of residents and communities across Hampshire.

66. In doing so, it notes the current national political uncertainty, and will report back to Cabinet with further detail and a final prospectus when there is greater clarity on Government's Levelling Up and devolution ambition and approach and consider the most appropriate timeframes for engagement with Government.

Adults' Health and Care

67. Across the department in both our Public Health and adult social care services restoration and recovery continue apace, albeit within the continued extremely challenging operational and financial climate, as reported in some detail in a report to the June Cabinet.

68. The department continues to support a range of corporate work in support of Afghan refugees. A family welcome event for those resettled in Hampshire and those within temporary hotel accommodation was held in early July provided a positive opportunity to celebrate and recognise the arrival of families to Hampshire and thank all those staff across all organisations involved in this vital work.

69. Additionally, the department, along with colleagues in corporate operations, continue to prepare for social care reforms, including the Fair Cost of Care exercise as a prelude to the Care Cap's intended implementation in October 2023. These reforms are subject to a detailed report scheduled on the agenda for today's Cabinet meeting.

Schools and Children's Services

70. During the summer term, schools are now fully operational and operating as normal. There have been very few incidents where individual schools have experienced spikes in staff or pupil absence due to Covid 19 and other illnesses. The County Council has supported schools whenever spikes have occurred largely through the school improvement team.

71. The focus of the school improvement team has remained on working with schools to implement recovery programmes and preparing schools for the return of examinations this summer. GCSE Examinations are now underway, and schools are reporting that these are going well. Ofsted has returned to full inspection and schools continue to achieve good outcomes with the proportion of schools graded good or better remaining at 93% compared to a national average of 86%.

72. In terms of children's social care, there remains increased activity at the front door in the Multi Agency Safeguarding Hub (MASH) and in the social work assessment teams, circa 20% above pre-pandemic levels. Short term Covid related staff absence has affected the service with between 10-to15% staff absence, particularly in the residential service. Staff in these services have also been processing additional assessments for Ukrainian refugee families.

73. There continue to be one-off short-term problems with regards to Home to School transport when drivers or pupil escorts are absent for covid related reasons.

Conclusion

74. The post Covid focus for the County Council is clearly and significantly focussed upon economic recovery, this includes the development of an ambitious County Deal prospectus as a negotiating position with Government. Given the current political uncertainty, the timing of negotiations with Government is being considered and Cabinet will be updated with further detail when there is great clarity on the Government's intent and timeframes for engagement.

75. As the economic cycle is now predicted to enter a new phase of economic slowdown or recession triggered by wider global issues, rather than the recovery from Covid economic phase, it is considered opportune to review the nature and focus of this report for the next Cabinet meeting.

76. There are still on-going recovery activities across the County Council Departments and staff are to be commended for their continued commitment in support of Hampshire Residents and wider partners.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy, and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	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	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, and sexual orientation).
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation) and those who do not share it.
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

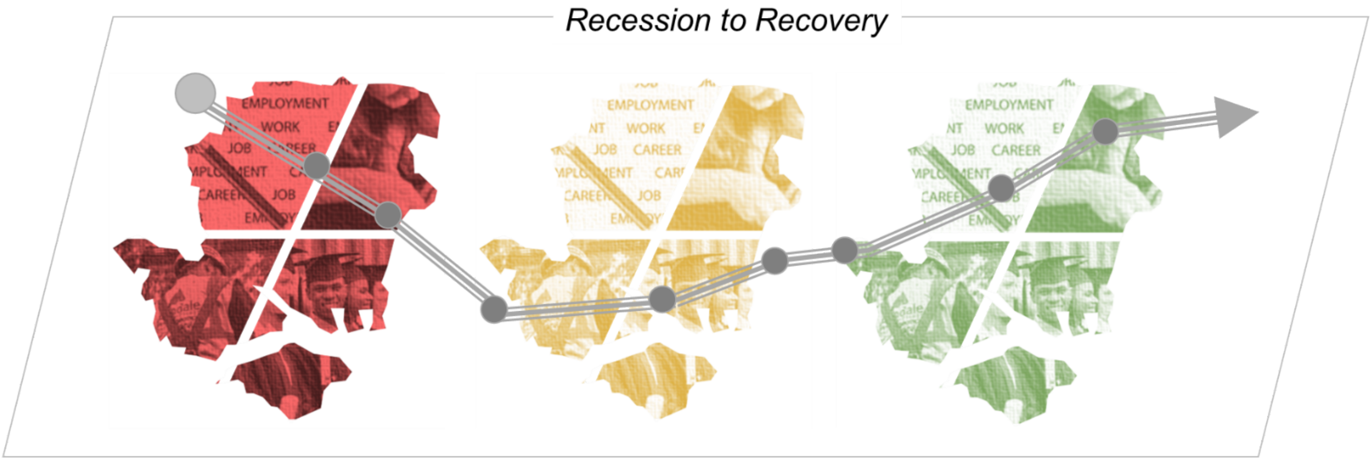
Due regard in this context involves having due regard in particular to:

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

2. **Equalities Impact Assessment:**

(a) No equality impacts have been identified arising from this Report

ANNEX 1



Hampshire Monthly Intelligence Dashboard

June 2022

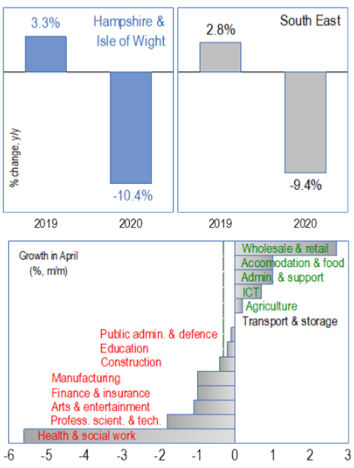
Hampshire County Council
Economy, Transport and Environment

Contents

Theme	Indicators	
Business Activity	• Economic Growth • Business Activity • Business Prices • Inflation	Page 1
Jobs and Earnings	• PAYE Employees • PAYE Earnings • Labour Demand • Demand by Occupation	Page 2
Unemployment	• Claimant Unemployment • Local Claimants • Youth Unemployment • Local Young Claimants	Page 3
Sentiment and Investment	• Business Investment • Retail Sales • Consumer Confidence • House Sales	Page 4

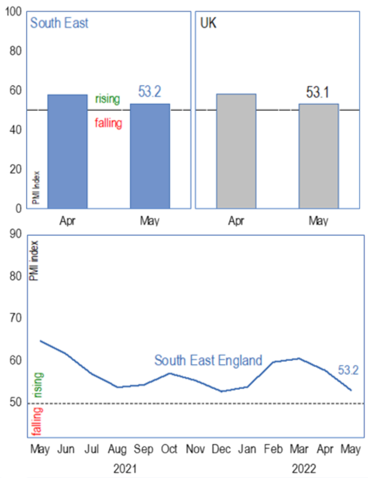
Business Activity 1

Economic Growth



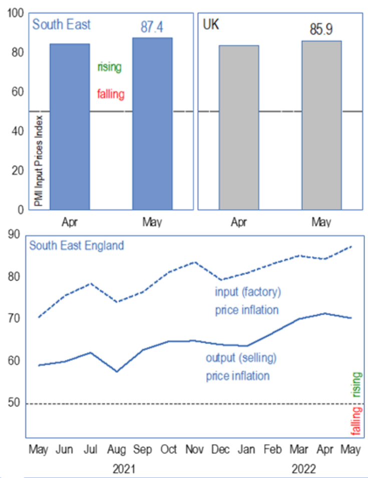
- ONS data has corroborated our view that the impact of the pandemic on Hampshire's economy (-10.4% in GVA terms) has been greater than both the regional and national average.
- UK economy shrunk by 0.3% in April with the fall largely driven by a reduction in Test and Trace activity.

Business Activity



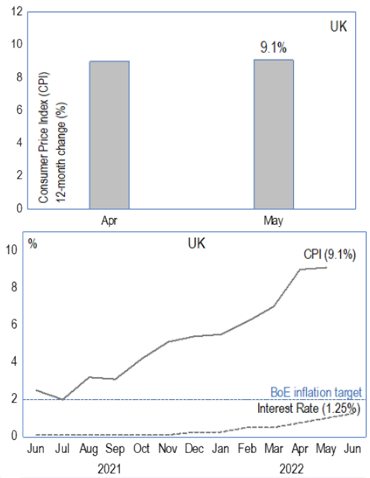
- PMI data for the South East saw a sharp slowdown in business activity in May. Output and new orders rose at the slowest pace in five months.
- According to ONS survey data, close to 1 in 5 UK firms could not source materials, goods or services that they needed from within the UK, or they had to change suppliers in May.

Business Prices



- Firms in the South East continue to face rising costs exacerbated by the war in Ukraine, with input cost prices in May reaching a new record high. Manufacturers reported higher input costs than service providers. Output prices for May eased from April's peak but still at historic highs as input prices rises passed on to customers.

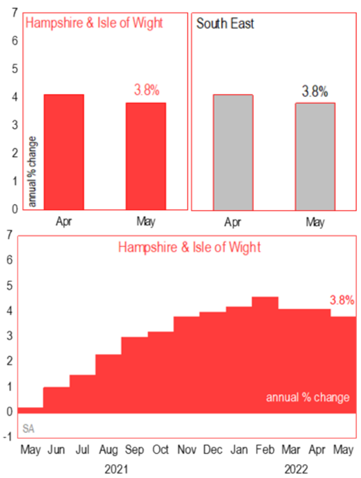
Inflation



- Consumer prices in the UK reached a 40-year high of 9.1% in May, up from 9% in April. The rise was driven by soaring energy bills, record petrol prices and rising food prices.
- To tackle inflation, the BoE raised UK interest rates from 1% to 1.25% in June, a new 13-year high, though still at historically low levels.

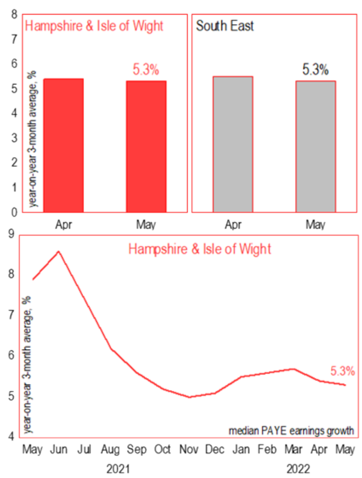
Jobs and Earnings 2

PAYE Employees



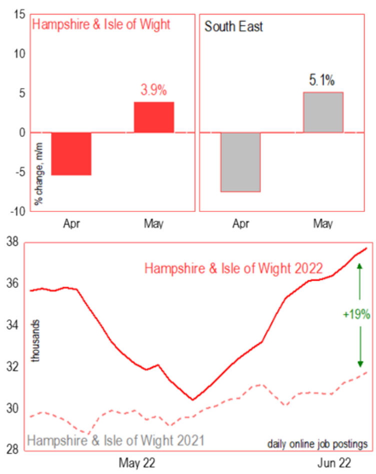
- Hampshire & the Isle of Wight saw a new record high of 899,300 payrolled employees in May. Employment increased by 3,420 (or 0.4%) additional employees on the month.
- Preliminary estimates for May show that payrolled employment grew by 3.8% compared to May last year, but at a slower pace than in April (+4.1%)

PAYE Earnings



- Early payroll estimates indicate that median monthly PAYE earnings in Hampshire & Isle of Wight increased by 5.3% in the quarter to May compared to the same period a year ago. Growth in median pay was slightly slower than in April (5.4%).
- May registered a sharp fall in median pay, adjusted for inflation.

Labour Demand



- Hiring intentions (number of online job postings) in Hampshire and Isle of Wight bounced back by 3.9% in May, following a decrease in April.
- Demand for labor was higher than a year ago. Online job postings were 19% above June 2021 levels, with online vacancies near 50% above pre-pandemic levels.

Demand by Occupation

Unique Job Postings by Occupations (SOC)	May	% of Total
Care Workers and Home Carers	2,761	8%
Nurses	2,125	6%
Programmers & Software Development Professionals	1,957	6%
Other Administrative Occupations n.e.c.	1,739	5%
Sales Related Occupations n.e.c.	1,729	5%
Customer Service Occupations n.e.c.	1,503	4%
Kitchen and Catering Assistants	1,380	4%
Chefs	1,180	3%
IT Business Analysts, Architects & Systems Designers	949	3%
Managers and Proprietors in Other Services n.e.c.	901	3%

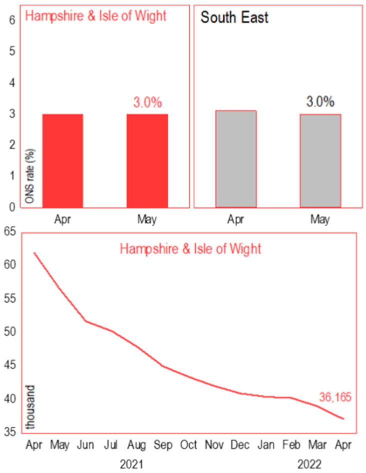
Unique Job Postings by Occupations (SOC)	Mar	% of Total
Care Workers and Home Carers	2,456	7%
Nurses	2,130	6%
Programmers & Software Development Professionals	1,993	6%
Other Administrative Occupations n.e.c.	1,800	5%
Sales Related Occupations n.e.c.	1,664	5%
Customer Service Occupations n.e.c.	1,516	4%
Kitchen and Catering Assistants	1,135	3%
Human Resources and Industrial Relations Officers	1,005	3%
IT Business Analysts, Architects & Systems Designers	990	3%
Chefs	906	3%

- In-demand jobs in Hampshire & Isle of Wight in May were in nursing, IT and administration, but chefs were more in demand than in March.
- The top five in-demand specialized skills were web design (CCS, Flexbox and Webkit), finance, marketing, auditing and performance measures (KPIs);

Unemployment

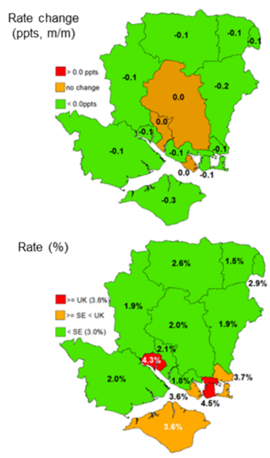
3

Claimant Unemployment



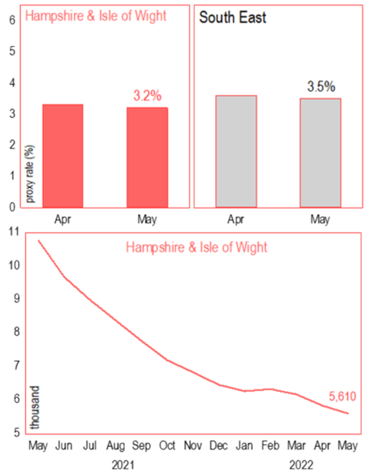
- Claimant count unemployment in Hampshire & Isle of Wight (not adjusted for seasonal factors) fell by 970 to 36,165 in May, but the rate remained unchanged at 3.0%.
- The fall was spread across all three broad age groups, but with a higher relative concentration in the 50+ age group and the under 25 age group.

Local Claimants



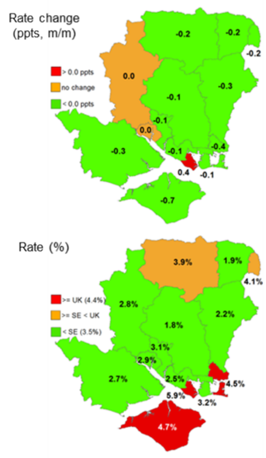
- While claimant count rates fell in most districts in Hampshire & Isle of Wight; Winchester, Eastleigh and Gosport saw no change last month.
- The Isle of Wight registered the most significant fall in claimant counts (-255 claimants) and rate (-0.3ppts).
- Portsmouth and Southampton had rates above the UK average of 3.8%.

Youth Unemployment



- The number of unemployed 18–24-year-olds on the claimant count measure in Hampshire & Isle of Wight decreased by 235 (-4%) to 5,610 in May. The decrease was the largest in the Isle of Wight (-60 claimants).
- The youth unemployment rate decreased marginally to 3.2% in May, below the South East average (3.5%).

Local Young Claimants

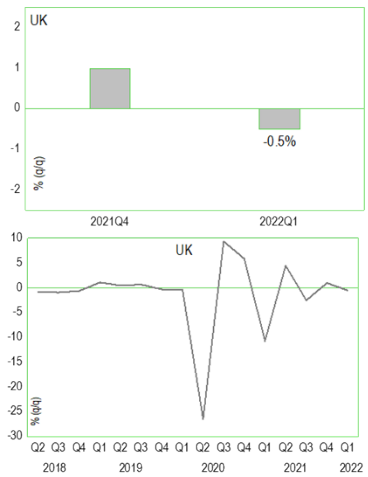


- Estimated youth unemployment rates in May decreased for most Hampshire & Isle of Wight local authorities. They were unchanged in Test Valley and Southampton while Gosport increased by +0.4ppts.
- The highest youth unemployment rate was found in Gosport (5.9%), well above the UK average (4.4%).

Sentiment and Investment

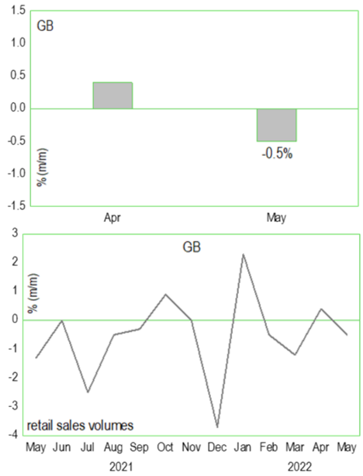
4

Business Investment



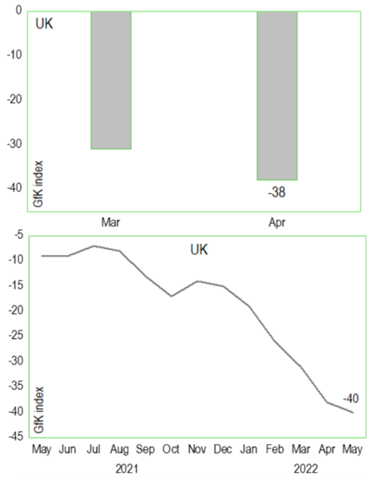
- Business investment fell by 0.5% in Q1 2022 (ONS). However, BoE intelligence for Q2 suggests modest positive growth as businesses adapt to new ways of working (IT/office refurbishment).
- Material and labour shortages and increased economic uncertainty continue to drag on investment.

Retail Sales



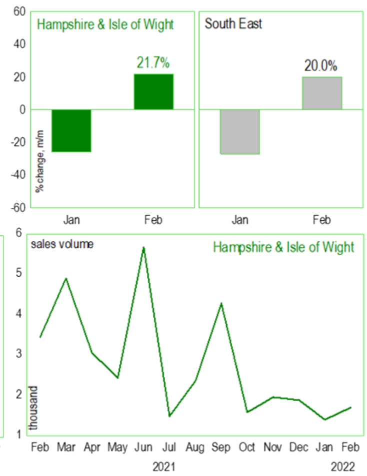
- Retail sales decreased by 0.5% in May, after a downwardly revised 0.4% increase in April.
- According to ONS, the fall in sales volumes was driven by a decline in food sales (-1.6%), with affordability explaining reduced spending as the rising price of food shopping contributes to the cost of living.

Consumer Confidence



- Consumer confidence in the UK fell to its lowest ever score in May since records began in 1974, amid growing concern over the cost-of-living crisis, raising the risk of recession.
- Consumer confidence is now lower than during the global banking crisis with May's reading one point lower than in July 2008.

House Sales



- House sales (not adjusted for seasonal factors) in Hampshire & Isle of Wight rebounded by 22% in February, after a decrease in the previous month.
- Nearly 1,700 house property sales took place in February. Nonetheless, property sales remained 22% below pre-pandemic levels.

How to read 'traffic lights':

Refers to decline or growth relative to the previous period (GVA, PMI business activity and business prices indicators, job postings, business investment, retail and house sales).

In the case of inflation, PAYE employment & earnings and consumer sentiment it refers to the direction of travel relative to the previous period.

For claimant count unemployment indicators the change refers to the rate not the level. For example, a decrease in youth unemployment would see a downward green arrow.

Little or no change on previous period.

* The local estimate is preliminary and it needs to be treated with a high degree of caution since it is based on the sectoral mix of Hampshire and the Isle of Wight and the national sectoral impacts.

Sources:

The primary data sources are the Office for National Statistics (ONS) and HMRC, while additional data comes from several commercial sources such as S&P Global, Lightcast, CBI, BCC, HM Land Registry and the Bank of England.

Monthly/Quarterly data for Business Activity, Jobs & Earnings, Unemployment and Sentiment & Investment.

In the case of several monthly indicators, the South East is used as a proxy geography for Hampshire.

Estimates of payrolled employees and their pay from HMRC Pay As You Earn (PAYE) Real Time Information are preliminary but seasonally adjusted. Employment figures differ from the ONS Labour Force Survey (LFS) data. Median pay figures differ from the ONS estimates, and are based on gross PAYE earnings which do not cover other sources of income, such as self-employment.

For further information on Hampshire's labour market see Quarterly Labour Market Updates and Monthly Ward Claimant Count Reports available at:
https://www.hants.gov.uk/business/ebis/reports

This publication is produced by the Economic and Business Intelligence Service (EBIS), Hampshire County Council

Hampshire County Council

economic
business intelligence service

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	19 July 2022 21 July 2022
Title:	2021/22 – End of Year Financial Report
Report From:	Director of Corporate Operations

Contact name: Rob Carr, Director of Corporate Operations

Tel: 01962 847400 **Email:** Rob.Carr@hants.gov.uk

Section A: Purpose of this report

1. The purpose of this report is to provide a summary of the 2021/22 final accounts. It sets out the variance against the revenue budget for service departments and non-service budgets and explains the reasons for the variances. It makes recommendations for the use of budget underspends including transfers to earmarked reserves.
2. The report also covers capital expenditure and funding for 2021/22, revisions to the 2022/23 capital programme and reports on treasury management activity for the year ended 31 March 2022.

Section B: Recommendations

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

3. Notes the year end position in respect of Covid-19 costs and losses as outlined in Section D.
4. Notes the use of £25.0m of contingencies as part of the Covid Financial Response package as previously agreed by County Council.
5. Notes the progress towards delivering the outstanding Tt2019 and Tt2021 savings and delivery of SP2023 savings set out in Section E.
6. Notes the outturn position set out in Section F.
7. Approves the allocation of unspent central budgets of £13.8m for the specific purposes set out in section G.
8. Approves the increase of service capital programme cash limits for 2022/23 to reflect the carry forward of capital programme schemes totalling £116.638m and shares of capital receipts totalling £1.395m as set out in Appendix 3.

9. Approves the addition to the CCBS capital programme of £1.4m to fund a scheme to create new meetings rooms within the EII Court complex to be funded from Covid recovery funding (paragraph 112).
10. Endorses the urgent officer decision made by the Director of Corporate Operations in line with the County Council's financial regulations to allocate an additional £1.485m of SCA funding to the Warblington School project within the CCBS capital programme giving an updated scheme value of £3.489m (paragraph 111).

11. **Recommends to County Council that:**

a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2 be approved.

Section C: Executive Summary

12. This report provides a summary of the 2021/22 final accounts. In line with the revised statutory requirement, the draft statement of accounts will be published by 31 July and will be reported to the Audit Committee in September, in conjunction with the External Audit report on the accounts.
13. The financial pressures resulting from the pandemic are significant and wide-ranging and have persisted beyond the initial period of lockdown restrictions and social distancing in many cases. Local covid response funding of £25.0m was utilised in 2021/22 in addition to £88.9m of Government grants and a further £46.7m is expected to be required in 2022/23 and 2023/24.
14. Covid pressures in Adults Services are primarily due to clients previously supported under the former NHS Discharge scheme transitioning into social care. In Children's services there remains significant pressure on the front door due to increased numbers of contacts. CCBS saw significant reductions in income across Country Parks, Outdoors Centres and Registration ceremonies while Covid restrictions were in effect. In ETE, the Highways Service has faced increased costs from contractors linked to pandemic and a reduction in income from on-street parking and highways licences.
15. Departments have made strong progress towards delivering their SP2023 targets in 2021/22 having secured £10.6m of savings. The revised baseline target for delivery of outstanding Tt2019 and Tt2021 savings in 2021/22 (£30.1m) has been fully achieved by departments, though savings of £46.7m still remain to be delivered in future years. Expected late delivery of SP2023 savings in 2023/24 has increased by £4.7m, of which £2.4m relates to the Younger Adults programme and £1.7m relates to the Modernising Placements Programme in Children's Services. However, overall cash delivery of SP23 savings remains ahead of the programme baseline with further early delivery of savings expected in 2022/23.
16. Savings on non-cash limited budgets total just over £13.8m. This largely results from an underspend on capital financing costs due to slippage in the capital programme and unused contingencies related to growth in waste volumes and inflationary allowances.

17. This report recommends that these corporate savings of £13.8m are earmarked for specific purposes set out in section G. These include management of ash tree dieback, new schools design and delivery and capital investment priorities which include feasibility studies, surveys and bid preparation to facilitate urgent capital works and develop schemes that could allow the Council to access external funding. It is proposed that the remaining underspend is allocated to the Budget Bridging Reserve to contribute to meeting the 2023/24 budget gap on an interim basis.

18. Net service cash-limited expenditure was £30.6m lower than originally planned against an overall gross budget of approaching £2.1bn; a variance of 1.5%. This position is after the allocation of Government and local funding to cover the cost of responding to the coronavirus pandemic during 2021/22 and therefore reflects the financial position of the 'usual' business of the County Council.

19. The position for each of the departments is summarised in the table below:

	Variance (Under) / Over Budget
	£M
Adults' Health and Care	(21.2)
Children's Services - Non Schools	(1.1)
Corporate Services	(4.3)
Culture, Communities and Business Services	(4.1)
Economy, Transport and Environment	-
Total Departmental Expenditure	**(30.6)**

20. £14.8m of the overall £21.2m budget saving for Adults' Health and Care relates to an additional contribution which will be made by the county CCGs towards the cost of reablement services in 2021/22 which have supported timely discharges from hospital. The majority of business as usual (BAU) savings have been achieved within HCC Care due to vacant beds having been repurposed to meet the NHS requirement for Discharge to Assess beds, all of which are funded by the NHS. The longer-term position for the Department is therefore expected to present greater challenges than might be indicated by the 2021/22 outturn position. Care prices and volumes have increased at an accelerating rate during 2021/22 and the substantial savings required from the adult's budget and implementation of social care reforms will further increase the level of financial risk in the year to come.

21. The outturn position for Children's Services includes early achievement of £7.3m of SP2023 savings, planned investment of £4.3m, largely in support of

the Tt2021 and SP23 savings programmes, and £1.9m pressures. There was a net pressure across Children's Social Care due to the requirement for agency staff to cover vacancies and balance experience within frontline teams. Increased demand for statutory SEN assessments has created staffing pressures both within the assessments team and within the Educational Psychology service with consequential impacts on capacity for income generation. The Home to School Transport Service also faces growing pressure related both to market rate increases and contract planning and negotiation timescales.

22. Corporate Services departments achieved a saving against the budget of nearly £4.3m including early delivery of around half of the departments' £4.5m SP2023 target. Departments continue to face recruitment challenges and income generation has exceeded forecasts in several areas, particularly for services provided to schools for which demand continues to remain strong.

23. The final outturn position for CCBS is a £4.1m saving, as the Department continues to make every effort to minimise non-essential spend and maximise income and efficiencies. Savings were achieved through holding vacant posts and additional income was achieved within Scientific Services, Hampshire Outdoors Centres and Registration Services following the lifting of Covid restrictions. Planned investment included high priority repairs and maintenance works to reinstate countryside footpaths following damage due to increased usage, exacerbated by the wet winter conditions.

24. ETE achieved a breakeven position for 2021/22, using in-year savings and a £0.8m draw from Cost of Change reserves to fund planned investment and cashflow outstanding Tt2021 savings. An additional £2m funding was provided for Highways Maintenance from savings in the Winter Maintenance budget, supplemented by corporate support. The Highways service has received unprecedented levels of public contacts following the pandemic and experienced sharp price rises. In recognition of these pressures, £3m of additional funding was made available for 2021/22 and £7m recurring funding from 2022/23 as agreed by County Council in November 2021.

25. Schools continue to face increasing financial pressure, specifically relating to special educational needs and disability, and in 2021/22 there was a net pressure of £24.6m against the school budget which has been offset by a charge to the Dedicated School Grant (DGS) reserve. The charge will increase the deficit on the DSG reserve to a total of over £60m. The Council continues to develop its DSG Management Plan and implement strategies to reduce pressure on the High Needs Block.

26. The report contains a section on reserves and balances highlighting a net increase in revenue reserves available to the County Council of £82m. Of this increase, £30.6m relates to the departmental underspends outlined in this report, £30.8m relates to transfers to the Budget Bridging Reserve and £17.2m relates to the increase in reserves held on behalf of individual schools.

27. Of the 2021/22 capital programme, schemes totalling £179.4m (54.4%) were started during the year. The report sets out the details of requests to carry

forward £116.6m of funding from the 2021/22 and prior year programmes into 2022/23, in addition to £47.6m where approvals have already been granted.

28. Including schemes started in prior years, total capital expenditure of £241.2m was incurred during 2021/22, of which it is proposed £45.2m will be funded through prudential borrowing. This will not result in the County Council taking on new external debt at this point and instead will be funded through ‘internal borrowing’ in line with the County Council’s Treasury Management Strategy and the advice of its treasury management advisors.

29. Given the pressure on the County Council’s financial resources, the report also sets out a change in the County Council’s approach to the use of capital receipts that will see all receipts fully retained to fund corporately agreed priorities except where an appropriate business case from departments for an alternative use is agreed in advance.

30. The report also recommends approval of:

- The annual report on the operation of the treasury management strategy and the County Council’s end of year prudential indicators.
- Changes to the approved capital programme for 2022/23 for the development of Warblington School and the provision of meeting rooms within the EII complex.

Section D: Covid-19 Financial Impact

31. Cabinet and County Council have continued to receive regular updates throughout the past year in respect of the financial impact of Covid-19 on Council services. During the year, additional funding was made available to help meet the visible costs of Covid by the Government and NHS England. This included specific government grants totalling almost £46m, and non-specific Covid tranche funding of almost £24m.

32. Specific Covid grants of £56.7m were utilised in 2021/22 including funding carried forward from 2020/21, primarily to provide outbreak management services and to support social providers in implementing infection control measures. Remaining specific grant funding of £14.6m will be carried forward for use in 2022/23. Additional spending pressures and delays to planned savings due to Covid-19 amounting to £104m are expected across the MTFS period. £32m unringfenced Covid tranche funding was available to contribute towards meeting these pressures in 2021/22, leaving a deficit of £71.7m as outlined below to be funded by the County Council for which contingency funding is already earmarked.

33.

	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**Total £000**
Slipped T19 and T21 Savings	21,231	9,650	5,274	36,155
Departmental Pressures	36,111	31,766		67,877
Total forecast pressures	**57,342**	**41,416**	**5,274**	**104,032**
2020/21 Grant carried forward	(8,203)			(8,203)
Covid Grant – Tranche 5	(23,979)			(23,979)

Sales, Fees & Charges Compensation	(194)			(194)
Total available grant	**(32,376)**			**(32,376)**
County Council Funding	**24,966**	**41,416**	**5,274**	**71,656**

34. The financial pressures resulting from the pandemic are significant and wide-ranging and have persisted beyond the initial period of lockdown restrictions and social distancing in many cases. The impacts for each of the Council's departments are summarised in the following sections.

35. Adults Services have reported a Covid pressure of £16.1m, primarily due to the cost of care packages for clients who were previously supported by the CCG under the former NHS Discharge scheme. There has also been a significant reduction in occupancy of long-term beds within the Council's Care Homes due to the pandemic. This reduction in client numbers has reduced the potential income from client contributions and the NHS through Free nursing care by £3.4m.

36. The change in departmental focus to support NHS discharge over the past year has led to a backlog in community assessments that needs to be cleared. Social care workloads have also increased due to pressure within the Hospital systems, compounded by staff absences due to sickness and self-isolation. Additional resource of £2m has been required to manage these workload pressures.

37. Children's Services have reported Covid pressures of £13.6m and there remains significant pressure on the front door due to increased numbers of contacts linked to the pandemic. This has required additional resource in the Multi Agency Safeguarding Hub and in social work teams, primarily met by agency staff. There has also been an impact on increasing numbers of Children Looked After, though this has not tracked the increase in contacts at the front door. There is expected to be a long tail of demand linked to the pandemic as additional referrals to Children's Services are processed and pressures on Social Care services are expected to persist into 2022/23 and beyond.

38. Within CCBS, the net Covid pressure of £1.8m is primarily due to the significant reduction in income particularly across the Country Parks, Outdoors Centres and Registration ceremonies due to the various restrictions in place throughout the financial year. Discussions are ongoing with partner organisations for use of office space to take account of new ways of working following the Covid pandemic, which are likely to negatively impact rental income. A review of the current Office Accommodation portfolio is underway to mitigate these mounting pressures on income budgets.

39. ETE have reported Covid pressures of £2.3m including the underwrite for bus operator payments based upon pre-pandemic levels of demand. The Highways service has faced increased costs of maintaining drainage due to cars parked on street as a result of home working and the department agreed alternative payment mechanisms with contractors to recognise the additional costs of working in a Covid-19 secure way. Income from on-street parking and highways licences also reduced due to lockdown restrictions. These pressures were offset by Covid-related savings from lower volumes of waste

at HWRC’s and savings on reduced concessionary fares and community transport spend.

40. Corporate Covid-19 costs include spend on equipment for hybrid meetings, costs associated with PPE, the Council’s temporary mortuary and IT and Facilities Management activities to support return of staff to offices.

Section E: Transformation and Savings Delivery

41. The revised baselines for delivery of the outstanding Transformation to 2019 and Transformation to 2021 savings were approved by Cabinet in December 2021. A baseline target of £30.1m was set for 2021/22 which has been fully achieved by departments. This leaves £46.7m to be delivered in the period to 2024/25.

42. Tt2021 savings in HCC Care totalling £1.2m are expected to be delivered a year later than forecast following a delay to the consultation process and implementation of a revised staffing structure. The savings will now be delivered in 2023/24 and the 2022/23 shortfall is expected to be met from early delivery of SP2023 savings.

43. Departments have made strong progress towards delivering their SP2023 targets in 2021/22 having secured £10.6m of savings; £7.2m in excess of initial forecasts. The majority of early delivery has been achieved within Children’s Services and relates to additional funding from Government and increased charging of placement costs for Children with Special Educational Needs to the DSG High Needs Block. In Corporate Services, savings have been achieved on the costs of the IT data centre and the asset replacement programme, and held vacancies have contributed to the delivery of SP23 targets in Finance, IT and Shared Services.

44. Later delivery of some savings in Adults and Children’s Services was anticipated when the baselines were set and expected late delivery in 2023/24 has increased by £4.7m. £2.4m relates to the Younger Adults programme which faces challenges in securing sustainable reduced care package costs due to current market conditions. £1.7m relates to the Modernising Placements Programme which will require further time for developments in the Council’s fostering recruitment service to impact numbers of foster carers, thereby reducing average placement costs. However, overall cash delivery of SP23 savings remains ahead of the programme baseline with further early delivery of savings expected in 2022/23.

	2021/22	**2022/23**	**2023/24**	**2024/25**
	£'000	**£'000**	**£'000**	**£'000**
Adults' Health & Care	-	7,261	35,108	40,600
Children's Services	7,293	7,763	19,495	22,441
ETE	475	920	10,266	10,266
CCBS	579	1,558	3,361	3,361
Corporate Services	2,223	2,912	4,468	4,468
Total SP2023 Delivery	**10,570**	**20,414**	**72,698**	**81,136**
SP2023 baseline	3,345	16,375	77,404	81,358
Variance to baseline	(7,225)	(4,039)	4,706	222

Section F: 2021/22 financial outturn

45. The table below summarises the net outturn position for each department compared to the final cash limit for the year. The figures exclude schools spending:

	Variance (Under) / Over Budget
	£M
Adults' Health and Care	(21.2)
Children's Services - Non Schools	(1.1)
Corporate Services	(4.3)
Culture, Communities and Business Services	(4.1)
Economy, Transport and Environment	-
Total Departmental Expenditure	**(30.6)**

46. Strong financial management has remained a key focus throughout the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created, and that outstanding savings are delivered in line with approved targets. The figures above represent the business as usual outturn position for departments and exclude £57.3m pressures, income losses and slipped savings linked to the impact of the pandemic, which have been funded corporately in line with Council's financial strategy. The outturn position also takes account of £22.1m one-off cash flow support to assist departments in managing delays to the implementation of the Tt2019 and Tt2021 savings programmes.

47. Therefore, whilst financial performance remains strong, the significant challenges that departments face in achieving planned savings and managing surging inflationary pressures in addition to increases in demand over the medium term should not be underestimated.

48. Key issues across each of the departments are highlighted in the paragraphs below.

Adults' Health and Care

49. £14.8m of the overall £21.2m budget saving for Adults' Health and Care relates to an additional contribution which will be made by the county CCGs towards the cost of reablement services in 2021/22 which have supported timely discharges from hospital. The majority of BAU savings have been achieved within HCC Care due to vacant beds having been repurposed to meet the NHS requirement for Discharge to Assess beds, all of which are

funded by the NHS. The service has also achieved savings due to shrewd use of staffing resources and the availability of Government grants to offset additional spend related to the pandemic. Public Health savings of £3.1m were achieved due primarily to Health Checks and Sexual Health services continuing to be affected by lower volumes during the pandemic. These savings have been transferred to the ringfenced Public Health reserve to be reinvested in service delivery in future years.

50. The planned delivery of savings as part of the Tt2019 and Tt2021 programmes has been delayed over the last year. The primary area savings were delayed is from sustainable reduced care package costs. The reason for the increased delay is two-fold; project resources to deliver the saving have been diverted to support the Covid-19 response effort, and any ability to affect the volumes of care and price paid has been significantly impacted by the need to support the NHS in freeing up acute capacity. However, £13.5m of the remaining £44.4m Tt2019 and Tt2021 savings have been achieved in line with the revised baseline target for 2021/22.

51. The departmental position includes pressures on externally commissioned care packages of £4.4m linked to increasing numbers of packages and average prices paid throughout 2021/22. As set out in the February budget report, these increases are thought to be linked to issues including workforce shortages, ongoing requirements to meet infection prevention controls and lower than normal occupancy within the private market. Much of the financial impact of these price and volume increases has been offset by one-off funding from the corporate Covid-19 response package, however the full impact of these pressures will need to be absorbed within the adult social care base budget in future years.

52. The longer-term position for the Department is therefore expected to present greater challenges than might be indicated by the 2021/22 outturn position. The indirect consequences of Covid-19 on the adults budget position are long lasting and substantial. Whilst care volumes in Residential and Nursing Care remain lower than March 2020 levels, they have increased at an accelerating rate during 2021/22. Correspondingly, domiciliary care volumes have continued to increase since March 2020 and the average price paid for this care has increased faster than seen previously. There remains a risk that prices continue to increase at a faster rate than that currently assumed in view of the likely cessation of government grants to providers by 2022/23, which help to mitigate the cost of additional infection control measures. The substantial savings required from the adults budget coupled with the implementation of the adult social care reforms will further increase the level of financial risk in the years to come.

Children's Services

53. The outturn for 2021/22 on the non-schools' budget is an underspend of £1.1m. The position includes early achievement of £7.3m of SP2023 savings and planned investment of £4.3m, largely in support of the Tt2021 and SP23 savings programmes. The balance of £1.9m net BAU pressures comprises a range of variances across all budgets as summarised below.

54. There has been significant focus on transforming Children's Social Care services over recent years to reduce costs while improving outcomes.

Numbers of Children Looked After (CLA) and average placement costs currently remain in line with MTFS forecasts which take account of savings targets totalling in excess of £32m by 2023/24.

55. There were BAU underspends on placements for children with disabilities due to lower activity and average unit costs than anticipated and in-house staff vacancies. However, there was a net pressure across Children's Social Care due to the requirement for agency staff to cover vacancies and balance experience within frontline teams. Progress is being made toward reducing numbers of agency workers and maximising use of the Council's co-owned recruitment agency Connect2Hampshire, however pressures are expected to remain over the medium term.

56. The Home to School Transport Service faces growing pressure related both to market rate increases and contract planning and negotiation timescales. Price increases are linked to rising fuel costs and ongoing driver shortages and contract negotiations have been impacted by the Special Educational Needs (SEN) backlog resulting in expensive solo transport arrangements for pupils placed late.

57. The increased demand for statutory SEN assessments has also caused an increase in staffing costs, including agency staff, required to process the increasing numbers of referrals. As a result, staff within the Educational Psychology service have been diverted away from income generating work to undertake statutory SEN assessments. Initial work undertaken by the service indicates that additional resource of around £1.9m could be required to meet ongoing demand for SEN assessments.

58. Notwithstanding the pressures faced across Children's Services, additional BAU savings were realised in some areas. Income achieved by Swanwick Lodge Children's Home was in excess of budgeted levels following a successful management review of the use of resources and revision of charging methodology. The Council's outdoor centres also showed strong recovery in the wake of the pandemic with trading income returning to pre-Covid levels.

Corporate Services

59. Corporate Services departments achieved a saving against the budget of nearly £4.3m. This saving includes early delivery of around half of the departments' £4.5m SP2023 target and planned investment of £3.3m, including delivery of the substantial shared services development programme. Departments continue to face recruitment challenges which are particularly acute given current levels of competition in the jobs market. Services including IT, Legal Services and Finance have been especially impacted due to the specialist skillsets required. Income generation has exceeded forecasts in areas including HR, Finance and Strategic Procurement, particularly for services provided to schools for which demand continues to remain strong.

60. The overall Corporate Services cash limit also includes a number of non-departmental budgets, including Member Support Costs and Corporate Grants. The net saving of £0.15m largely reflects lower members support costs and lower grants to local organisations and grants to voluntary

organisations. The underspend on member grants will be topped up to £100k in 2022/23 and used to provide support to Ukrainian refugees.

Culture, Communities and Business Services

61. The final outturn position for CCBS is a £4.1m saving, as the Department continues to make every effort to minimise non-essential spend and maximise income and efficiencies. Targeted savings through holding vacant posts and significant difficulties in recruiting to customer facing roles following the pandemic have generated staffing savings across the Department. Additional income has been achieved from the five yearly Asbestos reinspection programme and new contracts and initiatives within Scientific Services. School bookings at Hampshire Outdoors Centres have fully recovered following the pandemic and increased income generation has also been achieved by Registration Services as a result of pent-up demand following the lifting of Covid restrictions.

62. In-year savings have been used to support planned one-off investment to facilitate Tt2021 and SP23 savings, including the relocation of library services and investment in transformation resources to enable early delivery of £2.2m SP23 savings across 2021/22 and 2022/23. Funding has also been allocated for high priority repairs and maintenance works, including the reinstatement of countryside footpaths following damage due to increased usage, exacerbated by the wet winter conditions.

63. The remaining £0.3m savings targets for Tt2019 and Tt2021, which relate to office accommodation moves and income generation for Emergency Planning and Health and Safety teams are not expected to be fully delivered until 2023/24. The office accommodation savings are dependent on other workstreams across the council and contractual commitments and have been met from corporate funding in 2021/22. Emergency Planning are working to secure new income contracts by 2022/23 and alternative plans are being developed to meet the Health and Safety savings target.

Economy, Transport and Environment (ETE)

64. The Department has achieved a breakeven position for 2021/22, using a combination of in-year savings and a £0.8m draw from Cost of Change reserves to fund planned investment and cashflow outstanding Tt2021 savings. Savings in the Winter Maintenance budget were supplemented by corporate support to provide an additional £2m for the Highways Maintenance budget in accordance with established principles. The Highways service has received unprecedented levels of public contacts following the pandemic and experienced sharp price rises and difficulties securing supplies of construction materials. In recognition of these pressures, £3m of additional funding was made available for 2021/22 and £7m recurring funding from 2022/23 as agreed by County Council in November 2021.

65. The Waste savings programme, which constitutes £8m of the outstanding Tt2021 savings, is closely dependent on Government changes to the waste system which have been delayed due to the pandemic. The Environment Bill, which was passed into law in November 2021, does not set out the timing of changes relevant to the waste proposals and further delays to the programme are expected with the savings not being fully delivered until 2025/26. This timing delay has placed an additional pressure on the department, albeit this

has been met from savings delivered in-year. £0.5m SP23 savings have been achieved on concessionary travel costs due to a natural decline in passenger numbers. Other savings achieved relate to the achievement of additional Planning fee income as well as staff vacancies held, and efficiencies achieved through home working.

Overall Position

66. Detailed explanations for the outturn position for all departmental budgets are provided in Appendix 1.

67. The departmental savings will be set aside to meet the future cost of change in line with the current financial policy which incentivises good stewardship.

Schools Budget

68. The financial pressures facing schools are well documented and in 2021/22 there was a net pressure of £24.6m against the school budget (including a £27.7m pressure on the High Needs Block) which has been offset by a charge to the Dedicated School Grant (DSG) reserve, as allowed by the Department for Education (DfE).

69. This year, the charge will increase the deficit on the DSG reserve to a total of over £60.0m which will be funded from future years DSG funding. A DSG Management Plan was produced last year, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block.

Other Budgets

70. The outturn for other items contained within the County Council's budget is shown in the following table:

	Variance (Under) / Over Budget
	£m
Capital Financing / Interest on Balances	(7.2)
Contingencies	(7.6)
Specific Grants	(0.6)
Increase in Doubtful Debt Provision	1.6
Total	(13.8)

71. The main reasons for these variances are set out in the paragraphs below.

Capital Financing and Interest on Balances (£7.2m Saving)

72. The majority of the underspend on capital financing relates to slippage in the capital programme due to the difficulty in predicting the exact timing of expenditure flows across financial years. The County Council's treasury management strategy, which includes a mixture of variable and fixed rate and short and long-term investments, has performed well, resulting in investment returns in excess of budgeted levels. Further information is included in Appendix 2. Additionally, the pre-payment of three years' employer pension contributions in April 2020 has provided a greater than expected cash flow benefit in 2021/22.

Contingencies (£7.6m Saving)

73. The level of contingencies held as part of the 2021/22 budget reflected the well documented pressures and risk around demand and costs. Through strong management, applied to manage demand and supress the additional costs, savings against these contingency amounts were realised. Contingencies which were not required in the year related to growth in waste volumes and inflationary allowances.

Specific Grants (£0.6m Saving)

74. Unbudgeted grants of £0.6m were received close to the end of the financial year, largely relating to Council tax and business rates reliefs and compensation linked to the pandemic.

Expected loss allowance for receivables (£1.6m Increase)

75. The County Council's policy is to make a provision against a proportion of debts that could prove to be irrecoverable. The provision is assessed on the basis of the age profile of outstanding debts and partly on the probability of specific larger debts being irrecoverable. There is no annual budgeted amount because the provision varies significantly from year to year. Part of the increase relates to the potential for greater losses as a result of the Covid-19 pandemic and organisations' and individuals' reduced ability to pay.

Section G: Proposed Allocation of Net Saving

76. **Ash Tree Dieback** - Members will be aware that nationally there is a growing problem with the dieback of ash trees and County Council have previously approved funding for a dedicated co-ordination and inspection team together with a commissioning budget to employ specialist arboriculturists to remove trees deemed to be higher risk.

77. Over the past two years, there has been a focus on inspections and identifying the scale of the problem across the county on highway verges, public rights of way and other rural sites. Funding of £1.75m was allocated for 2020/21 - 2021/22 however due to the progression of the disease being

slower than anticipated in Hampshire through this period, there were fewer works than initially anticipated. An underspend for 2020/21 - 2021/22 of £0.875m will therefore be carried forward to 2022/23.

78. From experience developed during the first two years of the programme, it is estimated that an annual budget of £0.61m is required for the next 4 years. Taking account of the forecast underspend of £0.875m in 2022/23 the Ash Dieback programme will require a further £1.605m of funding to cover activities to April 2026.

79. **New Schools Design and Delivery Strategy** - Under current government policy, all new schools are required to be established as Academies. The County Council has chosen to take an active role throughout the feasibility, design and construction of new school projects, utilising our expertise in these areas to ensure that schemes are delivered to the high standards that our communities expect.

80. Revenue funding is required to provide the necessary resources in Property Services to shape, oversee and deliver the future major programme of new schools. Funding has previously been approved on an annual basis as the programme of new schools develops. Any unused funding is carried forward to future years to help smooth fluctuations in the timing of the programme.

81. The latest estimates of the revenue funding requirements for both strategic planning and feasibility costs are as follows:

Financial Year	**Remaining funding**	**Actual / Forecast Spend**	**Additional funding required**
	£'000	**£'000**	**£'000**
2021/22	1,230	373	-
2022/23	857	1,101	244
2023/24	-	1,621	1,621
2024/25	-	1,491	1,491
Total	**-**	**4,586**	**3,356**

82. Funding for the costs up to and including 2020/21 was approved in February 2020 and so, after taking into account the re-phased activity, additional funding of £3.356m is required for the three years to 2024/25.

83. **Capital Investment Priorities** - As in previous years, departments have been considering their service needs for capital investment and this is currently being reviewed with the aim of presenting the overall picture for consideration by Cabinet and County Council as part of the next update of the MTFS.

84. There are, however, a number of priority areas for capital feasibility studies, surveys and bid preparation required to facilitate urgent capital works and to develop schemes that could allow the Council to access external funding. These items are summarised below:

Capital Investment Priority Area	2022/23 £'000	2023/24 £'000
Bid preparation for the Public Sector Decarbonisation Scheme	100	100
Corporate estate condition surveys	100	100
Business cases for asset rationalisation	100	100
Transport scheme development	1,000	1,500
Total revenue funding required	**1,300**	**1,800**

85. The County Council was awarded £29.3m funding for Phase 1 of the Public Sector Decarbonisation Scheme (PSDS) that ran over 2020/21 and 2021/22. The projects included installing double glazing across 75 schools and corporate sites, upgrading heating controls in 86 schools and installing solar panels at 350 sites to provide renewable energy. The programme is critical to delivering on the Council's commitment to become carbon neutral by 2050. Funding of £200k is requested for 2022/23 - 2023/24 to support data analysis and viability and feasibility work to ensure that the Council is 'bid ready' for further phases of funding through the PSDS.

86. Capital funding for maintenance of the Council's built estate is allocated to cover healthy and safety, compliance and business continuity priority work as issues become apparent. In order to allow the Council to proactively manage the condition of the corporate estate over the medium term, it is necessary to undertake surveys to establish the current condition of the estate. The data gathered through these surveys will be used to assess the annual funding required to properly maintain the built estate and identify investment priorities for consideration as part of the Medium Term Financial Strategy. It is recommended that £200k is allocated to fund this work in 2022/23 and 2023/24.

87. The new working arrangements implemented following the pandemic are expected to offer opportunities for future savings through further rationalisation of the corporate office estate and wider asset portfolio. Additional resource is required in order to develop business cases for asset rationalisation to feed into successor savings programmes. This is a complex piece of work requiring evaluation of existing assets within geographic areas, analysis of asset-related information and review of service delivery models and opportunities across multiple departments. In some cases, this may also involve engagement with partner organisations, including District Councils, via the One Public Estate network. It is therefore recommended that £200k is allocated to progress this work in 2022/23 and 2023/24.

88. In recent years one-off revenue budget has been provided for feasibility funding for highways schemes so that detailed planning and design can be carried out for priority schemes that are then 'oven ready' to be submitted should there be a call for bids by the Government or Local Enterprise Partnerships (LEPs). This approach has been successful in bringing in over £174m of major investment in the County since 2018/19.

89. County Council agreed an initial allocation of £0.5m for transport scheme development in February with a commitment to consider additional funding in light of an ongoing review of capital priorities once the outturn position for 2021/22 was known. Following the conclusion of this review it is recommended that funding of £1.5m per year be allocated for transport scheme development in 2022/23 and 2023/24, including the £0.5m previously agreed for 2022/23.

90. **Budget Bridging Reserve** – the Council's financial strategy operates on the basis of a two-year cycle of delivering savings, with deficits in the intervening years being met from the BBR. This has provided the time and capacity to properly deliver major savings programmes every two years which has underpinned the Council's strong financial performance to date.

91. The 2022/23 budget report set out the very challenging financial position which the Council finds itself in, with at least £157m of additional savings or income required to balance the budget by 2025/26. It is consequently more important than ever that spare resources are set aside where possible to provide the time to allow us to carefully consider and develop options to address the serious position in which we find ourselves. It is therefore recommended that the remaining funding from the 2021/22 budget saving of £5.743m be transferred to the BBR to contribute to balancing the budget for 2023/24 and beyond.

Section H: General Balances and Earmarked Reserves

92. The County Council's reserves strategy, which is set out in the MTFS, is well rehearsed and continues to be one of the key factors that underpin our financial resilience and ability to provide funding for the transformation of services and give the time for changes to be properly planned, developed and safely implemented.

93. We have made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of tight financial control by the Government, 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 intended as part of the wider MTFS.

94. At the end of the 2021/22 financial year the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £883m; an increase of over £128m on the previous year. Of this increase, £30.6m relates to the departmental underspends outlined in this report, £30.8m relates to transfers to the Budget Bridging Reserve and £30.2m relates to capital grants received in advance of their planned use to fund capital schemes. The balance also includes reserves held on behalf of individual schools which increased by £17.2m in 2021/22.

95. The following table 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 2020/21. The DSG deficit is shown separately as it is

ringfenced under statute until 2023 with the carried forward balance being met from future years' DSG funding.

	Balance 31/03/2021 £'000	Balance 31/03/2022 £'000	% of Total %
General Fund Balance	23,198	24,098	2.7
HCC Earmarked Reserves			
Fully Committed to Existing Programmes	202,115	212,918	24.1
Departmental / Trading Reserves	149,490	186,117	21.1
Risk Reserves	45,839	49,934	5.7
Corporate Reserves	96,107	125,821	14.2
HCC Earmarked Reserves	493,551	574,790	65.1
Non-HCC Earmarked Reserves	71,428	87,645	9.9
Total Revenue Reserves & Balances	**588,177**	**686,533**	**77.8**
Total Capital Reserves & Balances	**166,672**	**196,447**	**22.2**
Total Reserves and Balances	**754,849**	**882,980**	**100.0**

96. General Balances at the 31 March 2022 stand at £24.1m, following the planned contribution in 2021/22, which is broadly in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement (currently a sum of circa £21m).

97. In addition to the general balance, the County Council maintains earmarked reserves for specific purposes and to a large extent the majority of these are committed either to existing revenue or capital programmes or to mitigate risks that the County Council faces through self-insurance or funding changes by government.

98. Departmental earmarked revenue reserves have increased largely due to the in-year underspends outlined in this report. This reflects the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery and to allow delivery of the more complex savings to be achieved safely over a longer time period.

99. Other earmarked reserves have increased due to the timing of receipt of funds in advance of their planned use for an intended purpose, in particular in funding the Capital Programme, and due to non-departmental underspends detailed in Section F which will be utilised for the specific purposes set out in this report.

100. Corporate Reserves are set aside for a specific purpose but can be used to limit the impact of savings in services. The majority of the Corporate Reserves balance relates to the Budget Bridging Reserve and is fully

committed to meeting future years' budget deficits on an interim basis, providing the time and capacity to properly and safely implement savings programmes. A net contribution of £30.8m has been made to the BBR in 2021/22 ahead of a planned draw of £61.7m to balance the budget for 2022/23 as previously reported.

101. Non-HCC reserves include individual schools' balances, over which the County Council has no direct control, and which have increased during 2021/22. In line with new statutory reporting requirements, the overall deficit in DSG is shown separately and not deducted from schools' balances. Non-HCC reserves also include reserves held for the Enterprise M3 Local Enterprise Partnership (EM3 LEP).

102. In addition, a further £196.4m is held within capital reserves and balances, although of this sum around £22m relates to the EM3 LEP which is included in the annual accounts, as the County Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

Section I: Treasury Management and Prudential Indicators

103. The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function, details of which are set out in Appendix 2. The report is also scrutinised by the Audit Committee. This approach accords with the current Treasury Management Code of Practice.

104. The Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Capital and Investment Strategy. Annex 4 of Appendix 3 summarises the relevant indicators for the 2021/22 outturn which are in accordance with the figures approved by the County Council. Additional detail where relevant is also included within the Treasury Management Outturn Report at Appendix 2.

Section J: Capital Spending and Financing

105. Capital expenditure of £241.2m was incurred during 2021/22, all of which can be financed from available resources. This reflects expenditure on schemes within the 2021/22 capital programme as well as the ongoing delivery of schemes committed in previous years. Expenditure was greater than the £214.1m incurred during 2020/21 reflecting good progress in meeting the County Council's capital priorities.

106. Prudential borrowing has been used to fund £45.2m of the £241.2m of capital expenditure incurred during 2021/22, in line with previous approvals. Of this amount, £30.8m will be funded through future Minimum Revenue Provision (MRP) charges to the revenue budget and £14.4m will be repaid from capital receipts and other funding sources, including known Developer Contributions. Repayments of prudential borrowing from previous years of £13.7m were made during 2021/22 from such sources.

107. The agreed capital programme for 2021/22 included schemes to the value of £329.8m. Of this total, £179.4m was committed during 2021/22 leaving £150.4m to be carried forward to 2022/23. Within the amounts to carry forward, the carry forward of £47.6m from the programmes for Children's Services (£16.9m) and Culture, Communities and Business Services (£30.7m) into 2022/23 was built into the departmental capital programmes approved in determining the capital programme in February 2022. Cabinet is therefore requested to approve the carry forward of schemes totalling £102.8m, largely relating to named projects within the programme. In addition, £13.9m of funding relating to schemes from capital programmes prior to 2021/22 can now be released due to lower project costs and can be added to the 2022/23 capital programme subject to Cabinet's approval.

108. Further details of the outturn position for capital are provided in Appendix 3.

109. Since the 2022/23 capital programme was approved in February, two changes have been identified as outlined below. Cabinet is recommended to approve these variations to the 2022/23 capital programme.

Warblington School

110. On 6 April 2022, the Executive Member for Commercial Strategy, Estates and Property received an update on the Warblington School scheme in Havant as part of the Managing Hampshire's Built Estate decision report. When originally approved for inclusion in the capital programme it was anticipated that repairing and retaining as much of the existing building as possible would be appropriate to meet the requirements of planning. However, during detailed design several unforeseen issues were identified resulting in the need to provide additional funding for the scheme. This was due to a significant change in the scope of the work necessary to deliver the required work in a way that would be complaint with the building's Grade II listed status.

111. The Executive Member for Commercial Strategy, Estates and Property supported the Director of CCBS's recommendation to request Cabinet approval to allocate £1.485m of additional Schools Condition Allocation (SCA) funding to this project, giving a revised scheme value of £3.489m. The revised strategy and increased funding allocation were also supported by the Buildings, Land and Procurement Panel. This additional funding will cover the increased scope of the project as well as increased costs resulting from changes in market conditions, including market pressures related to materials including glass and glazing systems.

112. In order to secure a manufacturing slot with the glass supplier and to proceed at the sums tendered, an order needed to be raised with the supplier by early May 2022, however the next Cabinet meeting to seek approval for the additional funding was not due to take place until June 2022. In accordance with paragraph 2.31 of the County Council's financial regulations (Part III Chapter 5 of the Constitution), an urgent financial decision was therefore approved by the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the County Council.

EII Court meeting rooms

113. Following the introduction of the County Council's Open Workplace Policy in 2021, less accommodation is required for use as flexible office space. However, there continues to be a requirement for good quality meeting spaces for both public and private meetings, supported by appropriate technology.

114. An area of open plan office at podium level in the East block of EII Court has been identified as suitable for creating a suite of modern, well ventilated and technology enabled meeting spaces to add to the existing facilities of Ashburton Hall and EII West. The location is an extension of the existing public areas at the podium level of EII Court, providing good, well managed access for Members, the public and HCC staff from the EII reception and concourse. The location also makes these spaces suitable for hire to partners and other external parties.

115. The works have an estimated total cost of £1.4 million including an allowance of £215,000 for furniture and £200,000 for Audio Visual equipment. This can be funded from the Covid Recovery Fund approved by Cabinet in July 2021. Further detail for this project is included in Appendix 4.

Capital receipts

116. For a number of years, the County Council has allowed service departments to retain 25% of capital receipts from the sale of their service assets, increasing to up to 100% of individual receipts in the case of County Farms operational assets and for other service assets where supported by an appropriate business case for the subsequent use of the receipt.

117. Given the pressure on the County Council's financial resources this approach has been reviewed and capital receipts will now be fully retained to fund corporately agreed priorities except where an appropriate business case for alternative use is agreed in advance.

118. This change is reflected in the allocation of capital receipts within Appendix 3 of this report.

Section K: Assurance Statement

119. The code of Practice on Local Authority Accounting in the UK requires the County Council to publish, together with its Statement of Accounts, an annual governance statement signed by the Leader and Chief Executive. As part of this process, the Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control operating in the County Council as a whole. The Chief Internal Auditor's Annual Report and Opinion is approved by the Audit Committee.

120. The Chief Internal Auditor has concluded that:

"In my opinion, Hampshire County Council's framework of governance, risk management and management control is 'Reasonable"[1.] *and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with*

management to agree appropriate corrective actions and a timescale for improvement."

[1.] Reasonable means: There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

121. The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council's Statement of Accounts. The accounts for 2021/22 recorded that the value of the fund's assets increased from£9.07bn to £9.63bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund and has concluded that:

"In my opinion, Hampshire Pension Funds framework of governance, risk management and management control is 'Substantial' 2 and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

[2.] Substantial means: a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

122. For the Local Government Pension Scheme (LGPS) administered by Hampshire County Council, the latest actuarial valuation, as at 31 March 2019, showed it to be 98.9% funded – a significant increase from the position three years prior of 81%. Similarly to most investment markets, the Pension Fund has more than recovered the losses it sustained in 2020 as a result of the COVID-19 crisis and has now reached a record high valuation. The Fund has reached the final year of its actuarial valuation cycle and the estimates received from the Fund's Actuary indicate that the funding position has improved and the Fund is now more than 100% funded.

Section L: Statutory Statement of Accounts

123. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit Regulations over recent years due to the impact of Covid-19. Despite these extended deadlines, the national picture is that the audits of a significant majority of local authority accounts were not completed on time in 2020/21. The Department for Levelling Up, Housing and Communities therefore published details of measures to support the improved timeliness of local audit in December 2021. One of the outcomes was to extend the deadline for the sign-off of audited accounts for 2021/22 to the end of November 2022 Under these proposals, the deadline will then revert to 30 September for the subsequent 6 years.

124. In addition, the Chartered Institute of Public Finance and Accountancy (CIPFA) consulted on temporary measures to improve the situation. The result of this consultation was the agreement that the compulsory implementation of the new accounting standard for leases (IFRS 16) would

be delayed for two years until April 2024. The County Council therefore intends to delay implementation of the new standard until at least April 2023.

125. There are no major changes to the format of the statement of accounts and they continue to follow the requirements of the Code of Practice for Local Authority Accounting (the Code) as set by the Chartered Institute of Public Finance and Accounting (CIPFA). The narrative report within the Statement of Accounts includes an explanation of how the required accounting presentation relates to the financial performance of the County Council as set out in this report.

Section M: Consultation, Equalities and Climate Change Impact Assessment

126. Consultation on the budget is undertaken every two years when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council has an Equality Impact Assessment published as part of the formal decision making papers and for some proposals stage 2 consultations are undertaken before a final decision is made by the relevant Executive Member.

127. This report deals with the outturn position and accounts for 2021/22, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

128. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

129. This report deals with the outturn position for the revenue budget, capital programme and treasury management aspects of the County Council's business. For the first two items climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. For treasury management, in line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. Investments in pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on Environmental, Social and Governance (ESG) issues in relation to investments in pooled funds.

130. There are no further climate change impacts as part of this report which is concerned with financial reporting.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes/~~No~~
People in Hampshire live safe, healthy and independent lives:	Yes/~~No~~
People in Hampshire enjoy a rich and diverse environment:	Yes/~~No~~
People in Hampshire enjoy being part of strong, inclusive communities:	Yes/~~No~~

Other Significant Links

Links to previous Member decisions:	
Title	Date
Revenue Budget & Precept 2022/23 and Capital Programme 2022/23 to 2024/25 https://democracy.hants.gov.uk/mgAi.aspx?ID=47431#mgDocuments	Cabinet - 8 February 2022 and County Council - 17 February 2022
Medium Term Financial Strategy Update and Savings Programme to 2023 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=45388#mgDocuments	4 November 2021
Direct links to specific legislation or Government Directives	
Title	Date

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

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely impacted by the proposals in this report.

Adults' Health and Care Department - Revenue Expenditure 2021/22

Major variations in cash limited expenditure – Under Spend of £21.216m (4.1%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Director	(64)	(1.9)	The savings mainly relate to reduced spend on the wellbeing agenda and compulsory added years budgets partly offset by a small overspend on staffing.
Headquarters	(2,218)	(9.2)	The year end reported savings mainly relate to reduced spend on non-care contracts and staff budgets. There has also been a reduction in the costs associated with training provided by the Workforce Development team.
Older Adults	4,190	2.4	Pressures were seen within the Nursing, Residential and Homecare budgets, partially offset by underspends within direct payments and other care budgets. Client numbers have increased towards the later part of the year as have the prices being paid for care. This represents a significant risk in 2022/23.
Younger Adults	(748)	(0.4)	There are pressures within the care budgets due to increasing client numbers and average weekly costs, however these have been more than offset by savings within staffing budgets due to the difficulty in recruiting to vacant posts.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
HCC Care	(7,865)	(15.6)	The savings are due to the shrewd use of staffing resources across the service, the availability of Government Grants to offset additional spend and the use of HCC Care beds by Health to aid in the rapid discharge of patients from hospital. These beds were fully funded by the HDP Scheme.
Governance & Assurance	(115)	(7.8)	The savings mainly relate to staffing budgets where posts were being held vacant.
Centrally Held	(14,396)	(146.4)	The savings mainly relate to a contribution of £14.75m from Health towards the cost of the reablement service in 2021/22.
Public Health	0	0.0	
Total	**(21,216)**	**(4.1)**	

Children's Services Department - Revenue Expenditure 2021/22

Major variations in cash limited expenditure – Underspend of £1.1m (0.1%) against the adjusted cash limit.

Main variations

Service Area	**Variance (Under) / Over Budget £'000**	**%**	**Reason for Variation**
Schools Budget			
Early Years Block	(1,389)	(1.7)	There is an underspend on the free entitlements for two year olds and three and four year olds (universal and extended entitlement for eligible working parents) due to lower than expected numbers of children accessing the entitlements across the year as the Early Years market continues to recover from the impact of the pandemic.
Schools Block	(2,428)	(0.4)	Within the Growth Fund budget the position includes an underspend on infant class size funding, falling rolls, temporary classrooms and growing schools, due to fewer schools being eligible for funding than budgeted. In addition, the budget for Central Provision Funded by Maintained Schools incurred an underspend due a reduction of activity due to Covid-19.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
High Needs Block	27,721	19.4	The pressure experienced in Hampshire is reflected in many other authorities and relates predominantly to demand led budgets funding pupils with high levels of additional need, where there are increasing numbers of pupils with Education, Health and Care plans (EHCPs). This includes mainstream schools, special schools, post-16 provisions and resourced provisions. There is also a continuation of the pressure on the service for discretionary and direct payments. Independent and Non-maintained Special Schools budgets have experienced pressure due to increases in both the number of placements and the average cost per placement. This increasing pressure is continuing to be managed through an ongoing strategy to increase in-house capacity to reduce the need for independent placements and improvements to procurement arrangements to reduce unit costs.
Central School Services Block	673	8.2	The pressure is mainly due to the recouping of education costs for children in care without EHCPs placed in independent schools. In response the budget for 2022/23 is to be reviewed alongside a review of activity to ensure costs of places are being met appropriately.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Carry Forward of Dedicated Schools Grant (DSC) Deficit	(24,577)	(2.6)	The total 2021/22 pressure of £24.6m has been offset by a charge to the DSG reserve, as allowed by the Department for Education (DfE). This year, the charge will increase the deficit on the DSG reserve to over £60m which will be funded from future years DSG funding. A DSG Management Plan was produced last year, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block.
Sub-Total Schools Budget	**0**	**0.0**	

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Non-Schools Budget			
Home to school transport	1,194	3.2	The service has seen a rise in cost of arranging transport for the 2022-23 school year coupled with an increase in Special Educational Needs (SEN) requests. Rising costs are attributable to the external transport provider market undergoing a period of significant challenge due to increase in petrol prices and shortages of drivers leading to a reduction in capacity.
Inclusion Services (Special Educational Needs, Educational Psychology and Services for young children inclusion)	2,028	35.4	Increased demand for statutory SEN assessments caused an increase in additional staffing costs including agency required to balance the increased demand for this service as numbers of referrals received are higher than projected. In addition, as a result, the Educational Psychology (EP) service have endured a significant decrease in income as EP resources continue to be diverted on a risk assessed basis, away from income generating work towards statutory work; responding to SEN assessments.
Swanwick Lodge	(1,545)	804.7	The over achievement of income is due to a successful management review of both use of resources and revision of the charging methodology to improve cost recovery for those young people with more complex needs requiring higher staffing ratios.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Skills & Participation	(410)	(26.9)	The underspend relates mainly to growth in traded income from the Hampshire Outdoors service recovering from loss of business caused by the pandemic.
Children's social care (net pressure)	1,545	0.8	The net pressure mainly results from the use of social work agency staff. Reliance on agency staff is necessary to cover for the short supply of qualified social workers and to balance the experience within frontline teams where new graduate trainees have been recruited.
Planned one-off investment	4,273		Planned one-off investment to support the Tt2021 and SP23 savings programmes as well as contributing toward the replacement of the social care IT system.
Net Early Achievement of SP23 savings	(7,293)		Planned early achievement of savings used to offset the department's other pressures and contribute towards the cost of change.
COVID-19 support package – Schools	791		To support COVID-19 related pressure across the service for Schools
Various other (net)	(1,635)	(0.9)	Underspends mainly relate to staff budgets due to difficulty in recruiting to vacant posts. Other items include additional income in relation to partnership working and careful management of spend.

Appendix 1

Service Area	Variance (Under) / Over Budget		Reason for Variation
	£'000	%	
Sub-Total Non-Schools Budget	**(1,052)**	**(0.4)**	
Sub-Total Budget	**(1,052)**	**(0.1)**	

Corporate Services Department - Revenue Expenditure 2021/22

Major variations in cash limited expenditure – Under Spend of £4.3m (8%) against the adjusted cash limit.

Main variations

Service Area	**Variance (Under) / Over Budget £'000**	**%**	**Reason for Variation**
Corporate Services	(4,138)	8.3	Corporate Services continues to implement a strategy of strong budgetary control, managing expenditure and gaining economies of scale through expanded joint working and generating income, for example for legal services, pension administration, internal audit, procurement and other services. This has ensured early achievement of SP23 savings to contribute to the cost of change reserve to be used for future investment in further transformation work.
Corporate Non-Departmental budgets	(150)	0.3	The saving largely reflects lower members support costs and members grants. The underspend on member grants will be topped up to £100k in 2022/23 and used to support Ukrainian refugees.
Total	**(4,288)**	**8.0**	

Culture, Communities & Business Services Department - Revenue Expenditure 2021/22

Major variations in cash limited expenditure – Under Spend of £4.1m (8.1%) against the adjusted cash limit.

Main variations

Service Area	**Variance (Under) / Over Budget** £'000	%	**Reason for Variation**
Transformation & Business Management	(2,517)	(34.1)	The Department has secured a total of £579,000 from early achievement of SP23 savings, as well as £375,000 from the sustainable overachievement of previous savings programmes that had been earmarked for cyclical maintenance expenditure, such as maintenance works on the Itchen Navigation footpath, that will now take place in the next financial year. In addition to this, savings totalling £1.261m have been achieved through a combination of generating increased income, particularly from the five yearly Asbestos reinspection programme and new contracts and initiatives within Scientific Services, and targeted staff savings through holding vacant posts. The remaining £302,000 of this underspend relates to Climate Change initiatives that are part of the £1.2m two-year programme funded by the realignment of the CCBS Community Grants Fund, as agreed by Cabinet in February 2021. These projects will now be completed in the 2022/23 financial year.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Natural Environment & Recreation	(662)	(14.9)	Following the Covid pandemic, School bookings at the Hampshire Outdoors Centres have fully recovered and temporarily exceeded pre-pandemic levels due to pent up demand, resulting in an overachievement of income targets. Additionally, £176,000 of planned works on Countryside bridges and by-ways will now take place in the next financial year.
Culture & Information Services	(1,471)	(9.4)	Targeted staff savings through holding vacant posts and non-pay savings in preparation for SP23 savings, particularly within the Library Service and Registration, have contributed substantially to the budget underspend. Following the lifting of Covid lockdown restrictions, increased income from Registration services such as licences, permits, certificates and marriage notices has produced a saving against the income budget.
Property Services & Facilities	(1,416)	(5.8)	Significant difficulties in recruiting staff to Facilities Management positions, reflecting a perceived national challenge of recruiting to customer facing roles following the Covid pandemic, has led to a significant budget underspend. Total Property Services income of £24.5m generated net savings of £454,000 against the budget, partly the result of the extra effort by staff to manage increased workloads resulting from Covid work pressures and the decarbonisation programme temporarily increasing productivity beyond targeted levels.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Planned one-off investment	1,996	100.0	Planned one-off investment utilising in-year savings primarily to support the Tt2021 and SP23 savings programmes, but also investment to reinstate countryside footpaths following damage due to a combination of the increased usage resulting from changed behaviours during the covid pandemic and the wet winter.
Total	**(4,070)**	**(8.1)**	

Economy, Transport & Environment Department - Revenue Expenditure 2021/22

Major variations in cash limited expenditure – Balanced budget against the adjusted cash limit.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Highways, Engineering & Implementation	319	0.8	The highways revenue maintenance budget continues to be under pressure with cost pressures at the depots, contractor costs and other maintenance. Delays in the implementation of new pay and display parking, and irrecoverable costs relating to historic road agreements have caused further pressures, although these pressures have been mitigated to some extent by savings from staff vacancies across the service albeit this is resulting from a difficult jobs market. Higher than budgeted staff recharges to capital schemes reflecting the significant scale of the current capital programme for the Department have offset revenue costs associated with the Stubbington Bypass works and pressures in the County Highways Laboratory from reduced demand and delays in the confirmation of UKAS accreditation leading to reliance on external providers. The highways emergency response to the severe storms in February, and work to repair the damage caused, reduced the savings anticipated against the winter maintenance / weather emergencies budget resulting from the relatively milder winter weather to £347,000. This amount will be reinvested in the main highways maintenance revenue budget in 2022/23 in accordance with established principles, providing additional one-off resources to supplement existing maintenance programmes and activities.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Waste, Planning & Environment	(584)	(1.2)	The savings relate to additional Planning fee income, as well as savings from holding staff vacancies across the service.
Economy, Infrastructure & Spatial Planning	(1,504)	(6.6)	Payments to bus operators for Concessionary Fares journeys have continued to be based upon payments made in the 2019/20 financial year, rather than actual journeys which were significantly lower due to Covid-19. This has again resulted in a saving against the budget, reflecting the previous trend of decreasing passenger numbers. Similarly, savings have been made from reduced demand on transport operator contracts, in particular taxi shares. Further savings have been achieved through additional income from increased staff recharges and holding staff vacancies.
Departmental Support and Early Achievement of Savings	(744)	(17.4)	The Department continues to take every opportunity to make savings in 'business as usual' work wherever possible. The identification of opportunities for the early delivery of SP23 activity has resulted in savings of £475,000 being achieved. In addition, further targeted staff and non-pay savings of £269,000 were achieved, in part reflecting efficiencies achieved through home working (such as online rather than in-person training courses and reduced printing).

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Planned one-off investment	3,322	100.0	Planned one-off investment utilising in-year and previous year savings to support the timing delays of the Waste and Street Lighting Tt2021 savings targets as a result of the complexity of these savings; the investment needed to support the Tt2021 and SP23 savings programmes; and the reinvestment of the previous year's underspend against the winter maintenance / weather emergencies budget in the highways maintenance revenue budget for 2021/22 in accordance with established principles as above.
Draw from Cost of Change reserve	(809)	(100.0)	
Total	**0**	**0.0**	

Treasury Management Outturn Report 2021/22

Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2021/22.

Recommendations

2. That the outturn review of treasury management activities be noted.

Executive Summary

3. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2021/22.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2022. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.

5. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6. This annual report sets out the performance of the treasury management function during 2021/22, to include the effects of the decisions taken and the transactions executed in the past year.

7. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2021/22, and all relevant statute, guidance and accounting standards. In addition, support in undertaking

treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

8. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2022.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2021/22.

Economic commentary

10. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over 2021/22.

11. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices as well as the concern about further supply chain disruption due to Russia's invasion of Ukraine and recent Covid-19 developments in China led to elevated inflation expectations and 12-month CPI inflation rose to 7.0% in March 2022.

12. In efforts to bring inflation down the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate from 0.10% to 0.25% in December 2021, with further increases to 0.50% in February 2022, 0.75% in March and 1.00% in May. Also, at its meeting in February, the MPC voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

13. In its May 2022 interest rate announcement, the MPC noted that global inflationary pressures have intensified sharply following the invasion of Ukraine. This reflects the further sharp increases in energy and other commodity prices. Global inflationary pressures are predicted to develop further in the near term before falling back sharply largely reflecting the assumption that global commodity prices remain constant beyond six months and that supply chain disruption will start to ease at the end of this year.

Financial markets

14. The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period which impacted global stock markets.

15. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

Credit review

16. Credit default swaps (CDS) are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. In the first half of the financial year CDS spreads were flat and broadly in line with pre-pandemic levels. In September CDS spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher between January and March, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

17. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the County Council's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

18. Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the County Council's counterparty list recommended by Arlingclose remains under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

19. In August 2021 HM Treasury significantly revised guidance for the Public Works Loan Board (PWLB) lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

20. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20 December 2021. The key changes in the two codes

are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

21. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. Due to the timing of publication being towards the end of the budget preparation period for 2022/23 it was agreed that the County Council would introduce the revised reporting requirements from 2023/24.

22. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make an investment or spending decision that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

23. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

24. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management (TM) Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

25. The County Council will follow the same process as the Prudential Code and so will be reporting in line with the new reporting requirements from 2023/24 other than the new liability benchmark requirement which was implemented from 2022/23.

Local Context

26. At 31 March 2022, the County Council's underlying need to borrow for capital purposes was £780.32m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,032.34m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m
CFR	776.46	3.86	780.32
Less: Other debt liabilities*	(141.47)	12.41	(129.06)
Borrowing CFR	**634.99**	**16.27**	**651.26**
External Borrowing	(300.77)	5.77	(295.00)
Internal Borrowing	**334.22**	**22.04**	**356.26**
Less: Usable Reserves	(754.85)	(127.30)	(882.15)
Less: Working Capital	(122.91)	(27.28)	(150.19)
Net Investments	**(543.54)**	**(132.54)**	**(676.08)**

* PFI and other liabilities that form part of the County Council's total debt

27. The CFR increased by £3.9m during 2021/22. Other debt liabilities reduced by £12.4m in accordance with the PFI repayment models while the County Council's borrowing CFR increased by £16.3m as a result of its capital programme. External borrowing reduced by £5.8m during 2021/22 as a result of repayment of £8.6m of Treasury Management borrowing, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of 2021/22 the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, total £882m; an increase of £127m on the previous year. Of this increase, £30.1m relates to departmental underspends, £30.8m relates to transfers to the Budget Bridging Reserve and £30.2m relates to capital grants received in advance of their planned use to fund capital schemes. The balance also includes reserves held on behalf of individual schools which increased by £17.2m in 2021/22.

28. The County Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2022 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	31/03/21 Balance £m	Movement £m	31/03/22 Balance £m	31/03/22 Rate %
Long-term borrowing	(249.3)	8.1	(241.2)	4.62
Short-term borrowing	(8.5)	0.5	(8.0)	5.94
Total borrowing	**(257.8)**	**8.6**	**(249.2)**	**4.66**
Long-term investments	259.9	(39.3)	220.6	4.00
Short-term investments	194.7	244.3	439.0	0.43
Cash and cash equivalents	112.5	(90.1)	22.4	0.56
Total investments	**567.0**	**115.0**	**682.0**	**1.59**

Net investments	**309.2**	**123.6**	**432.8**	

Note: the figures in Table 2 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others.

29. The increase in net investments of £123.6m shown in Table 2 reflects an increase in investment balances of £115m in conjunction with repayment at maturity of borrowing of £8.6m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

Borrowing Update

30. The County Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

31. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

32. Further, the County Council has and may continue to invest in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the County Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the County Council's aim of protecting reserves from high inflation.

33. The County Council is a net investor and as stated in the Treasury Management Strategy 2022/23, the County Council expects a negative liability benchmark across the forecast period, meaning that there is not a requirement to borrow and that the County Council could potentially repay its current external borrowing and still fund the planned capital programme. Although the County Council would like to reduce its external borrowing, the premium charged by the PWLB means that it would cost more to repay the borrowing early than it would to repay at maturity, therefore at this time the County Council will not repay its external borrowing early and will continue to repay as maturities come due. Therefore, by continuing to invest core investment balances in the higher yielding strategy (and not divesting of these funds) the County Council continues to act prudently to ensure protection from high inflation, whilst acting within the guidance that is now in place.

Borrowing Strategy

34. At 31 March 2022 the County Council held £249.2m of loans (a decrease of £8.6m from 31 March 2021) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	31/03/21 Balance £m	Net movement £m	31/03/21 Balance £m	31/03/21 Weighted average rate %	31/03/21 Weighted average maturity (years)
Public Works Loan Board	(216.5)	8.5	(208.0)	4.7	10.1
Banks (LOBO)	(20.0)	-	(20.0)	4.8	11.3
Other (fixed term)	(21.3)	0.1	(21.2)	4.0	17.8
Total borrowing	**(257.8)**	**8.6**	**(249.2)**	**4.7**	**10.8**

Note: the figures in Table 3 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

35. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.

36. Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional external borrowing. In line with this strategy, £8.5m of PWLB loans were allowed to mature without refinancing and a further £0.1m of other borrowing was repaid which related to Salix loans. This is interest-free Government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills.

37. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

38. The County Council also continues to hold £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

Treasury Investment Activity

39. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

40. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the County Council's investment balances ranged between £570m and £813m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position	**31/03/2021 Balance £m**	**Net movement £m**	**31/03/2022 Balance £m**	**31/03/22 Income return %**	**31/03/22 Weighted average maturity (years)**
Short term investments					
Banks and Building Societies:					
- Unsecured	69.5	13.5	83.0	0.58	0.10
- Secured	10.7	82.8	93.5	0.53	0.40
Money Market Funds	78.0	(56.8)	21.4	0.56	0.00
Government:					
- Local Authorities	139.0	64.5	203.5	0.38	0.37
- UK Gilts	-	12.0	12.0	0.28	0.31
- UK Treasury Bills	-	28.0	28.0	0.15	0.08
- Supranational	-	10.0	10.0	0.14	0.71
Cash Plus funds	10.0	-	10.0	0.67	0.01
Total	**307.1**	**154.3**	**461.4**	**0.44**	**0.29**
Long term investments					
Banks and Building Societies:					
- Secured	20.0	(10.0)	10.0	0.76	1.04
Government:					
- Local Authorities	35.0	(30.0)	5.0	0.61	1.84
Total	**55.0**	**(40.0)**	**15.0**	**0.71**	**1.30**
Long term investments – higher yielding strategy					
Government:					

Table 4: Treasury investment position	31/03/2021 Balance £m	Net movement £m	31/03/2022 Balance £m	31/03/22 Income return %	31/03/22 Weighted average maturity (years)
- Local Authorities	20.0	-	20.0	3.96	12.00
- Local Authority company	1.7	0.7	2.4	9.71	5.23
Pooled Funds:					
- Pooled property*	75.0	-	75.0	3.83	N/A
- Pooled equity*	50.0	-	50.0	5.54	N/A
- Pooled multi-asset*	48.0	-	48.0	4.28	N/A
Total	**194.7**	**0.7**	**195.4**	**4.46**	**11.27**
Total investments	**556.8**	**115.0**	**671.8**	**1.59**	**0.65**
Thames Basin Heaths pooled fund investments	10.2	-	10.2		
Total	**567.0**	**115.0**	**682.0**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2022 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

41. The County Council made a payment of £226.7m on 1 April 2020 to prepay its employer's LGPS pension contributions. By making this payment in advance the County Council was able to generate an estimated saving of £9m over 3 years on its pension contributions, which will be added to the Budget Bridging Reserve.

42. Investment balances have subsequently increased and were £101m higher at 31 March 2022 than immediately prior to the pension prepayment. This is in part explained by the County Council not having to make monthly employer's pension contributions throughout 2020/21 and 2021/22 (having already paid in advance) but also represents the impact of revenue underspends in 2021/22 and the balance of capital grants received but not yet applied.

43. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

44. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The County Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

45. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was 0.10% from March 2020 with significant rises in the final four months of 2021/22. Ultra low short-dated cash rates, which were a feature since March 2020, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds (MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December 2021, February and March 2022. At 31 March 2022, the 1-day return on the County Council's MMFs ranged between 0.49% - 0.57% per annum (p.a.).

46. Given the risk and low returns from short-term unsecured bank investments, the County Council further diversified into more secure asset classes as shown in Table 4.

47. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2022 and at the same date in 2021 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	**Credit rating**	**Bail-in exposure %**	**Weighted average maturity (days)**	**Rate of return %**
31.03.2021	AA-	40	393	0.50
31.03.2022	AA-	21	302	0.63
Similar LAs	AA-	39	1,640	0.69
All LAs	AA-	60	14	0.46

48. Table 5 shows the average credit rating of the portfolio has remained consistent at AA-. Bail-in exposure has reduced as the County Council has diversified further into more secure investments such as government investments and secured bank bonds which are not subject to bail-in risk. The weighted average maturity of investments was lower in comparison to the position at 31 March 2021 as the County Council held lower long-term balances due to the availability of suitable investment options providing adequate interest return. The average rate

of return (0.63%) has increased over the year as a result of the UK Bank Rate increases which have favourably impacted the short term investment portfolio.

49. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics other than the internal rate of return where on average similar local authorities achieved a return that was 0.06% greater at 31 March 2022, however the weighted average maturity for the group was around 4.5 years. This set of results is misleading as the group has been skewed by one authority investing in ultra-long bonds; excluding that authority the average return for similar authorities is 0.60% with a weighted average maturity of 177 days.

Externally managed pooled funds

50. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was recently increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2022/23.

51. Approximately £206m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.2m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.

52. The CIPFA Code requires the County Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the County Council's investments.

53. In the nine months to December improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the investments in property, equity and multi-asset income funds in the County Council's portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the fourth quarter of the financial year the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

54. In light of Russia's invasion, Arlingclose contacted the fund managers of the County Council's MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

55. The County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets starting in March 2020 but have since recovered well. These investments are now worth more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the County Council is not a forced seller at the bottom of the market. The table also shows the County Council's investments in fixed deposits, which include long term loans to other local authorities and as part of the Manydown programme.

Table 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/22**	**Gain/(fall) in capital value**	
			Since purchase	**2021/22**
	£m	**£m**	**£m**	**£m**
Pooled property funds	75.0	86.0	11.0	11.1
Pooled equity funds	50.0	55.8	5.8	6.4
Pooled multi-asset funds	48.0	47.2	(0.8)	(1.5)
Total pooled funds	**173.0**	**189.1**	**16.1**	**15.9**
Fixed deposits**	22.4	22.4	0.0	0.0
Total higher yielding	**195.4**	**211.5**	**16.1**	**15.9**

* excludes £10.4m invested on behalf of Thames Basin Heaths JSPB

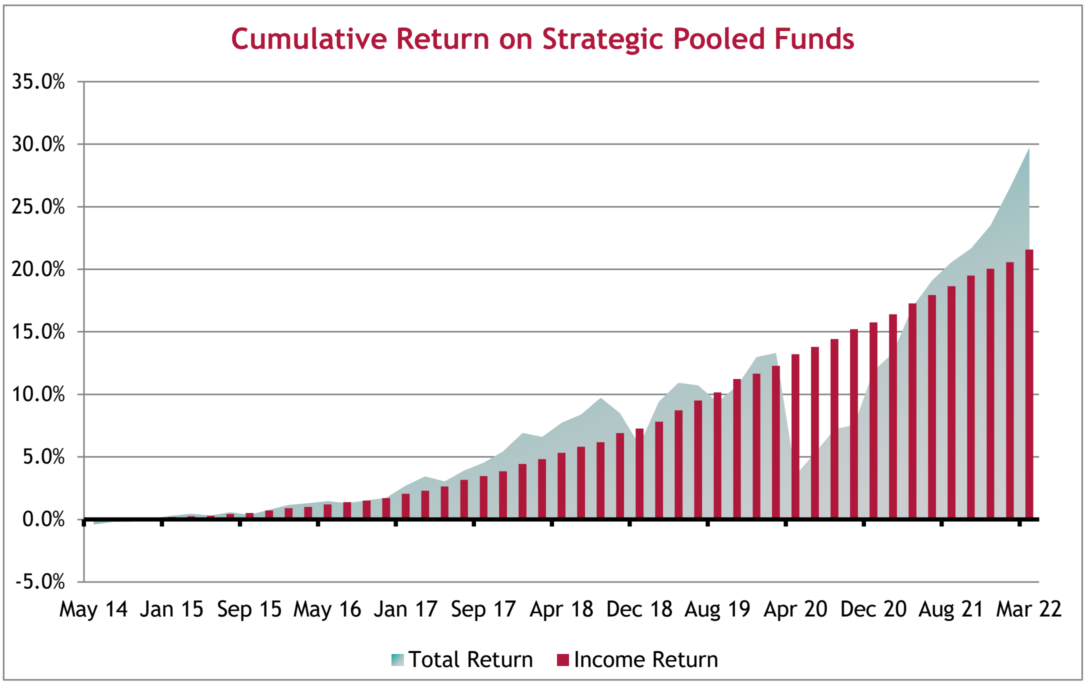
56. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.24% pa since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 29.7%.

Table 7 – Higher yielding investments – income and total returns since purchase	Annualised income return	Total return
	%	%
Pooled property funds	3.99	40.1
Pooled equity funds	4.89	36.2
Pooled multi-asset funds	3.96	9.2
Total pooled funds	**4.24**	**29.7**

Note: excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB

57. The County Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and in line with the County Council's agreed objective of targeting income of 4% pa from its higher yielding strategy.

58. The cumulative total return from the County Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the County Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



Note: the graph above excludes the performance related to £10.2m invested on behalf of Thames Basin Heaths JSPB

59. The County Council is aware of the risks involved with investing in pooled funds

that hold underlying investments in bonds, equities, property and other financial instruments. As a result, when the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently approximately £6.25m which equates to 2.5% of the total earmarked £250m (in line with the recommendation to hold reserves of 2.5% for the general fund balance).

60. In addition to the risk of realising a capital loss, the IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

61. Pooled fund investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

Financial Implications

62. The outturn for debt interest paid in 2021/22 was £12.4m against a budgeted £12.6m on an average debt portfolio of £255.5m.

63. The outturn for investment income received in 2021/22 was £10.43m on an average investment portfolio of £708m giving a yield of 1.47%. By comparison, investment income received in 2020/21 was £10.2m on an average portfolio of £485m with a yield of 2.11%.

Non-Treasury Investments

64. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

65. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

66. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital

expenditure and need not comply with the treasury management strategy.

67. The County Council's existing non-treasury investments are listed in Table 8. The loan to the joint venture recruitment agency was repaid during 2021/22.

Table 8 – Non-treasury investments	31/03/22 Asset value £m	31/03/22 Rate %
Hampshire County Council:		
Loans to Hampshire based business	4.5	4.00
Joint venture recruitment agency	0.0	0.00
	4.5	4.00
On behalf of Enterprise M3 LEP:		
Loans to Hampshire based business	12.9	2.27
Total non-treasury investments	**17.4**	**2.72**

Compliance Report

68. The County Council confirms compliance of all treasury management activities undertaken during 2021/22 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

69. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 9.

Table 9 – Debt limits	2021/22 Maximum £m	31/03/22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied?
Borrowing	258	249	730	800	✓
PFI and Finance Leases	141	129	140	170	✓
Total debt	**399**	**378**	**870**	**970**	✓

70. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.

Treasury Management Indicators

71. The County Council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

72. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

Table 10 – Interest rate risk indicator	31/03/22 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£353m	+/- £3.5m
Borrowing	£13m	+/-£0.1m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

73. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 11 – Refinancing rate risk indicator	31/03/21 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	50%	0%	✓
12 months and within 24 months	3%	50%	0%	✓
24 months and within 5 years	12%	50%	0%	✓
5 years and within 10 years	24%	75%	0%	✓
10 years and within 20 years	51%	75%	0%	✓
20 years and within 30 years	7%	75%	0%	✓
30 years and above	0%	100%	0%	✓

74. The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, these loans have an average duration to maturity of just over 11 years (minimum 5 years; maximum 24 years).

Principal sums invested for periods longer than a year

75. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 12 – Price risk indicator	**2021/22**	**2022/23**	**2023/24**
Actual principal invested beyond year end	£221m	£206m	£206m
Limit on principal invested beyond year end	£350m	£330m	£300m
Complied?	✓	✓	✓

76. The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Other

CIPFA consultation – IFRS 16

77. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022, however following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The County Council intends to adopt the new standard on 1st April 2023 or later.

Consultation, Equalities and Climate Change Impact Assessment

78. This report deals with the treasury management outturn position for 2021/22, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

79. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

80. This report deals with the outturn position for the treasury management aspect of the County Council's business. In line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. The County Council's investments in pooled funds, which include investments in equities and bonds issued by a number of companies with exposures to a variety of issues, including those associated with Climate Change. All of the County Council's pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on the suitability and selection of its pooled funds, including the investment managers' management of Environmental, Social and Governance (ESG) issues including the impact of Climate Change.

81. There are no further climate change impacts as part of this report which are concerned with financial reporting.

Capital Spending and Financing 2021/22

Summary

1. This Appendix reports that:

    - Capital schemes costing £179.4m were started during 2021/22 from the approved capital programme for the year of £329.8m.
    - This leaves £150.4m for projects not started by 31 March 2022 that will be carried forward into 2022/23. Approval has already previously been given for £47.6m of this amount, leaving £102.8m requiring Cabinet approval.
    - In addition, unspent balances from starts within the capital programmes from prior years of £13.9m can now be released and added to the amounts to carry forward to 2022/23, subject to Cabinet approval
    - Capital payments of £241.2m were incurred during 2021/22 and this can be financed within available resources
    - As permitted under the Prudential Code (2021) new prudential borrowing of £45.2m has been used to fund expenditure in 2021/22 for approved schemes
    - Lump sum repayments of prudential borrowing from capital receipts and other sources total £13.7m in 2021/22. This predominantly relates to the timing of capital receipts and developer contributions. This is in addition to the regular ongoing prudential borrowing repayments through MRP charges to the revenue budget.
    - £5.2m of resources will be added to the capital reserve in 2021/22 due to increased capital receipts in 2021/22, with planned draws delayed due to slippage in projects planned to be funded from this reserve
    - Capital receipts of £12.2m were achieved from the sale of assets during 2021/22.

Capital Programme for 2021/22

2. Table 1 shows that £179.4m (54.4%) of the £329.8m capital programme for 2021/22 was started in the year. A slippage in scheme starts means that a lower value and percentage of the programme was started in 2021/22 than in 2020/21.

3. It should be noted, however, that capital expenditure in 2021/22 was higher than in 2020/21, as explained in more detail in the section of this appendix covering capital expenditure and financing**.** The difference is because

elements of the programme are managed on a 'starts' basis and there can be a timing difference between the year a scheme starts and the financial years over which expenditure is incurred.

Table 1 – percentage of capital programme committed

	2020/21 £m	2021/22 £m
Committed	235.2	179.4
Carried forward	124.2	150.4
Total programme	**359.4**	**329.8**
Percentage committed	65.4%	54.4%

4. Table 2 shows a further breakdown of capital scheme commitments in 2021/22. An analysis by service of these figures is included in Annex 1.

Table 2 – Capital Schemes Committed in 2021/22

	£'000	
Revised capital programme 2021/22 February 2022	276,440	
Amounts previously agreed to carry forward to 2022/23	47,614	
Net changes to the programme since February 2022	5,716	
Approved value of capital programme 2021/22	**329,770**	
Less: schemes committed in 2021/22	179,394	54.4%
Amount to carry forward to 2022/23	**150,376**	**45.6%**

5. The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2022. The total value of such schemes is £102.8m, as shown in Table 3. This is in addition to the £47.6m of schemes where approval to carry forward to 2022/23 has already been given during 2021/22 relating to the Children's Services (£16.9m) and Culture, Communities and Business Services (£30.7m) capital programmes.

6. Table 3 also highlights additional requests to carry forward funding relating to starts from schemes in previous financial years where unspent balances have been released.

Table 3 – Proposals to carry forward schemes to 2022/23

	£'000
Schemes within the 2021/22 capital programme	
Total carry forwards for schemes within 2021/22 programme	150,376
Less: amounts already approved for carry forward	(47,614)
Amounts requiring approval to carry forward	**102,762**
Schemes from capital programmes prior to 2021/22	
Additional carry forwards relating to starts prior to 2021/22	13,876
Total approvals required for carry forwards to 2022/23	**116,638**

7. Individually, most of the schemes and provisions to be carried forward from the 2021/22 capital programme are relatively small amounts. The larger schemes include:

- Adults with Disability (£3.8m) – capital grant programme is progressing
- Younger Adults extra care (£15.2m) – work is due to commence in 2022/23
- Extra care housing transformation (£0.9m) – release of previously committed funding due to reduced project costs, to be reallocated to new projects being considered within this programme
- Special Educational Needs including SEND (£4.9m) – projects have been approved and are progressing
- Improvements to Schools (£6.5m) and Children's Services contingency provision (£5.7m) – provisions to cover future projects and pressures on the capital programme
- Structural maintenance of roads and bridges (£20.6m) – future projects planned to deliver improvement works
- LED replacement programme (£3.2m) – project delayed due to contract negotiations with supplier
- Strategic land purchases (£10m) and Advantageous land (£2.8m) – funding provision available to make advantageous land purchases when they appear on the market
- Investment in Hampshire (£2.5m) provision for grants issued to contribute towards improvement of significant assets, economic recovery and business growth in Hampshire
- School Condition Allocation (£11.6m) – school improvement projects are progressing

- HTM Vehicles (£2.3m) – due to delay in vehicle deliveries as a result of supply chain issues

8. In addition to the carry forwards against schemes in the 2021/22 capital programme, unspent balances from starts within the capital programmes from prior years can now be released and be added to the amounts to carry forward as additions to the 2022/23 capital programme, subject to Cabinet approval:

   - Improvements to school buildings using the Capital Maintenance Grant (£1.154m) – funded from government grant, this funding will be transferred from the Children's Services capital programme to the CCBS capital programme to be managed alongside the SCA grant.
   - Extra care housing transformation within Adult's Health and Care (£12.722m) – release of previously committed funding due to reduced costs of projects within this programme (Nightingale Lodge and Oak Park). This will enable additional projects to be completed against the funding for the programme of £45m that was agreed by County Council in February 2012, to be funded from prudential borrowing.

Capital expenditure and financing

9. Total expenditure of £241.2m was incurred during 2021/22, relating to a combination of projects in the capital programme for 2021/22 and the continuation of projects started in previous years.

10. This is 21.9% lower than the revised estimate for 2021/22 presented in the capital programme report to Cabinet in February 2022, as with a significant programme with a large number of schemes planned and in progress, it can be difficult to predict the exact timing of expenditure flows across financial years.

11. Expenditure in 2021/22 was greater than the £214.1m incurred during 2020/21 reflecting good progress in meeting the County Council's capital priorities.

12. Table 4 shows the proposed financing sources for the expenditure incurred, with a further breakdown of expenditure by department and type of spend included in Annex 2.

Table 4 – Capital financing 2021/22

Funding	Revised estimate**	Actuals	Variance
	£'000	£'000	£'000
Prudential borrowing	41,227	45,186	3,959
less: repayments from capital	(10,791)	(13,677)	(2,886)
Capital grants	155,073	131,078	(23,995)
Contributions from other bodies*	73,748	58,520	(15,229)
Capital receipts	5,703	12,244	6,541
Revenue contributions to capital	4,203	11,319	7,116
New resources in the year	**269,163**	**244,670**	**(24.494)**
Use of the capital reserve	39,534	(5,234)	(44,767)
Use of revenue reserves	0	1,720	1,720
Total funding for payments	**308,697**	**241,156**	**(67,541)**

* including developers

** capital programme report February 2022

13. Revenue contributions to capital include the regular annual contribution built into the revenue budget to fund the locally resourced programme in addition to one-off transfers for specific projects of a capital nature. Capital expenditure may also be funded from revenue reserves and reserves will also be used where there is a timing difference between the regular annual contributions being made from the revenue budget and actual capital expenditure being incurred. The capital reserve holds approved local resources until they are required to fund capital payments as schemes progress.

14. The revised capital programme assumed just under £40m of the reserves balances would be used in 2021/22, however a combination of the County Council's approach of applying grants and other contributions before using its own resources, higher than forecast capital receipts, and slower than anticipated expenditure resulting in the carry forward of schemes means that a net contribution to reserves of £3.513m can be made, as shown in Table 4.

15. In addition to this spend, the Enterprise M3 Local Enterprise Partnership (LEP) invested £13.3m in capital projects within the M3 corridor during 2021/22. This spend is also included in the annual accounts as the County Council is the accountable body for the LEP.

Borrowing

16. Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from Government, provided their actions meet the requirements of the Prudential Code (last updated 2021). This is known as ‘prudential borrowing’. It does not attract any support from Government towards the repayment and interest costs, which fall solely upon the County Council’s own resources.

17. The County Council operates within a framework for the use of prudential borrowing as outlined in its Capital and Investment Strategy (an appendix to the February budget setting report to Cabinet).

18. In line with this framework, a total of £45.186m capital expenditure incurred during 2021/22 will be financed through prudential borrowing. This will not result in the County Council taking on new external debt at this point and instead will be funded through ‘internal borrowing’ in line with the County Council’s Treasury Management Strategy and the advice of its treasury management advisors, Arlingclose.

19. Partially offsetting this new prudential borrowing will be the repayment of £13.677m of prudential borrowing from previous years. This predominantly relates to the timing of capital receipts and developer contributions. Prudential borrowing balances that are not repaid from developer contributions, capital receipts or other sources will be repaid over time through Minimum Revenue Provision (MRP) charges to the revenue budget. Of the £45.186m of new prudential borrowing incurred during 2021/22 it is expected that £14.382m will be repaid through future developer contributions and capital receipts and £30.804m will be repaid through MRP charges.

20. The Prudential Code includes a number of indicators to illustrate whether local authorities are acting prudently and that its capital plans are affordable. The County Council sets forward looking prudential indicators as part of its Capital and Investment Strategy. Annex 4 reports the actual position for these indicators for 2021/22 and confirms compliance with the requirements of the Prudential Code.

Capital receipts

21. Capital receipts from the sale of land and property in 2021/22 were £12.2m in total.

22. Proposed corporate and departmental shares of capital receipts in 2021/22 are summarised in Annex 3. For a number of years, the County Council has allowed service departments to retain 25% of capital receipts from the sale of their assets, increasing to up to 100% of individual receipts in the case of

County Farms operational assets and for other service assets where supported by an appropriate business case for the subsequent use of the receipt.

23. Given the pressure on the County Council's financial resources this approach has been reviewed and capital receipts will now be fully retained to fund corporately agreed priorities except where an appropriate business case for alternative use is agreed in advance.

24. In line with this policy, departments will receive £1.577m of the £12.244m received in 2021/22. Cabinet has previously approved the addition of £0.182m to departmental capital programmes, leaving a total of £1.395m for which approval is now required, as set out in Annex 3. The remaining balance of £10.667m will be retained corporately to fund future corporate priorities.

Analysis of capital programme 2021/22 and requests by services to carry forward capital schemes to 2022/23

	Approved value of programme £'000	Schemes committed in 2021/22 £'000	Approval to carry forward requested £'000	Approval to carry forward already given £'000	Total amount to carry forward £'000
Adults' Health and Care	43,727	23,684	20,043	0	20,043
Children's Services	65,716	30,045	18,801	16,870	35,671
Economy, Transport and Environment	117,522	91,200	26,322	0	26,322
Culture, Communities and Business Services	102,805	34,465	37,596	30,744	68,340
Total	**329,770**	**179,394**	**102,762**	**47,614**	**150,376**
Extra Care transformation*			12,722	0	12,722
Capital Maintenance Grant*			1,154	0	1,154
Total			**116,638**	**47,614**	**164,252**

* Carry forward of funding committed in prior years that has now been released to be reallocated to schemes within agreed programmes

Summary of capital expenditure in 2021/22

Analysis by services

	£'000	**%**
Adults' Health and Care	23,869	9.9
Children's Services	45,506	18.9
Economy, Transport and Environment	111,019	46.0
Culture, Communities and Business Services	60,762	25.2
Total	**241,156**	**100**

Analysis by type of expenditure

	£'000	**%**
Land	7,432	3.1
Construction work	181,631	75.3
Fees and salaries	30,962	12.8
Furniture, equipment and vehicles	4,965	2.1
Grants	16,166	6.7
Other	0	0
Total	**241,156**	**100**

Analysis of capital receipts 2021/22

The table below shows the total capital receipts received during 2021/22 of £12.244m. Of this amount:

- £1.395m will be added to departmental capital programmes to reflect business cases for the retention of receipts for specific projects (in addition to £0.182m already added to departmental programmes during 2021/22)
- £10.667m will be retained to fund future corporate priorities in line with the new approach to the retention of capital receipts

	Capital receipts received £'000	**Department shares already added £'000**	**Department shares now available to add £'000**	**Retained for corporate priorities £'000**
Adults' Health and Care	0	0	0	0
Children's Services	1,293	0	1,150	143
Economy, Transport and Environment	292	0	0	292
Culture, Communities and Business Services	10,659	182	245	10,232
Total	**12,244**	**182**	**1,395**	**10,667**

Prudential Indicators

The County Council sets forward looking prudential indicators as part of its Capital and Investment Strategy. The Prudential Code requires the County Council to report on its prudential indicators at the end of each financial year, as set out below. This compares the actual figures at 31/3/22 against the most recent forward looking estimates.

Prudential Indicators for prudence	**Estimated £m**	**Actual £m**
Capital expenditure for 2021/22	309	241
Capital financing requirement (CFR) as at 31/3/22	784	780
External debt* as at 31/3/22	425	424

* includes long term liabilities including PFI

Prudential Indicators for affordability	**Estimated**	**Actual**
Financing costs to net revenue stream 2021/22	4.2%	4.0%

The County Council confirms that it has remained within the Authorised Limit for External Debt for 2021/22 set in its Capital and Investment Strategy (£970m). This is a legal requirement. It has also remained within the lower Operational Boundary (£870m), which is a management tool for the in-year monitoring of external debt.

The County Council also continues to comply with the gross debt and the CFR indicator. This is because it does not expect gross debt to exceed the total of the CFR brought forward from the previous year plus the additions to the CFR during 2021/22 and estimated further additions for the next two financial years.

EII COURT – ADDITIONAL PODIUM LEVEL MEETING ROOMS

Project Overview

1. This project seeks to provide a range of additional and improved meeting room facilities at podium level in the County Council's EII Court offices in Winchester.

2. Following the introduction of the County Council's Open Workplace Policy in 2021, less accommodation is required for use as flexible office space. However, there continues to be a requirement for good quality meeting spaces for both public and private meetings, supported by appropriate technology.

3. An area of open plan office at podium level in the East block of EII Court has been identified as suitable for creating a suite of modern, well ventilated and technology enabled meeting spaces to add to the existing facilities of Ashburton Hall and EII West.

4. The location is an extension of the existing public areas at the podium level of EII Court, providing good, well managed access for Members, the public and HCC staff from the EII reception and concourse. The location also makes these spaces suitable for hire to partners and other external parties.

5. The works have an estimated total cost of £1.4 million including an allowance of £215,000 for furniture and £200,000 for Audio Visual equipment. This can be funded from the Covid Recovery Fund approved by Cabinet in July 2021.

Project Scope

6. The project will provide the following accommodation in EII East:

   - Two large meeting rooms for 28 people
   - Four smaller meeting rooms for 6-12 people
   - A new webcasting studio
   - New power, data and AV installations for the above meeting spaces
   - Refurbished FM and Events Support ancillary spaces

7. Additional minor works to improve the power and data and layout of existing meeting rooms in EII West are also planned, to support increased use of technology and hybrid meetings.

Climate Change Impact Assessment

8. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

9. The Adaptation Project Screening Tool identifies that the predominant vulnerabilities are heat waves, high winds and extreme storms, arising from climate change, which could affect the building. The scheme is considered to have a low vulnerability in both factors, and a low vulnerability overall.

10. The carbon mitigation tool does not calculate emissions for refurbishment projects so it is not applicable to this project. The proposed project will incorporate energy reduction and climate mitigation measures such as replacement of non-LED lighting, improved environmental controls for heating and ventilation and solar control measures to reduce solar gains.

Finance

11. The anticipated cost and proposed funding for the project is as follows:

Works	Funding source	Buildings £	Fees £	Total £
Building work and FF&E	Covid recovery funding	1,030,000	170,000	1,200,000
AV technology	Covid recovery funding	-	-	200,000
	Total	**1,030,000**	**170,000**	**1,400,000**

Project delivery

12. It is proposed that the project is procured on a design and build basis through a two stage open book procurement process.

13. The meeting room works in EII East are planned to start on site in Autumn 2022 with completion anticipated in Spring 2023.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	19 July 2022 29 September 2022
Title:	Developing a Medium Term Financial Strategy
Report From:	Director of Corporate Operations

Contact name: Rob Carr

Tel: 01962 847400 **Email:** Rob.carr@hants.gov.uk

Section A: Purpose of this Report

1. The purpose of this report is to set out the current progress towards developing a Medium Term Financial Strategy (MTFS) to 2025/26 against a challenging backdrop of public finances. It also sets out some interim proposals for capital investment priorities, some of which have been awaiting consideration since before Covid.

Section B: Recommendation(s)

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

2. Notes the continued decline in the County Council's financial position to 2025/26.

3. Notes the current progress towards the development of a Medium Term Financial Strategy that will be further reported to Cabinet and County Council as part of the 2023/24 budget setting process.

4. Delegates authority to the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council to allocate one off funding for inflationary pressures in the current year up to a value of £25m, to be funded from contingencies and the Budget Bridging Reserve as required.

5. **Recommends to County Council that:**

a) An inflation underwrite of up to £15m be put in place for the current capital programme and that approval of allocations from this sum are delegated to the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council.

b) The capital guidelines for 2023/24 and 2024/25 be increased by £6.75m and £6.8m respectively to meet the unavoidable capital priorities outlined in Section I, to be funded from prudential borrowing, the revenue consequences of which will be factored into the budget setting process for 2023/24.

RECOMMENDATIONS TO COUNCIL

This single report is used for both the Cabinet and County Council meetings, the recommendations below are the Cabinet recommendations to County Council and may therefore be changed following the actual Cabinet meeting.

County Council is recommended to approve:

a) An inflation underwrite of up to £15m for the current capital programme and that approval of allocations from this sum are delegated to the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council.

b) That capital guidelines for 2023/24 and 2024/25 be increased by £6.75m and £6.8m respectively to meet the unavoidable capital priorities outlined in Section I, to be funded from prudential borrowing, the revenue consequences of which will be factored into the budget setting process for 2023/24.

Section C: Executive Summary

6. This report outlines the current progress towards developing a Medium Term Financial Strategy to 2025/26 against a backdrop of worsening public finances as a result of growth in demand and steeply rising inflation. Even considering a baseline level of deficit could see a budget gap of between £180m to £200m, which is well in excess of anything we have faced before.

7. The County Council's approach of looking ahead and adopting a planned and measured approach to setting its budget has served it well over many years and whilst the early consideration of our future position is still key, the approach to tackling the predicted deficit has had to change this time round due to both the size of the task and the fact that we will have already taken £640m out of the budget by 2023/24.

8. The key question is whether or not the County Council is able to balance the budget through its own actions or whether it needs to approach Government to begin discussions about our financial predicament. At this stage it is not clear whether or not we are able to balance the budget ourselves, but even if we were, we would also need to consider the profound impact that this would have on services and service users going forward.

9. We will of course engage with Government over the coming months, not least around the entire system of local government finance which is simply not fit for purpose as current local and national funding increases in year are entirely insufficient to keep pace with the cost and growth increases that we experience. Unless something changes within this model, then there are no prospects for financial sustainability for the County Council, a point that it has been making for many years now.

10. The report also considers some unavoidable capital investment proposals which need to be progressed in the next few years and proposes a response to the significant inflationary pressure that we are currently experiencing within revenue and capital budgets.

Section D: Background and Context

11. The MTFS update presented as part of the budget setting report in February 2022 outlined a challenging position, predicting a £157m budget deficit by 2025/26 after £80m of Savings Programme 2023 (SP23) savings had already been taken into account.

12. There were three key issues that contributed to this position:

    - Increased costs of Adults' Social Care – An increasing number of clients coming into care post Covid, coupled with price increases in the market of between 16% and 18% has created an additional forecast pressure of £52.6m by 2025/26.
    - Limited Government Funding – The Comprehensive Spending Review (CSR) provided some extra funding over the next three years, but this was 'flat' over the period, despite the annual growth in costs. The County Council received £22.9m extra funding in 2022/23, but over £14m of this was already accounted for as assumed extra funding as part of the SP23 programme. In reality, the total funding received has had little impact given that growth in Adult Social Care costs over the period are expected to rise by over £106m and pay and inflation are expected to be over £150m.
    - Reduced Social Care Precept – The County Council had previously been relying on a 2% per annum Adult Social Care Precept, but this was reduced to 1% over the life of the CSR, reducing council tax income by around £28m per annum by 2025/26.

13. This position must also be set in the context of the national economic picture, with growth slowing, the impacts of the Ukrainian war on inflation and geo-political stability and a Government who had to spend and borrow heavily

during the pandemic, increasing total cumulative Government borrowing to £2.3trillion, nearly 100% of the economy's annual output.

14. Rising social care costs that are not funded by Government continues to be the greatest financial challenge that the County Council faces. Recent Government white and green papers and a review into Children's Social Care Services highlight some of the challenges in this area and suggest that around £2.6bn needs to be spent over the next four years to start address some of the failings in the system.

15. For Adults Social Care escalating demand and price inflation in what is a challenging market following Covid is further complicated by the social care reforms being introduced by the Government, which will bring further burdens and complications into the system and is likely to lead to significant unfunded costs for local government as set out in a separate report on this agenda. The County Council's predictions alone suggest that the reforms could add up to £91m to the bottom line after Government funding has been taken into account.

16. This all adds up to the most challenging financial picture the County Council has ever faced and is highlighting now more than ever the consistent statement that we have been making for some time, which is that unless something is done about rising social care costs, the County Council is not financially sustainable in the medium to long term as it is not possible to keep making savings in services to fund the growth in social care.

17. As further context, it is worth re-iterating at this point, that the County Council has only four options for balancing its budget:

   - Increasing council tax, albeit that this is capped by the Government unless the County Council wanted to go for a referendum.
   - Increased Government funding.
   - Changes to legislation that reduce service cost or allow us to charge for services.
   - Making savings in services or generating more income as we have been doing since 2010 and we will have already taken £640m out of the budget by April 2023.

Section E: Updated Forecast to 2025/26

18. Appendix 1 sets out the high level forecast that was presented in February 2022 and shows that at this point, a budget gap of £157m was predicted by 2025/26. The assumption was that the County Council would look to bridge the deficits in the intervening years from reserves, whilst it developed a strategy to deal with the ongoing deficit, although this relied on no further financial shocks in the system during that period and a concerted effort to contribute sufficient funding to the Budget Bridging Reserve. It also assumed that the social care reforms would be fully funded by Government.

19. Since that time officers have been doing further work to take account of emerging pressures such as:

- Pay Awards – Increasing inflationary pressures and announcements on the National Living Wage (NLW) suggest that there will be pay costs over and above what we have already allowed for.
- Inflation – Rising costs of fuel, materials and other goods are feeding through to contract prices in many areas, such as social care, home to school transport, building maintenance, transport and highways.
- Regulatory changes – The Government is currently consulting on a range of measures particularly around Waste Disposal which would impact on past and current savings proposals.

20. At this stage it is not possible to predict whether the inflationary impacts are permanent or just transitory and therefore it is difficult to forecast what the impact might be over the next 3 years. It is however possible that as a minimum, the current increase in prices will remain and give a new base spending level upon which further normal inflationary allowances will be required.

21. Given the uncertainty, it is not proposed to provide a detailed forecast at this stage, but it is not unreasonable to assume that by 2025/26 we could be facing a recurring deficit between £180m and £200m.

22. This position does not take into account the revenue impact of potential future capital investment proposals outlined below which would add further to the deficit if they were to proceed. It also does not include a potential long term solution to the maintenance of our existing nursing and care homes, our other built estate and the highway network, which will require a significant additional annual revenue contribution to properly maintain the assets that we own.

23. Finally, there are two further areas that need to be flagged as significant risks in the forecast although at this stage they are not being included as to do so would definitely mean that the County Council is not financially sustainable in the medium term.

24. The first is adult social care reforms, which are covered in detail in a separate report on this agenda. The new reforms are expected to add significant costs to our budget which at this stage are not fully funded by the Government. There are many different aspects and variables to the reforms but it is anticipated that unfunded costs of up to £91m could result as a consequence of their implementation.

25. The second relates to Special Educational Needs which are currently funded by the High Needs Block element of the Dedicated Schools Grant (DSG). Members will be aware that costs have been escalating in this area for many years following changes to Government legislation. In 2021/22 costs exceeded the Government grant by £27.7m and by 2024/25 this is expected to increase to over £40m despite mitigating measures being put in place.

26. At the current time there is a 'statutory override' in place that means the cumulative deficit (a total of £60m for Hampshire at 31 March 2022) is notionally offset against future DSG and does not need to be addressed by the local authority. However, this is due to cease at the end of 2022/23 and it is not yet clear what the Government's intentions are with respect to this nationally recognised problem.

27. At this point, the County Council does not have available funding to address the cumulative deficit and cannot possibly contemplate dealing with a further annual revenue pressure of £40m on top of the position set out in this Section. Nevertheless, it is a potential risk that needs to be flagged.

28. There remain the usual risks associated with all forecasts of this nature, not to mention that the Government is still considering a Fair Funding Review for local government finance which could negatively impact the position going forward. For now though we will stick with the current range of forecasts and consider how we go about addressing the challenge that we already have before us.

Section F: Developing a Realistic Approach

29. The County Council has been financially well managed for many years, making prudent assessments of its financial position, adopting a sensible forward-looking approach to balancing its budget deficit every two years and managing its finances through a robust reserves strategy.

30. This approach has served it well over many years, but more recently, we have seen a change from the ongoing transformation of our services (which is taking longer and longer in the more complex areas) to simply making savings to help achieve a balanced budget as has been the approach for SP23.

31. By April 2023, we will have been implementing savings for around 13 years and will have taken some £640m out of the budget. In simple mathematical terms our increases in income and funding do not match the increased costs and growth in services and there are no other options to balance the budget other than reducing spend or increasing charges to users.

32. Previous Medium Term Financial Strategies have highlighted that without changes to the way that social care growth is funded, the County Council is not financially sustainable in the medium to long term as it is not possible to keep making savings in other services to fund this growth. In fact, in June 2018, the MTFS included this statement:

    'However, what is clear from the forward forecasts that have been prepared is that under current funding arrangements, against existing duties and anticipated demands, the County Council cannot maintain financial sustainability in the longer term. It simply does not have the capacity to continue to absorb the annual inflationary and growth pressures through successive change programmes without the allocation of additional government funding.'

33. It is clear that nothing has changed other than the fact that social care pressures are getting worse and that Government funding is not even remotely keeping pace with the general annual inflationary pressures that we face, before taking account of service growth, pressures and the current economic climate.

34. Whilst it seems incomprehensible that the County Council could be considering a scenario where it is unable to balance its budget in the medium term, it is also inevitable that we will reach this position at some point based on the current methodology for funding local government. The primary question at this stage is that assuming a 'base' level of deficit of up to £200m, is the County Council able to balance its budget through a range of measures or does it need to consider starting early discussions with Government about its future financial standing?

35. It should be pointed out that the County Council is asking this question now, well in advance of when it needs to, which has been a feature of the good forward planning and financial management we have exhibited to date and to ensure there is maximum time to address, as far as we are able, the financial gap that we predict. At the same time however, we must be realistic about what can be achieved and be cognisant of the impact that it will have on services and residents if we start to consider a statutory minimum level of services (albeit that this is not well defined and is a judgement call in many services that would ultimately be tested by the courts).

36. It should also be noted that the Council will face increased levels of financial risk in implementing further reductions to levels of service delivery and increasingly ambitious commercially-focussed approaches to income generation. Ultimately, the Council will need to reach a view on the level of risk that is acceptable considering both the potential financial impacts should risks materialise, and the consequences for the Council should it be unable to set a balanced budget.

Section G: Results of Early Work

37. Following the budget setting process for 2022/23 the Corporate Management Team started a high level exercise to look at options for closing the budget gap, which at that stage was the £157m identified in the MTFS. This did not follow the usual approach of setting a straight line percentage reduction to all Departmental cash limits but instead asked Directors to look at each service area and consider differing options with increasing levels of impact and severity.

38. They were also asked to come up with any cross cutting options and consider what legislative changes could be put in place that would have a material impact on the cost of service or provide options for charging users. Given the Government's own financial challenges, options that allowed the County

Council to help solve its own problems through legislative change were felt to be more favourable than just asking the Government for more funding.

39. The aim was to collate all of this information to assess at a high level whether we could realistically bridge the estimated gap by 2025/26 and then include the details of this in the Medium Term Financial Strategy due to be presented over the Summer.

40. The initial results of this exercise have been presented to CMT, and it is not yet clear whether or not the gap can be bridged through actions of the County Council alone. Given this position, there are a number of elements of the work that need to be expanded on.

41. During the Summer, the Chief Executive, together with a Director 'peer reviewer' will undertake a service by service review of each Department, working with the relevant Director to assess whether or not what has been put forward is achievable, realistic and goes as far as is possible.

42. The output of this piece of work, together with the results of the Fair Cost of Care exercise should be available in the autumn and the Government have also announced that there will be a further 2 year financial settlement, details of which should be available in December. This therefore points to a further comprehensive update being provided as part of the February Budget setting report, when more will be known about our future financial prospects.

43. Further updates on the process and timetable will also be provided later in this calendar year, but the fact that we have already undertaken some preliminary work and can continue to refine these plans and options will mean that further good progress can still be made over this period.

Section H: Talking to Government

44. Irrespective of the outcome of the above piece of work it is clear that under the current funding regime, the County Council is not financially sustainable and even if it were able to balance the budget by 2025/26 then the problem just moves on to the next financial year.

45. The County Council has been active in engaging officials from DLUHC and the Treasury and in lobbying MPs about its financial position but this activity must be stepped up over the Summer in order to highlight the challenge that we face and the work that is currently being undertaken.

46. In particular, it is important that we stress that it is not just about being able to balance the budget (or not as the case may be) but about the impact on services and residents as a result of potentially implementing the reductions or increased charges for use.

47. These are difficult decisions for the County Council, but it has a statutory responsibility to balance the budget and is fully aware of the failures in other councils of not taking this responsibility seriously enough. Whilst other councils

are concentrating on more short term issues it is important that we take this forward look even though this may potentially take us ‘out of step’ with some of our comparators.

Section I: Current year inflation

48. With inflation currently exceeding the 40 year high of 9%, there is immense pressure on the both the revenue budget and capital programme in the current year. Further information on capital inflationary pressure is given in section J below and the following paragraphs focus on revenue budget inflation.

49. When the 2022/23 budget was approved in February, it was based on assumed inflation of 2.5% for pay and an average of 3.2% for non-pay budgets. As part of the detailed budget preparation, the assessment of non-pay inflation takes into account a range of indices as applicable for the various different contracts and supplies and services included within individual cost centre budgets. In line with prudent financial management, a central contingency is held to manage various risks and pressures that might occur during the year and at the time the budget was approved, this included funding in respect of the forecast pressure on energy costs.

50. The LGA is now suggesting pay awards of 4% are likely which would require a further £5.0m in addition to the £8.25m (2.5%) included in the budget.

51. For non-pay budgets, budget managers are experiencing significantly higher inflation than budgeted including mounting pressure from contractors who simply can no longer afford to deliver service contracts within the agreed price. This pressure is widespread and especially acute in adult social care and home to school transport (HtST).

52. Further analysis of the likely impact is underway together with consideration of potential mitigation. However, in order to ensure the continued delivery of services to some of our most vulnerable residents, additional funding of up to £20m - £25m may need to be identified.

53. The message from Government officials is to use reserve funding for these pressures in the current financial year. However, this is a short-term solution and unless the rate of inflation becomes negative, this year’s inflation will increase the base budget which will require on-going funding. A further update will be included in the next MTFS report, and delegated authority is sought in this report for additional one off inflation allocations to be granted to services on a case by case basis up to a value of £25m, which will be drawn from contingencies in the first instance and then the Budget Bridging Reserve.

Section J: Capital Investment Priorities

54. Throughout the period of austerity, despite the challenging financial environment, the County Council has maintained its capital programme and over the last five years, actual capital expenditure has averaged around £233m per annum. Over the same period, the revenue funded capital guideline has remained broadly unchanged at around £13m - £16m p.a. There has been no inflationary increase to annual capital guidelines for many years and as the value of the guideline has reduced in real terms, the approved capital programme includes only the very highest priority schemes and those attracting external funding.

55. Additional capital schemes are periodically added to the programme, identified as part of strategic service reviews and corporate capital investment priority reviews. The additional schemes are funded either from one-off revenue underspends or from prudential borrowing on the strength of a specific business case. The last corporate review of capital investment priorities was commenced in late 2019 and paused in 2020 at the start of the pandemic. The review has recently been revised and updated and considered by the Corporate Management Team. Three key themes have been identified:

    - The significant **inflationary pressure** on capital allocations and especially on approved projects currently out to tender and in progress
    - The need for a realistic assessment of the annual cost of managing the condition of our highway network, associated infrastructure and built estate including **health and safety and regulatory compliance and life cycle replacement costs**
    - Some significant **stand alone capital investment priorities**.

56. These three themes are considered further below.

Inflationary pressure

57. The building and highway construction and maintenance industries continue to exhibit strong evidence of instability on the back of Brexit and the Covid pandemic with the consequence that inflation indices have been increasing significantly over the last two years. Additional cost pressures have followed, along with the anticipated changes in legislation for “red diesel” and national insurance contributions, which came into effect from April 2022. The on-going war in Ukraine is having a very significant and alarming impact on top of these existing challenges and is causing uncertainty with the availability and cost of critical materials such as steel, iron and timber.

58. Oil and gas prices are unstable and rising rapidly, and this directly affects fuel, energy, manufacturing, and also overhead costs. Bituminous products, i.e. asphalts, bitumen binders etc., are already being heavily impacted. Materials

that require intensive energy input, such as, bricks, plastics and ceramics are likely to continue to rise as are the costs of transportation due to the cost of fuel. Overall, the construction material price index rose 5% in March and is now almost 25% higher than 2021. This is driving higher tender prices ranging between 6% - 9% in 2022 with a further 2% - 7% forecast for 2023.

59. The County Council's highways and property services teams are already working closely with contractors to anticipate and where possible manage price and delivery pressures in the supply chain. Work programmes are also being reviewed and re-prioritised in order to manage the impact of higher cost within existing funding. These strategies have been reported to and approved by the relevant Executive Members.

60. The duration of the current situation is unknown, however the ability to manage the rising cost pressures within existing budgets can only be short term. It is therefore prudent to earmark contingency funding to underwrite the cost of inflation on individual schemes where it cannot be met from approved budgets. It is recommended that authority is delegated to the Director of Corporate Operations to review individual cases and where appropriate, allocate up to £15m of funding in consultation with the Chief Executive and the Leader.

Health and safety and regulatory compliance and life cycle replacement costs

61. Existing capital guidelines allow only limited planned investment in the County Council's built estate, highway network and associated infrastructure leading to a continued decline in the condition of the assets and an increasing risk of health and safety and regulatory compliance failures and unplanned failures in asset performance causing service disruption, for example boiler failure and safety concerns, for example pelican and puffin crossing failure. Additional capital funding would enable a programme of proactive lifecycle replacement for core and higher risk sites and assets.

62. Work is on-going to assess a realistic annual programme of planned condition work to meet essential health and safety and regulatory compliance and this will be informed by further asset condition surveys. In the meantime, investment required to meet the highest priority areas over the next two years has been identified and all of these items have been signed off as unavoidable by the relevant Director. Details are included in Appendix 2 and are summarised below.

Essential asset condition capital works	**2023/24** **£’000**	**2024/25** **£’000**
Replacement of **highways** electrical equipment for **traffic signals** and crossings at end of useful life	600*	1,000
Bridge replacement fund for essential work where external funding is either insufficient or unavailable.	2,500	2,500
Improve **County Farms buildings** to ensure compliance with tenancy and agricultural regulations	500	500
Management of **Basingstoke Canal** including bank stabilisation, weirs and sluices, and towpath (Hampshire section only)	500	500
Corporate estate lifecycle replacement programme for building fabric, mechanical and electrical assets	1,500*	1,500*
Countryside bridges and rights of way investment to meet legal obligations	800	800
Countryside improvement of livestock management (disease prevention), historic building repairs and Staunton lake wall repairs	350	0
Total	**6,750**	**6,800**

* Net of available funding

63. Given the overall pressure on the revenue budget and the need to maximise contributions to the budget bridging reserve, it is proposed that this additional capital investment will be funded by prudential borrowing. The repayment of the borrowing, including interest will commence the year after the expenditure is incurred and will represent an additional pressure on the revenue budget of £0.9m assuming repayment over 25 years. This increase will be factored into the budget setting process for 2023/24.

64. It is recommended that the capital guidelines for 2023/24 and 2024/25 be increased by £6.75m and £6.8m respectively to be funded by prudential borrowing and detailed project proposals will be reported through Executive Members and included in the capital programme presented to Cabinet and County Council next February.

Stand alone capital investment priorities

65. Through on-going service planning and review, several stand alone capital investment priorities have been identified. Whilst some of these services are statutory, there is still an element of choice as to how they are delivered and so these individual investment priorities will each require a robust business case that considers both financial and non-financial factors. Owing to the nature of these services, there may not be a sufficient financial pay-back to cover the cost of borrowing within the service revenue budget and thus corporate funding to repay borrowing may be required, subject to the detailed analysis of each individual business case.

66. Progressing with any schemes that significantly add to the bottom line deficit of the revenue budget at this stage, have to be viewed in the wider context of the financial predictions set out in this report and therefore any consideration of further capital investment will be delayed until the further work over the Summer has been concluded and we are able to substantiate that any investment is considered to be unavoidable at that stage.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes/~~No~~
People in Hampshire live safe, healthy and independent lives:	Yes/~~No~~
People in Hampshire enjoy a rich and diverse environment:	Yes/~~No~~
People in Hampshire enjoy being part of strong, inclusive communities:	Yes/~~No~~

Other Significant Links

Links to previous Member decisions:	
Title	Date
Medium Term Financial Strategy Update and Savings Programme to 2023 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=45388#mgDocuments	Cabinet - 12 October 2021 and County Council – 4 November 2021
Revenue Budget and Precept 2022/23 https://democracy.hants.gov.uk/mgAi.aspx?ID=47431#mgDocuments	Cabinet - 8 February 2022 County Council – 17 February 2022
Direct links to specific legislation or Government Directives	
Title	Date

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	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

This report does not contain any new proposals for major service changes which may have an equalities impact. Proposals for budget and service changes which are part of the Savings Programme 2023 were considered in detail as part of the approval process carried out in Cabinet and County Council during October and November 2021 and full details of the Equalities Impact Assessments (EIAs) relating to those changes can be found in Appendices 4 to 8 in the November Council report linked below:

https://democracy.hants.gov.uk/mgAi.aspx?ID=45388#mgDocuments

For proposals where a Stage 2 consultation is required the EIAs are preliminary and will be updated and developed following this further consultation when the impact of the proposals can be better understood.

Appendix 1

High level financial forecast to 2025/26

The table below builds on the assumptions included in the previous Medium Term Financial Strategy (MTFS) for the SP23 target.

	2023/24 £m	2024/25 £m	2025/26 £m
SP23 savings target	**80.0**	**80.0**	**80.0**
Adults Social Care pre-pandemic growth		13.5	27.0
Children's Social Care pre-pandemic growth		19.8	39.6
Other demand-led growth		4.0	8.0
Pay and price inflation		35.5	74.7
Previous MTFS assumed Council tax at 4.99%		(30.6)	(62.3)
Pre-pandemic budget gap	**80.0**	**122.2**	**167.0**
Additional budget pressures:			
Adults Social Care **post**-pandemic growth	45.0	49.2	52.6
Children's Social Care **post**-pandemic growth	10.4	10.4	10.4
Additional pay and price inflation	2.8	2.8	2.8
Budget gap before Finance Settlement	**138.2**	**184.6**	**232.8**
Local Government Finance Settlement:			
Additional grant funding	(22.9)	(22.9)	(22.9)
Less grant required to meet SP23	14.1	14.1	14.1
Reduction in Adult Social Care Precept	14.0	21.0	28.0
Budget gap after Finance Settlement	**143.4**	**196.8**	**252.0**
SP23 savings	(80.0)	(80.0)	(80.0)
Pension deficit contribution currently not required	(15.0)	(15.0)	(15.0)
Unmet budget gap	**48.4**	**101.8**	**157.0**

Appendix 2

Essential asset condition capital works

Description of works	2023/24 £'000	2024/25 £'000
Highways electrical equipment for traffic signals replacement	600*	1,000
The number of signalised junctions and crossings in Hampshire started to grow dramatically in the mid-1990s. Installations generally have a design life of 15 to 20 years after which it is necessary to renew the equipment to minimise maintenance costs, reduce fault occurrences and improve reliability and efficiency. Although austerity has stretched life expectancy to over 25 years in some cases, large numbers of sites have now reached the end of their life and need to be replaced. Maintaining older equipment will add pressure to the revenue budget, or money will need to be withdrawn from other equipment currently funded from this budget. Some equipment will fail and may need to be decommissioned. There will also be higher fault rates with the older equipment and longer time will be needed to repair equipment as we source spares, with some being obsolete. This increases specific safety concerns around pelican and puffin crossings. It is also likely that we would decommission elements of installations as they become unmaintainable or beyond economic repair.		
Bridge refurbishment/replacement	2,500	2,500
The County Council will continue to seek external funding for essential bridge replacement/refurbishment. However, such funding can be insufficient in total, for example in the case of the Campbell Road bridge over the railway in Eastleigh for which the external funding was insufficient to provide a bridge with appropriate weight capacity and needed additional local funding, or the external bids are unsuccessful, for example the October 2019 expression of interest to the DfT Challenge Fund for the Langstone Bridge refurbishment and the Havant Station footbridge replacement. To compensate for insufficient external funding, an element of the existing annual budget is put aside each year to build up a bridge fund. However the rate of accumulated funds is too low for essential work required over the next few years. Langstone Bridge, built in 1955, is the only vehicular route on and off Hayling Island. A small ferry operates from Eastney in Portsmouth, but this is only capable of carrying 63 foot passengers. The bridge requires extensive repairs to the bridge supports and deck, removal of chloride rich concrete and the installation of a cathodic protection system to protect the structure from salt water attack to the steel reinforcement. The Structures Team are working closely with Havant Borough Council Officers in connection with the Langstone		

Description of works	2023/24 £'000	2024/25 £'000
Coastal Defence scheme which could be taking place at the same time as the bridge refurbishment. Havant Station Footbridge provides the main pedestrian route over the railway, connecting Havant town centre and the park to the Civic Centre, Havant College and nearby suburban areas to the north. The existing footbridge, built in 1947, comprises a single span of 26m and is accessed by three non DDA sloped ramps totalling 158m. The current structural quality of the footbridge remains poor despite previous maintenance works being carried out and it has been propped for some years due to safety concerns. An interim maintenance scheme to address safety critical elements is being developed for this year (22/23) to keep the route open and this will include complete removal of one of the two northern ramps. Additionally, a number of cycle schemes are underway or planned in the vicinity of Havant Town Centre and the Railway Station and a replacement footbridge with enhanced pedestrian and cycle provision would provide a key link between the Town Centre and areas to the north of the railway line. Improvement of this footbridge will be a significant element of wider regeneration in the area which will form part of a future levelling-up bid.		
County Farms buildings	500	500
Capital investment is required to improve residential and farm buildings across the County Farms estate to ensure compliance with tenancy and agricultural regulations, including energy efficiency measures. Such investment is required to maintain income levels from lettings to support the revenue budget.		
Basingstoke Canal	500	500
In 2018 the Basingstoke Canal was allocated £1.5m Capital Investment Priorities funding over three years to meet the Council's obligations as the owner of the Canal. This will have been fully committed by the end of 2022/23 on schemes and addressing issues such as Dogmersfield landslip and the Swan Cutting scheme. Further capital investment is required for the continued management of canal assets including bank stabilisation, weirs and sluices and the towpath.		
Corporate estate lifecycle replacement programme	1,500*	1,500*
The annual revenue budget for repairs and maintenance to the corporate built estate addresses essential compliance and reactive maintenance but is only sufficient to address the very highest planned maintenance priorities where these are required to ensure safety and compliance. The limited planned maintenance investment is leading to a continued decline in the condition of the built estate and an increasing risk of compliance failures and unplanned failure		

Description of works	2023/24 £'000	2024/25 £'000
of building fabric and services (e.g. boiler failure) leading to service disruption including public facing services. Additional capital funding would enable a programme of proactive lifecycle replacement for core and higher risk sites and assets across the corporate estate to address the backlog of condition based maintenance and ensure safety, compliance and business continuity for essential buildings and the public services they support. Essential work would include upgrade existing building fabric and mechanical and electrical assets for example roof and window upgrades, heating, hot water and electrical infrastructure upgrades.		
Countryside bridges and rights of way	800	800
There are 600 bridges that cross the major river network and a total of 2,967 bridge structures on the 4,500 km (3,000 miles) rights of way network. Bridges and rights of way are only closed when there is a risk to public and temporary closures are only effective for 6 months after which the County Council must apply to the Secretary of State with a justification for the extension. This often attracts criticism from user groups and local communities; therefore, the Service prioritise work to keep paths open and safe to use. However, there continues to be a backlog of essential work to the condition of countryside bridges and rights of way, as increased use seen during the pandemic is to some extent continuing.		
Countryside improvements	350	0
A range of capital investment in countryside assets is required to ensure compliance with health and safety regulations and also to meet the County Council's legal obligations as land owner. The required investment includes improvements in the management of livestock in order to prevent disease, refurbishment of the historic buildings at Manor Farm and also capital repairs to the lake wall at Staunton Country Park.		
Total	**6,750**	**6,800**
* Net of available funding		

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Cabinet
Date:	19 July 2022
Title:	Social Care Reforms including Fair Cost of Care
Report From:	Director of Adults' Health and Care

Contact name: Graham Allen

Tel: 03707 795574 **Email:** Graham.allen@hants.gov.uk

Purpose of this Report

1. This report:

- provides an update on the Adult Social Care Reforms (SCR) that are required to be fully implemented by October 2023.
- sets out the context for the 'Fair Cost of Care', (FCC) exercise which forms part of the wider SCR.
- provides an initial estimate of the financial impact of SCR and confirms that the work will lead to an immediate and then increasing significant financial consequence for the County Council in the region of c£130m per annum, or a net £90m after an estimated share of Government grants.

Recommendations

2. Cabinet acknowledges the direction of travel and intention of the SCR. However, to achieve this in a sustainable and appropriate way Cabinet is asked to support and endorse the following as a priority for the consideration of Government:

- Adequate funding to match the scale of the challenge and fully fund the increase in costs to local authorities, as a new burden.
- Investment in national recruitment and workforce development campaign for local authorities and providers to address long term workforce challenges across the sector. Including support for local innovation to ease workforce pressures over the long term.
- A staggered reform implementation or consideration of deferring wider reforms to the health and care system.
- Publication, as soon as possible, of clear guidance on how those currently in receipt of services will transition into the new system, including how means testing and top-ups should be applied.
- A clear public facing communications campaign to manage expectations and help residents to understand the implications of reform, including how much cost they will be liable for

- Regional bodies to provide detailed information on infrastructure and technology solutions.
- Publication of details on how the local authority equivalent cost should be calculated for self-funder Independent Personal Budgets.

Executive Summary

3. This report covers all aspects of the Social Care Reforms (SCR) and their financial impact on the County Council.
4. The report has a key focus on the 'Fair Cost of Care' (FCC) element of the SCR due to the urgency of this work over the summer period and the immediate financial impact.
5. The Reforms could result in an **annual cost implication for the County Council of c£130m**, or a **net £90m** after estimated share of Government grants. The full impact of this is likely to be felt by 2026/27. The Reforms are set to have profound implications for upper tier authorities the length and breadth of the Country. South-East authorities are expected to be hit the hardest, as there are greater levels of personal wealth that will be retained by services users and removed from service charges.

   The bulk of the forecast net £90m recurring (per annum) impact for the County Council is an additional pressure beyond the likely longer term savings requirement of between £180m and £200m.
6. This report provides a high-level impact assessment of undertaking the FCC exercise within Hampshire, and the estimated **£42m pressure** of which only **£12m** is likely to be funded by Government through additional grant.
7. Adults' Health and Care presented to CMT on 8 June and received approval to proceed with the FCC exercise requirement.
8. The County Council is seeking for Cabinet to recognise the impact of the Social Care Reform. These impacts. that are estimated to be greater than SP23 and some of the previous whole-Council savings programmes, greater than the assumed benefits of Local Government Re-organisation in Hampshire and impacts that are not currently factored into the estimated budget gap of between £180m and £200m.

Contextual information

9. The SCR Health and Care Bill received Royal Assent on 4 May 2022. There have been several amendments made to the Bill as it has passed through the parliamentary process, with several requirements that need to be met before the regulations can come into effect. This will mean delay to the regulations and guidance being finalised; hence some aspects of the reforms are yet unknown.
10. There are three main aspects to the SCR announced in September 2021 and due to be fully in place by October 2023:
    - **Changes to the means test and care cap**: clients with capital greater than £100k rather than £23k previously will be responsible

to fully fund their own care, with all clients having a lifetime financial limit for care costs of £86k, leading to more clients being entitled to Hampshire County Council financial support. Client spend on meeting their ‘eligible’ care needs will count towards the £86,000 care cap – the County Council will be required to monitor and report on individuals spend/progress towards the cap. (Not restricted to residential and nursing care, includes community-based care and even some preventative activities) The changes to the lower and upper capital threshold limits to £20,000 (from £14,000) / £100,000 (from £23,250) for clients will affect when the County Council starts to pay for care and how much it contributes. Government estimates that the proportion of older people in care receiving state support would increase from one half to two thirds.

- **Implementation of Section 18(3)**: allows self-funders to ask the Hampshire County Council to assess their needs and source their care: intended to give residents access to better/more consistent rates. All people with who believe they may have eligible care needs in Hampshire will be able to request an assessment for the purpose of metering their spend against the cap. Guidance states that the County Council should be ready to start conducting these assessments from April 2023. The implementation of Section 18 (3) of the Care Act for those in care homes means that self-funders can ask the County Council to commission care for them at our fee levels.
- **Introduction of a Fair Cost of Care** to support the aims of 18(3) above: to ensure more equitable rates across the County for all residents regardless of status a self-funder or council supported. The County Council is required to conduct and publish our fair cost of care exercise and submit proposals by 14 October to Department of Health and Social Care (DHSC) to support a sustainable market over the next 3 years. The scope for this is over 65s in residential and nursing care and over 18’s in domiciliary care.

11. Our draft estimate is that all three elements of SCR could result in an initial annual cost implication for the Hampshire County Council of c£130m, or a net £90m after estimated Government grant. The government grant estimate is based on an extrapolation of existing allocations however, the Government is aware that the greater impact is on Counties in the South East, so may skew funding to reflect that in which case the gap could be less than £90m.
12. Hampshire County Council has provided responses to all consultation and engagement questionnaires from DHSC and LGA that have been sent to our political leadership, Chief Executive and DASS.
13. As well as being part of ADASS, Hampshire County Council is part of the County Council Network and has shared views on the proposals through these national networks. At a local level, the Council has kept our MPs and

Local Councillors updated on earlier work underway to understand the impacts on the Council and Partner Services.

14. The support and engagement of our partners and providers will be key to our success in delivering the proposals. Supporting communication and engagements are being developed and will be shared shortly.

Finance

15. From early analysis it is forecast that the Reforms could result in an annual cost implication for the County Council of c£130m, or a net £90m after estimated share of Government grants, extrapolated from existing allocations. The full impact of this pressure is likely to be felt by 2026/27. The Reforms are set to have profound implications for upper tier authorities the length and breadth of the Country. South-East authorities are expected to be hit the hardest. Work is underway to refine these estimates as more detailed financial models are developed.

16. Adults' Health and Care have experienced significant unit price increases for care delivery in the past year, mainly in the Residential and Nursing sector, and these have been the major contributor to a forecast financial pressure this financial year of up to £35m that has been included within the latest MTFS.

17. The bulk of the forecast net £90m recurring (per annum) impact from all three elements of SCR for the County Council has not previously been in the MTFS and therefore is an additional pressure to the current estimated budget shortfall of £180m and £200m.

18. Based on current annual spend it is estimated that the FCC element alone will lead to additional spend in the range of £30m-£42m per annum of the £130m.

19. Government grant for FCC alone is likely to be up to £12m - a potential annual shortfall of £18m-£30m from the likely cost of implementing FCC.

20. This shortfall, estimated for Hampshire, is substantiated by Laing Buisson (market consultant experts) who have calculated additional FCC costs will be between 2.0 – 4.5x higher than the funding allocation.

21. In markets such as Hampshire, where providers are the primary influencer of price, the more clients that use section 18 (3), the greater the risk that the pressure highlighted of £42m could be exceeded over time by further price increases.

22. The very premise of the need for a FCC assumes that LA's have significant influence on how much they pay for care and that what is paid currently is insufficient or means that providers have to charge self-funders much higher rates for the same service. Hampshire County Council currently purchase only around 25% of countywide beds, which does not give us sufficient leverage on the overall rates charged by our providers, i.e. Hampshire County Council is likely to already pay a fair rate for care as determined by the prices directed by the providers. The implementation of a FCC will raise

the minimum price that care can be sourced, with many providers continuing to charge self-funders significantly above this level, as they do currently.

23. Work has been completed to estimate ranges where the FCC will land and assumed a price increase for every package that is currently below this level to the FCC. All packages above the FCC remain unaffected beyond what has already been assumed within the MTFS.

24. When considering the financial impact of Section 18(3) and FCC on care providers, assuming a take up rate of 50% by self-funders, Laing Buisson calculates providers would experience a significant loss of revenue. This shortfall is estimated to be most acute in the South-East of the Country, with estimates of aggregate revenue losses of up to 7% without provider action taken.

25. However, in markets such as Hampshire where providers are the primary influencer of price, they will not experience any such losses as it will simply lead to further compensatory price increases for the County Council and private clients. It follows that the greater the number of clients that use 18(3) the greater the risk that the pressure highlighted of £42m could be exceeded over time by further price increases.

Preparation work

26. The County Council is taking a proactive approach to progressing with the preparation activities using the implementation funding made available through the £3.2m grant received in 2022/23.

27. A Steering Group chaired by the Deputy Director of Adults' Health and Care, with senior leadership from across the department has been set-up to oversee the development and management of the programme.

28. The initial work underway is to develop a high-level understanding of the impact of the proposals for the Council, clients and communities. A high-level timeline aligned to the DHSC proposed implementation plan has been prepared, outlining key milestones through the phases of the programme.

29. Adults' Health and Care are engaged with the newly developed Care3 Toolkit which was commissioned by the DHSC and developed by CHIP the Care and Health Improvement Programme Team. The Care3 Toolkit has been developed to support Local Authorities to calculate the cost of care to meet expected DHSC requirements in relation to cost of care.

30. It should be noted that alongside the financial impact there will be significant resource implications on Adults' Health and Care, Shared Services and the IT department. Within Adults' Health and Care there will be requirement for significantly more finance staff, Financial Assessment and Benefit Officers, contact centre staff, debt management staff and Social Workers to carry out eligibility assessments. It should however be noted that we do not yet have the guidance as to whether social workers will be required to carry out the assessments

31. Preparation is therefore underway to develop new operating models including use of digital where possible to increase capacity within existing

teams. It is likely that the resources required to cope with the additional demand will not be available in the market and that national lobbying will be required.

32. Work is underway to mobilise internal resource from both Adults' Health and Care and Corporate Operations, including a Technology and Shared Services Workstream chaired by Director of Corporate Operations. It is possible that the technology required for the implementation cannot be implemented in the timeframes required and that national lobbying will be required.

33. Due to the extensive work required it is likely that external consultants will need to be engaged utilising the implementation funding to source the best expertise nationally regarding SCR.

34. The programme has commenced demand modelling to develop scenarios which will allow the County Council to prepare detailed planning for assessment needs and staffing requirement in addition to better model the likely combined financial impact of the new Means Test, Cap on Care and Section 18(3).

Next Steps for Fair Cost of Care

35. Local Authorities are required to complete and submit their FCC exercises by 14 October 2022, together with a draft Market Sustainability Plan.

36. 'Fair' means the median actual operating costs for providing care in the local area need to be calculated. It should be noted that inhouse care cannot be included in this calculation, but it is proposed that this is used to challenge returns.

37. Local Authorities are required to demonstrate how they have sought to involve all providers and taken reasonable steps to include a full, complete, robust and return.

38. Local Authorities are expected to work with providers and provider associations to design a process that is efficient and effective for the local area.

39. Three key principles for FCC exercises and the accompanying Market Sustainability Plan are Consistency, Transparency and Partnership.

40. If evidence is insufficient, DHSC may ask for more evidence and if unsatisfied they may withhold funding for future years.

41. Consideration will need to be given as to whether publication of the full data set is appropriate.

42. It is yet unclear when Local Authorities will be required to pay the FCC rates, this may be from publication date or implementation of the reforms in 2023, Adults' Health and Care is awaiting further guidance.

Climate Change Impact Assessment

43. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

44. Having reviewed the key changes to legislation outlined in the report against the decision-making tools, no key vulnerabilities have been identified with respect to climate change. In respect of the delivery of the Social Care Reforms, at this stage no direct impact on climate change have been identified. As the programme of work develops and further clarity is provided through the national guidance being developed by Department of Health and Social Care, the tools will continue to be used to inform any changes to the current assessment and reflected in future reports.

Equalities Impact Assessment

45. An initial Equality Impact Assessment has been completed and further assessments will be completed during the implementation of the Social Care Reforms. At this planning stage, the overall equality impact is judged to be neutral. It is worth noting however that the reforms are likely to have a positive impact on some older and disabled people, as more people will become eligible for some support with the cost of their social care, because of significant changes to the funding thresholds and the care cap. There has been a national consultation on aspects of the changes to legislation, however, at this early stage, no engagement with residents has yet been undertaken by Adults' Health and Care.

Conclusions

46. SCR and specifically FCC is going to have far-reaching implications for Hampshire County Council. Undoubtedly, there will be a significant shortfall in the level of funding required to meet and fair rate of care across our services. The County Council will be unable to bridge this funding gap from existing resources and will be reliant on further funds from Government.

47. As a result of this impact the County Council is asking Cabinet to debate the issue and agree a national lobbying approach.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:

Has significant financial consequences for the County Council

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	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. Equalities Impact Assessment:

An initial Equality Impact Assessment has been completed and further assessments will be completed during the implementation of the Social Care Reforms. At this planning stage, the overall equality impact is judged to be neutral. It is worth noting however that the reforms are likely to have a positive impact on some older and disabled people, as more people will become eligible for some support with the cost of their social care, because of significant changes to the funding thresholds and the care cap. There has been a national consultation on aspects of the changes to legislation, however, at this early stage, no engagement with residents has yet been undertaken by Adults’ Health and Care.

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HAMPSHIRE COUNTY COUNCIL

Report

Decision Maker	Cabinet
Date:	19 July 2022
Title:	*Serving Hampshire* – 2021/22 year-end performance report
Report From:	Director HR, OD, Communications and Engagement

Contact name: Stephanie Randall, Deputy Director HR, OD, Communications and Engagement

Tel: 0370 779 1776 **Email:** Stephanie.randall@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to:
   - provide strategic oversight of the County Council's performance during 2021/22 against the *Serving Hampshire* Strategic Plan for 2021-2025;
   - outline ongoing work and achievements to advance inclusion and diversity
   - report progress against the Council's Climate Change Strategy and Action Plan 2020-2025; and
   - provide an overview of Local Government and Social Care Ombudsman (LGSCO) Determinations in 2021/22, and assessment decisions contained in the LGSCO 2020-21 annual report letter.

Recommendation(s)

2. It is recommended that Cabinet:
   - notes the County Council's performance for 2021/22;
   - notes progress to advance inclusion and diversity;
   - note progress against the Council's Climate Change Strategy and Action Plan 2020-2025; and,
   - notes the determinations of the Local Government and Social Care Ombudsman (LGSCO) in 2021-22, and the assessment decisions contained in the LGSCO 2020-21 report letter.

Executive Summary

3. This report demonstrates that:

- During 2021/22, good progress has been made towards achieving the objectives of the 2021-25 Serving Hampshire Strategic Plan. Almost all corporate performance measures have shown improvement during the year, with nearly half meeting challenging targets set at the start of the year. This is despite the continuing impact of the COVID-19 pandemic, increasing inflationary pressures, and labour market challenges.
- The County Council has continued to advance inclusion and diversity within its workforce, with staff reporting that they felt more engaged and treated more fairly. Progress is expected to continue, with the newly published 2021-24 Inclusion Strategy and associated Inclusion Action Plans committing to further action over the next three years.
- The County Council has also continued to make progress towards its commitments for Hampshire to be carbon neutral by 2050, and to improve the County's resilience to manage a 2°C rise in temperature. This has been aided by investment in and support for projects to improve environmental sustainability, a fall in net carbon emissions from the Council's operations, and faster than anticipated behaviour change prompted by the COVID-19 pandemic.
- There is a statutory duty on the Monitoring Officer to report to Cabinet references to the LGSCO, where the LGSCO has made a determination of maladministration or injustice in respect of the exercise of Executive Functions. This report provides details of determinations received in 2021-22.

Contextual information

4. The Serving Hampshire Strategic Plan 2021-2025 and Corporate Performance Management Framework (PMF) were approved by Cabinet in July 2021. The PMF provides the governance structure for performance management and reporting to Cabinet, specifying that Cabinet receive bi-annual reports on the County Council's performance against the strategic priorities set out in the Serving Hampshire Strategic Plan.

5. The four strategic outcomes set out in the Serving Hampshire Strategic Plan are:
   - Hampshire maintains strong and resilient economic growth and prosperity;
   - People in Hampshire live safe, healthy and independent lives;
   - People in Hampshire enjoy a rich and diverse environment;
   - People in Hampshire enjoy being part of strong, inclusive, resilient communities.

6. To report progress against the Strategic Plan, departments are required to monitor service performance against a core set of measures which contribute toward achievement of these outcomes. Departments agree their performance targets for the year, and report progress against these each quarter. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information available.

7. The results of any recent external assessments are also submitted by departments. Full details are included in Appendix 1.

8. Summaries of the County Council's delivery of its Climate Change Strategy, and progress against the County Council's Inclusion, Diversity and Wellbeing work programme, also form part of the PMF. Progress on these themes are reported separately to Cabinet and EHCC, however for completeness a brief update is included within this end of year report.

9. The PMF also incorporates the reporting of progress made against the recommendations set out in the Hampshire 2050 Commission Report. However, no annual report was produced for 2021/22 owing to the COVID-19 pandemic, and its impact on the availability of data.

10. Performance information on children's and adults' safeguarding, major change programmes, including Savings Programme 2023 (SP23), and the County Council's financial strategy are reported separately to Cabinet, and are therefore not included within this report.

Performance against the Serving Hampshire Strategic Plan in 2021/22 – key achievements

11. The principal purpose of the PMF is to provide commentary on the County Council's performance in delivering against the Serving Hampshire Strategic Plan. The following paragraphs provide an update regarding performance highlights in 2021/22 aligned to its four key outcomes:

- **Outcome one: Hampshire maintains strong and resilient economic growth and prosperity**
  - The County Council has seen 352 apprenticeships start within the Organisation in 2021/22, of which 205 were in the Council and 145 in schools. This represents an increase of 88 on 2020/21 and a near-return to pre-pandemic levels, bringing the total number of apprentices on the programme to 751 at the end of March 2022. The 87% retention rate of apprentices within the organisation is higher than the national average (59%) and has remained around this level for around five years, demonstrating the long-term return on investment. The rate of apprentices achieving their accreditations (66%) is also higher than the national average (58%).
  - In addition, the County Council manages an Apprenticeship Levy scheme that allows Hampshire businesses and public sector organisations to apply for funds to support their own apprenticeship schemes. £915,000 was paid from this scheme in 2021/22, funding 453 new apprenticeship starts at a value of £2.9 million within these organisations through the year.
  - The lengthening of the Eclipse Rapid Transit busway in Gosport was completed and opened in December 2021.
  - As part of measures to support businesses recover from the COVID pandemic, reducing economic impacts and encouraging Hampshire's economic growth, the County Council agreed to maintain contract payments for community transport operators at 100% from 1 April 2022 to 31 March 2023. This will assist operators in the recovery and operation of their services, as they continue to experience lower passenger numbers (currently 35% lower than before the COVID-19 pandemic) as user confidence returns.
- **Outcome two: People in Hampshire live safe, healthy, and independent lives**
  - Hampshire Children's Services and safeguarding partners (Hampshire Constabulary and pan-Hampshire Clinical Commissioning Groups) received positive feedback on continued strong performance in safeguarding children was received through a pilot Joint Targeted Area Inspection (JTAI) of 'Front Door' services in November 2021. The report highlighted that front door services deliver the support that Hampshire families need at the right time, as a result of the leadership in Hampshire, the drive for continuous

improvement, the focus on early help, and strong multi-agency working.

- As at the end of February 2022, 93.3% of Hampshire schools were judged to be 'good' or 'outstanding' by Ofsted.
- Just over 98% of parents were offered a reception year place for their child in one of their three preferred choice schools from September 2021, and just over 93% were allocated a place at their first choice of school, consistent with the performance in previous years.
- The Household Support Fund, funded by DWP grant, was organised through the 'connect4communities' programme, and led by the County Council in collaboration with community partners. This provided direct support to vulnerable households across Hampshire with the costs of food and fuel, through food and utility vouchers, grants to schools and early years settings, exceptional housing cost support and the development of a network of community pantries across the county. A further £7.1m has been provided for the County Council to allocate between April-September 2022, and this will be done though a range of initiatives.
- Performance against the national indicator N14.1s (percentage of children's social care first assessment timeliness within 45 days) was consistently strong and above both national and southeast averages.
- The first 'Independence Hub' opened in Alton in December 2021, offering post-16 education tailored specifically for young people with special education needs and disabilities (SEND). Three more Independence Hubs are planned to open over the coming two years, with an expectation that additional sites will also be identified.
- The *Call to Care* campaign took place, showcasing the careers available in social in Hampshire, as part of a strategic approach to addressing recruitment challenges in the sector.
- The release of CIPFA Public Library Stats for 2020/21 showed Hampshire Libraries to have the highest number of both physical and digital book issues and the highest number of visits of any county authority. A further 3.4 million physical books were issued in Hampshire libraries in 2021/22 whilst the number of eBooks issued in the same year (1.8 million) was more than double the number issued before the COVID-19 pandemic (869,081) in 2019/20.

- **Outcome three: People in Hampshire enjoy a rich and diverse environment**
  - Hampshire's first recycling road materials site opened in Micheldever in June 2021, allowing the Council to reuse road materials dug up during road maintenance operations to reduce CO2 emissions by 67,500kg, and save £320,000 per year.

- A segregated walking and cycleway route between Brighton Hill Roundabout and Sullivan Road in Basingstoke was opened, following a public consultation on the scheme in early 2021 which indicated strong support for the development. The route will link directly into the other cycle routes that will be provided as part of the Brighton Hill Roundabout improvement scheme.
- A £150,000 grant scheme, funded from the Department for Travel's Active Travel Fund, is allowing businesses to develop cycle facilities to support cycling as a means of commuting to work.
- Visitor Figures and Membership totals at Sir Harold Hillier Gardens exceeded pre-COVID figures. As at the end of 2021/22, bookings for educational and General Events showed a positive trajectory and conferences were returning to Jermyn's House. A new shelter has been installed at the pond and new play equipment has been installed at the Education Garden.
- All Hampshire Country Parks were awarded a Green Flag in 2021. Additionally, Royal Victoria Country Park and Staunton Country Park were awarded the Green Heritage Award in October 2021.
- The Barn at River Hamble Country Park opened to the public in March 2022. This new eco-friendly visitor centre and café has been built using climate friendly materials (many harvested from the same park) and features a solar panelled roof linked to Tesla batteries.

- **Outcome four: People in Hampshire enjoy being part of strong, inclusive, resilient communities**
  - The County Council continued to support Government programmes to resettle Afghan refugees following the withdrawal of UK troops from Afghanistan, including intensive support for refugees who have been temporarily accommodated in 'bridging hotels' before finding longer-term accommodation. At the end of 2021/22 the Council was supporting 3 bridging hotels in the area and had successfully supported the resettlement of 31 Afghan refugee families into longer-term Hampshire accommodation through this work.
  - Work to assist Ukrainian refugees arriving in Hampshire under the Government's Homes for Ukraine scheme began in early Spring 2022. Initial work involved conducting safeguarding and wellbeing checks via home visits, distributing Government-funded financial support, and ensuring timely information was shared with guests and sponsors - including helping to inform guests on how they could access healthcare and educational services.
  - Following the Balancing the Budget consultation in June 2021, the County Council has undertaken a number of public consultations to give residents and stakeholders an opportunity to have their say on Savings Programme 2023 (SP23) targets and how the Council could

address its budget shortfall while continuing to deliver high quality services.

- Hampshire Hive' launched during Foster Care Fortnight in May 2021. This is a new support network for foster carers and the children they look after which aims to create an 'extended family' for fostering households.
- The Fostering Hampshire Children Winter Campaign was shortlisted for Best Public Awareness Cause Campaign 2022, alongside side major private sector companies, including the winner Vodafone. The campaign used an animated video, designed, and developed in-house by the County Council, to encourage Hampshire residents to provide a home to Hampshire children who are unable to live with their birth families.
- The County Council invested £515,000 to refurbish the Winchester Discovery Centre, with additional funding provided by Arts Council England and Hampshire Cultural Trust. The funding helped to improve library and gallery facilities, as well as updating the facilities at the site, as part of an agreement with Hampshire Cultural Trust to improve the financial sustainability of the building over the longer term. The refurbished site, named the 'Arc', formally re-opened in March 2022 with a visit from HRH The Prince of Wales.
- The *Bringing the library to you* campaign, developed by the County Council to promote the use of library services at home, successfully encouraged a sense of online community and connectedness and was awarded the CILIP Marketing Excellence Award in 2021.
- The Getting Going Again Fund of £950,000 was approved by the Council, to support Hampshire residents who have been classed as Clinically Extremely Vulnerable (CEV) or Clinically Vulnerable (CV) to re-engage with their local communities and focus on the post COVID-19 future, by helping people to safely start accessing their local communities again and return to more normal ways of life.

12. The full list of performance achievements against the Serving Hampshire priorities is included as Appendix 2.

Performance against the Serving Hampshire Strategic Plan in 2021/22 – corporate performance measures

13. At the end of 2021/22 of the 26 corporate performance measures, the majority (21, or 81%) were reported by departments as being at low

performance risk[1] and the remainder (5, or 19%) as being at medium performance risk. No measures were identified as high risk. Where measures were reported as medium performance risk, departments have confirmed that appropriate mitigating actions are being implemented by the relevant services. Progress against these actions is overseen by each of the department's internal performance governance arrangements.

14. The majority (21 of 25 measures with baseline data, or 84%) of all measures showed improved or maintained performance since the beginning of 2021/22.

15. 43% of all performance targets had been met by the end of 2021/22. The fact that over half of targets are still to be achieved is not considered to present a risk to the County Council at this stage, as most of these were stretch targets reflecting the County Council's services' commitment to deliver ongoing service improvement over the 4-year period covered by the Serving Hampshire strategic plan.

16. Three measures showed poorer performance than in 2020/21 and failed to meet their target. These include:

    - **Number of jobs created or safeguarded by businesses HCC has supported** – 229 jobs were reported in 2021/22, compared with 423 jobs created or safeguarded in 2020/21. It is estimated that Hampshire's overall economic output reduced by 10% during the pandemic, while there was strong recovery towards the end of 2021 this slowed during the early months of 2022. The shortfall of 771 jobs being created or safeguarded through support provided by the Council (against a target of 1,000 for 2021/2) is considered to be relatively low risk of future under achievement at present due to the buoyancy of the jobs market towards the end of in 2021/22. However, there is a risk of further economic contraction in the coming months. Economic trends are largely outside the control of the County Council, and the global economic headwinds affecting the overall UK position are currently indicating potential for further slowdown in 2022/3 and flat growth in 2023/4; as such efforts to create or safeguard jobs as well as securing further private investment into Hampshire will remain a priority for the Council.
    - **Level of development contribution secured (total)** – £40.3 million was secured in 2021/22, compared with a target of £46.2 million (a shortfall of £5.9m, or 12.8%). The target set was in line with the level of contributions achieved during 2020/21. This lower level reflects the continuing impact of the COVID-19 pandemic on local investment and development. The overall longer-term impact is considered to be minimal as developer contributions are inherently linked to the scale of development (which is outside of the Authority's control) and the

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[1] Low performance risk indicates that there is no negative impact on the quality, cost or confidence in the service, or its adherence to statutory requirements

requirement to support infrastructure or mitigate risk associated with development. However, the potential reform of developer funding through current legislation may pose a future challenge to the level of funding secured by the County Council.

- **Condition of the principal highways network which should be considered for maintenance** – 4% of highways were rated as requiring consideration for maintenance in 2020/21 (the latest available figure), compared with a target of 3% and baseline of 3% in 2019/20. This has been caused by a combination of factors, including COVID-19, which forced a change in highways maintenance schedules during the year, a reduction in the scope of the maintenance programme due to increasing costs, and prolonged periods of poor weather, all impacting on a deteriorating network. In practise this will continue to impact on the highway network with further pressure on the Highways Service created by factors including global supply issues and rising costs, as well as the ongoing impact of three weather events experienced during the final months of 2021/22 on subsequent maintenance programmes. With the current fragile condition of the network, it is unlikely this position will improve in the near future.

17. Additionally, a number of other measures did not meet their targets for 2021/22, whilst still demonstrating performance better than, or similar to, that of the previous year. The main drivers for this include:

- Impacts of the pandemic during 2021/22:
  - Some sites (such as libraries, cultural venues, and outdoor sites) closed or offered reduced services as required by lockdown restrictions. These sites are now operating normally, following the end of pandemic restrictions.
  - The National Child Measurement Programme (NCMP) in Hampshire could not undertake the number of measurements that it could in previous years.
- Behaviours of providers and residents impacting performance:
  - The uptake of school meals took time to return to pre-pandemic levels as staff vacancies and absence impacted performance and some schools continued to serve lunch in classrooms rather than in dining halls for a period following the relaxation of COVID restrictions.
  - Parents were more likely to opt out of participation in the NCMP survey study, which is believed to be due to concerns about the mental wellbeing of students following changes in their lifestyles during the lockdown.
  - In-person visits to libraries took time to recover.

18. Mitigation plans are already in place to support these programmes, and the picture will become clearer in the coming months as the economic recovery from the pandemic continues and the economic impacts on households and services from inflation and supply issues develop.

19. Performance Risks: No performance measures were rated as high risk during 2021/22. However, departmental returns highlighted several wider areas of risk for the County Council. These included:

   - labour force pressures which have impacted departments, including the HGV driver shortage, pressures on care home staffing, social workers, and staff in catering and hospitality roles. Work is underway to develop our attraction strategy and employee value proposition, to better understand patterns of external and internal turnover/retention, and to further develop our insight about the future skills and workforce needs of the organisation, all with the intention of gaining a competitive edge in the recruitment market. This includes seeking to improve attraction rates for those under the age of 25 through the development of appropriate interventions aimed at the post 16 market and reviewing and updating our Leadership and Management development framework in line with emerging needs. In addition to a greater focus from senior management on recruitment, staff had been reallocated to support where needed and appropriate, for example to support Afghan and Ukrainian resettlement programmes. Managers remain mindful of the strain on staff who have continued to work over the pandemic, as some front-line services have continued to experience significant levels of COVID-related sickness absence;
   - inflationary pressures which have affected the business, both in terms of increasing costs for materials and supplies as well as the impact of service users struggling to pay service charges; it is anticipated that there will be an increase in service users requesting financial reassessment of their circumstances as costs of living are expected to rise further over the coming year;
   - costs and availability of construction materials which impacted highways maintenance and development, and property construction services. Work programmes have been prioritised to allow essential work to be undertaken, although the expectation from the impacted services is that this pressure will continue for the foreseeable future; and
   - pressure on essential services, which remained high, with the volume and complexity of adult safeguarding work having increased as well as growing service user needs as a result of pressures on NHS services. To counter this, waiting lists have been reviewed frequently to maintain required standards and additional short-term capacity has been procured to support vulnerable service users.

Inclusion, Diversity and Wellbeing update

20. In May 2021 all County Council employees were invited to take part in an employee survey covering inclusion and wellbeing, following surveys in 2018 and 2019. 4,885 employees responded, and the results indicated that there has been an improvement in employee wellbeing. In particular, staff reported better engagement with managers and fairness in the application of policies and in recruitment, and reduced levels of harassment, discrimination, bullying and abuse.

21. Following the publication of the County Council's Zero Tolerance Statement in July 2021, the Dignity at Work policy and how to guide have been updated to include guidance for managers on how to manage situations with service users, the public, and other stakeholders.

22. The County Council has celebrated the diversity in its workforce, through events organised with the Council's staff networks. This included activities to support Black History Month (October 2021), Disability History Month (18 November - 20 December 2021), and LGBT+ History Month (February 2022), and events are planned to celebrate Pride Month in June 2022.

23. The County Council published its Inclusion Strategy for 2021-2024 in September 2021. The Strategy outlines how the Council will improve inclusion and diversity, and the benefits for staff, service users, and partner organisations. As part of this, over 2022 the County Council will focus on the following:

    - Making flexible working more accessible for colleagues from specific groups as identified in the staff survey
    - Raising awareness of and sharing information about the diversity and cultures of colleagues and their lived experiences (linked to the Let's Talk About…. series and Diversity Role models project)
    - Representation at all levels, through initiatives to increase the numbers and profiles of people from protected characteristics groups in senior roles
    - The Resolving Conflict scheme, to explore and evidence the value of a 'conflict resolution' approach, modelled on a restorative justice and alternative dispute resolution process
    - By addressing incidences and increasing satisfaction, such as incidents of bullying, harassment, abuse, discrimination and microaggressions, with the aim of increasing satisfaction with outcomes
    - Developing the use of data and insight through the Annual Workforce Report and People data strategy, supported by an updated Data Statement
    - Communications, branding and information, to improve the internal and external offer for inclusion, diversity and wellbeing communications and information

- Projects to embed health and wellbeing in the organisation over the longer-term
- A wellbeing session schedule of regular internal events and activities which support and enhance colleague wellbeing
- The manager support and toolkit which explores, identifies and provides relevant wellbeing resources to support managers around wellbeing

24. An Inclusion Action plan has been developed in respect of the inclusion priorities. In addition, Departments have developed their own Inclusion Action plans which will support delivery of the Strategy, following self-assessments of the inclusivity and accessibility of their services, including assessment against the Modern Slavery statement.

25. The Strategy will also be supported with updated policies, guidance and accreditation, including the following:
    - Guidance on 'Supporting employees with caring responsibilities'
    - HR and Finance policies and processes to support inclusion and diversity objectives – including areas of current good practice and areas for future improvement
    - Level 2 accreditation of the Disability Confident Scheme, supporting the recruitment, retention and development opportunities for disabled people

Climate Change update

26. Four Climate Change projects, launched by Cabinet on 14 July 2020, have progressed as described below.
    - Through the Greening Campaign 42 communities have been engaged to encourage behaviour change by residents, and Community Renewal Funding has been awarded to work with 20 communities.
    - The Community Energy Network supports and enables local communities to build their own capacity for renewable energy and energy efficiency, with funding awarded to support the development of five community projects to date in Hampshire.
    - The Environment Centre is a free advice phone line for residents on various issues such as energy efficiency and sustainability, available at www.environmentcentre.com. Work is underway, supported by the County Council, to develop the hub as a trusted and accurate information source on Hampshire's work to improve sustainability, ways to save energy, how to retrofit existing facilities to be more environmentally sustainable, how to make use of renewable energy sources, and information on local air quality. The site will support residents by signposting them to grants and

other funding sources available to install sustainable measures in their properties, with an emphasis on web-based tools such as webchat.

- Hampshire Solar Together is a group-purchasing scheme for homeowners wishing to install solar panels at their properties. There have been some delays to the scheme as a result of the pandemic, although supply chain issues have now been resolved and approximately 700 solar installations are planned to be completed by Autumn 2022.

27. The County Council presented its 2020/21 Climate Change Annual Report in October 2021, which reported on these aforementioned projects as well as:
    - work by the Carbon Trust to establish the baseline emissions for the County area, develop the 2 decision tools, establish the Strategic Framework and accompanying carbon estimates;
    - purchasing of Corporate "green" electricity through the "Renewable Energy Guarantee of Origin" certificate (REGO);
    - a pilot scheme for residential on-street electric vehicle charge-points;
    - a commission with the New Economics Foundation (NEF) to develop a framework and roadmap for Green Recovery on a whole County basis; and
    - funding the Future Energy Landscape work with University of Southampton.

28. Net carbon (CO_2) emissions from the Council's operations have fallen over recent years, to 51,170 tonnes in 2020/21 from 62,259 tonnes in 2019/20 and 67,889 in 2018/19. This was, in part, due to the Council's built estate using 13% less electricity operating at reduced capacity during the pandemic, as well as lower emissions from street lighting and an increase in the use of green energy tariffs since a renegotiation of supply contracts in October 2020.

29. During the COVID-19 pandemic some areas of climate change adaptation work have developed at a faster pace than previously anticipated. There was a reduction in car use, although this may not be sustained as commuters return to pre-pandemic behaviours. Increased home working, however, is believed to be sustained in the longer term.

30. The pandemic has also seen a more rapid uptake of digital enabled care and digital communication across Children's Services and Adults Heath and Care, such as the Artificial Intelligence driven welfare automated system, that has been providing communication and support for more than 83,000 people across Hampshire.

31. The County Council has declared 2022 the "Year of Climate Resilience". The County Council aims to increase awareness of the importance of resilience, promote its approach and the actions we are taking to build resilience, and to

develop showcase projects in partnership with key stakeholders. Communications and marketing campaigns aimed at a range of audiences will be launched in the summer of 2022.

Local Government and Social Care Ombudsman determinations 2021/22

32. There is a duty on the Monitoring Officer to report to the County Council / Executive on matters including maladministration or injustice under Section 5 and Section 5A of the Local Government and Housing Act 1989 (LGHA).

33. Where complainants have exhausted the County Council's complaints processes and remain dissatisfied, reference can be made to the Local Government and Social Care Ombudsman (LGSCO). Complaints to the Ombudsman can be made regarding the exercise of the County Council's administrative functions (maladministration), and/or its service provision (injustice in consequence of maladministration). Upon receipt of a complaint the Ombudsman makes a determination whether or not to investigate. Cases are only investigated where the Ombudsman has jurisdiction to do so, and where the Ombudsman considers it appropriate to investigate under the LGSCO Assessment Code. An annual report is published by the LGSCO in July each year with numbers of complaints against all local authorities and decisions made.

34. In 2020/21, being the latest year for which statistics from the LGSCO are available, the LGSCO conducted significantly fewer (around 62%) investigations in respect of complaints made to the LGSCO against Hampshire County Council than other comparator Councils. Of the 31 complaints against the County Council which *were* investigated by the LGSCO, 27 were upheld (around 12% more than comparator councils).

35. The overwhelming majority of complaints made to the LGSCO regarding the County Council are rejected without investigation by the LGSCO, and the County Council therefore only receives notification of those references to the LGSCO which the LGSCO determines they will investigate. It may be noted that all determinations received related to complaints regarding the provision of Adults and Childrens Services, in particular referring to pressures within Special Education Needs services which experienced a significant increase in the number of Education and Healthcare Plans (EHPs) in recent years (in 2014 there were in the region of 5,000 EHPs, compared with around 13,000 at the current time – an increase of over 160%). It should also be recognised that this is in the context of the significant pressure on these services caused by the Covid-19 pandemic.

36. In 2021/22 (April 2021 – March 2022), 23 determinations were received from the LGSCO. In 20 cases the LGSCO determined that there had been maladministration or injustice. In 2 cases the LGSCO determined that there

had been maladministration but no injustice. In 1 case the LGSCO determined that there had been no maladministration or injustice. More details of individual decisions are provided at Appendix 3. It should, however, be noted that this represents only a very limited number of references to the LGSCO.

Conclusions

37. This report and its supporting appendices demonstrate that the County Council performed well in the delivery of core public services during 2021/22 against its *Serving Hampshire* Strategic Plan, with over three quarters of its corporate performance measures showing improved or maintained performance, and no measures being rated as representing a high-performance risk to the County Council.

38. The County Council delivered this performance against a complex backdrop of ongoing and emerging challenges during the year, including the continuing impact of COVID-19, budget constraints, workforce and inflationary pressures, and other on-going externally driven challenges.

39. Where measures did not meet their targets, the causes for this are understood and, where necessary, further work and regular monitoring are ongoing to help deliver these targets in the future.

40. The sources of internal and external validation listed in Appendix 1 demonstrate that the Council's services continue to adhere to national standards and are tracked by service managers to maintain the quality expected of them.

41. The County Council also continues to deliver against its strong commitment to inclusion, diversity and wellbeing for its staff, and this progress is recognised by employees.

42. The first Climate Change Annual Progress Report (2020/21) documents significant progress being made via a range of actions designed to reduce carbon emissions and ensure that Hampshire is prepared for the impact of climate change.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	YES
People in Hampshire live safe, healthy and independent lives:	YES
People in Hampshire enjoy a rich and diverse environment:	YES
People in Hampshire enjoy being part of strong, inclusive communities:	YES

Other Significant Links

Links to previous Member decisions:	
Title	Date
Serving Hampshire Strategic Plan 2021-2025 and Corporate Performance Management Framework	13 July 2021
Serving Hampshire – 2021/22 Half Year Performance Report	8 February 2022

Direct links to specific legislation or Government Directives	
Title	Date

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	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. **Equalities Impact Assessment:**

The County Council has a programme of work in place to advance inclusion and diversity in line with its corporate Equality Objectives. This includes undertaking both internal and external assessment of its performance to identify areas of strength and for improvement. This report reviews past performance - the activities and services that are described were subject to appropriate equality impact assessment in accordance with this programme.

3. **Climate Change Impact Assessment**

Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

The Carbon Mitigation Tool and/or Climate Change Adaptation Tool was not applicable to this report as it relates to performance against the County Council's overarching Strategic Plan rather than any specific interventions. It is expected that these tools will be applied to any relevant projects which support the delivery of the Strategic Plan outcomes.

Appendix 1: Sources of internal and external validation

Assessment title	Area	External/internal	Latest judgement
Children's Services			
Inspection of Local Authority Children's Services	Full children's social care inspection	External – Ofsted	Hampshire was judged as *Outstanding* across all areas in June 2019.
Inspection of children's homes	Residential care homes inspection	External – Ofsted	Ofsted resumed graded inspections of residential and secure children's homes with effect from 1 April 2021. Nine out of 10 homes have been inspected during the current Ofsted inspection cycle. The only home not inspected remains temporarily closed. Five out of 10 homes are currently graded Outstanding or Good.
School Inspections	Inspections of schools	External – Ofsted	As at the end of February 2022, 93.3% of schools were judged to be Good or Outstanding by Ofsted.
Social care self-assessment	Self-evaluation is an integral element of inspection of the local authority children's services (ILACS) framework	Internal and external – shared with Ofsted prior to annual conversation with the Director of Children's Services	The 2021 Social Care Self-Assessment was sent to Ofsted ahead of the annual conversation which took place on 7 March 2022.

Assessment title	Area	External/internal	Latest judgement
Inspection of Hampshire youth offending services	YOT inspection	Her Majesty's Inspectorate of Probation	Overall *Good* 2018. The inspectorate considered the arrangements for organisational delivery, the quality of court disposals, and out-of-court disposals work when making its judgement www.justiceinspectorates.gov.uk/hmiprobation/inspections/hampshireyos/ This is a four-year inspection programme which will be extended because of COVID-19.
Restorative Justice Council's Restorative Services Quality Mark	Youth Offending Team	External – Restorative Justice Council	Restorative Services Quality Mark awarded in April 2016 and applies until March 2023
Adults' Health and Care			
Adult Social Care Services Inspection	Inspection of in house provided residential and nursing homes	External – Care Quality Commission	21 in-house care providers are rated *Good* (including the four Community Response Teams that deliver reablement to clients at home)
Gold Standards Framework	Residential and nursing homes	External - National Gold Standards Framework (GSF) Centre in End of Life Care	Four of the County Council's residential and nursing homes have maintained their Platinum accreditation with the Gold Standards Framework as at the end of 2021/22: • Emsworth House • Fleming House • Malmesbury Lawn • Westholme
Economy, Transport and Environment			

Assessment title	Area	External/internal	Latest judgement
Accreditation to ISO9001:2015 – Quality Management	Economy, Transport & Environment (ETE) Department – whole department	External – British Standards Institute (BSI)	Audited twice a year, with surveillance assessments continuing to happen remotely during COVID restrictions. Last assessment (November 21) resulted in accreditation being successfully maintained. The next assessment is due in May / June 2022.
Culture, Communities and Business Services			
Operational Authorisation (Replaces the Permission for Commercial Operations)	Drone Service (Asbestos)	External – The Civil Aviation Authority	Permission granted from 19th Aug 2021 until and including 19th Aug 2022.
UKAS Accreditation	Hampshire Scientific and Asbestos Management services following an annual assessment	External – UKAS (UK Accreditation Service)	UKAS provide accreditation that Hampshire's scientific testing and inspection activities are conducted to the standard set out in ISO 17020 and 17025 and comply with the Forensic Regulators Code of Practice. UKAS audit Hampshire Scientific Service annually for compliance and the last assessment was in May 2021 - accreditation was maintained
Adventure Activities Licensing Services (AALS) Inspection	Hampshire Outdoor Centres	External – Adventure Activities Licensing Authority	Calshot Activities Centre: Validation expires July 2023 Hampshire and Cass Foundation Mountain Centre: Validation expires July 2022

Assessment title	Area	External/internal	Latest judgement
Learning Outside the Classroom (LOtC)	Hampshire Outdoor Centres	External - Council for Learning Outside the Classroom (CLOtC)	Calshot Activities Centre: Validation expires September 2023 Tile Barn Outdoor Centre: Validation expires Aug 2022 Runway's End Outdoor Centre. Validation expires Feb 2023
Adventuremark	Hampshire Outdoor Centres	External - Adventure Activity Industry Advisory Committee (AAIAC)	Calshot Activities Centre: Validation expires September 2023 Tile Barn Outdoor Centre: Validation expires Aug 2022 Runway's End Outdoor Centre. Validation expires Feb 2023
National Indoor Climbing Award Scheme (NICAS)	Hampshire Outdoor Centres	External - ABC Training Trust	Calshot Activities Centre: Validation expires at the end of Sept 2022
Royal Yachting Association (RYA) Recognised Training Centre	Hampshire Outdoor Centres	External - Royal Yachting Association (RYA)	Calshot Activities Centre – Recognised Training Centre – validation expires March 2023
Royal Yachting Association (RYA) Sailability accreditation	Hampshire Outdoor Centres	External - Royal Yachting Association (RYA)	Calshot Activities Centre – Recognised Training Centre accredited to provide accessible shore-based facilities for sensory, physical or other disabilities – validation expires March 2023
British Canoeing Quality Mark (BC)	Hampshire Outdoor Centres	External - British Canoeing	Calshot Activities Centre – Quality mark – expires December 2022

Assessment title	Area	External/internal	Latest judgement
Green Flag Awards	Outdoor accreditation for a variety of areas	External - Keep Britain Tidy	Awards resumed post-COVID-19 and Green Flag awarded in 2021 to all the Country Parks. Royal Victoria Country Park and Staunton Country Park have also been awarded the Green Heritage Award October 2021.
Ease of Use Survey	Volunteer survey of the Rights of Way network	External	Audits a minimum of 5% of the network each year (2.5% twice a year, in May and November), based on a set methodology. The Ramblers were able to provide figures for both May and November 2021 the average pass rate was 65.5% pass against all criteria.
Sites of Special Scientific Interest (SSSIs)	Countryside sites in Hampshire, as part of UK wide assessment	External – Natural England	Natural England assesses the condition of SSSIs using Common Standards Monitoring (CSM)1. One of the largest grassland sites in southern England owned by HCC and Natural England has recently been reassessed as in Favourable Condition from unfavourable recovering.
Rural Payment Agency (RPA) Inspections	Countryside sites with Pillar 1 and Pillar 2 common agricultural agreements in place	External - Rural Payment Agency (RPA)	The Rural Payments Agency (RPA) inspects a percentage of agreements each year on behalf of Natural England. The inspections check agreement holders are meeting the schemes' terms and conditions

Assessment title	Area	External/internal	Latest judgement
Animal and Plant Health Agency (APHA) checks	Inspect animal health and welfare	External - Animal and Plant Health Agency	Spot checks of countryside sites for animal health and welfare and plant disease. Last check undertaken in August 2021, with one recommendation on administrative process timeliness noted and addressed.
Food Hygiene Ratings	Countryside Country Park cafes	Environmental Health Officer	Current 5-star ratings at: • Manor Farm (Feb 2020), • Staunton Farm (Oct 2019), • Titchfield Haven (May 2022), • Royal Victoria (Jan 2020), and • Lepe Country Parks (Jan 2022) Current 4-star rating at Queen Elizabeth Country Park (Nov 2021)
General Register Office (GRO) – Stock and Security Audit	Registration – provides assurance to the GRO Compliance and Performance Unit	External - General Register Office	Received positive high rating in 2016, Next assessment due November 2020 (4-year cycle for those with a high rating) This has been delayed by GRO due to impact of C-19 and date for next assurance review will be 10th Oct 2022
General Register Office (GRO) Annual Performance Report	Registration- provides assurance to the GRO on local performance against agreed KPIs and improvement plan	External - General Register Office	Last report – Aug 2021 (slight delay in submission due to Covid-19 impacts). Positive comments received regarding performance and development of service. Next report and submission is to be June 2022

Assessment title	Area	External/internal	Latest judgement
Annual allergen audits	HC3S	Internal	Allergen audits are now completed internally. During the academic year, Sept 2020 to Aug 2021, 69 were completed with an average score of 91.2%.
Annual kitchen audits	HC3S internal audit covering various aspects of catering operation i.e. health and safety, training, finance	Internal	Healthy Kitchen Assessments (HKA's) are undertaken throughout the year and records are held of all those completed per academic year (Sept to Aug). COVID-19 impacted access to schools for 20/21 and 100 HKAs were completed. The average score was 95.2% compliance against the standards set by HC3S
Food for Life Served Here	HC3S	External - Soil Association	Bronze re-accreditation achieved in January 2021 having been assessed against their criteria as providing freshly made, locally sourced food
Institute of Road Transport Engineers (IRTE) Workshop and Technician Accreditation	Hampshire Transport Management	External - Freight Transport Association (FTA)	HTM have an external accreditation and audit by the FTA every 3 years for the workshop and technicians to be IRTE accredited. All 5 workshops were audited and passed in 2021, with the next audit due by Easter 2024.
Compliance with the Port Marine Safety Code	River Hamble Harbour Authority	External - Maritime and Coastguard Agency	Certification of compliance with the Port Marine Safety Code. Compliance at 3 yearly intervals. Expires March 2024

Assessment title	Area	External/internal	Latest judgement
Compliance with Merchant Shipping (Oil Pollution Preparedness Response and Co-operation Convention Regulations 1998)	River Hamble Harbour Authority	External - Maritime and Coastguard Agency	Endorsement of Oil Spill Contingency Plan. Compliance with Merchant Shipping (Oil Pollution Preparedness Response and Co-operation Convention Regulations 1998). 5 yearly intervals. Expires August 2023
Compliance with the Merchant Shipping and Fishing Vessels' (Port Waste Reception Facilities) Regulations 2003	River Hamble Harbour Authority	External - Maritime and Coastguard Agency	Endorsement of Port Waste Management Plan. Compliance with the Merchant Shipping and Fishing Vessels' (Port Waste Reception Facilities) regulations 2003. 3 yearly intervals. Expires September 2023
Corporate Services			
Disability Confident Employer	Corporate	External – HM Government Disability Confident scheme	Awarded in October 2021. Accreditation valid until October 2024.
2019 National Inclusion Standard	Corporate	External – Inclusive Employers	Participated in the 2019 Standard Assessment and awarded *Bronze* (September 2019) – accreditation remains valid in 2021/22
Accreditation to ISO20000 Service Management and ISO27001 Information Security for IT services	IT services.	External - British Standards Institute (BSI)	Audited on compliance in September 2020, which was awarded with no areas of non-conformity. The accreditation remains valid until September 2023
Public Sector Internal Audit Standards	Audit services	External - Institute of Internal Auditors	Fully compliant – awarded September 2020 (valid 2020-2025)

Assessment title	Area	External/internal	Latest judgement
Shared Services infrastructure and business processes have been independently accredited to ISAE3402	Shared Services	External – audit undertaken by Ernst and Young	ISAE3402 was achieved in March 2021 based on the design and operating effectiveness of the control environment. This enables all partner organisations to get independent assurance comfort to an external accredited standard on the overall control environment.
Annual Payment Card Industry (PCI) Data Security Standard	Corporate	Internal audit	Self-assessment against an industry standard, but is subject to Independent Internal Security Assessor. Self-assessment successfully completed, and submitted in October 2021.
Lexcel Accreditation for Legal Services	Legal Services	External – Law Society	Awarded by the Law Society to practices that are committed to Legal Excellence. Last assessed in December 2021, with an updated assessment planned for December 2022.

Appendix 2: 2021/22 key performance achievements

***Serving Hampshire* priority**	**Achievement**
Outcome one: Hampshire maintains strong and resilient economic growth and prosperity	The County Council has seen 352 apprenticeships start within the Organisation in 2021/22, of which 205 were in the Council and 145 in schools. This represents an increase of 88 on 2020/21 and a near-return to pre-pandemic levels, bringing the total number of apprentices on the programme to 751 at the end of March 2022. The 87% retention rate of apprentices within the organisation is higher than the national average (59%) and has remained around this level for around five years, demonstrating the long-term return on investment. The rate of apprentices achieving their accreditations (66%) is also higher than the national average (58%). In addition, the County Council manages an Apprenticeship Levy scheme that allows Hampshire businesses and public sector organisations to apply for funds to support their own apprenticeship schemes. £915,000 was paid from this scheme in 2021/22, funding 453 new apprenticeship starts at a value of £2.9 million within these organisations through the year.
	£1 million of additional funding has been agreed by the Council to support the delivery of high-speed broadband to households in rural parts of the county. The funding will 'top-up' the Government's existing Gigabit Broadband Voucher Scheme, which helps people in hard-to-reach locations get a fast, reliable broadband service
	The lengthening of the Eclipse Rapid Transit busway in Gosport was completed and opened in December
	Following County Council approval, on-street parking charges are being introduced in Fareham and Lymington, generating an estimated £450,000 over the coming years
	The Council has agreed to maintain contract payments for community transport operators at 100% from 1 April 2022 to 31 March 2023. This will assist operators in the recovery and operation of their services, as they continue to experience lower passenger numbers (currently 35% lower than before the COVID-19 pandemic) as user confidence returns
	All Council-managed corporate office buildings have been reopened, supported by new workspace booking technology solutions and meeting room technology to support hybrid working

Serving Hampshire priority	Achievement
	Services have been returning to full capacity following the lockdowns and restrictions of the pandemic being lifted. Library, heritage, and outdoor services have reopened, face-to-face visits have resumed for Adult Social Care clients, and social distancing and visit frequency restrictions at HWRCs have been reduced. In addition, office-based staff have been returning to County Council sites as part of phased programme with hybrid working now in place in much of the organisation
Outcome two: People in Hampshire live safe, healthy and independent lives	Just over 98% of parents have been offered a reception year place for their child in one of their three preferred choice schools from September 2021, and just over 93% have been allocated a place at their first choice of school, consistent with the performance in previous years
	The Corporate Infrastructure Group delivered 1,870 school places, through new schools and extensions to existing schools, in 2021/22
	The first 'Independence Hub' opened in Alton in December 2021, offering post-16 education tailored specifically for young people with special education needs and disabilities (SEND). Three more Independence Hubs are planned to open over the coming two years, with an expectation that additional sites will also be identified
	20 additional school places for children with Special Educational Needs and Disabilities will be available from September 2023, following a £2.2 million investment by the Council to expand The Mark Way School in Andover, with work underway to develop two new classrooms and refurbish other areas of the school site
	The Household Support Fund, funded by DWP grant, was organised through the 'connect4communities' programme, and led by the County Council in collaboration with community partners. This provided direct support to vulnerable households across Hampshire with the costs of food and fuel, through food and utility vouchers, grants to schools and early years settings, exceptional housing cost support and the development of a network of community pantries across the county. A further £7.1m has been provided for the County Council to allocate between April-September 2022, and this will be done though a range of initiatives.

***Serving Hampshire* priority**	**Achievement**
	Hampshire's primary schools took part in the national 'Eat Them to Defeat Them' campaign in 2021, that encouraged children to eat more vegetables. The initiative included vegetable tasting sessions, 'cook-along' demonstrations, recipe suggestions and vegetable-inspired lesson plans
	Steady and Strong classes, coordinated by Hampshire County Council, have been relaunched following the COVID-19 pandemic. The 80 classes help older people regain their strength and balance, helping them to remain active and maintain their independence
	The Call to Care campaign launched, showcasing the careers available in social care in Hampshire, as part of a strategic approach to addressing recruitment challenges in the sector
	17,000 children registered for the 2021 Summer Reading Challenge, over 14,000 more than in 2020, when the service was delivered wholly online
Outcome three: People in Hampshire enjoy a rich and diverse environment	Hampshire's first recycling road materials site opened in Micheldever in June 2021, allowing the Council to reuse road materials dug up during road maintenance operations to reduce CO2 emissions by 67,500kg, and save £320,000 per year
	A segregated walking and cycleway route between Brighton Hill Roundabout and Sullivan Road in Basingstoke opened, following a public consultation on the scheme in early 2021 which indicated strong support for the development. The route will link directly into the other cycle routes that will be provided as part of the Brighton Hill Roundabout improvement scheme
	A £150,000 grant scheme, funded from the Department for Travel's Active Travel Fund, has allowed businesses to develop cycle facilities to support cycling as a means of commuting to work
	All five Country Parks in Hampshire were awarded Green Flag status for 2021, and the Sir Harold Hillier Gardens in Romsey won Gold for the eighth year running in the annual Britain in Bloom South and South-East region awards

Serving Hampshire priority	Achievement
	The County Council signed up to invest £10,000 in Sustainable Overton's Test Source Community Energy (TSCE) project, set up by Sustainable Overton - to deliver a community energy scheme in the village. The scheme includes a 330kWp Solar Photo Voltaic scheme at Southley Farm in 2022. In addition, the County Council has installed solar panels, double-glazed windows and improved heating control systems has been completed at more than 200 schools, with more schools planned to receive these upgrades
	Hampshire County Council is working with Southern Water and other agencies to develop a sustainable long-term improvement plan for Chichester and Langstone Harbours – with the aim of protecting the environment, supporting the local economy, and the local community
	As part of the Highway Tree Planning Programme 2,800 trees were planted in 2021/22, more than double the number planted the previous year (1,300), with an expectation that 3,000 will be planted in 2022/23
	Changes at Staunton Country Park in Havant have been completed, including improved visitor facilities and the restoration of the historic Georgian landscape
	The Countryside site at Castle Bottom (near Yateley Common) has recently been judged as returning to being in favourable condition as part of the Site of Special Scientific interest (SSSI) review
	Hilliers launched the new extension to Jermyn's House, 'The Garden Restaurant' in July 2021. In addition, Visitor Figures and Membership totals at Sir Harold Hillier Gardens have exceeded pre-COVID figures. Educational and General Events are booking well and conferences returning to Jermyn's House. A new shelter has been installed at the pond and new play equipment has been installed at the Education Garden
	The Barn at River Hamble Country Park opened to the public in March. This is the new eco-friendly visitor centre and café that has been built using climate friendly materials (many harvested from the same park) and features a solar panelled roof linked to Tesla batteries. River Hamble Country Park has also opened its Reflections and Connections Woodland, a quiet site for staff and visitors to the attraction

Serving Hampshire priority	Achievement
	3.4 million physical books were issued in Hampshire libraries in 2021/22 whilst the number of eBooks issued in the same year (1.8 million) was more than double the number issued before the COVID-19 pandemic (869,081) in 2019/20) 2020/21 CIPFA Public Library Stats show that Hampshire Libraries reported the highest number of both physical and digital book issues, highest number of visits of any county authority
	Hampshire's Library Service was shortlisted for two 'Libraries Connected' awards due to its approach to service delivery during the COVID-19 pandemic. The Home Library Service, during the first COVID-19 lockdown, supported customers who were living alone with phone calls to chat about a shared love of reading, and where needed, were put in contact with support services including Hampshire Coronavirus Support and Helpline. Gosport Discovery Centre was also nominated for its work to support the use of Makaton sign language In addition, the 'Bringing the library to you' campaign, developed by the County Council, was awarded the CILIP Marketing Excellence Award in 2021
Outcome four: People in Hampshire enjoy being part of strong, inclusive, resilient communities	The County Council undertook its Balancing the Budget consultation in Summer 2021, giving residents and stakeholders an opportunity to have their say on how the Council addresses its budget shortfall while continuing to deliver high quality services. Subsequently, additional consultations have taken place on specific ways for services to meet savings targets agreed by the County Council
	Hampshire families in poverty have been receiving extra help over the 2021/22 autumn and winter months from the 'Connect4communities' programme, led by Hampshire County Council and financed by the £7 million Household Support Fund, awarded by the Department for Work and Pensions
	The Council continued to support Government programmes to resettle Afghan refugees following the withdrawal of UK troops from Afghanistan, including intensive support for refugees who have been temporarily accommodated in 'bridging hotels' before finding longer-term accommodation. The Council currently supports 3 bridging hotels in the area, and has successfully supported the resettlement of 31 Afghan refugee families into longer-term Hampshire accommodation through this work

Serving Hampshire priority	Achievement
	In 2021/22 the County Council began work to assist Ukrainian refugees arriving in Hampshire under the Government's Homes for Ukraine scheme. Initial work involved conducting safeguarding and wellbeing checks via home visits, distributing Government-funded financial support, and ensuring timely information was shared with guests and sponsors, including helping to inform guests on how they could access healthcare and educational services. Numbers of guests accommodated in Hampshire is expected to be available in 2022/23.
	'Hampshire Hive' launched during Foster Care Fortnight in May 2021. This is a new support network for foster carers and the children they look after which aims to create an 'extended family' for fostering households
	The Fostering Hampshire Children Winter Campaign has been shortlisted for Best Public Awareness Cause Campaign, to be awarded in Summer 2022. The campaign used an animated video, designed and developed in-house by the County Council, to encourage Hampshire residents to provide a home to Hampshire children who are unable to live with their birth families, and can be watched online at bit.ly/FHW-2021.
	The County Council has approved a £515,000 investment to refurbish the Winchester Discovery Centre, which will improve library and gallery facilities, as well as updating the facilities at the site, as part of an agreement with Hampshire Cultural Trust to improve the financial sustainability of the building over the longer term
	The Getting Going Again Fund of £950,000 has been approved by the Council, to support Hampshire residents who have been classed as Clinically Extremely Vulnerable (CEV) or Clinically Vulnerable (CV) to re-engage with their local communities and focus on the post COVID-19 future, by helping people to start accessing their local communities again, and return to more normal ways of life, in a way that is safe
	Hampshire County Council has been re-accredited with the Gold Award in the MOD's Employer Recognition Scheme. The award reflects the County Council's support to the armed forces community, as demonstrated by the Armed Forces Covenant.

Serving Hampshire priority	Achievement
	The Hampshire Record Office in Winchester has become the new home of the Hampshire Genealogical Society, bringing the Society's volunteers and Record Office staff together to offer a one-stop-shop of support for people researching their family history
	HRH The Prince of Wales visited the Arc in Winchester in March to formally open the improved library, arts, performance and community facilities following refurbishment. His visit also celebrated the unveiling of the new statue to 'Licoricia of Winchester', at the site.
	A Community Researchers Programme has launched, which has recruited and trained members the public from a range of backgrounds to give the Council greater access to views of minority groups. The researchers have been involved in gathering the views of people from ethnic minority groups or nationalities on the impact of COVID-19 on their communities in Hampshire, and on services to support mental wellbeing and prevent suicide.

Appendix 3: Local Government Ombudsman Determinations 2021/22

Department	Complaint	Decision	Remedy	Remedy Completed
Adults' Health and Care	Failure to properly assess complainant's need for care or meet their needs and delay referring their homelessness application to other local authorities.	Upheld	Apology, remind staff they must carry out a care and support plan review before reducing someone's care package.	Yes
Adults' Health and Care	Failure to deal with request for contact with sibling (who was fostered from birth) properly and in a timely manner.	Upheld	Apology, financial remedy £250, appropriate member of staff to have oversight of process set out in plan, review of lessons learned and identify measures to avoid recurrence.	Yes
Adults' Health and Care	Delay in providing suitable care and communicating poorly with the family.	Upheld	Apology, explanation to Ombudsman on steps taken to tighten monitoring of DP arrangements.	Yes
Adults' Health and Care	Alleged failure to appropriately assess and safeguard complainant's daughter, putting daughter at risk of harm.	Not Upheld	None	N/A
Children's Services	Delay considering a complaint at stage two of the children's statutory complaints procedure.	Upheld	Financial remedy £200, completion of stage two complaint investigation.	Yes
Children's Services	Delay responding to complaint.	Upheld	Financial £350, completion of stage two complaint investigation.	Yes
Children's Services	Failure to make educational provision set out in child's Education, Health and Care Plan (EHCP) and failure to meet statutory deadlines for completion of an annual review.	Upheld	Financial remedy £600, reimbursement for 10 private OT sessions, apology, effective complaint handling and annual review training for staff.	Yes

Children's Services	Delay issuing a child's Education, Health and Care Plan, and provision of alternative education while child was out of school for medical reasons.	Upheld	Financial remedies £4,600	Yes
Children's Services	Delay in the way the Council dealt with complaint about children's services.	Upheld	Financial remedies £900, explanation of improvements made.	Yes
Children's Services	Delay in the consideration of a complaint at Stage 2 of the statutory procedure for children's services complaints.	Upheld	Financial remedy £200, commence stage two complaint investigation.	Yes
Children's Services	Complaint about the School Appeals process i.e. failure to record decision not to hold appeals by telephone or video conference.	Upheld	Reminder to staff importance of recording procedural decisions. Remedy provided to complainant before LGSCO decision.	Yes
Children's Services	Complaint about the School Appeals process i.e. failure to record decision not to hold appeals by telephone or video conference.	Upheld, but no injustice	Reminder to staff importance of recording procedural decisions.	Yes
Children's Services	Complaint about the School Appeals process i.e. failure to record decision not to hold appeals by telephone or video conference.	Upheld, but no injustice	Reminder to staff importance of recording procedural decisions, issue guidance on stage two appeals procedure.	Yes
Children's Services	Delay in consideration of complaint at stage two of the children's statutory complaints procedure.	Upheld	Financial remedy £300	Yes

Children's Services	Failure to issue an amended Education, Health and Care Plan (EHC Plan) for child and provide them with suitable education while it found a new placement.	Upheld	Financial remedies £11,800, reminder to staff of need to promptly decide whether there is duty to secure alternative provision.	Yes
Children's Services	Delay in completion of the review of her child's Education, Health and Care Plan within the statutory timescale.	Upheld	Financial remedy £250, apology, share learning from decision with SEN and reminder to allow sufficient time to complete phase transfer.	Yes
Children's Services	Delay in issuing child's Education, Health and Care (EHC) Plan.	Upheld	Apology, financial remedies £2,000, develop protocol with partner agencies to ensure professional advice within timescale, signpost parents to advocacy/SEN agencies to assist with appeal, issue amended EHCP, complete investigation into school actions.	Yes
Children's Services	Failure to properly monitor child's alternative education package while child was educated outside of school.	Upheld	Apology, financial remedies £400, staff training for monitoring progress of EHCPs and reminder to ensure alternative education continues to be suitable for child through school period.	Yes
Children's Services	Delay in completing annual reviews of their child's Education, Health and Care Plan.	Upheld	Apology, financial remedies £3,000, reimbursement of mileage, reminder to SEN case officers of right to appeal if reassessment refused.	Yes
Children's Services	Delay in responding to complaint about its management of the case relating to complainant and their child.	Upheld	Commence stage 2 complaint investigation, financial remedy £300.	Yes

Children's Services	Delay in completing the Education, Health and Care (EHC) Plan; and failure in regard to adequately monitoring child after being taken out of school by parent.	Upheld	Financial remedies £8,050, improvements to process for assessing the suitability of elective home education.	Yes
Children's Services	Delay in preparing child's Education, Health and Care Plan and, as a result, the child missed out on receiving a suitable education and support.	Upheld	Financial remedies £8,400	Yes
Children's Services	Failure in assessment and delay in progressing complaint.	Upheld	Apology, financial remedy £240, additional awareness and training given, resources available for stage two complaints increased.	Yes

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	19 July 2022
Title:	Economic Strategy
Report From:	Director of Economy, Transport and Environment

Contact name: Stuart Jarvis

Tel: **Email:** stuart.jarvis@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to outline the first draft of the Economic Strategy being developed with assistance from external consultants Metro-Dynamics. Whilst the strategy is being led by the Economic Development Service within ETE, there are wider corporate inputs (e.g. skills) and implications (e.g. significance of social care as an economic sector in Hampshire).
2. The economic strategy forms a further development of the Hampshire 2050 work, and a context and framework for devolution. The Economic Strategy development work therefore also draws heavily on the evidence base developed to support and inform the devolution ambitions set out in the County Deal, which in turn also drew in contributions from across the County Council and wider partners.

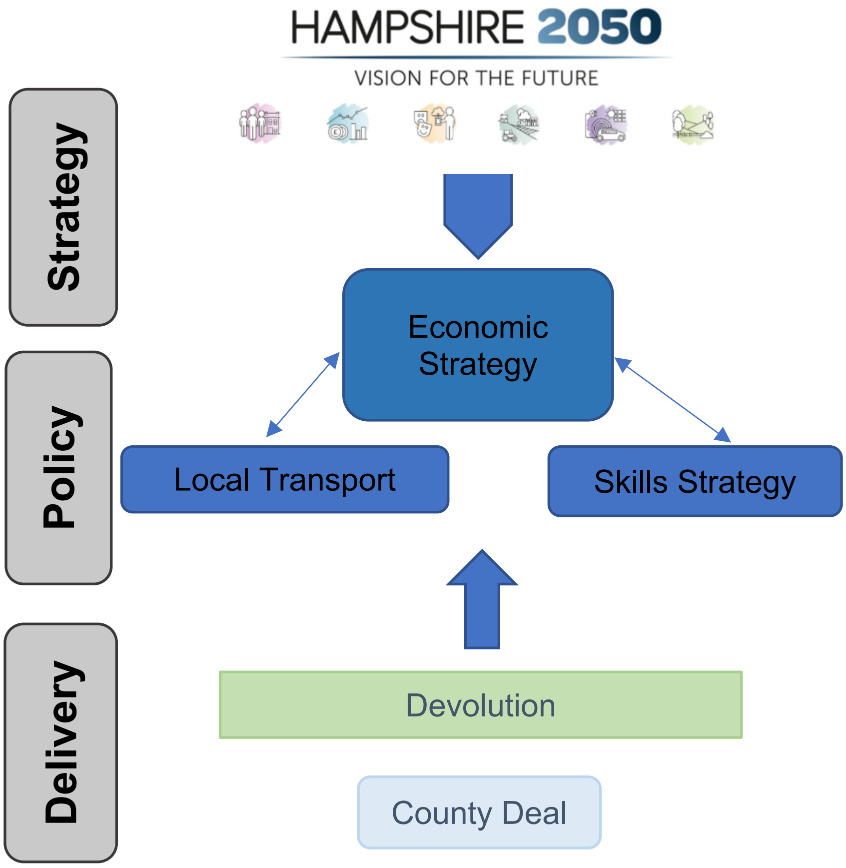
Recommendations

3. That Cabinet
   I. Approves the Draft Economic Strategy as interim policy and as a basis for stakeholder and partner engagement.
   II. Agrees that a programme of focussed stakeholder and partner engagement and consultation is enacted to help finalise the strategy and to secure policy alignment, shared objectives and agreed actions and final approval.
   III. That authority is delegated to the Leader to approve the Economic Strategy following any changes and updates arising from stakeholder and partner engagement.

Executive Summary

4. The economic strategy forms a further development of the Hampshire 2050 work, translating the broad economic aspects of this work and the recommendations of the Hampshire 2050 Commission into a policy framework and strategy. This aims to ensure that the economic objectives, contextualised within the wider Hampshire 2050 vision, are fully realised. The strategy also provides the context and framework for further more focussed economic and related strategies and policies to be developed and implemented as well as setting the framework for devolution, which would be the key mechanism to accelerate wider economic growth and benefit realisation.
5. The central mission of the strategy is to improve productivity to drive growth and improved standards of living. A six capitals approach has been developed in line with current Government thinking to ensure the strategy is not just about increasing GVA/GDP, but drives and shapes economic growth for the wider benefit of the people, businesses, institutions, and the environment of Hampshire. In particular the strategy seeks to support improved standards of living and sustainable growth rather than simply focusing only on an expansion of economic output.
6. The geographical scope of the strategy is the Hampshire County Council area, but it is imperative that the strategy also works across multiple scales and speaks to strategic initiatives, operating at different spatial levels. Key is to integrate actions and interventions where possible with the neighbouring areas particularly Southampton; Portsmouth; and the Isle of Wight. It is also important that the strategy frames the County Council's own contribution to the emerging design and development and future negotiation of a devolution arrangement, such as the current proposals for a County Deal.
7. The Strategy essentially seeks to support a place-based economic lens to enhance place leadership across the Hampshire area. It more specifically identifies the potential policy and operational levers including those that the County Council has direct control of, that can be integrated into service planning and used collaboratively between partners to embed within joint economic interventions.

Example Policy Hierarchy



Contextual information

8. The Economic Strategy has been devised in draft to cover the Hampshire County Council area, though recognises the important links elsewhere, particularly with Pan-Hampshire partners. The intention is that this Strategy becomes a joint framework document to engage with willing stakeholder partners in both the public and private sectors to achieve an alignment of delivery to secure beneficial outcomes for the residents, businesses and visitors to the County. It will inform the development of the strategic objectives for devolution, providing a framework for any new devolution deal for Hampshire as well as supporting and guiding activities and interventions in a business-as-usual context that is not dependent on devolution being in place.

9. The Strategy has been developed in the context of changing but uncertain governance and delivery structures, not least in relation of Local Economic Partnerships. The complexity and interconnectedness of the modern economy has become increasingly apparent over the last five years. A series of events, including the vote to leave the European Union, the Covid-19 pandemic, and the war in Ukraine have each revealed connections between commodity markets, population patterns, trade movements, and the prices

faced by consumers. Increasingly, environmental crises around the world are a reminder of how much economic damage natural disasters can cause. Designing an economic strategy for Hampshire needs to respond to this complexity.

10. A strategic approach that only looks at maximising GDP growth will fall far short, with a one-dimensional vision blinding to the connections and sources of value across the county. Instead, we are adopting a six capitals approach. This is a broad-based approach to recognising how many different sources of value there are – physical capital, natural capital, human capital, knowledge capital, social capital and institutional capital. The first step to our Strategy is understanding how to develop these capitals is to recognise our current standpoint.

11. There are both immediate and long-term drivers of change in Hampshire

    The immediate drivers are:

    - a labour market that is rapidly recovering from Covid, and is struggling to fill jobs, with particular demand in Hampshire for professional roles;
    - lagging commercial property markets, particularly for offices which are being less used;
    - high and growing inflation, raising costs for both consumers facing cost of living challenges and business struggling to maintain margins; and
    - a changing export pattern, which has at least in the short-term been negatively affected by the departure from the EU.

    The longer-term drivers are:

    - an ageing population, where the proportion of the population who work is falling and will continue to fall in the absence of in-migration from the UK or abroad;
    - the actual and projected growth of the IT and construction sectors; and
    - the changing climate, which may well lead to increased flooding and damage to natural and physical capital.

12. Hampshire is a closely interconnected economic geography as a County and with its neighbouring areas. Across Pan-Hampshire, boundaries for residents are porous, and in order to deliver economic growth at scale, and deliver better services, it is essential that Hampshire County Council works closely with its neighbours and partners.

13. Hampshire County Council's Strategy aims to grow all our capitals, using the levers at our disposal: our assets, our policies, our programmes and funding, and our partnerships. Global, national and local shifts in economic circumstances mean that the County and its partners – covering an area in Pan-Hampshire of 2.4m people – need a Strategy on how to use their levers to secure growth and prosperity for residents. We focus interventions in the Strategy around four County Council levers – assets, policies, programmes and funding, and partnerships.

14. The devolution agenda builds momentum, with all major political parties committed to a version of Levelling Up, leading over the next ten years to potentially a more decentralised state. Economic geography is also likely to reflect this decentralisation, with movement patterns less oriented around commuting to major cities and more localised work. The Government is likely to push on with innovation investment creating a supportive environment for tech entrepreneurs.
15. There are seven strategic objectives within the strategy, namely:

    Internationalisation - With a recent drop in exporting and trade activity across Great Britain, it is ever more important that we embed a strategic objective to ensure *Hampshire's strong sectors drive increasing exporting activity and the area contributes to raising our international competitiveness.*

    Environmental Policy- Although Government recognises in current policy that transition in energy, transport, and our built environment is necessary to cut emissions and meet our net zero targets by 2050, we are seeing slow momentum in response to climate need. As well as the clear environmental imperative to reach net zero targets, there is economic opportunity in Hampshire in developing the technology we need to accelerate transition*. The objective for Hampshire is for partners to work with businesses to move from inertial to proactive on achieving net zero*.

    Economic Geography - We haven't returned to pre-Covid levels of commuting, but, neither have we seen an end to those commuting patterns to employment centres. We have moved into a hybrid situation, where workers spend some time in workplaces and commuting within Hampshire and into London, and more time at home and in local town centres than before. We can assume that this scenario will persist for some time. In Hampshire, there are therefore opportunities to benefit from increased activity in our high streets and town centres. *As an objective, the aim is to maximise the pull of high streets and town centres through regeneration, revitalising shared spaces, supporting leisure and hospitality activity, and opportunities for business and work spaces.*

    Innovation Environment - Hampshire has a strong base of innovation in globally competitive sectors and firms. Government's Innovation Strategy recognises the need to boost innovation by increasing R&D spend, commercialisation, and business access to finance. By connecting knowledge assets – universities and firms – with local start-up and scale-up culture and the right finance and investment opportunities and talent, we can boost growth through innovation and develop new assets. *Hampshire's aim is to stay nationally competitive, and support growth across the UK.*

Social Mobility - There are persisting pockets of deprivation in Hampshire, where earnings, educational attainment and skill levels are lower, and young people don't grow up with the same life chances as in more affluent communities. Covid has exacerbated inequalities, with slower recovery in employment levels. *Hampshire should offer a range of opportunities for young people to learn and pursue a fulfilling career, with the right placemaking initiatives, affordable housing, and access to skills provision and employment support for every community.*

UK economic performance - Despite a strong economy, productivity growth has slowed here since 2008. A focus on growth can reverse that trend and increase Hampshire's contribution to the Exchequer. *Returning productivity growth to pre-2008 trends would unlock economic growth – increasing output, a strong business rates base, and net contribution to the Exchequer.*

Location of political power - Across Hampshire, partners work collaboratively. The Government's Levelling Up White Paper however sets an ambition for every place in England that wants one to have a devolution deal, and working with Unitary Authority partners to negotiate a Devolution Deal with Government would devolve down powers and funding, to strategically invest in communities, and take decisions closer to residents. *A Devolution Deal would move Government functions and decisions down to Hampshire, and as part of this, partnership working with District Councils and communities on regeneration, can benefit every part of the County*

16. The Strategy framework incorporates physical, natural, human, knowledge, social, and institutional capital. There are key aspects and issues that the strategy considers, namely:

    16.1 Hampshire has strengths in physical capital– it is a generally well-connected county, particularly by the road network and has good central rail connections into London, however does have congestion issues.

    16.2 Hampshire has a large supply of quality office space - however, there has been recent decline, so understanding where and how the right space should be delivered for future growth will be important.

    16.3 A critical issues is securing an accelerated supply of new homes that are affordable for the growing population and improving digital connectivity – speeds across much of Hampshire, particularly in more rural areas, will hinder growth opportunities.

16.4 Hampshire has relatively high levels of natural capital, with an abundance of protected areas including two national parks, high woodland coverage, relatively high biodiversity scores and significant areas for carbon sequestration. However, almost half of Hampshire's most notable species are in decline, flood risk is a major concern, and many of the watercourses are of poor quality, with inadequate future water supply in some areas. Hampshire County Council can begin by focusing on decarbonising its own estate and using County Farms to support biodiversity. The future Local Nature Recovery Strategy is a big opportunity to invest in nature and should be developed alongside financing mechanisms such as offsetting around developments. Close partnerships with national parks, farmers, and universities will also be necessary.

16.5 Hampshire also has a good supply of human capital. Its training and education system is strong, schooling outcomes are good, and the population is in relatively good health – though this varies a lot across the area. Employment and wage levels are also relatively high, with fewer people off long-term sick. However, an ageing population threatens the long-term supply of human capital, and both young people and EU migrants have been less attracted to the county in recent years. And good schooling is not necessarily reflected in longer-term outcomes with lower skills levels in the adult population and state school pupils slightly less likely to go to higher education. We will support affordable housing developments across our estate to attract the young and integrate health and care assets to prevent people falling out of the labour market. A skills and training programme, delivered in partnership with providers can fill some of the gaps where there is high jobs demand.

16.6 The picture for knowledge capital is more mixed. Hampshire has only one university in the County Council area, though there are three more just over the border in Southampton and Portsmouth. There is a large number of digital technology businesses, though spend on innovation lags other areas in the South East – most notably Berkshire, Buckinghamshire, and Oxfordshire. There are major prime businesses – such as in the defence sector – which carry out a lot of research, but less of the collaborative research that defines successful innovation ecosystems. There is provision of innovation and co-working space – though there is a need to develop this further in rural communities. The freeport is also an opportunity to attract innovative business, and we will explore a new start up investment fund to invest in promising local businesses.

16.7 Social capital in Hampshire is also generally better than the national average, with indicators such as voting behaviour and crime suggesting a sense of civic pride and attachment to society. The visitor economy also supports successful cultural and heritage assets in parts of Hampshire. However, many town centres, where much social capital is developed, are struggling. Retail vacancies have increased following the pandemic, creating a sense of decline, and damaging civic pride. HCC will use its town centre assets as part of a meanwhile use programme, and can encourage mixed use schemes that enable towns to move away from a dependency on shopping, to delivering experiences which can grow social capital. A cultural strategy that intentionally looks to nurture cultural assets will also support social capital.

16.8 Hampshire's institutional capital is particularly strong when it comes to the presence of major anchor businesses, the military (where all three branches have major bases) and major port infrastructure. The importance of a new Devolution Deal, which will give greater institutional heft to local governance and unlock new powers and funding cannot be overstated.

17. In each section of the Strategy that considers one of the six capitals a series of possible areas for intervention is set out looking at how the Council can make better use of its assets to deliver change as well as policies levers which either can or should be used to achieve the strategic objectives. The Strategy identifies programmes and funding which will play an important role in relation to each capital and the partnerships most important to delivering them. The interventions are as follows:

17.1 Physical capital

- A programme to tackle derelict sites, starting with the County Council's own estate;
- A proactive transport policy aimed at increasing travel choice and reducing dependency on private cars;
- A coordinated housing retrofit programme;
- Regeneration partnerships with districts and neighbouring unitary authorities; and
- A focus on attracting high-quality office space.

17.2 Natural capital

- A decarbonisation programme including Hampshire County Council's estate;
- Use of county farms and other agricultural assets to support biodiversity;
- Use of Local Nature Recovery Strategy to fight back against biodiversity loss;
- Developing financial mechanisms to recognise the value of biodiversity;
- Continued close working with the National Parks and AONBs;

- A partnership to deliver skills for sustainable farming; and
- A marine protection partnership with local universities.

17.3 Human capital

- Increase the number of affordable housing developments across Hampshire;
- Use HCC assets to integrate services and deliver support where people need them;
- Pilot reforms to strengthen the adult social care workforce;
- Create a Skills Assembly with employers, providers and representatives;
- Review current careers advice and support in schools and colleges;
- Implement a skills and training programme to develop technical skills;
- Undertake a scoping exercise to help identify business skills needs;
- Partner with skills providers to focus on training for older workers; and
- Partner with businesses to focus on good health in the workplace.

17.4 Knowledge capital

- Establish more centres of excellence across Hampshire;
- Scope out the need for more flexible working space and business incubators;
- Continue to drive Business Hampshire's Innovation Ecosystem approach;
- Build on the freeport opportunity to bring in innovative businesses;
- Explore the creation of a new start up investment fund; and
- Partnerships or knowledge network for businesses and universities.

17.5 Social capital

- An asset review to identify meanwhile use projects to rejuvenate town centres;
- Increase the number of affordable housing developments;
- Encourage more mixed-use developments as part of a new town centre model;
- Work with district councils to develop an overarching cultural strategy;
- Use HCC assets to enhance local community and cultural offer;
- Work with district councils to enhance local leisure and cultural assets; and
- Facilitate local town centre/neighbourhood partnerships to inform, consult and promote regeneration plan – encouraging buy in from key stakeholders.

17.6 Institutional capital

- A single devolved investment fund for all existing and future growth funding ;

- Continued investment in local institutions; and
- Deeper collaboration with other authorities, strengthened by a Devolution Deal.

Consultation and Equalities

18. Following completion of an Equalities Impact Assessment, it is considered that the proposal will have a neutral impact on groups with protected characteristics. However, as the Strategy is developed further and subsequently implemented, it will address inequalities in Hampshire, not least through measures aimed at alleviating and tackling poverty and deprivation, which is linked to a number of protected characteristics.

Climate Change Impact Assessments

19. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

20. The tools employed by the County Council to assess impacts on climate change adaptation and mitigation were utilised and found not to be applicable on grounds that the decision relates to a strategic programme rather than specific interventions. The tools will be applied to specific more detailed proposals in the future to assess any impacts and ensure they are reported.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:	
Title	Date

Direct links to specific legislation or Government Directives	
Title	Date

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	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

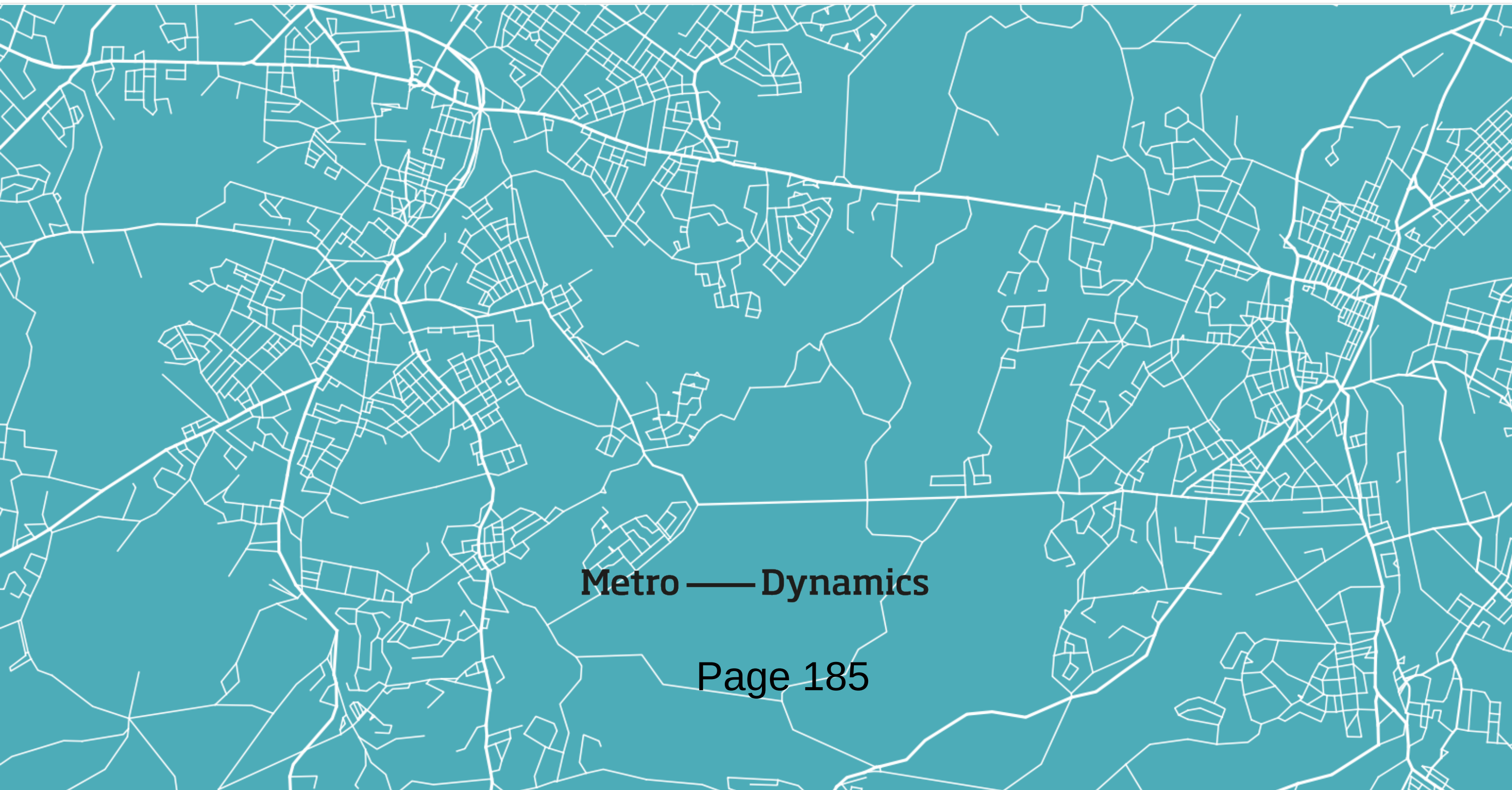
- The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- Encourage persons sharing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

2. Equalities Impact Assessment:

2.1 Following completion of an Equalities Impact Assessment, it is considered that the proposal will have a neutral impact on groups with protected characteristics. However, as the Strategy is developed further and subsequently implemented, it will address inequalities in Hampshire, not least through measures aimed at alleviating and tackling poverty and deprivation, which is linked to a number of protected characteristics.

Hampshire Economic Strategy

June 2022



Metro —— Dynamics

Contents

Foreword

[Placeholder for foreword from the Leader]

Executive summary

This Strategy

This strategy sets out an overarching approach to economic development for Hampshire at a time of growing uncertainty, in which the County with its partners will need to assume greater responsibility for economic leadership. It draws from detailed analysis of the major drivers of change in the local economy, and scenario testing for the coming years, and proposes a range of interventions that deploy levers that are either currently available to the County Council or which could be soon as a result of further devolution. The strategy goes beyond traditional and limited approaches that only focus on GVA and jobs, to a broader set of sustainable development outcomes linked to a six capital model. It provides a framework for a range of important initiatives including a County Deal for Pan-Hampshire.

This Strategy covers the Hampshire County Council area, though recognises the important links elsewhere, particularly with Pan-Hampshire partners. It has been written as the process of developing a County Deal has been underway and informs the development of the strategic objectives for that important process, providing a guide for the objectives for any new devolution deal.

This work follows and complements strategic initiatives including the Hampshire 2050 Commission's work to guide future prosperity. Implementation of this Strategy will be done in collaboration with other important strategies in development including the outcome of Hampshire's Asset Review and a new Culture Strategy.

The Strategy has been developed in the context of changing but uncertain governance and delivery structures, not least in relation to Local Economic Partnerships (LEPs). But it builds on local economic development projects, analysis and strategy of recent years including development of Local Industrial Strategies led by Enterprise M3 and Solent LEPs.

A framework for Hampshire's development

The complexity and interconnectedness of the modern economy has become increasingly apparent over the last five years. A series of events, including the vote to leave the European Union, the Covid-19 pandemic, and the Russian war on Ukraine have each revealed connections between commodity markets, population patterns, trade movements, and the prices faced by consumers. And increasingly, environmental crises around the world are a reminder of how much economic damage natural disasters can cause.

Designing an economic strategy for Hampshire needs to respond to this complexity. A strategic approach that only looks at maximising GDP growth will fall far short, with a one dimensional vision blinding to the connections and sources of value across the county. Instead, we are adopting a six capitals approach. This is a broad-based approach to recognising how many different sources of value there are – physical capital, natural capital, human capital, knowledge capital, social capital and institutional capital.

Economic context

The first step to our Strategy is understanding how to develop these capitals is to recognise our current standpoint. There are both immediate and long-term drivers of change in Hampshire.

- The **immediate drivers** are: a labour market that is rapidly recovering from Covid, and is struggling to fill jobs, with particular demand in Hampshire for professional roles; lagging commercial property markets, particularly for offices which are being less used; high and growing inflation, raising costs for both consumers facing cost of living challenges and business struggling to maintain margins; and a changing export pattern, which has at least in the short-term been negatively affected by the departure from the EU.
- The **longer-term drivers** are: an ageing population, where the proportion of the population who work is falling and will continue to fall in the absence of in-migration from the UK or abroad; the actual and projected growth of the IT and construction sectors; and the changing climate, which may well lead to increased flooding and damage to natural and physical capital.

Hampshire is a closely interconnected economic geography as a County and with is neighbouring areas. Across Pan-Hampshire, boundaries for residents are porous, and in order to deliver economic growth at scale, and deliver better services, it is essential that Hampshire County Council works closely with its neighbours and partners. This Strategy sets out a framework within which Hampshire County Council can collaborate with neighbours and supports the development of a County Deal for Pan-Hampshire.

A scenario-based Strategy

We use a scenario framework in this Strategy to develop more thorough thinking about the future. Considering a range of alternative futures, an approach was settled on called '**challenging terrain**'. This anticipates a world in which many nations turn inwards, with the UK taking a less proactive role in world affairs and tackling climate change, driven by cost of living challenges putting a focus on the domestic agenda, and colder diplomatic relationships with neighbours. It is further anticipated that national productivity is unlikely to get out of its productivity malaise, and social mobility – already low by international standards – will worsen.

However, more positively, the devolution agenda builds momentum, with all major political parties committed to a version of Levelling Up, leading over the next ten years to a more decentralised state. Economic geography is also likely to reflect this decentralisation, with movement patterns less oriented around commuting to major cities and more localised work. Finally, the Government is likely to push on with innovation investment creating a supportive environment for tech entrepreneurs.

Agency and levers

There is a direction of travel towards greater economic decision making at a local level, with devolution and the integration of LEPs, and Pan-Hampshire's own plans for the creation of an Investment Fund as part of a County Deal.

Our Strategy aims to grow all of our capitals, using the levers at our disposal: our assets, our policies, our programmes and funding, and our partnerships. Through developing a County Deal proposition, Pan-Hampshire partners are forming proposals that would devolve further levers from Government to local institutions. The interventions proposed in this Strategy are centred on what Hampshire County Council can deliver now, but build foundations for increased local agency in the coming years through devolution.

Global, national and local shifts in economic circumstances mean that the County and its partners – covering an area in Pan-Hampshire of 2.4m people – need a Strategy on how to use their levers to secure growth and prosperity for residents. We focus interventions in the Strategy around four County Council levers – assets, policies, programmes and funding, and partnerships.

Strategic objectives

The Strategy sets out a series of objectives relating to these different features of the Challenging Terrain scenario. These are as follows:

International policy

In our central scenario, current Government policy and economic arrangements mean that international policy will remain more closed with barriers to trade with partners. With a recent drop in exporting and trade activity across Great Britain, it is ever more important that Hampshire's strong sectors drive **increasing exporting activity and raising the UK's international competitiveness.**

Environmental policy

Although Government recognises in current policy that transition in energy, transport, and our built environment is necessary to cut emissions and meet our net zero targets by 2050, we are seeing slow momentum in response to climate need. As well as the clear environmental imperative to reach net zero targets, there is economic opportunity in Hampshire in developing the technology we need to accelerate transition. **The objective for Hampshire is for partners to work with businesses to lead proactive action to achieve net zero.**

Economic geography

We haven't returned to pre-Covid levels of commuting, but, neither have we seen an end to those commuting patterns to employment centres. We have moved into a hybrid situation, where workers spend some time in workplaces and commuting within Hampshire and into London, and more time at home and in local town centres than before. We can assume that this scenario will persist for some time. In Hampshire, there are therefore opportunities to benefit from increased activity in our high streets and town centres. **As an objective, the aim is to maximise the pull of high streets and town centres through regeneration, revitalising shared spaces, supporting leisure and hospitality activity, and opportunities for business and work spaces.**

Innovation environment

Hampshire has a strong base of innovation in globally competitive sectors and firms. Government's Innovation Strategy recognises the need to boost innovation by increasing R&D spend, commercialisation, and business access to finance. By connecting knowledge assets – universities and firms – with local startup and scaleup culture and the right finance and investment opportunities and talent, **we can boost growth through innovation and develop new assets. Hampshire's aim is to stay nationally competitive, and support growth across the UK.**

Social mobility

There are persisting pockets of deprivation in Hampshire, where earnings, educational attainment and skill levels are lower, and young people don't grow up with the same life chances as in more affluent communities. Covid has exacerbated inequalities, with slower recovery in employment levels. **Hampshire should offer a range of opportunities for young people to learn and pursue a fulfilling career, with the right placemaking initiatives, affordable housing, and access to skills provision and employment support for every community.**

UK economic performance

Despite a strong economy, productivity growth has slowed here since 2008. A focus on growth can reverse that trend and increase Hampshire's contribution to the Exchequer. **Returning productivity growth to pre-2008 trends would unlock economic growth – increasing output, a strong business rates base, and net contribution to the Exchequer.**

Location of political power

Across Hampshire, partners work collaboratively. The Government's Levelling Up White Paper however sets an ambition for every place in England that wants one to have a devolution deal, and working with Unitary Authority partners to negotiate a County Deal with Government would devolve down powers and funding, to strategically invest in communities, and take decisions closer to residents. **A County Deal would move Government functions and decisions down to Hampshire, and as part of this, partnership working with District Councils and communities on regeneration, can benefit every part of the County.**

Six capitals

We have applied a six capital framework to this Strategy, inspired by the model proposed by Benjamin Mitra-Kahn and Diane Coyle (Bennett Institute, Cambridge), and which has strong links to the six capital approach set out in White Paper on Levelling Up.. This model proposes a wider set of indicators than GDP for measuring wealth. Our framework incorporates physical, natural, human, knowledge, social, and institutional capital.

Hampshire has strengths in **physical capital** – it is a generally well connected county, particularly by the road network and good central rail connections into London, however there are some congestion issues. Hampshire has a large supply of quality office space, but, there has been recent decline, so understanding where and how the right space should be delivered for the future will be important. Key issues are securing an accelerated supply of new homes that are affordable for the growing population, and improving digital connectivity – low speeds across much of Hampshire, particularly in more rural areas, hinder growth opportunities.

Hampshire has relatively high levels of **natural capital**, with an abundance of protected areas including two national parks, high woodland coverage, relatively high biodiversity scores and significant areas for carbon sequestration. However, almost half of Hampshire's most notable species are in decline, flood risk is a major concern, and many of the watercourses are of poor quality, with inadequate future water supply in some areas. Hampshire County Council (HCC) can begin by focusing on decarbonising its own estate, and using County Farms to support biodiversity. The future Local Nature Recovery Strategy is a big opportunity to invest in nature, and should be developed alongside financing mechanisms such as offsetting around developments. Close partnerships with national parks, farmers, and universities will also be necessary.

Hampshire also has a good supply of **human capital**. Its training and education system is strong, schooling outcomes are good, and the population is in relatively good health – though this varies a lot across the area. Employment and wage levels are also relatively high, with fewer people off long-term sick. However, an ageing population threatens the long-term supply of human capital, and both young people and EU migrants have been less attracted to the county in recent years. And good schooling is not necessarily reflected in longer-term outcomes with lower skills levels in the adult population and state school pupils slightly less likely to go to higher education. We will support affordable housing developments across our estate to attract the young and integrate health and care assets to prevent people falling out of the labour market. A skills and training programme, delivered in partnership with providers can fill some of the gaps where there is high jobs demand.

The picture for **knowledge capital** is more mixed. Hampshire has only one university in the County Council area, though there are three more just over the border in Southampton and Portsmouth. There is a large number of digital technology businesses, though spend on innovation lags other areas in the South East – most notably Berkshire, Buckinghamshire, and Oxfordshire. There are major prime businesses – such as in the defence sector – who carry out a lot of research, but less of the collaborative research that defines successful innovation ecosystems. There is provision of innovation and co-working space – though there is a need to develop this further in rural communities. The freeport is also an opportunity to attract innovative business, and we will explore a new start up investment fund to invest in promising local businesses.

Social capital in Hampshire is also generally better than the national average, with indicators such as voting behaviour and crime suggesting a sense of civic pride and attachment to society. The visitor economy also supports successful cultural and heritage assets in parts of Hampshire. However, many town centres, where much social capital is developed, are struggling. Retail vacancies have increased following the pandemic, creating a sense of decline, and damaging civic pride. HCC will use its town centre assets as part of a meanwhile use programme, and can encourage mixed use schemes that enable towns to move away from a dependency on shopping, to delivering experiences which can grow social capital. The Culture Strategy in development that intentionally looks to nurture cultural assets will also support social capital.

Finally, Hampshire's **institutional capital** is particularly strong when it comes to the presence of major anchor businesses, the military (where all three branches have major bases) and major port infrastructure. However, governance in Hampshire is complex with a two-tier system, which at time can hinder progress. The importance of a new County Deal, which will give greater institutional heft to local governance and unlock new powers and funding, cannot be overstated.

Interventions

In each section of the Strategy that considers one of the six capitals a series of possible areas for intervention is set out looking at: how the Council can make better use of its assets to deliver change as well as policies levers which either can or should be used to achieve the strategic objectives. The Strategy identifies programmes and funding which will play an important role in relation to each capital and the partnerships important to delivering them.

The interventions proposed here are indicative and high level. They will be tested and developed further through consultation with partners and the development of a detailed action plan that prioritises, sequences and resources a set of specific interventions.

Next steps

As the immediate next steps, we suggest Hampshire now takes the Economic Strategy forward in the following ways:

- discuss the analysis and strategic framework across the Council and with partners
- ensure that the framework is then reflected in how Hampshire and partners take forward LEP integration and County Deal planning
- develop a detailed action plan and list of agreed interventions
- discuss and agree with partners and District Authorities who will be responsible for taking forward interventions.

1 This Strategy

This Economic Strategy for Hampshire draws on analysis of the major drivers of change in the local economy, outlines a core scenario for the coming years, and proposes interventions using levers of Hampshire County Council, based on evidence around a six capital model. This Strategy underpins Hampshire's economic development, providing a framework for important initiatives including a County Deal for Pan-Hampshire.

This Strategy covers the Hampshire County Council area, though recognises the important links elsewhere, particularly with Pan-Hampshire partners. It has been written as the process of developing a County Deal has been underway and informs the development of the strategic objectives for that important process, providing a guide the objectives for any new devolution deal for Hampshire.

We have held three officer workshops to develop the Strategy:

- In the first, we discussed the overall approach we should take. There was a clear consensus for using an approach that captured wider value in the economy. Following on from this we developed the six capitals approach to shape and frame the interventions
- In the second, we talked through the context for the Strategy, and the four scenarios for the future. This led to the development of a fifth, hybrid scenario (challenging terrain), which has been used to develop our strategic objectives.
- In the third, we talked through each of the six capitals in detail – splitting into two groups to work through the strengths, weaknesses, and interventions in more detail.

This work follows from and complements strategic initiatives including the Hampshire 2050 Commission's work to guide future prosperity. Implementation of this Strategy will be done in collaboration with other important strategies in development including the outcome of Hampshire's Asset Review and a new Culture Strategy.

The Strategy has been developed in the context of changing but uncertain governance and delivery structures, not least in relation to Local Economic Partnerships (LEPs). But it builds on local economic development projects, analysis and strategy of recent years including development of Local Industrial Strategies led by Enterprise M3 and Solent LEPs.

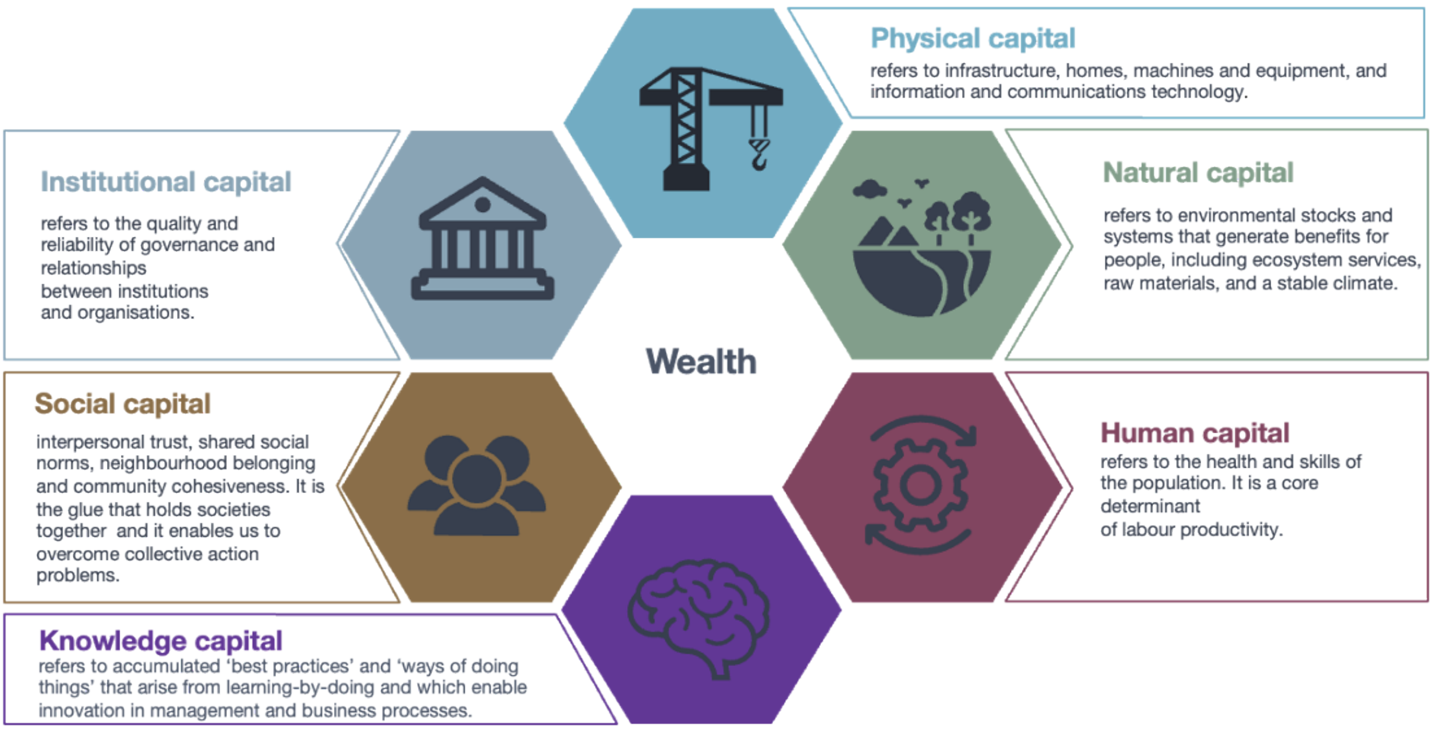
This Strategy is intended as a long term document to inform the Council and its partners. Once adopted, the intention is that there will be a detailed workplan for each element of the Strategy developed by the County Council and partners.

2 Six Capitals: A framework for Hampshire's development

This framework is inspired by the six-capital model proposed by Benjamin Mitra-Kahn and Diane Coyle (Bennett Institute, Cambridge). This model is a post 2008 financial crisis response to measuring wealth that goes beyond traditional models focused on GDP as a key measure. The rationale that underpins the model is that policies which may be best for GDP may not always be best for people, and thus it proposes a wider set of indicators for measuring wealth that includes environmental, social capital and population health indices. It ultimately seeks to embed sustainability and fairness into the way we assess economic progress.

Other similar models exist, using different variations of the capitals including the Levelling Up White Paper which uses intangible and financial capitals instead of natural and knowledge. Here we have adapted the model slightly, disaggregating intangible capital into institutional and knowledge capital given the relevance of these categories to the County.

Figure 1. The six capitals framework



3 Bringing about change: four levers

The strategy reflects a direction of travel towards greater economic decision making at a local level, with devolution and the integration of LEPs, and Pan-Hampshire's own plans for the creation of an Investment Fund as part of a County Deal.

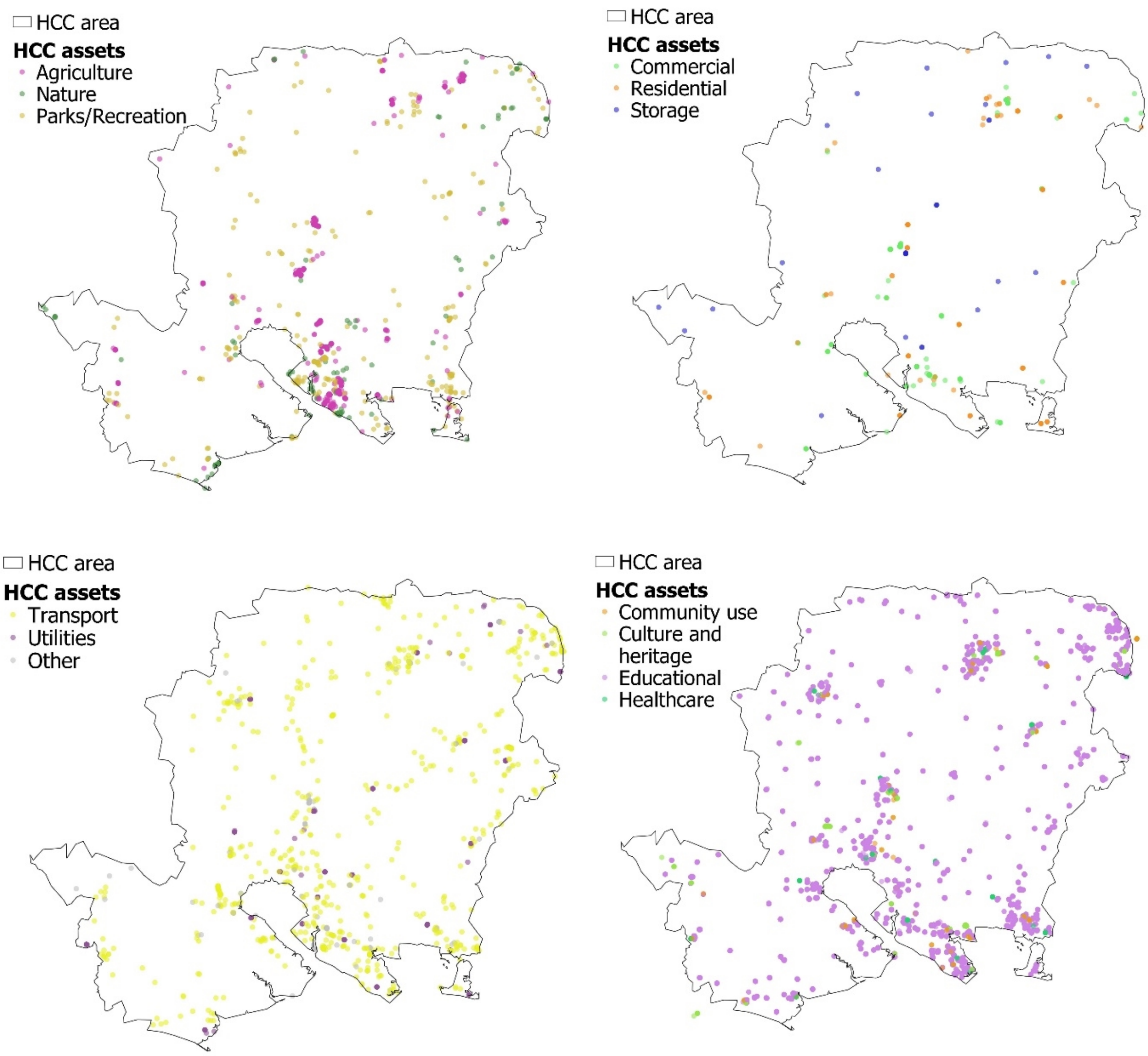
Our Strategy aims to grow all of our capitals, using the **levers at our disposal: our assets, our policies, our programmes and funding, and our partnerships**. Global, national and local shifts in economic circumstances mean that the County and its partners – covering an area in Pan-Hampshire of 2.4m people – need a Strategy on how to use their levers to secure growth and prosperity for residents. We focus interventions in the Strategy around four County Council levers – assets, policies, programmes and funding, and partnerships.

Through developing a County Deal proposition, Pan-Hampshire partners are forming proposals that would devolve further levers from Government to local institutions. The interventions proposed in this Strategy are ones that Hampshire County Council can deliver now, but they also build the foundations for increased local agency in the coming years through devolution. Some specific examples include:

Interventions in this Strategy …	… can be taken further in future with a Pan-Hampshire County Deal with …
• drive Business Hampshire's Innovation Ecosystem approach • build on Freeport opportunity to attract innovative businesses • explore new start up investment fund	**Pan-Hampshire Investment Fund** with £1.2bn Government allocation, partner and private sector investment, and increased business rates retention for investment
• tackle derelict sites • attract high quality office space • increase the number of affordable housing developments	An **independent Land Commission** to maximise assets for growth
• create a Skills Assembly with employers • partner with providers to deliver technical training to support local sectors • review careers advice	**Pan-Hampshire Skills Plan and Fund**, with a **Trade and Investment Agency** linking productivity growth with skills development
• A decarbonisation programme focused on Hampshire County Council's estate.	**Biodiversity gain targets and retention** of fines on water companies.

• Use of county farms and other agricultural assets to support biodiversity. • Use of Local Nature Recovery Strategy to fight back against biodiversity loss	

Figure 2. Hampshire County Council's assets by broad category



1) Assets

Hampshire County Council is a major owner of land and property in Hampshire. The Council owns 8,790 ha of land, 1,176 sites and 10,068 building units. The use of land and buildings has a major impact on the ability of the six capitals to grow in Hampshire. A building on a high street can become a community space, growing social capital. A farm can be managed in a way that supports biodiversity, increasing natural capital. The creation of innovation spaces can increase the stock knowledge capital.

2) Policies

As an upper tier authority, HCC has direct control over major areas of local policy. Education policy and public health policy play a central role in supporting the creation and protection of human capital. HCC is the transport planning authority, and is bringing forward a new Local Transport Plan (LTP4), which will direct much of the new physical capital developed in Hampshire. A strategic asset management plan is being drafted. HCC will also be bringing forward a Local Nature Recovery Strategy in the next year, in partnership with Defra. Each of these is an opportunity to grow the six capitals in Hampshire.

3) Programmes and Funding

It is also in HCC's gift to create programmes with a focus on one or more of the six capitals, and to align funding streams to support these objectives. Existing funding mechanisms, such as Section 106 contributions, can be "tilted" to deliver better outcomes. And in a future devolved settlement, Hampshire partners may have additional investment and funding flexibilities to support local priorities.

4) Partnerships

Finally, HCC can seek to influence and support by working alongside other partners with a major stake in Hampshire's economy. Collaboration with universities can promote knowledge capital, working with the National Parks can develop natural capital, and working with community groups can increase social capital. HCC seeks not to act alone but to build a coalition that can deliver a flourishing economy for Hampshire.

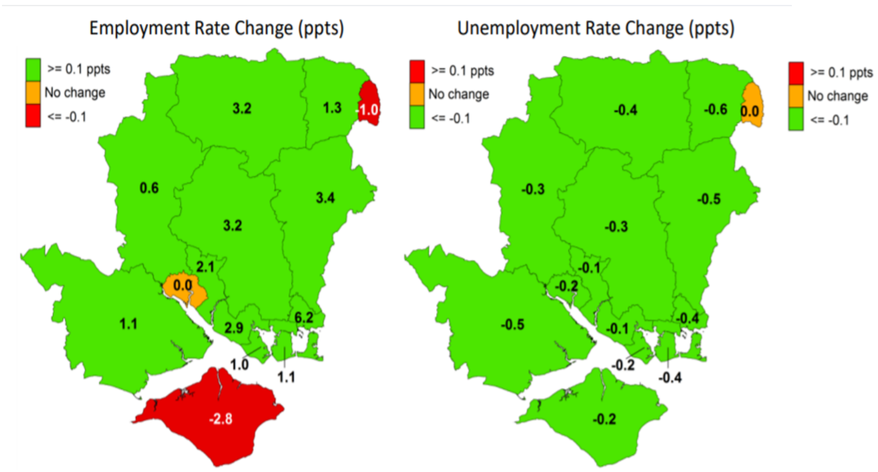
4 The Current Context 1: drivers of change

This Strategy is being delivered in a context of change in Hampshire – with both immediate, and longer-term drivers.

Immediate drivers

Labour markets are recovering from Covid, with growing demand for professional, care, and logistics roles

Figure 3. Quarterly change in employment, Q2-Q3 2021

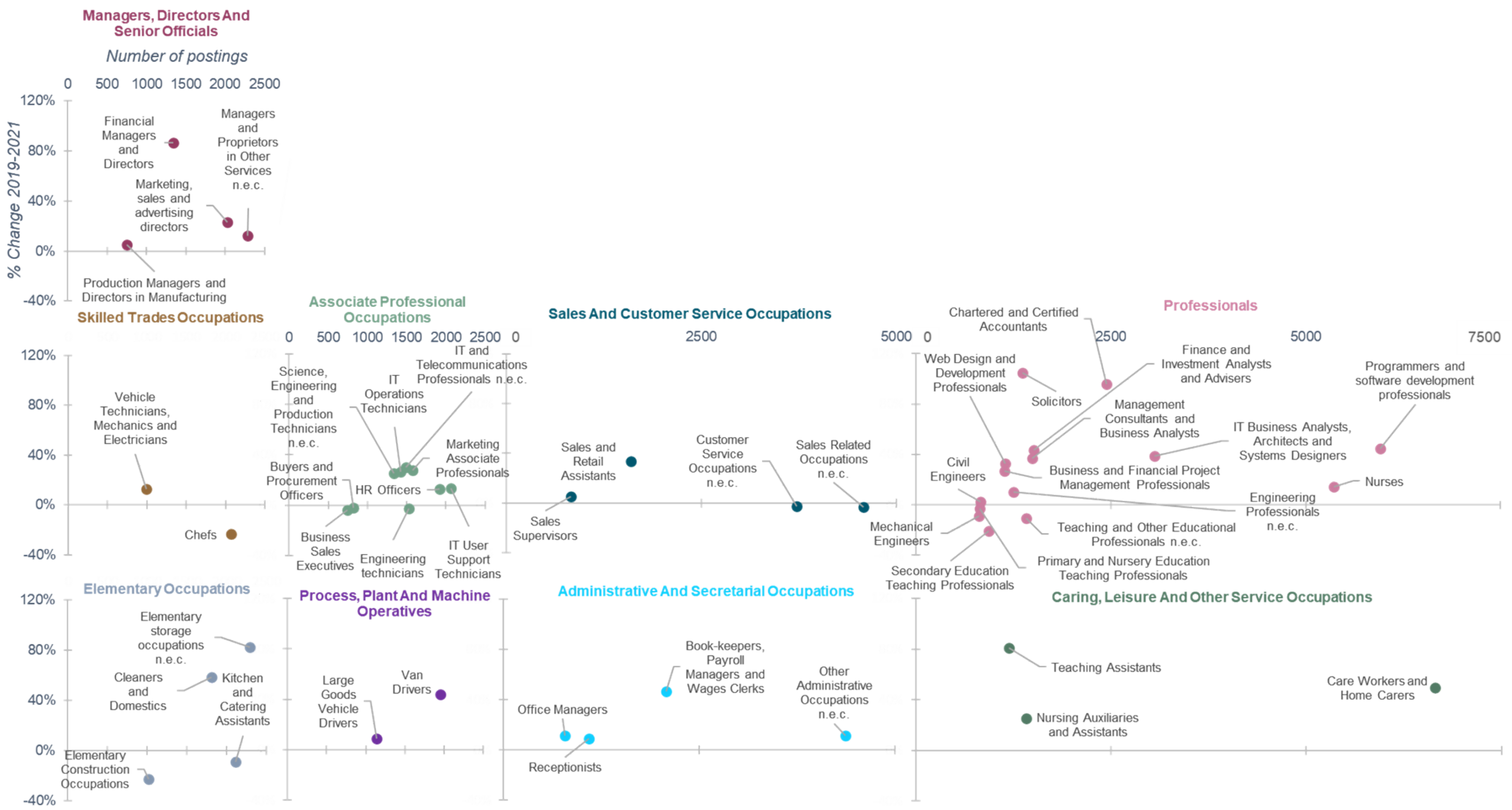


Source: Hampshire County Council

The most recent data indicates that the employment rate in most of Hampshire is increasing, while unemployment is falling, as the area recovers from Covid-19. The Isle of Wight, which may have seen a particular boost to local tourism during the pandemic is one notable exception.

Real-time labour market data based upon job postings adds further insight. Figure 4 below, shows the top 50 occupations for jobs postings in Hampshire in 2021, organised by major occupational group. Most jobs are “above the line” – meaning growth since 2019. The groups with the largest concentration of top postings are professional, and associate professional jobs. The most common jobs being advertised are care home workers, programmers, nurses, sales, and administrative occupations (in that order). The most fast growing jobs are solicitors, accountants, finance managers, elementary storage occupations, and teaching assistants (in that order). This reflects both more business and property activity, with the associated services needed, and more activity in logistics, reflecting the growth in online shopping.

Figure 4. Numbers of postings – top 50 occupations

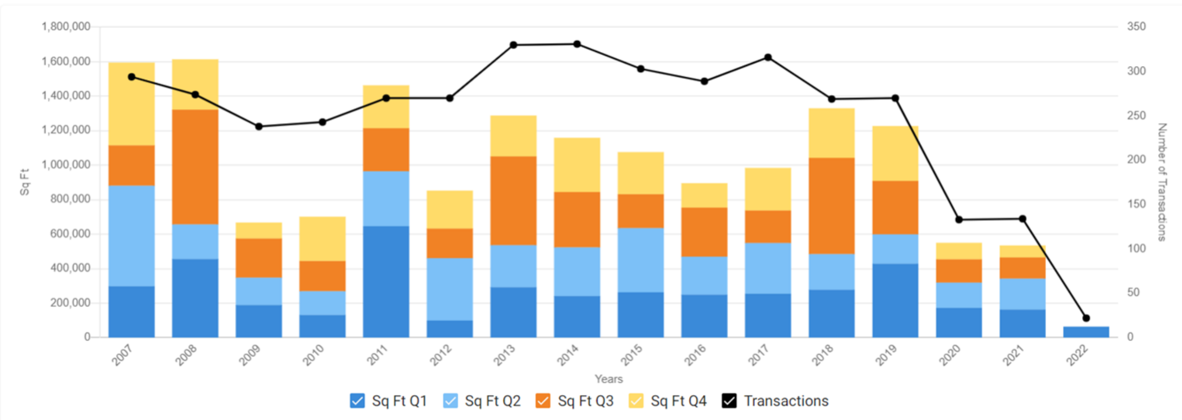


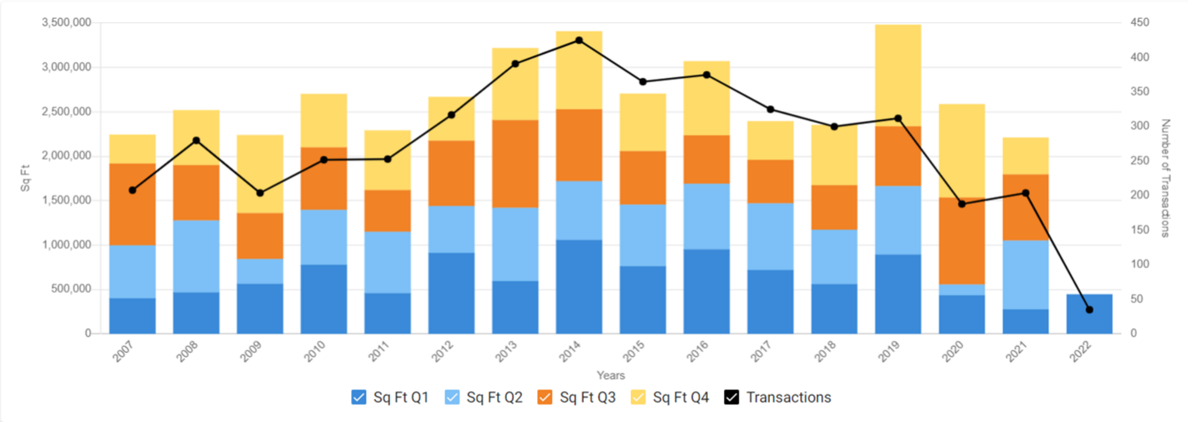
Source: HCC via Emsi Burning Glass

But commercial property markets are lagging behind

Despite the jobs recovery, there has not been the same demand for commercial property that there was before the pandemic – particularly for offices.

Figure 5. Take up of lettings, and transactions in Hampshire – office (top) and industrial (bottom)





Source: HCC

Q1 data for 2022 suggests this market is still depressed, though rental values appear to generally be holding up. It remains to be seen whether the shift in some sectors towards hybrid working results in a long-term reduction in demand for office space.

Industrial space has seen a negative, though less pronounced, impact – with Q1 2022 looking more positive, and a major deal for industrial space in Havant completed at the end of 2020. This reflects similar experience elsewhere, where the demand for logistics space has grown during the pandemic.

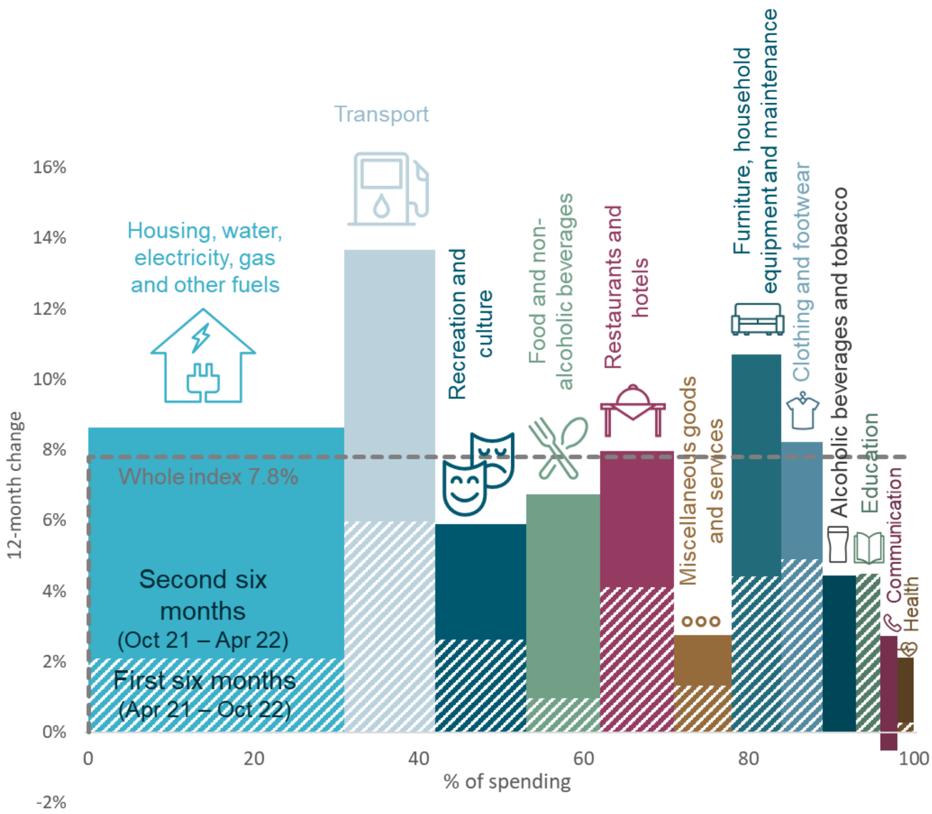
Inflation is driving up costs for residents and businesses

Housing and utilities costs form the largest category of consumer expenditure (31%) and this has grown by 8.6% already over the last year. ONS public opinion data shows that increasing electricity and gas bills are the major concern for those worried about cost of living (58%). The next biggest category of spending, transport, has grown by a staggering 13.7%, with costs set to rise further as Russian oil is phased out.

Input prices to the manufacturing sector have also climbed sharply, with the producer price index for inputs increasing by 29.9% in just two years[1].

1 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/april2022

Figure 6. Proportion of spending and 12-month price change

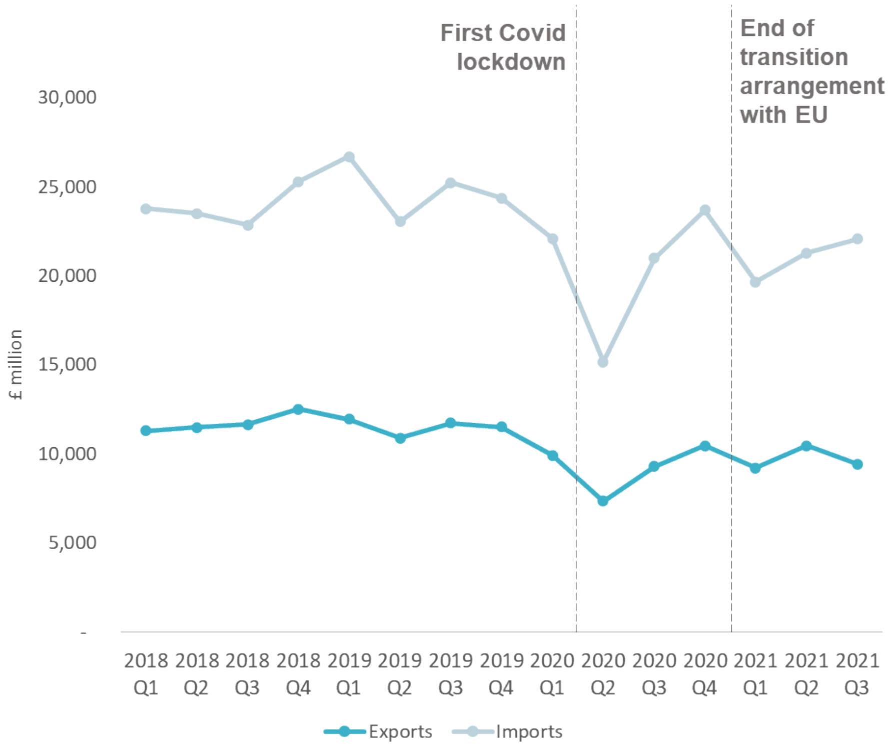


Source: ONS CPIH

Imports are outpacing exports, with a small Brexit impact

The most up to date data on exports and imports only covers the South East of England. We can see that imports have consistently been higher than exports for the whole period, implying a balance of trade deficit with regard to goods. The first lockdown reduced exports, though these had been on a downwards trend since late 2018. The effect of the end of the EU transition was less marked, though exports still remain below previous levels. Imports have recovered more strongly, though also remain below peak levels.

Figure 7. Exports and Imports of goods by value, South East of England



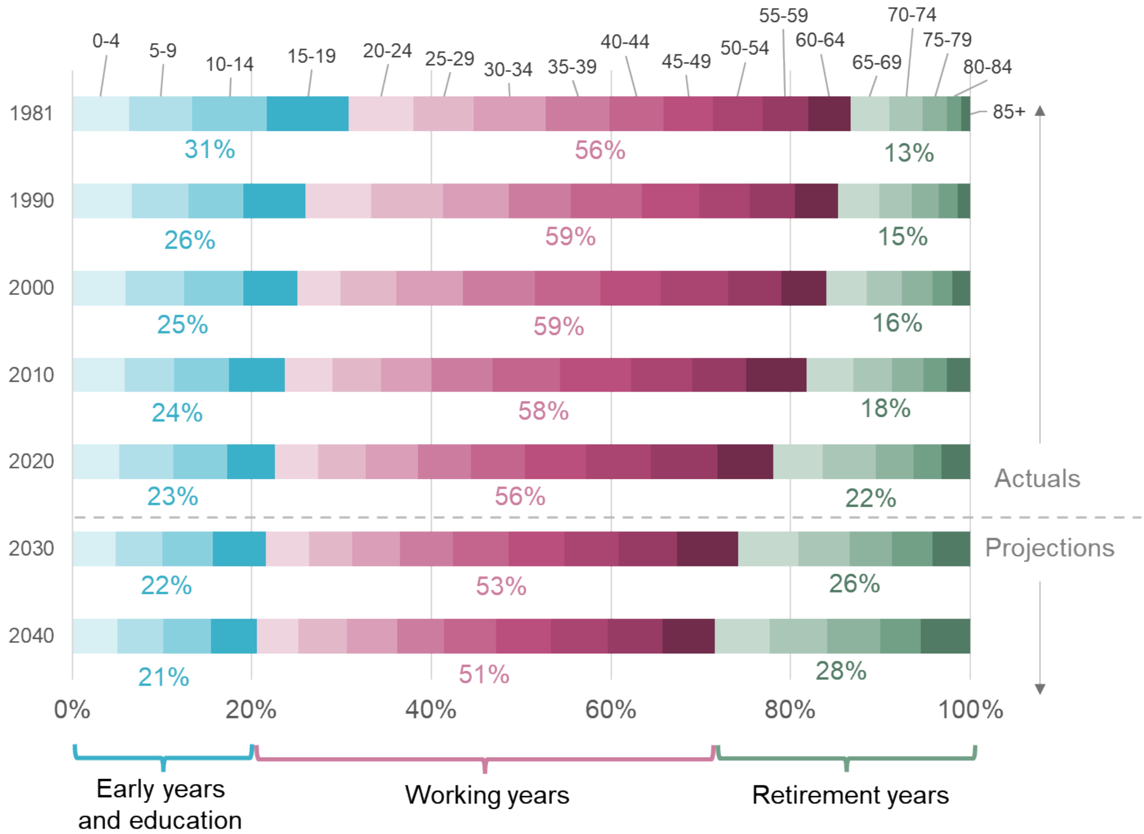
Longer-term drivers

Hampshire's population is ageing

ONS data shows that over the last forty years, Hampshire's working age population has remained the same proportion of the total, but with the higher age bands widening and the lower bands contracting. The retirement age population has already grown from 13% to 22%, and as these older workers retire that is expected to increase sharply to 28% by 2040. Meanwhile, the population largely in education or early years (0-19) has shrunk significantly. This is set to continue, with this group only making up 1 in 5 people in Hampshire by 2040.

This overall demographic shift has major implications for the economy and population of Hampshire, and a strategic approach is needed to respond to it.

Figure 8. Five-year population bands in Hampshire, 1981 – 2040



Source: ONS Population estimates, ONS population projections

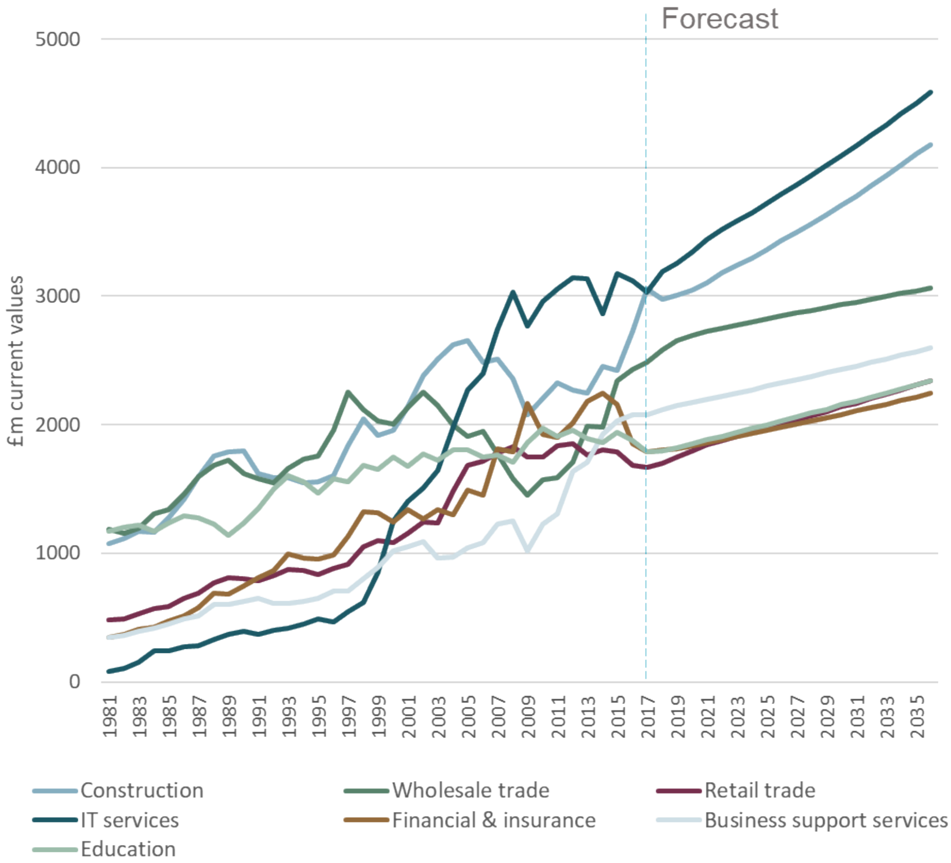
IT and Construction are set to become largest sectors

Data provided by Cambridge Econometrics (CE) shows that IT services has grown rapidly in Hampshire, with particularly rapid growth in the decade between 1998 and 2008 to become Hampshire's largest sector. CE forecast this sector will grow strongly into the future, constituting 11% of Hampshire's economy in 2036. Construction is also expected to grow strongly – though note these forecasts predate the Covid pandemic and any impact this might have on demand for different types of space

The fastest growing sectors over the period 2016-2036 according to the forecasts are electronics (88.7% growth), accommodation (80.6%) and legal and accounting (80.3%).

These forecasts have not been updated since the pandemic, but if anything this may have accelerated the digitalisation of business – further strengthening the IT sector.

Figure 9. Gross Value Added (GVA) in seven largest sectors, historic and forecast



Source: HCC

Hampshire's climate is changing, and will continue to change

Like the rest of the UK, Hampshire is seeing generally higher temperatures due to climate change. According to the Green Economic Recovery for Hampshire report, central estimates suggest that by 2050, coastal flooding is expected to submerge large parts of Hampshire, including much of the densely populated urban south of the county.

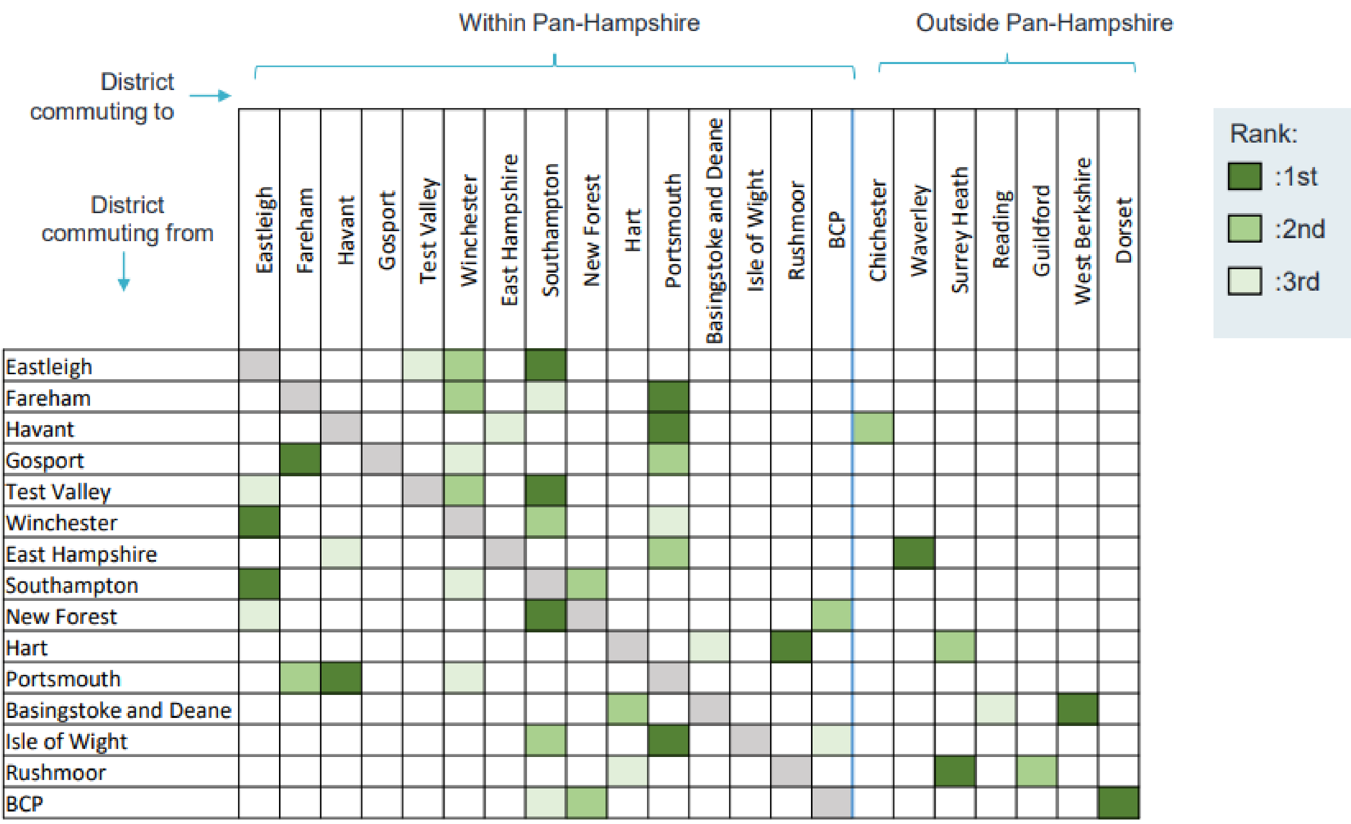
While traditional economic strategy has often paid little regard to the environment, it is the basis on which all economic activity takes place. A six capitals approach acknowledges the challenges that a changing climate presents to the economy and society, and looks to build resilience accordingly.

5 The Current Context 2: economic geography

Hampshire is a closely interconnected economic geography as a County and with is neighbouring areas. Across Pan-Hampshire, boundaries for residents are porous, and in order to deliver economic growth at scale, and deliver better services, it is essential that Hampshire County Council works closely with its neighbours and partners.

Hampshire is a varied county of rural areas, market towns, coastal areas, industrial clusters and urban settlements. These places have important and strategic connections between them, which need to be understood to deliver the Strategy.

Figure 10. Top three commuter destinations for each district



Source: Census 2011

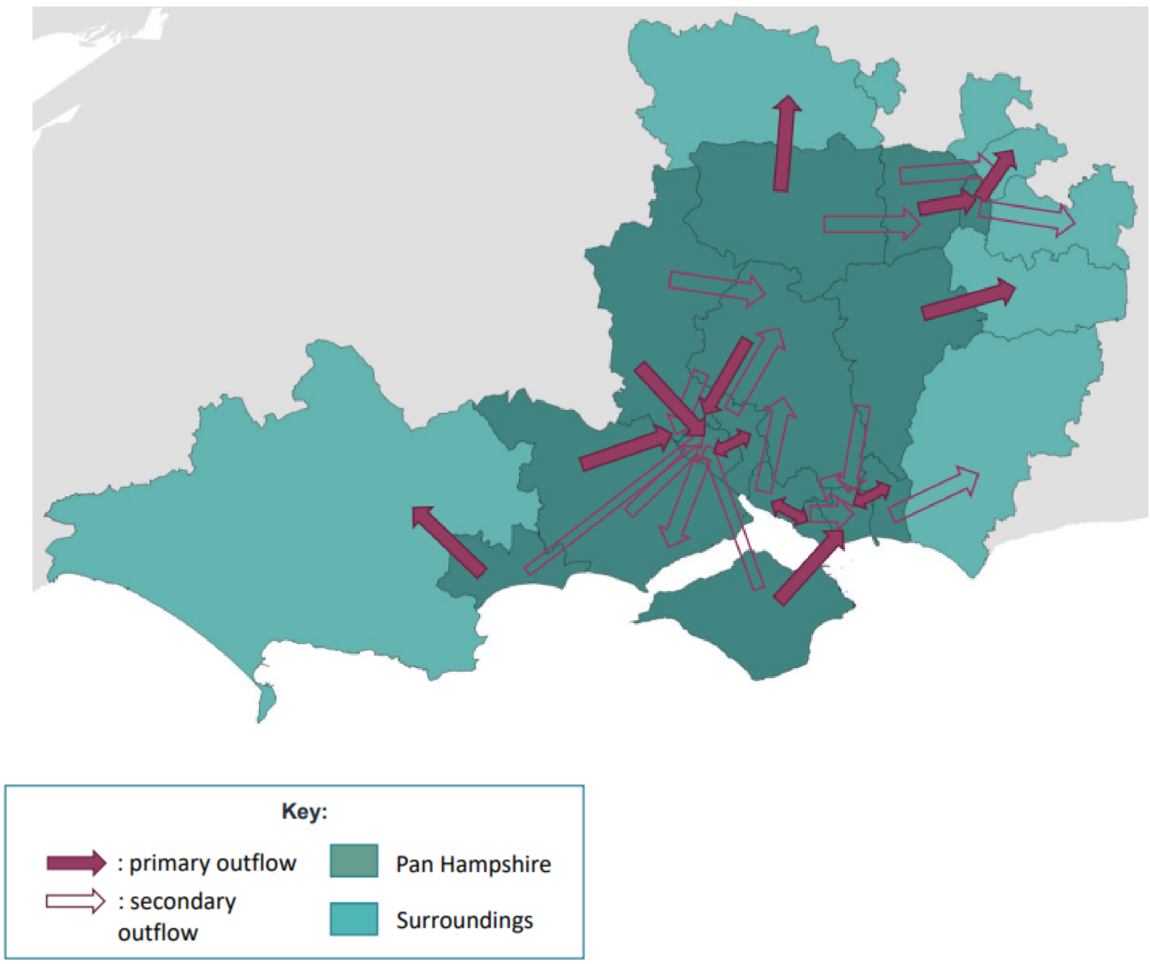
The first and most important fact shown here is the interconnectedness of the Pan-Hampshire area. This Strategy concerns the County of Hampshire as it exists today. But the lived experiences of the people of the wider Pan-Hampshire area remind us that boundaries are porous, something that needs to be reflected and supported in our strategies.

Over 85% of Pan-Hampshire's resident workers work within Pan-Hampshire. This is significantly higher in some authorities: Isle of Wight (96% within Pan- Hampshire), Gosport (94%),Southampton (94%), Eastleigh (94%) and Fareham (93%).

This figure reflects similar levels to some of the major conurbations of the UK, such as Greater Manchester (88%), the Liverpool City Region (82%), and West Yorkshire (91%).

That said, the patterns are complex. Local authorities that observe smaller proportions of their residents commuting within Pan-Hampshire include those found in the Solent area; Rushmoor (60%), Hart (63%) and East Hampshire (76%). These local authorities, in the North-East of Pan-Hampshire, typically have stronger links to Surrey, Berkshire and London.

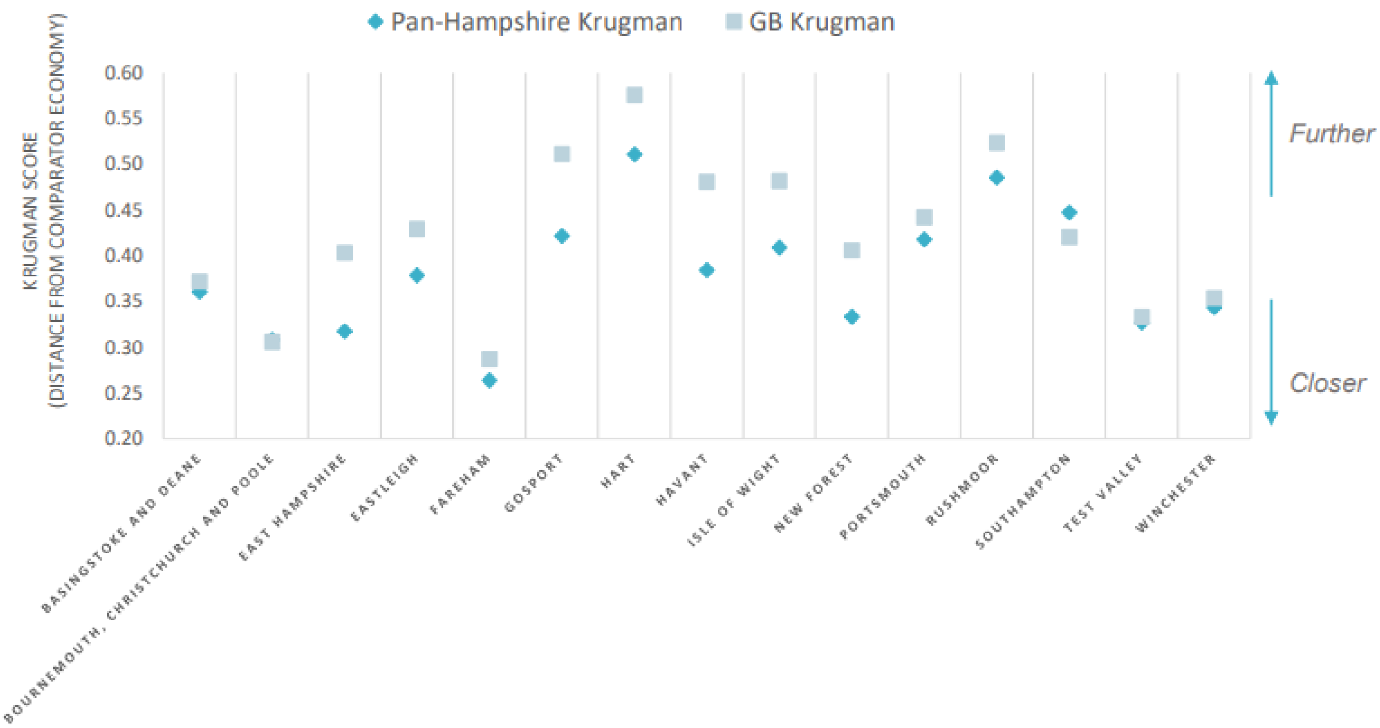
Figure 11. Primary and secondary work destinations across Hampshire



Hampshire local authorities (including those across Pan-Hampshire) have a similar industrial makeup. To understand whether areas within Pan- Hampshire have meaningfully distinct, shared specialisms, Krugman Index values have been calculated for every district compared to two 'reference economies': – Pan-Hampshire, and Great Britain. A larger Krugman index value means that the economy is more differentiated to the reference area, a smaller value means the economy is more similar.

For all local authorities besides Southampton, there is more of a similarity to Pan-Hampshire than to Great Britain, as represented by the Pan-Hampshire Krugman data point being below that of Great Britain. This is especially notable in Gosport, Havant, and East Hampshire.

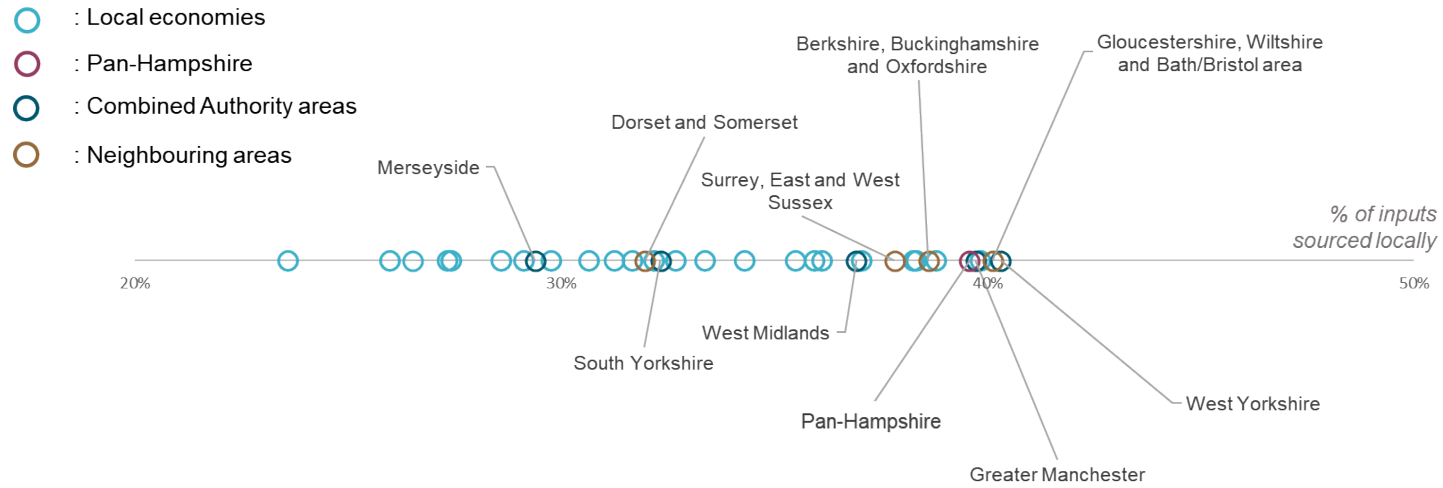
Figure 12. "Distance" from reference economies, as measured by the Krugman Index



Source: Metro Dynamics analysis of BRES data

These shared specialisms provide a strong basis for an economic strategy to develop the six capitals.

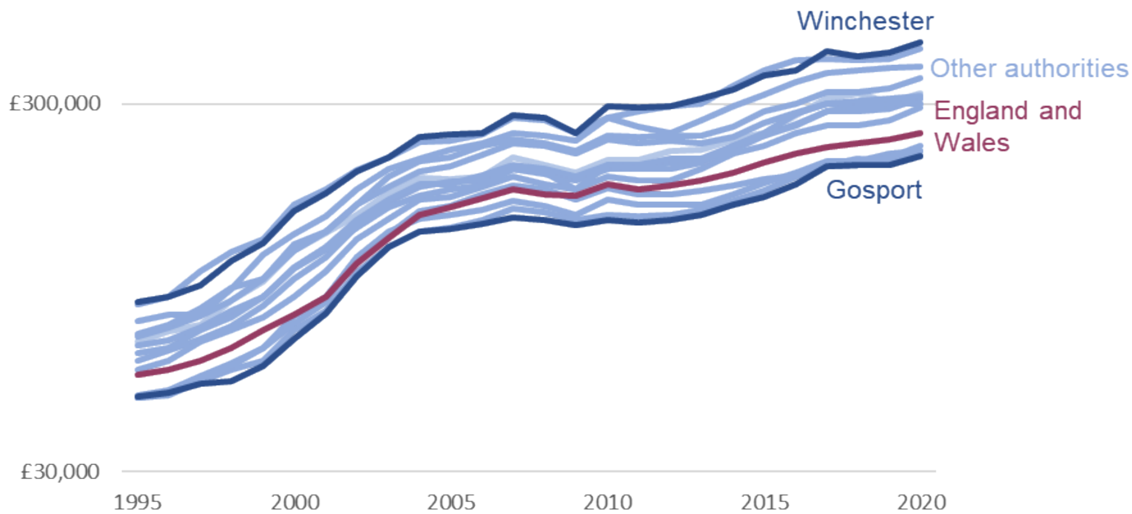
Hampshire also has well developed supply chain linkages. Pan-Hampshire ranks 5th out of 33 local economies in England for sourcing goods locally, with 39.6% of inputs being sourced from within Pan-Hampshire itself. This implies that Pan-Hampshire is a more self-sufficient region of the UK than most other areas, including some areas which have devolution to Combined Authorities – such as South Yorkshire and Merseyside (the Liverpool City Region). Pan-Hampshire also has higher rates of goods sourced locally than most surrounding areas – Dorset and Somerset, Surrey, East and West Sussex, and Berkshire, Buckinghamshire and Oxfordshire.



Source: Modelled data using UK Input-Output tables, the Business Register and Employment Survey and ONS regional GVA data, whilst drawing heavily on the work of Flegg and Tohmo, 2013. More details in the Appendix.

Finally, markets for property – both commercial and residential – are well co-ordinated across Hampshire. Figure 13 below shows the change in house prices across Pan-Hampshire on a log scale, to demonstrate growth. These have remain very tightly co-ordinated since 1995.

Figure 13. Median house prices in Pan-Hampshire authorities, 1995-2020 (log scale)



When ranked out of the fourteen local authorities, seven have remained in the same rank position within the county from the beginning to the end of the 25-year period shown.

Similar patterns are seen for commercial property, where correlations in movements of the rental value of retail space between most districts in excess of 80%. The only exceptions to this are the more northern districts – Hart, Rushmoor, and Basingstoke and Deane – where values are generally more correlated with London rental values.

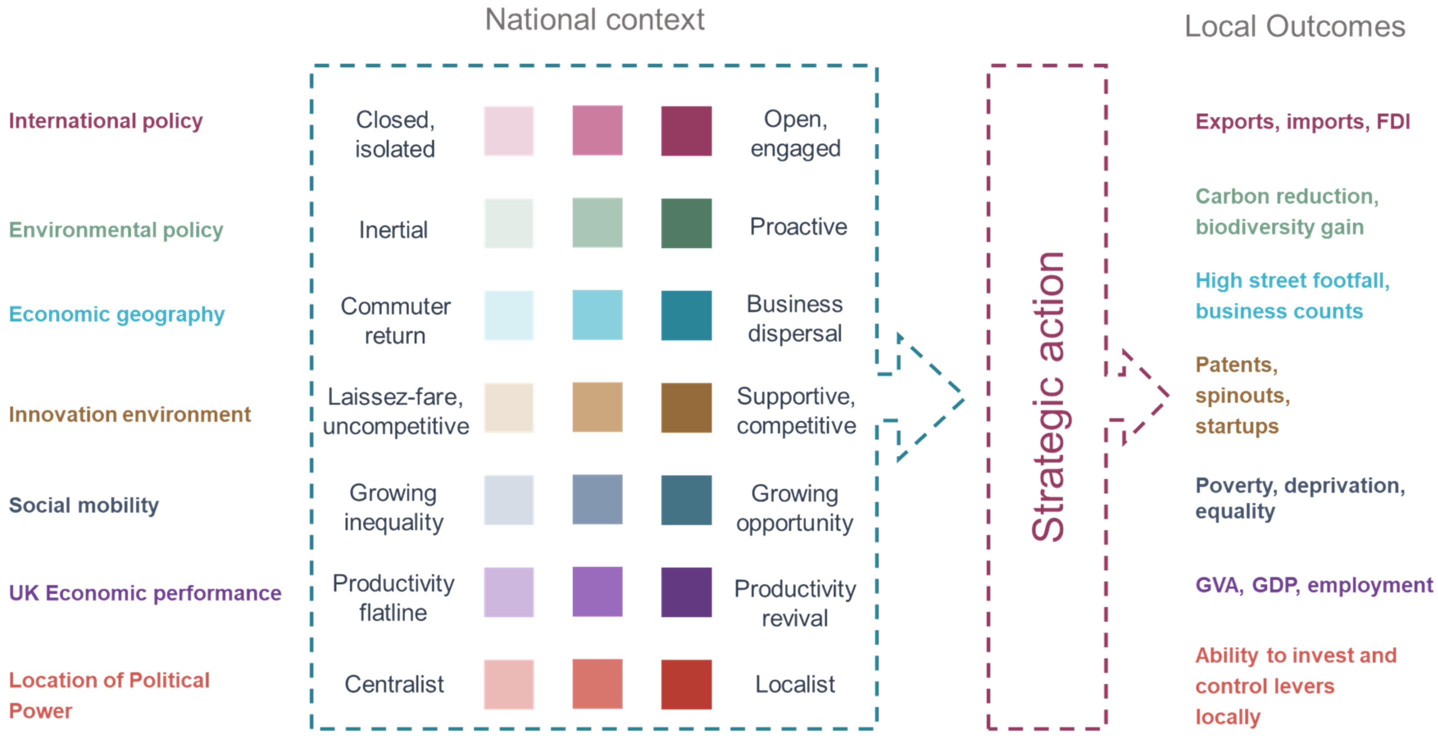
Hampshire, along with the surrounding cities and Isle of Wight, is a functional economic market area. There are strong commuting links, shared sector specialisations, and correlated property markets.

6 Responding to uncertainty: scenarios

Recent events have proven how challenging it is to produce forecasts. Until recently, many were not expecting inflation to be a major issue – now it is hitting highest levels for decades across the Western world. Most economists expected a slower recovery from the Covid pandemic than has been seen. Russia's war in Ukraine has upended assumptions about international trade – compounding challenges already facing shipping and logistics. There are a host of factors – economic, geopolitical, environmental – which are extremely difficult to predict and interact in complex ways.

Therefore, instead of using forecasts, we have chosen to focus the Strategy on a set of objectives derived from analysis of possible **scenarios.** Scenarios are a way of projecting possible alternative futures and considering what would be the right decision in each case. We have designed our scenarios to look at seven different national context factors – things *outside* of Hampshire's control – with three different possible outcomes for each.

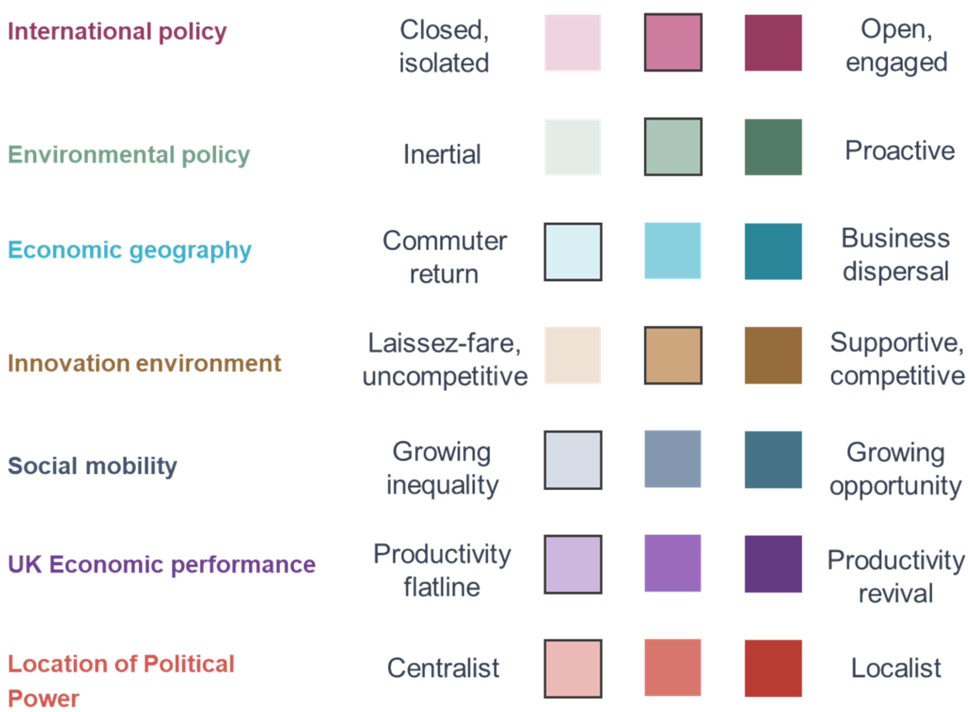
Although the scenario factors are outside Hampshire's control, there is then a space for strategic action in each of these areas. This action, in combination with the scenario factors, will deliver local outcomes. These outcomes are related to the type of scenario factor – for example, in environmental policy, there is the national Government's approach, in response to which Hampshire's strategic action can deliver outcomes such as lower carbon emissions, and gain in biodiversity.



We then tested different scenario options with a working officer group at Hampshire County Council to understand which were deemed more valid. Four alternative scenarios were presented:

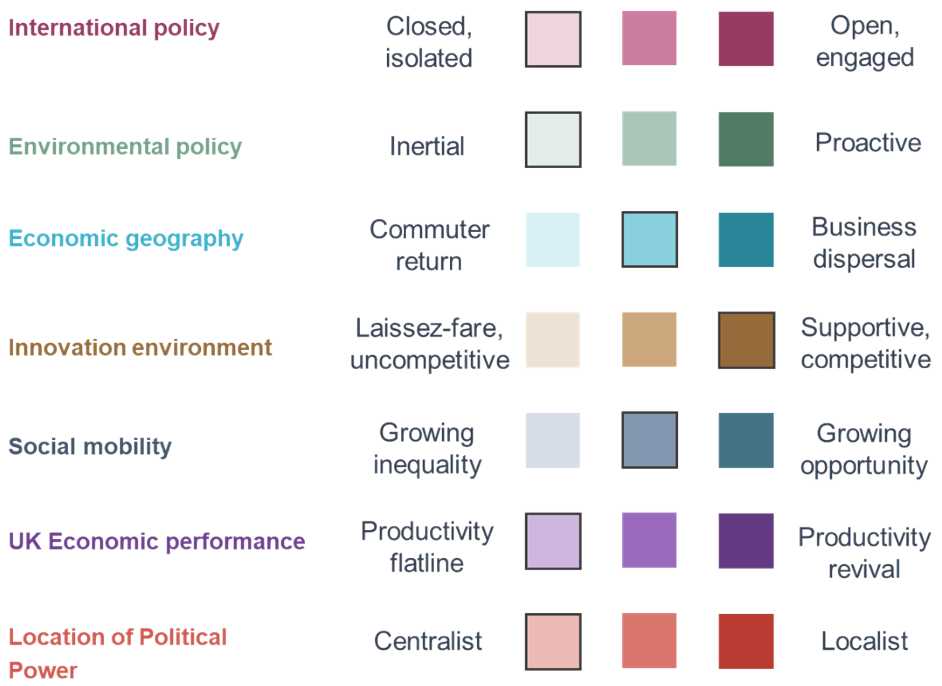
Four alternative scenarios

Scenario 1: Business as usual



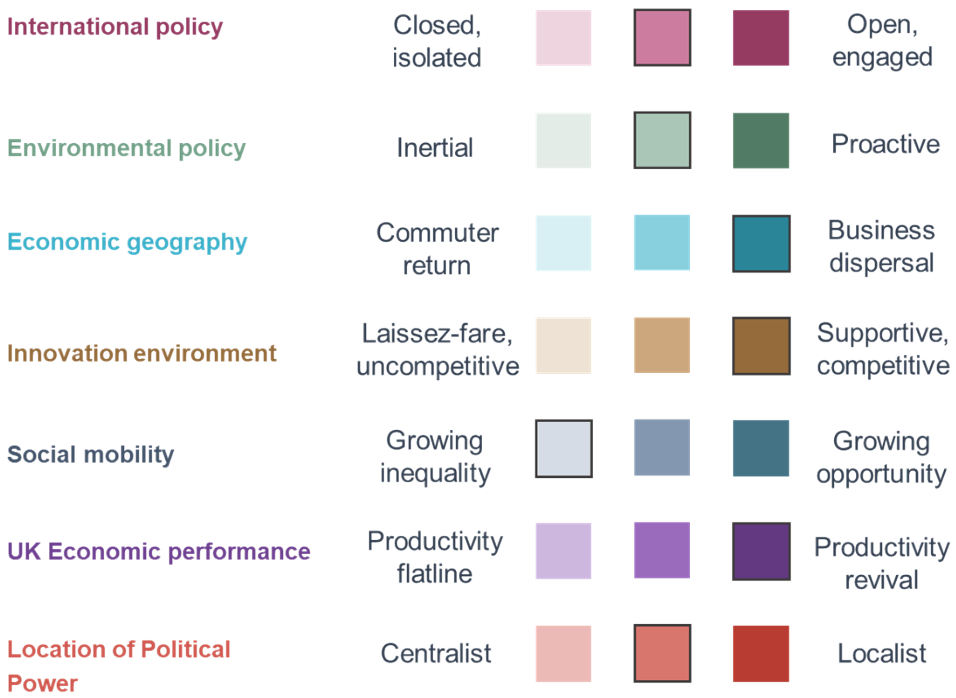
In this scenario, the national context shows continuity with what has gone before. On international policy, the withdrawal symbolised by Brexit is tempered by Government ambitions towards greater proactivity. Continued ambition is seen on climate, but lack of detail in some policy areas hinders progress. The UK continues to have a centralist state, and productivity growth remains close to non-existent. Inequality grows, as patterns of poor social mobility become more deeply ingrained, and after the remote working shift, patterns gradually return to more normal commuter flows, with London returning to its former dominance.

Scenario 2: International fragmentation



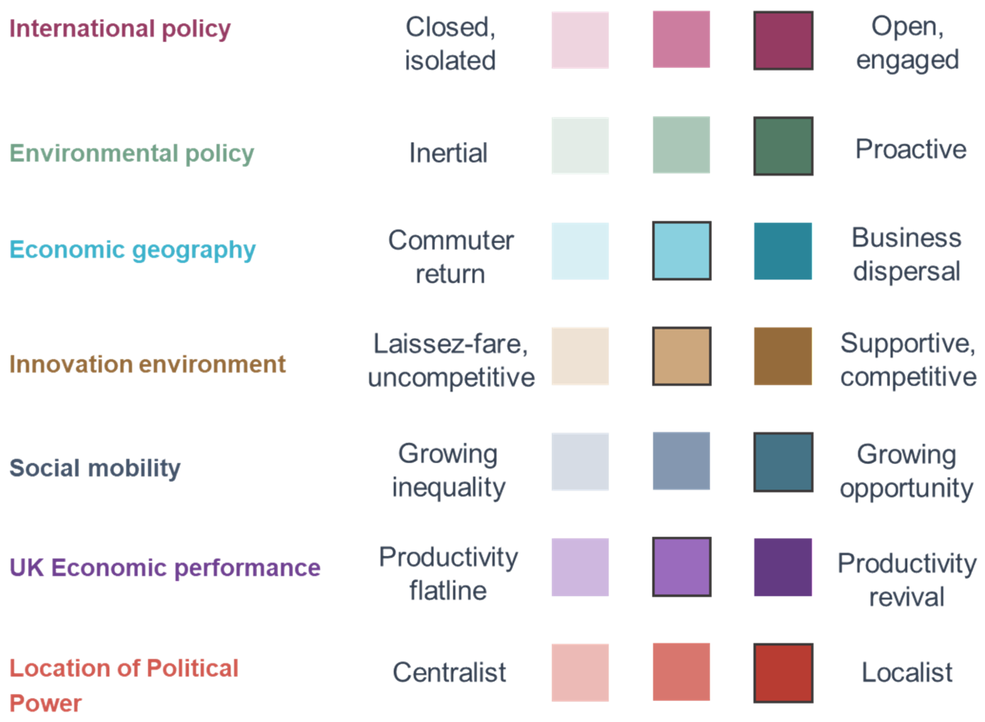
In this scenario, the UK's withdrawal from Europe presages a more inwards turn, with reduced collaboration with allies, and shrinking trade. Stronger collaboration among Western allies over the war in Ukraine proves short-lived. Alongside this, the country relinquishes climate leadership in the face of higher costs to its citizens. This context also promotes a more active state in trying to secure the interests of UK businesses. A more proactive state aid regime increases funding for innovation. Due to export challenges productivity growth remains low to non-existent, and a nation feeling less secure in the world is unwilling to devolve further powers, with power remaining concentrated at Westminster.

Scenario 3: Digital transformation



In this scenario, the working from home revolution begun by the pandemic enables the growing digital transformation of work A more dispersed working pattern brings economic vibrancy to towns with larger numbers of out-commuters. This allows new productivity growth and a competitive innovative culture. It also naturally lends itself to a less London-centric political model, with some greater devolution of power. However, there are winners and losers, and the large gains made by a small portion of highly successful firms with significant market power increases inequalities, reflected in growing inequality.

Scenario 4: Progressive Leadership

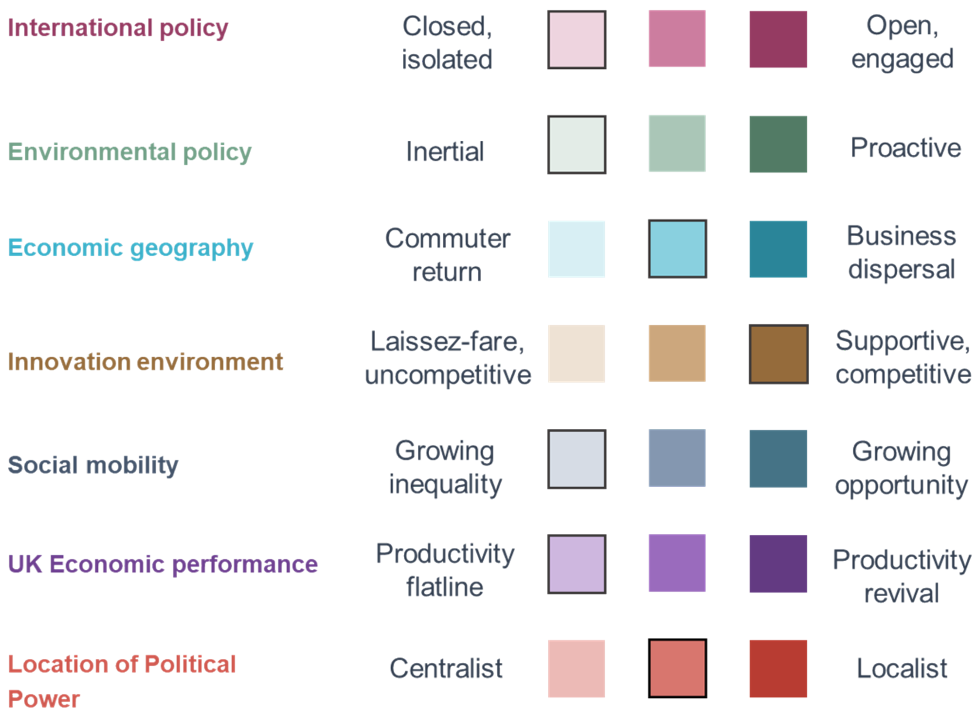


In this scenario, The UK takes a much more proactive role on the world stage, including climate leadership, where ambitious targets backed by credible action put the UK out front. Trade generally increases, supporting some productivity gains. Longstanding inequalities between places and groups of people are addressed, with a gradual improvement of social mobility. The devolution agenda is actively delivered to create a more spatially equal UK, with empowered local leadership.

Selected scenario: Challenging Terrain

Following discussion about each of the domains, a blended scenario was chosen. This has been called "challenging terrain", because it anticipates challenges across many fronts. A perhaps lower than might be required focus from Government on international and environmental issues, precipitated by a more immediate need to focus on cost of living, means there is less impetus for policy change arising from national leadership. In this scenario, strategies to tackle the UK's perennial productivity challenge fall short, and may be even exacerbated by large numbers of older, more experienced, workers leaving the labour market.

The key point is that Hampshire will have to do more of the work, as leadership from the centre may be weaker, and the area is seen as less of a priority in the Levelling Up agenda. However, the continuation of the devolution journey does seem close to inevitable, with every major political party making it a central part of their platform, meaning a middle outcome is anticipated on location of political power.



The scenario also recognises that post-Covid changes to economic geography are likely to be lasting, with evidence since the easing of restrictions indicating a permanently reduced number of trips. And the prospects for innovation policy were seen as largely positive, with a big focus in the Levelling Up White Paper, and anticipated creation of the Advanced Research and Invention Agency (ARIA)[2]. However, the White Paper particularly stresses R&D outside the Greater South East, which may make it harder for Hampshire to benefit from this investment.

From scenario to Strategy

Whilst no scenario can fully anticipate let alone articulate the future, this approach has given us a broadly based and robust basis on which to plan out future. It leads us to the following strategic objectives, the attainment of which is vital in the maximisation of the opportunities we face and to mitigate the impact of the challenges of both a domestic and international nature.

International policy

In our central scenario, current Government policy and economic arrangements mean that international policy will remain more closed with barriers to trade with partners. With a recent drop in exporting and trade activity across Great Britain, it is ever more important

[2] See https://bills.parliament.uk/bills/2836

that Hampshire's strong sectors drive **increasing exporting activity and the area contributes to raising our international competitiveness.**

Environmental policy

Although Government recognises in current policy that transition in energy, transport, and our built environment is necessary to cut emissions and meet our net zero targets by 2050, we are seeing slow momentum in response to climate need. As well as the clear environmental imperative to reach net zero targets, there is economic opportunity in Hampshire in developing the technology we need to accelerate transition. **The objective for Hampshire is for partners to work with businesses to move from inertial to proactive on achieving net zero.**

Economic geography

We haven't returned to pre-Covid levels of commuting, but, neither have we seen an end to those commuting patterns to employment centres. We have moved into a hybrid situation, where workers spend some time in workplaces and commuting within Hampshire and into London, and more time at home and in local town centres than before. We can assume that this scenario will persist for some time. In Hampshire, there are therefore opportunities to benefit from increased activity in our high streets and town centres. **As an objective, the aim is to maximise the pull of high streets and town centres through regeneration, revitalising shared spaces, supporting leisure and hospitality activity, and opportunities for business and work spaces.**

Innovation environment

Hampshire has a strong base of innovation in globally competitive sectors and firms. Government's Innovation Strategy recognises the need to boost innovation by increasing R&D spend, commercialisation, and business access to finance. By connecting knowledge assets – universities and firms – with local startup and scaleup culture and the right finance and investment opportunities and talent, **we can boost growth through innovation and develop new assets. Hampshire's aim is to stay nationally competitive, and support growth across the UK.**

Social mobility

There are persisting pockets of deprivation in Hampshire, where earnings, educational attainment and skill levels are lower, and young people don't grow up with the same life chances as in more affluent communities. Covid has exacerbated inequalities, with slower recovery in employment levels. **Hampshire should offer a range of opportunities for young people to learn and pursue a fulfilling career, with the right placemaking initiatives, affordable housing, and access to skills provision and employment support for every community.**

UK economic performance

Despite a strong economy, productivity growth has slowed here since 2008. A focus on growth can reverse that trend and increase Hampshire's contribution to the Exchequer.

Returning productivity growth to pre-2008 trends would unlock economic growth – increasing output, a strong business rates base, and net contribution to the Exchequer.

Location of political power

Across Hampshire, partners work collaboratively. The Government's Levelling Up White Paper however sets an ambition for every place in England that wants one to have a devolution deal, and working with Unitary Authority partners to negotiate a County Deal with Government would devolve down powers and funding, to strategically invest in communities, and take decisions closer to residents. **A County Deal would move Government functions and decisions down to Hampshire, and as part of this, partnership working with District Councils and communities on regeneration, can benefit every part of the County.**

7 Six capitals: evidence and interventions

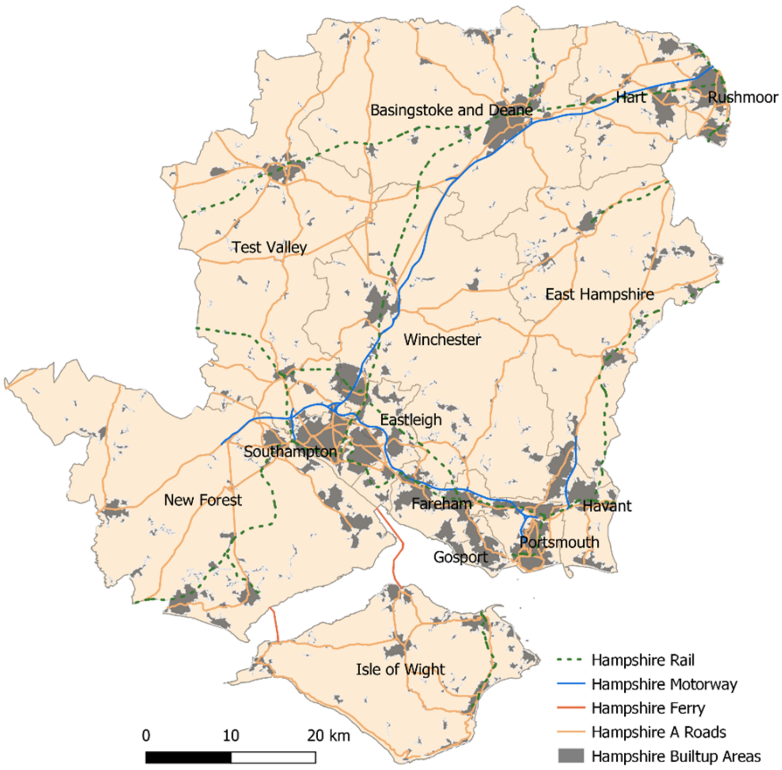
In this section, through the six capitals framework, we draw out insights from the evidence on strengths and weaknesses in Hampshire and use these to propose interventions using each of the four levers – Hampshire's assets, policies, programmes and funding, and partnerships.

Physical Capital

Physical capital includes the things businesses own – such as factories, plant machinery, and offices - but also shared physical assets, such as roads, rail, digital infrastructure, and energy infrastructure.

Strengths

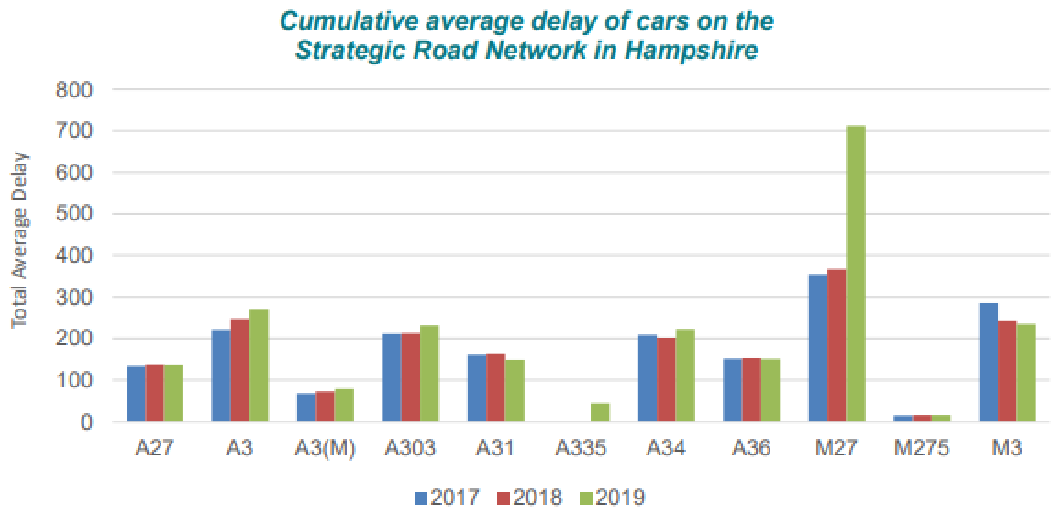
- **Comprehensive transport infrastructure, especially roads**



Source: ONS

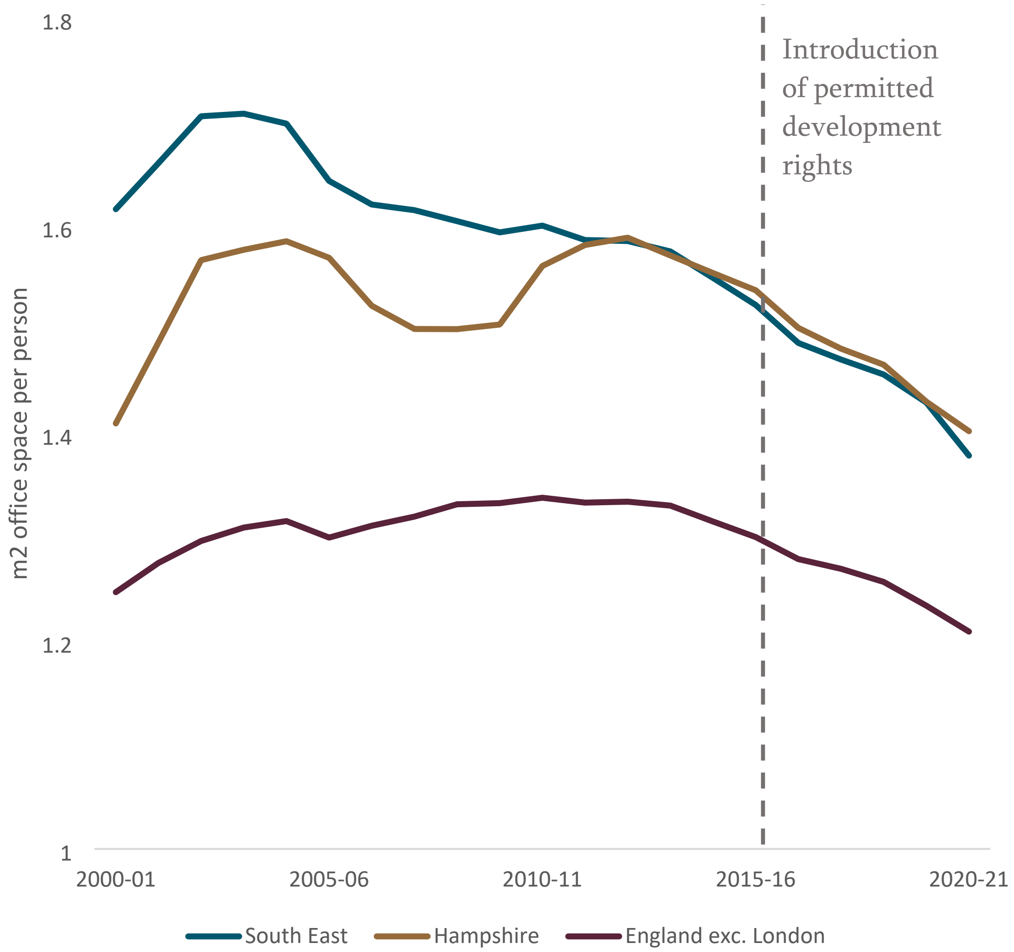
Hampshire is a generally well connected county, particularly by the road network. Most of Hampshire is within ten miles of a motorway. The M3 acts as a major spine bisecting the county, to which a comprehensive network of A roads connect, and the M27 connects the urban area along the South Coast. Rail coverage is also fairly good, with direct links to London, the South West, and the Midlands. There are some challenges – for example, a rail bottleneck at Woking limits trips along the rail corridor connecting Hampshire to London.

Although transport infrastructure is, broadly, a strength compared to other areas, road congestion is a problem, in part caused by an over dependence on the car for transport. The M27 is particularly bad for delays, though other major roads such as the M3 and A3 see problems as well.



National Road Traffic Survey – Table CGN0402b

- **A large, but shrinking supply of office space**



Source: Metro Dynamics analysis of Valuation Office Agency (VOA)

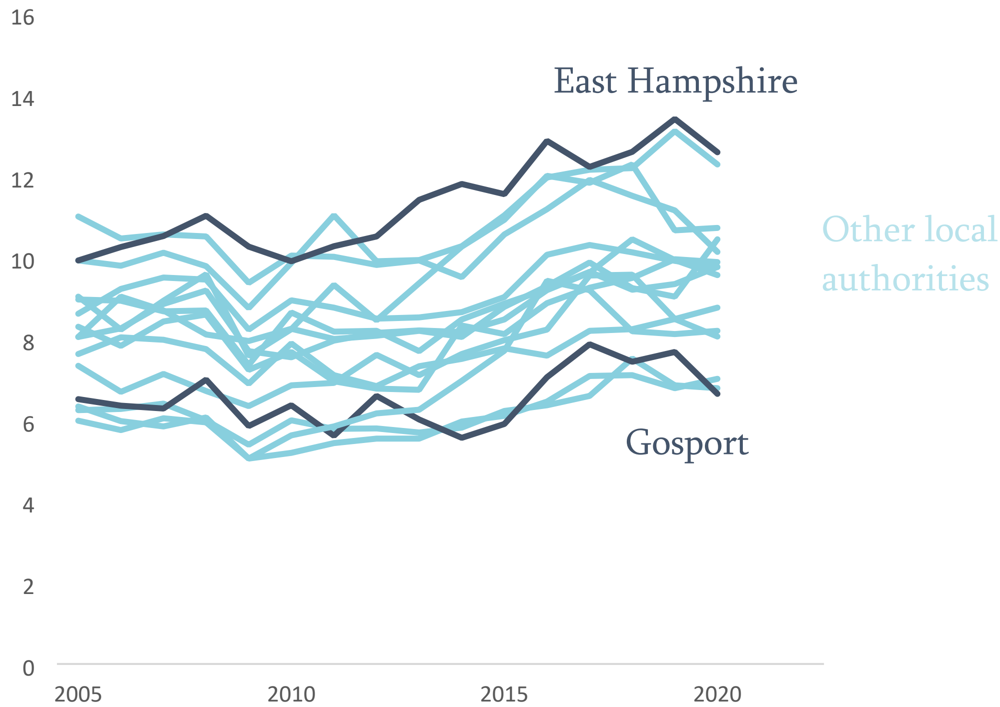
In 2020-21, Hampshire had 1.9 million m2 of office space. This is approximately 1.4m2 per person – which is slightly above the South East average, and significantly above the average for England excluding London – though a lack of high quality office space has been noted by many. However, this has been falling year on year since 2012/13. The Covid pandemic is likely to have accelerated this further, with reduced lettings following the pandemic. Some of this space may end up being converted into housing, as it seems has begun happening more so after the introduction of permitted development rights. This could be seen as good for physical capital – though it may depend upon the quality of any units developed.

Weaknesses

- **Insufficient housing supply for Hampshire's population, and future housing supply designing in the car**

One of the most obvious undersupplies of physical capital in Hampshire is housing. As supply has outpaced demand, affordability has worsened, such that in East Hampshire and Winchester, the median house price is over twelve times median salary.

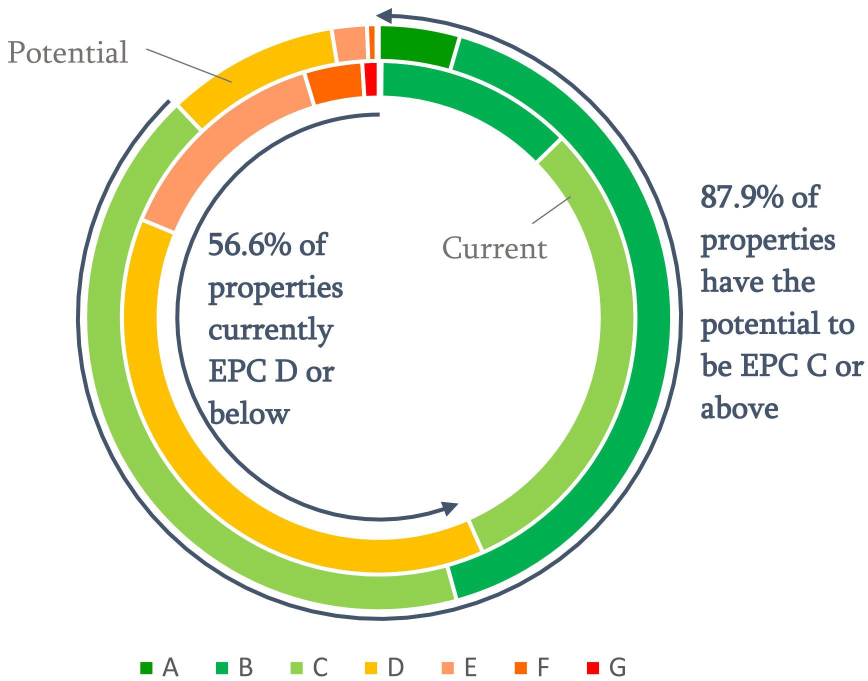
Figure 14. Median house price to median income ratio across Hampshire



Source: ONS

As well as the quantity of housing, there are big issues with housing *quality* in Hampshire, particularly the energy efficiency of the housing stock. Over half of all domestic properties are rated EPC band D or below. There is major scope for improvement – almost 9 in 10 properties have the potential to be rated C or above.

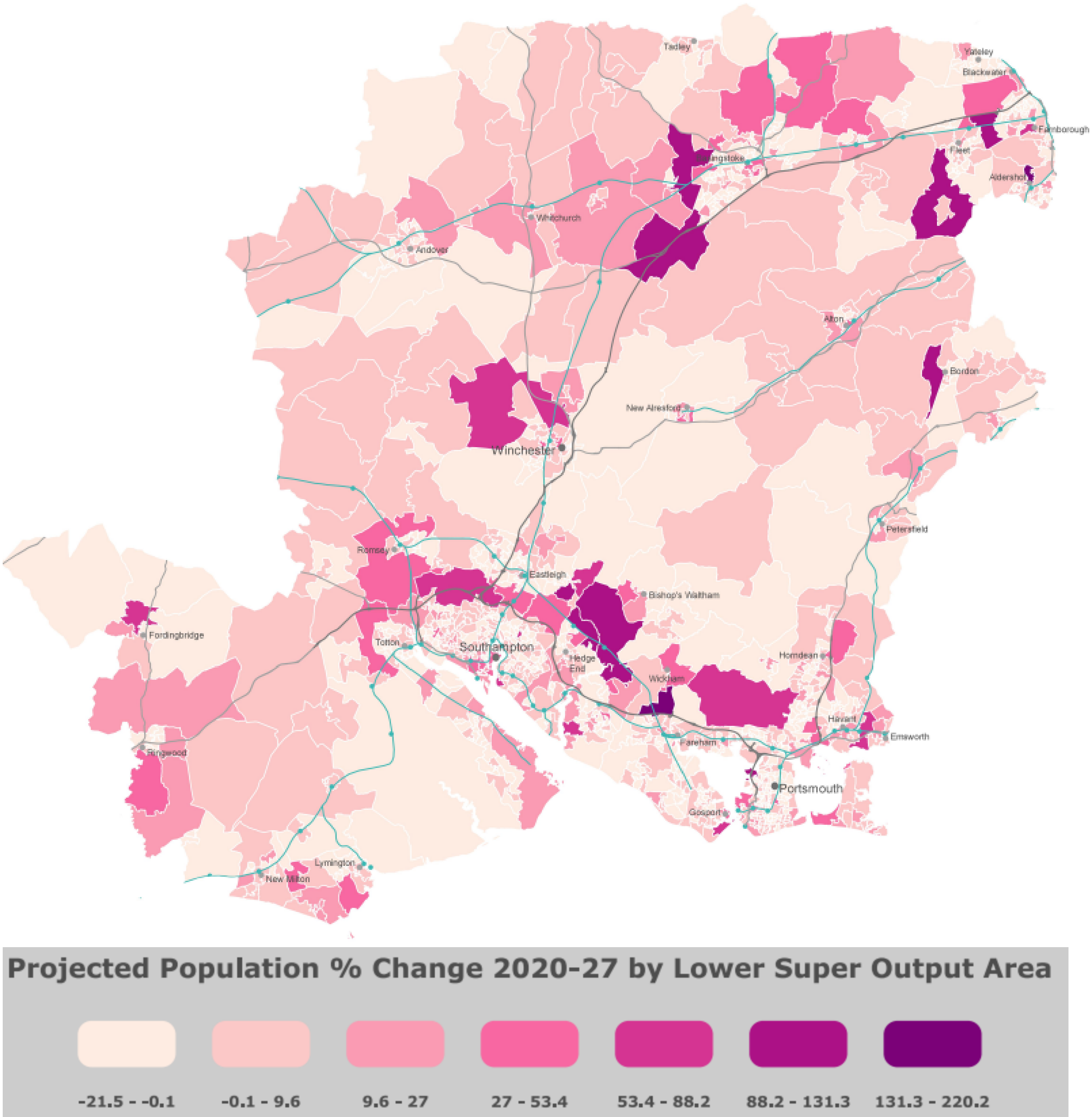
Figure 15. Current and potential EPC ratings of properties in Hampshire



Source: DLUHC

While there are major developments planned, going some way to tackling affordability and creating homes with higher energy efficiency standards, the concern from a physical capital point of view is that much of this is located in the wrong places. Government pressure on local authorities to deliver housing numbers has incentivised bringing forward the easiest sites, which are typically greenfield, on the edge of urban areas, requiring access by car. Figure 16 below shows the pattern of population growth being baked in for the period 2020-27. Predicted growth hotspots are on the edge of urban settlements, such as Manydown in Basingstoke, or along major road transport arteries, the M3 and the M27. This is likely to further embed car usership into Hampshire's transport model and add pressure to the road network.

Figure 16. Projected population growth based upon developments in plan, 2020-27



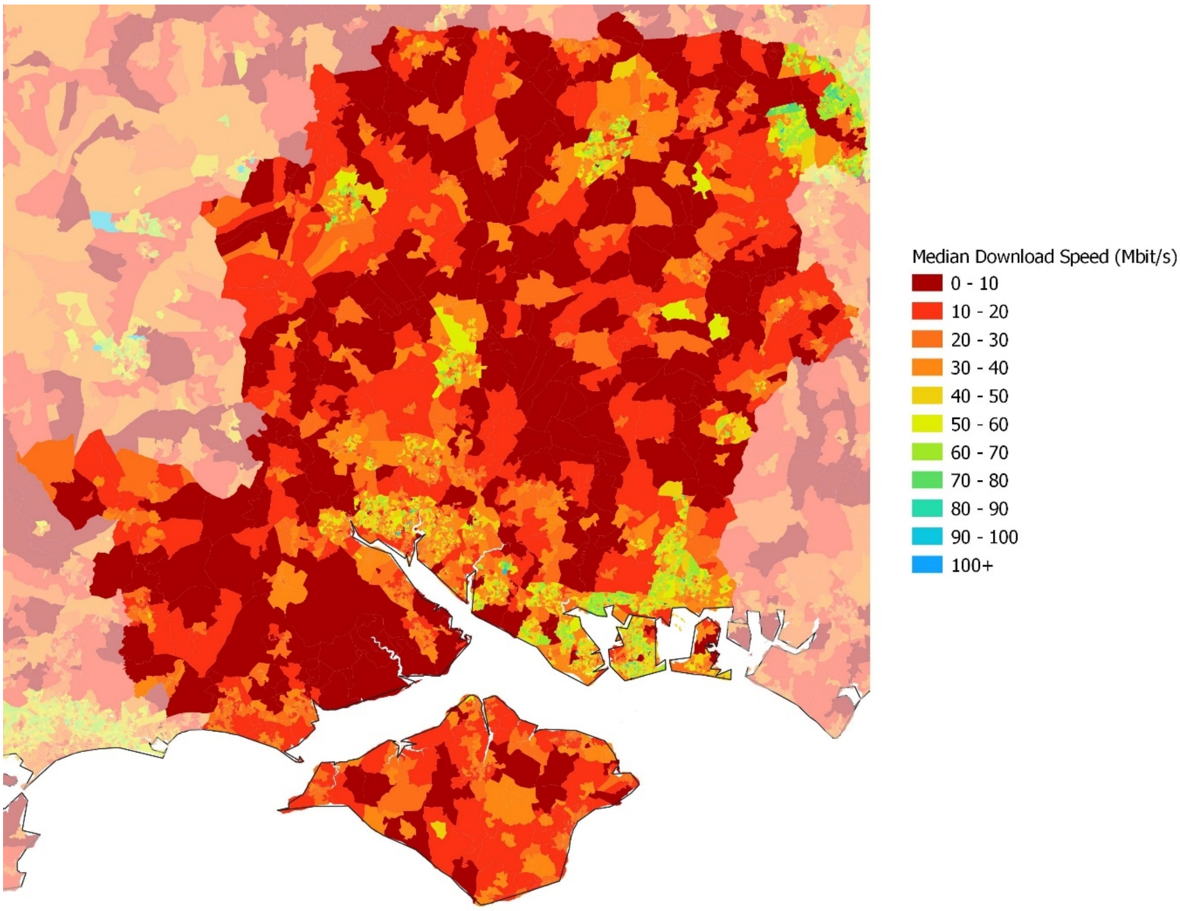
Source: Hampshire County Council

- **Inadequate digital infrastructure in most of Hampshire**

Lastly, digital speeds in much of Hampshire are not what they need to be, particularly as work becomes increasingly digitised. The majority of the County of Hampshire (by area) has median download speeds below 30Mbit/s. This is particularly the case in more rural areas.

This is a combination of a worse offer from providers, but also less willingness to pay for faster speeds on behalf of residents. Either way – the "normal" in many areas is slow broadband. This improves in some more urban areas – particularly in the North East, around Farnborough and Aldershot, where some areas have median speeds that are ultrafast (100 Mbit/s +).

Figure 17. Median download speed in Hampshire, 2021



Source: Ofcom Connected Nations

Interventions

Assets

- **A major programme to start tackling derelict sites, beginning with the County Council's own estate.** Brownfield sites lack many of the planning barriers to development faced by greenfield sites, but often have technical challenges such as land remediation. An audit of the County Council's own derelict sites would be the beginning of a process of looking at derelict sites more broadly. By creating a long-term pipeline, a supply chain can be built to improve the efficiency of the process: identifying uses, undertaking technical assessments, and carrying out work. This can also become a potential revenue stream, increasing the value of HCC's assets, which can be sold to potential users who will support the six capitals.

Policies

- **A proactive transport policy aimed at reducing car ownership.** The new Local Transport Plan (LTP4) has two guiding principles. The first is "significantly reduce dependency on the private car". This goal needs to be established as an overarching one, which will impact on many others – where development is encouraged, which transport interventions are prioritized, with much more focus on walking, cycling, and public transport schemes than road widening or new highways. Achieving this will improve health outcomes, reduce CO2 emissions, protect the environment and support thriving and prosperous places – delivering benefits across a range of capitals. As a key part of this, rapid transit schemes should be brought forward in larger urban areas such as Basingstoke, and HCC can facilitate wider transit systems around Southampton and Portsmouth.

Programmes and Funding

- **A co-ordinated housing retrofit programme** to tackle emissions from housing, create jobs, reduce fuel poverty and improve the health of residents. This needs to work alongside Government initiatives to create a long-term market for retrofitting properties in Hampshire. As part of this, roll out a green building passport scheme to improve awareness of housing improvements and encourage the housing market to better recognise energy efficiency in the price of a house, improving incentives for those able to pay to improve the efficiency of their homes.

Partnerships

- **Establish regeneration and growth partnerships with districts and neighbouring unitary authorities.** Almost all attempts to encourage growth and regeneration via development require co-ordinated approaches across both tiers of local government. However, working relationships between HCC and its districts are often ad hoc, based around specific projects, rather than strategic. Major cross border projects, such as large-scale transport schemes, similarly require a co-ordinated approach. A new model, of using formalised partnerships to cover a range of projects, would allow better co-ordination to grow and improve Hampshire's physical capital stock.

- **A focus on attracting high-quality office space.** Working with office providers, districts, and Business Hampshire, HCC should look to encourage the provision of high-quality office space. While a lot of overall office space is being shed, their remains an appetite for workspaces. If Hampshire wants to attract top companies to locate to

Hampshire it will need to provide more of this, in order not to lose out to surrounding areas that provide more of this.

Measuring progress

Progress on this capital can be monitored using a range of metrics:

- Amount of Hampshire with median download speed above 50 Mbit/s
- Net additions to the housing supply
- Travel time between key work locations
- % of population using active/public transport as main mode
- % of houses EPC C or above

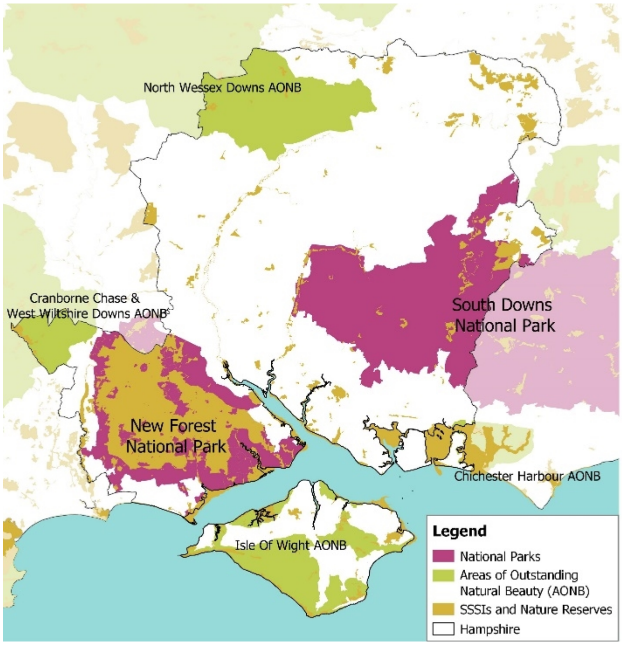
Natural capital

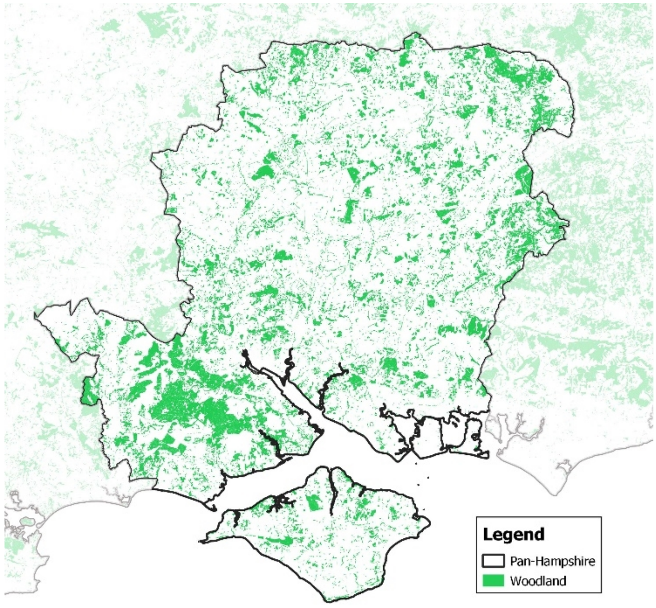
Natural capital describes the existence and quality of physical assets in nature, and indicate the health of the local environment and biodiversity through land, air, water, and living organisms. We consider here natural designations, biodiversity, and environmental threats.

Strengths

- **Many natural designations and significant woodland coverage**

Figure 18. Natural designations (left) and woodland cover (right)



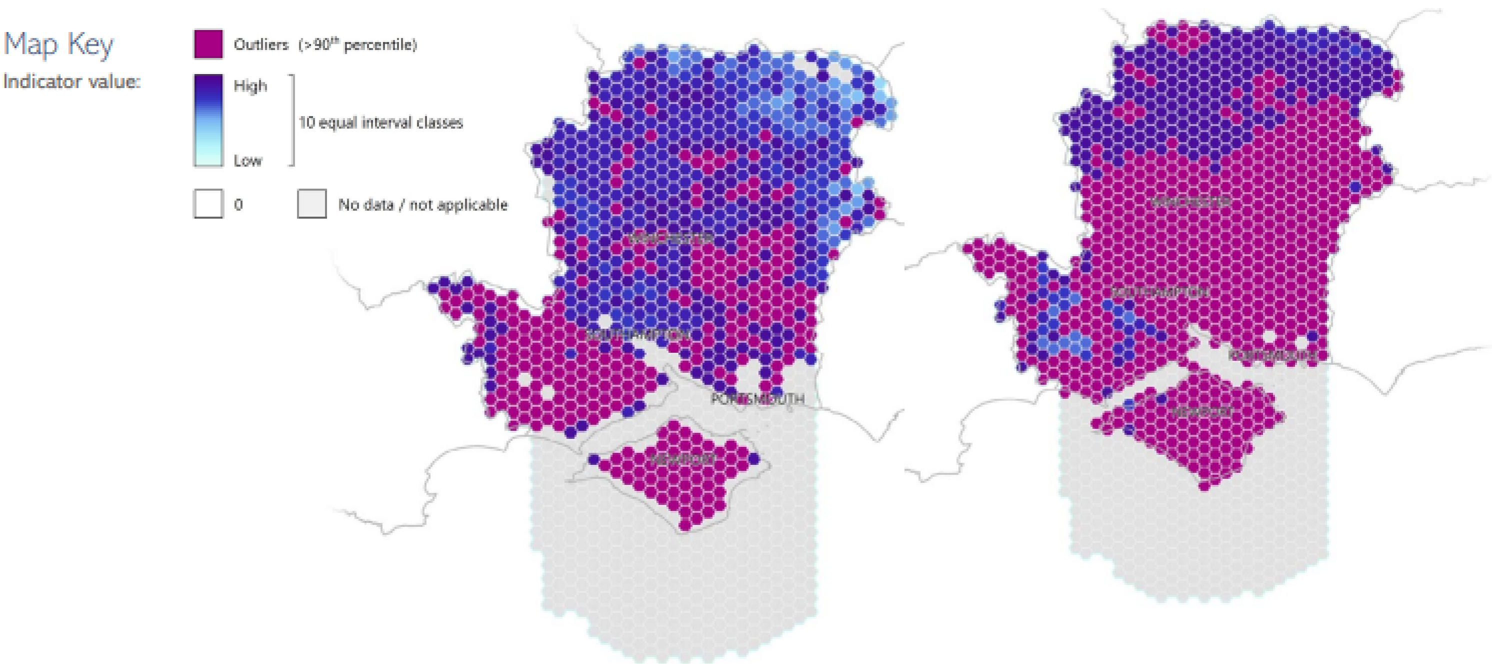


Sources: Ordnance Survey, Forestry Commission

Hampshire, including Southampton, Portsmouth, and the Isle of Wight, has approximately 290 miles of coastline, 148 nature reserves and 362 Sites of Special Scientific Interest (SSSIs). There are also two major national parks – one of which (New Forest) is almost entirely contained within Hampshire. 20% of Hampshire is wooded, well above national averages, with much of this concentrated in the New Forest.

- **Relatively good habitats and biodiversity**

Figure 19. Naturalness of biological assemblage (left) and presence and frequency of pollinator food plants (right)



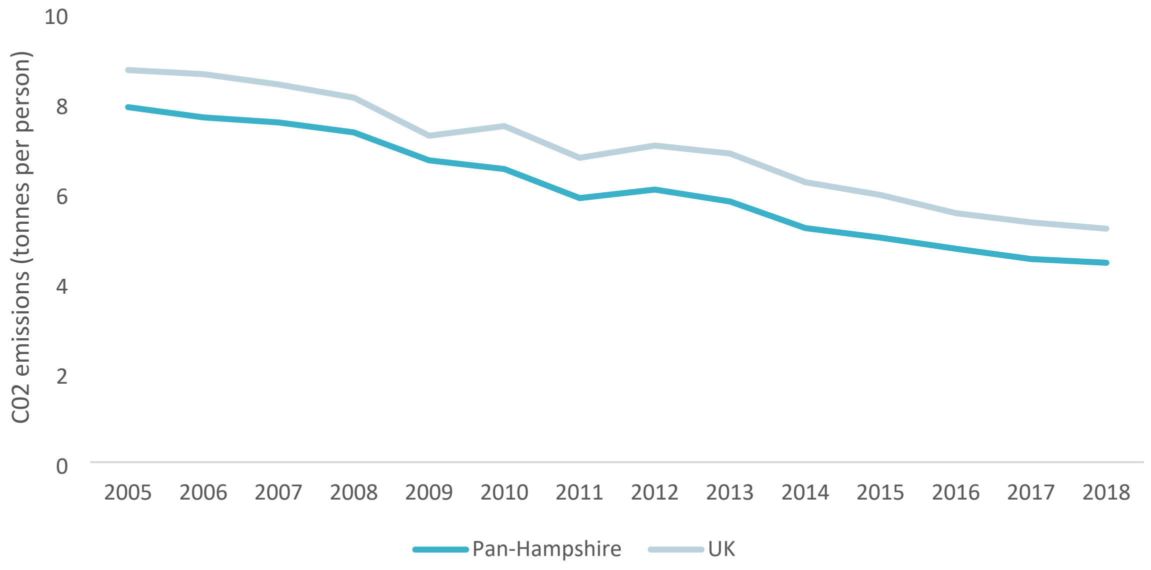
Under the chart: *Source: Hampshire and the Isle of Wight Natural Capital Atlas: Mapping Indicators*

Plant species in Hampshire are indicating generally good habitats, most clearly in protected areas – like national parks, and Areas of Outstanding Natural Beauty (AONBs). There is also a relative abundance of pollinator food plants across Hampshire – though it should be noted this is compared to national averages, where declines have been seen. Hampshire also has the greatest species diversity of all the counties in England.[3]

[3] Hampshire County Council (2018) *Commission of Inquiry – Vision for Hampshire 2050: Evidence summary report, Environment and Quality of Place.* Available at: https://documents.hants.gov.uk/hampshire2050/evidence/theme-4-environment-and-quality-of-place/evidence-summary-report/Theme-4-Hampshire-County-Council-Evidence-Summary-Report.pdf?_gl=1*b882q*_ga*MTM0MjgwMjQ4Ny4xNjQ5MTY0Mzkx*_ga_8ZVSPZWL5T*MTY1NDc2MzYxNy4xLjAuMTY1NDc2MzYxNy4w (Accessed: 08 June 2022).

- **CO2 reduction ahead of the UK with significant sequestration capability**

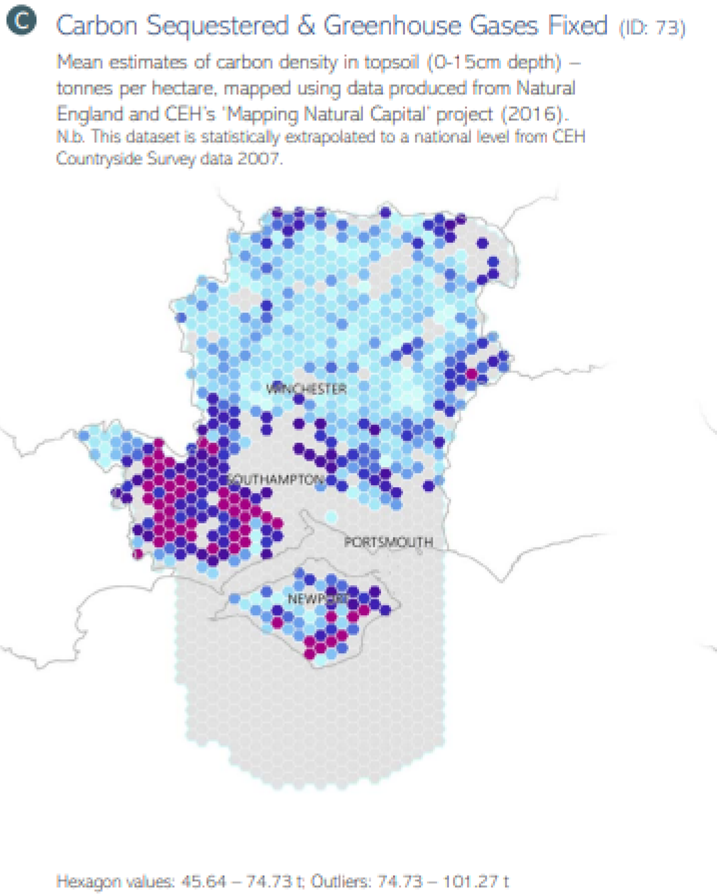
Figure 20. CO2 Emissions (Tonnes Per Person)



Source: BEIS, UK Local Authority CO2 Estimates, 2018.

CO_2 emissions per head in Hampshire are lower than the national average, and falling at a similar speed. There are, however, signs this may be slowing, and many of the "easier" wins – such as phasing coal out of the power system – have already been largely accomplished, leaving more challenging tasks ahead – i.e. decarbonising transport and housing.

Hampshire also has areas that sequester a significant amount of large quantities of Carbon Dioxide, particularly the New Forest and parts of Isle of Wight. These natural assets must be protected to be able to continue to play this important role.



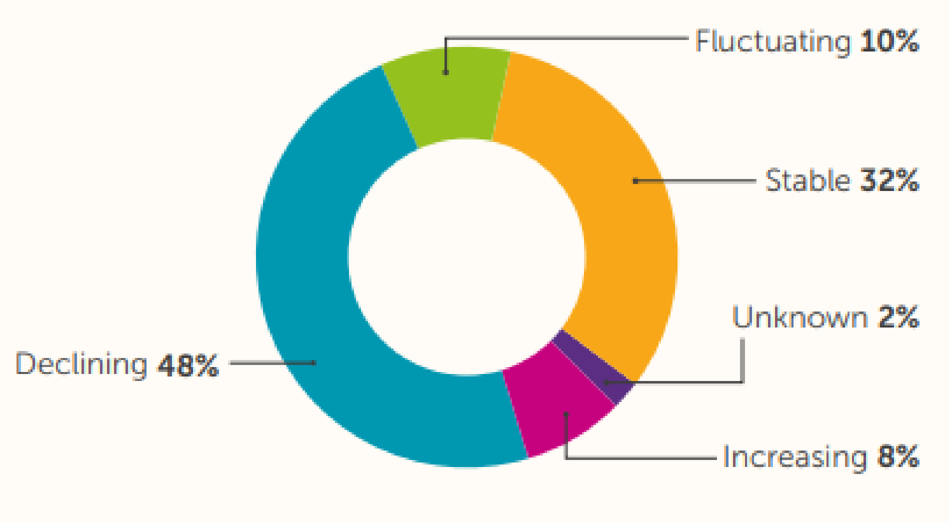
Source: Hampshire and the Isle of Wight Natural Capital Atlas: Mapping Indicators

Weaknesses

- **Ongoing threats to biodiversity**

Although Hampshire performs relatively well on some biodiversity markers, there are significant threats to its biodiversity. Since a previous study, which found that 35% of Hampshire's most notable species were declining, a more recent review in 2020 found that 48% were declining. This includes the Great Crested Newt, Nightingale, and Green-winged orchid. Only 8% of species are known to be increasing, including the Dartford warbler and Silver-washed Fritillary Butterfly.

Figure 21. 50 of Hampshire's most notable species, by

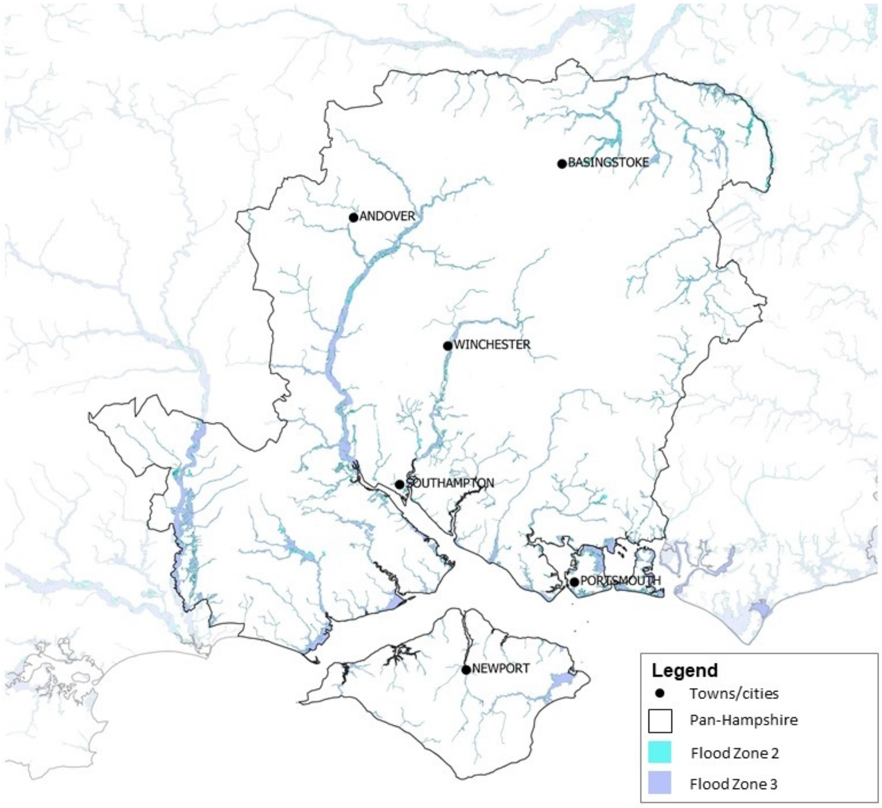


population change

Source: Hampshire 2050 State of Hampshire's Natural environment

- **Flood risk – being worsened by climate change**

Figure 22. Flood Zones in Hampshire



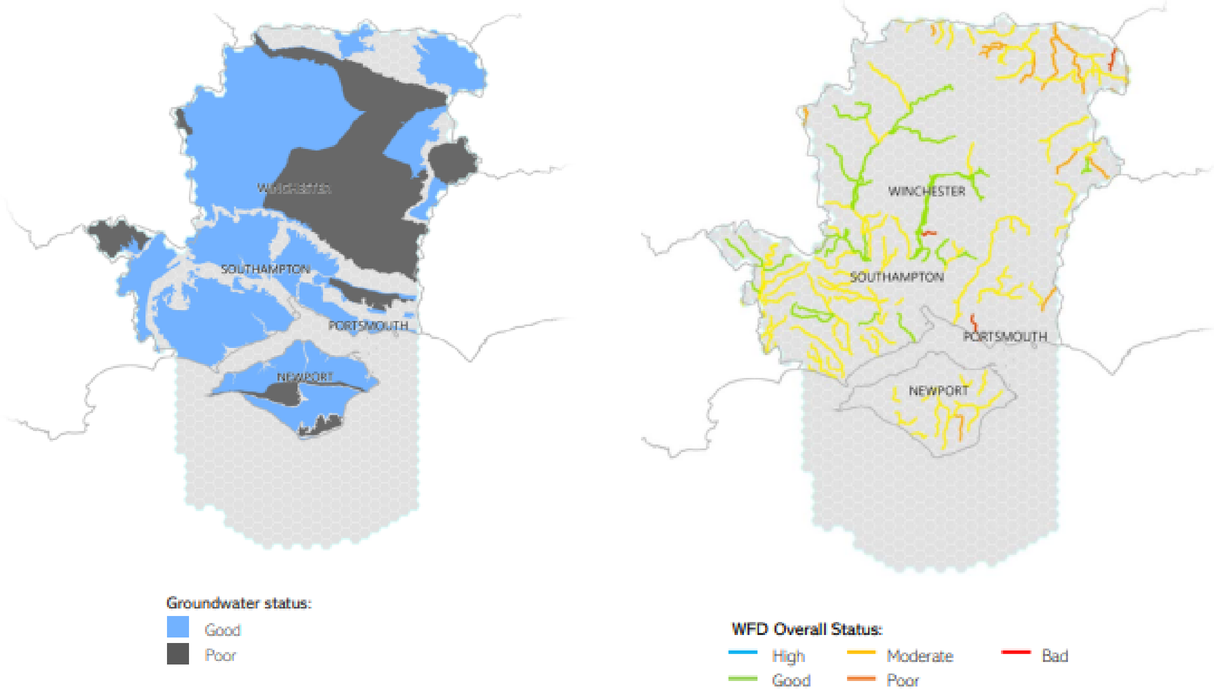
Source: Environment Agency

Significant rivers in Hampshire include the Itchen, the Test, the Avon, and the Hamble. These each have flood zones around them – in many cases making development challenging. Flooding issues are likely to worsen. Climate change will bring more days of heavy rain, risking to overwhelm flood management systems. At the same time, rising sea levels are putting much of the urban South of Hampshire at risk, threatening livelihoods and the productive capacity of the economy.

- **Issues with water resources and water pollution in much of Hampshire**

On the east side of Hampshire, and small pockets elsewhere long-term water abstraction need exceeds the available water resources. Water quality is also not as good as it should be, with poor quality and even bad watercourses, most notably (though not exclusively) situated in the North East of Hampshire. There are no watercourses at all with high quality status.

Figure 23. Natural aquifer function (left) and water quality (right).



Source: Hampshire and the Isle of Wight Natural Capital Atlas: Mapping Indicators

In Hampshire's most significant watercourse, the Solent, levels of nitrate and phosphate pollution have reached unacceptable levels, compelling local authorities to introduce a credits system to manage the issue. This means poor water quality is directly impacting on the ability of Hampshire to bring forward physical capital in the form of houses.

Interventions

Assets

- **A decarbonisation programme focused on Hampshire County Council's estate.** Hampshire can create a programme to tackle these buildings in a systematic manner – including adding solar panels, improving insulation, and greening buildings and highways to absorb air pollution.

- **Use of county farms and other agricultural assets to support biodiversity.** Hampshire is responsible for 1,854 ha of county farmland. We will use this asset to ensure sustainable farming practices, including seeking to minimise use of pesticides, elements of rewilding, and planting hedgerows.

Policies

- **Use the Local Nature Recovery Strategy (LNRS) to fight back against biodiversity loss.** Defra describes the LNRSs as "a new, England-wide system of spatial strategies that will establish priorities and map proposals for specific actions to drive nature's recovery and provide wider environmental benefits."[4] The LNRS is a once in a generation opportunity to tackle threats to biodiversity, embedding the enhancement and protection of nature in all decisions.

Programmes and Funding

- **Developing financial mechanisms to recognise the value of biodiversity**. This could include a credits system where any negative impact of development on biodiversity would be required to offset this somewhere else in Hampshire. The spatial approach taken to this would be guided by the LNRS.

Partnerships

- **Continued close working with the National Parks and AONBs.** Within Hampshire, we have a wealth of expertise concentrated in the organisations established to promote and protect special spaces for nature. As we seek to roll out

- **A partnership to deliver skills for sustainable farming.** Sparsholt College is a major training provider in Hampshire for the agricultural sector, and teaches courses in land management. HCC will work alongside Sparsholt to analyse the skills coming out of the college and develop pathways for young people to manage farmland in Hampshire in a way that supports environmental goals.

- **A marine protection partnership with local universities**. Southampton University in particular has noted expertise in marine studies. Work with the university can help to understand the challenges facing marine life off Hampshire's coast, and how this is connected to development and agricultural practices. Constructive engagement on research programmes could lead to trials of new ways to manage water resources and protect marine life.

Measuring progress

Progress on this capital can be monitored using a range of metrics:

- Water quality at key locations across Hampshire, with an overall decrease in nitrate and phosphate levels in the Solent

[4] https://consult.defra.gov.uk/land-use/local-nature-recovery-strategies/

- CO_2 emitted per person, both in total and across different sources (domestic, transport, energy, etc.)
- Number of species where the overall population is diminishing

Human capital

Human capital refers to the health, both mental and physical, and skills of the population. It enables people to attain personal, social, and economic wellbeing and is a core determinant of labour productivity.

To understand Hampshire's human capital, we look at the skills, health, and employment levels of the population.

Strengths

- **A strong a successful network for education and skills providers and strong educational attainment**

Skills and education are vital assets of human capital, which contribute to increased productivity and profitability. While it is an intangible asset, investing in people's skills and training will increase economic growth. However, human capital in terms of skills and education can depreciate through lack of skills or poor attainment, long periods of unemployment and the inability to keep up with technology and innovation.

Overall, Hampshire's education system performs well, with 27 ESFA providers registered in Hampshire delivering post-16 education and training, and 95% of them graded 'good' or 'better' by Ofsted, including Hampshire Training Providers.[5] There are also a number of strong performing secondary schools in Hampshire, including Thornden School, The Westgate School, and Calthorpe Park being in the top 3 based on Progress 8 scores and where 96-97% of students stay in education or enter employment (2017 leavers).[6]

Educational attainment is high in Hampshire, with 58.8% of students attaining Level 3 at 19 in 2018, compared to 58.3% in the South East and 57.2% in the UK.[7] Similarly, 65.6% of primary school pupils in Hampshire meet or exceed age-related expectations, particularly in Hart (73%) and Winchester (70.1%) which both perform well above the 62% average in England. Hampshire also performs above the national average at GCSE, with 45.5% of pupils gaining GCSEs at grade 5 or above in English and Maths in 2017, compared to 42.7% nationally.[8]

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[5] Hampshire County Council (2020) *Hampshire Skills Strategy and Action Plan.* Available at: https://documents.hants.gov.uk/education/Hants-SkillsStrategyActionPlan.pdf (Accessed: 01 June 2022).
[6] Department for Education (2019) *Overall performance at end of key stage 4 in 2019 – all pupils*. Available at: https://www.compare-school-performance.service.gov.uk/schools-by-type?step=default&table=schools&region=850&geographic=la&for=secondary (Accessed: 01 June 2022).
[7] Hampshire County Council (2020) *Hampshire Skills Strategy and Action Plan.* Available at: https://documents.hants.gov.uk/education/Hants-SkillsStrategyActionPlan.pdf (Accessed: 01 June 2022).
[8] Hampshire County Council (2018) *Vision for Hampshire 2050: Evidence summary report Work, Skills and Lifestyle*. Available at: https://documents.hants.gov.uk/hampshire2050/evidence/theme-3-work-skills-and-lifestyle/evidence-summary-report/Theme-3-Hampshire-County-Council-Evidence-Summary-

While Hampshire's children generally perform well at Key Stage 1, 2, and 4, however, when compared to national averages, fewer young people are progressing to higher education after college (54% in Hampshire compared with 61% nationally).[9]

- **Hampshire has a relatively healthy population**

Health is an important determinant of human capital; poor health can have a major negative bearing on the ability to work productively.

In the 2011 census, 49.1% of Hampshire's population self-defined themselves as being in very good health, with less than 1% seeing themselves as having very bad health. While the differences compared to England and Wales are small, they are still notable.

Source: *Hampshire County Council Equality and Diversity Factsheet*

Hampshire also sees a low economic inactivity rate of 17.6%, compared with 19.2% in the South East and 21.6% in the UK, with less of this stemming from long-term sickness and disability – 2.6%, compared to the South East (2.9%) and England and Wales (4.2%).

Hampshire has a high life expectancy (LE) for males (81.2) and females (84.4) which is above both the English and South East average. Healthy life expectancy (HLE) – the amount of life lived in good health is 66.0 for males and 67.0 for females in Hampshire, which is again higher than both the English and South East average. Overall, Hampshire has a relatively healthy population with good life outcomes.

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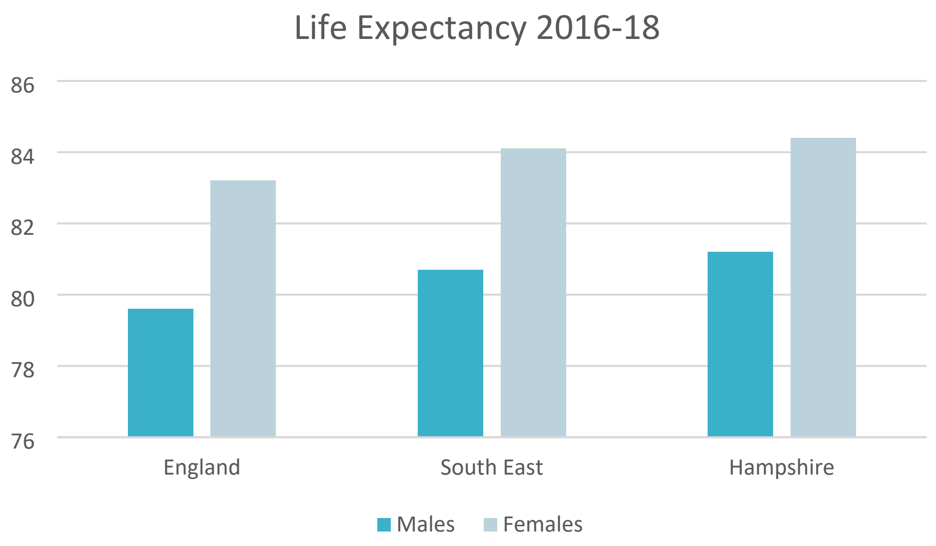
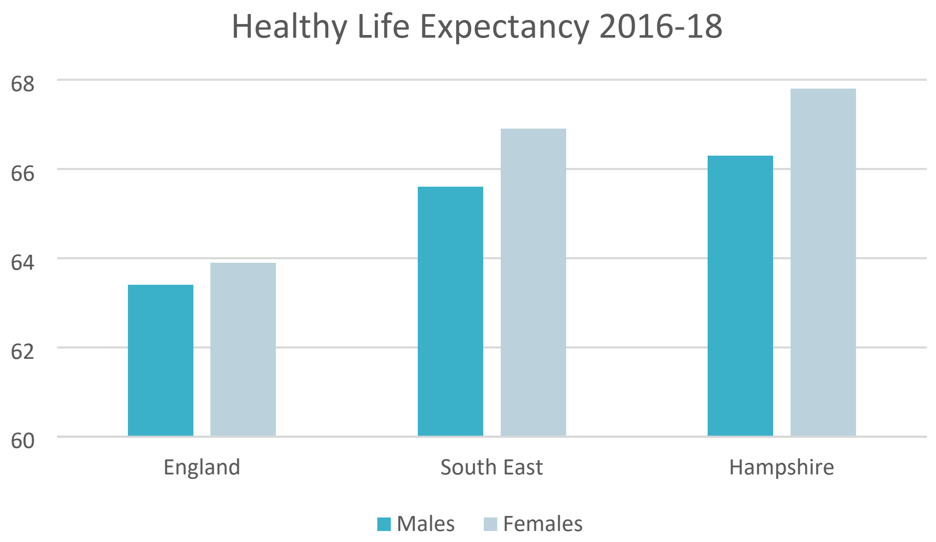
[9] Hampshire County Council (2020) *Hampshire Skills Strategy and Action Plan.* Available at: https://documents.hants.gov.uk/education/Hants-SkillsStrategyActionPlan.pdf (Accessed: 01 June 2022).





Source: *ONS Life expectancy (LE), healthy life expectancy (HLE) and disability-free life expectancy (DFLE) at birth and age 65 by sex, UK, 2016 to 2018*

However, it is important to note that there are significant discrepancies across the county. For males, Hart has the highest life expectancy in Hampshire at 82.9, but Gosport falls behind by 3 years at 79.3. For females, on the other hand, New Forest has the highest life expectancy in Hampshire at 85.5, compared to Rushmoor which has the lowest at 82.7.

- **Hampshire overall has high levels of employment and good wages**

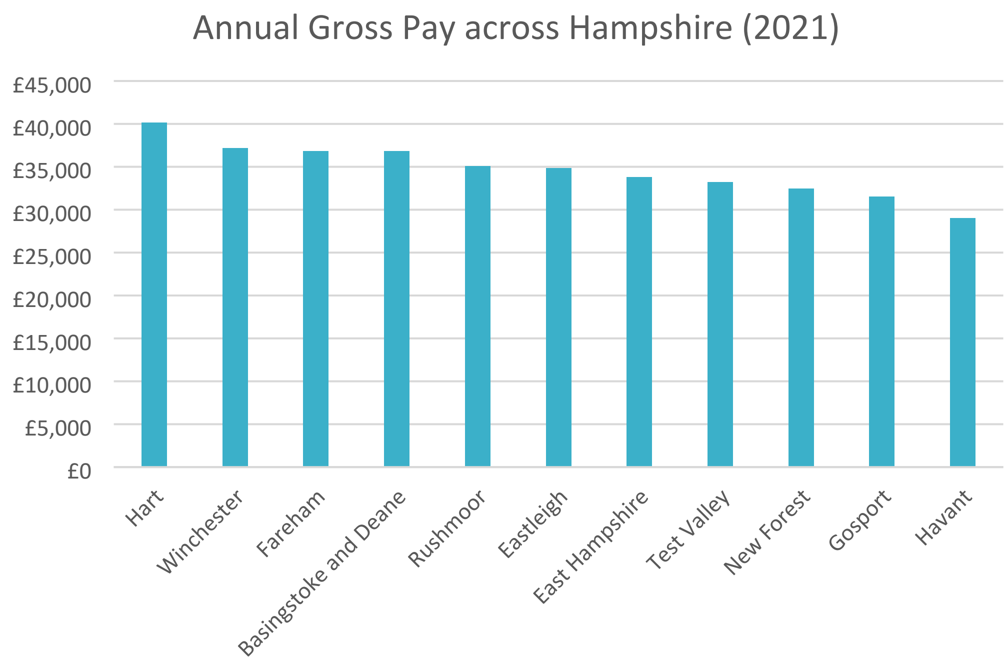
Better employment and wages are key benefits of increased human capital. By improving human capital through training and education, people become more productive and improve their standard of living.

Employment levels across Hampshire are generally high at 82.5%, compared to the England average of 75.5%. Youth unemployment (those aged 16-24) is also low at 8.8%, compared to the England average of 11.3%.

Hampshire also sees an average annual pay of £34,736 in 2021, which is higher than both the England average (£31,490) and the South East average (£33,983).

***Source**: ONS Annual Survey of Hours and Earnings – Resident Analysis 2021*

However, similar to life expectancy, there is significant disparity across Hampshire, with Hart seeing the highest average annual pay at £40,172 and Havant seeing the lowest average annual pay at £29,041, a difference of over £10,000.



***Source**: ONS Annual Survey of Hours and Earnings – Resident Analysis 2021*

Weaknesses

- **Hampshire's older population is set to increase, while its working-age population decreases**

With a population that is forecast to age, in the absence of more people moving into the area, Hampshire's human capital is set to shrink. When people retire their human capital is not all lost – they may continue to contribute to society and use their skills for voluntary and community purposes. However, they will typically spend less time in a week applying their skills in this way than when they were in work, and the economic value of their contribution falls.

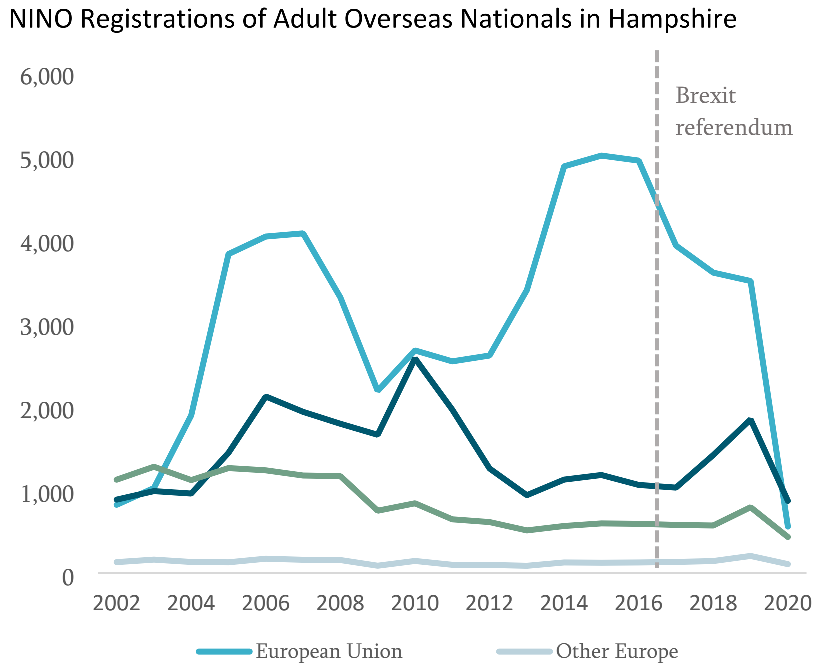
It is estimated that Hampshire's elderly population is set to increase by 6.3%, which is the equivalent of 41 elderly people (65+) for every 1,000 people of working age (16-64) by 2027.[10] And a Small Area Population Forecast (SAPF) suggests that in 2024 there will be 124.2 elderly people for every 100 children. Along with a shrinking working-age population and the number of children, the increase in the older population will ultimately put pressure on Hampshire's current health and care services, economy, and public finances.

- **Hampshire has seen a loss of young people and EU migration**

The migration of people adds to the human capital formation as it facilitates the utilisation of inactive and underdeveloped skills of individuals. Having people move in and out of the county will support and improve Hampshire's human capital, however, recently the county

[10] Ibid.

has seen a dramatic drop in migration in 2020 due to COVID-19, particularly those migrating from the EU which was already on a downward trend following Brexit.



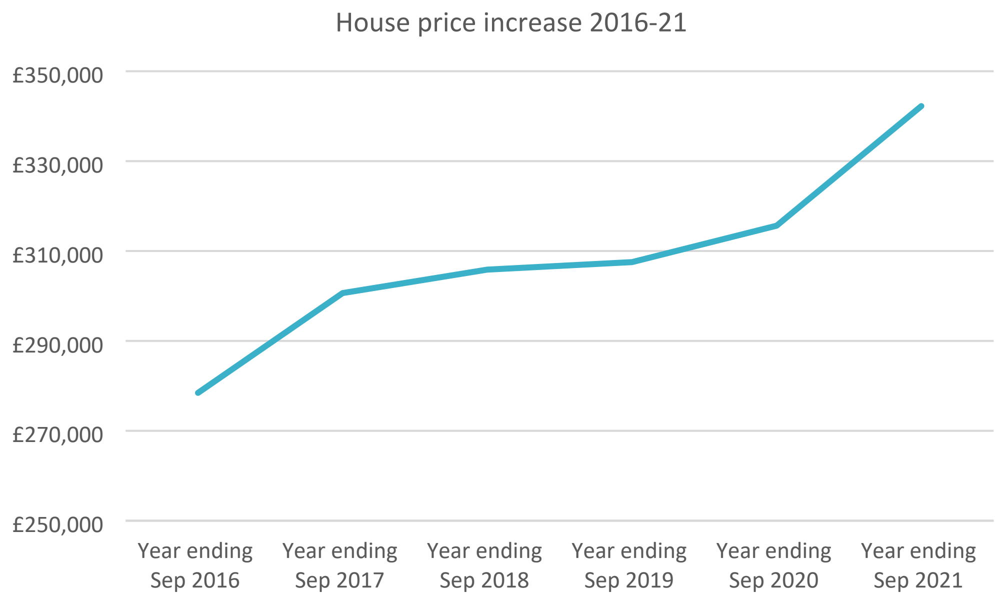
Source: *DWP Stat-Xplore*

Inward migration, on the other hand, did increase slightly from other areas, such as from Asia. Nonetheless, this remains below a previous high in 2010, and it is unclear what will happen to international migration following the pandemic.

The EM3 area has also seen a net loss of young people for university and graduation, but the region has benefitted from a sustained flow of domestic migration of 30–45-year-olds seeking a better quality of life.[11] However, this highlights a major challenge for Hampshire to attract younger people who currently are not keen on the county's offer. It is important for Hampshire to make it a place attractive to all age groups, though particularly to those in their 20s, to bring in a wealth of knowledge and skills.

Another challenge facing young people and especially those looking to get on the property ladder is the increase in average house prices in Hampshire. The average house in September 2021 cost £342,426 which was an 8.4% increase from September 2020, and a 23% increase since September 2016. This is almost 10 times higher than the average annual income (£34,756), meaning each year Hampshire is becoming less affordable for young people.

[11] Enterprise M3 LEP (2020) *Skills and Labour Market Analysis.* Available at: https://enterprisem3.org.uk/sites/default/files/2020-02/EM3%20Skills%20and%20Labour%20Market%20Analysis%20(FINAL).pdf (Accessed 07 June 2022).

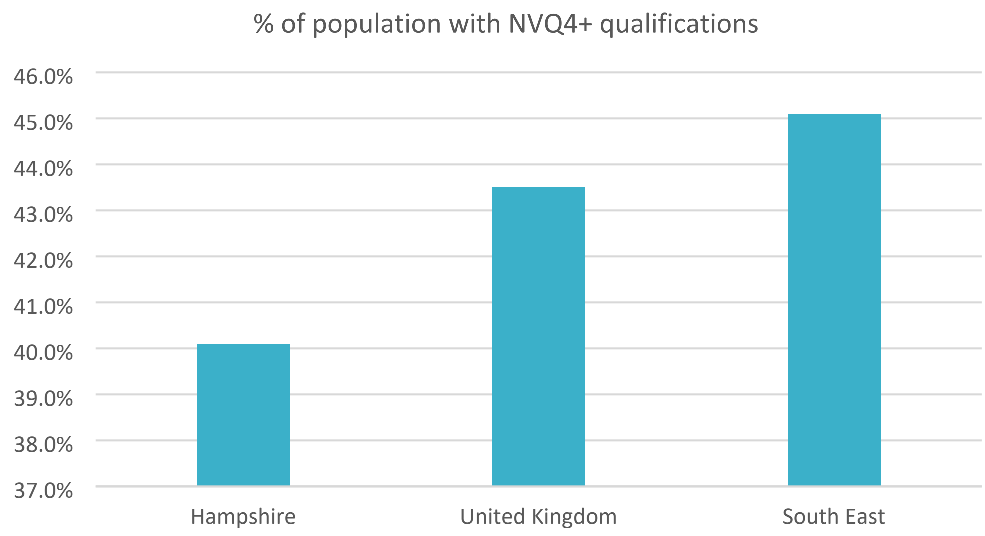


Source: *ONS House Price Statistics for Small Areas (HPSSAs)*

- **Lower proportion of Hampshire's younger population go on to higher education or start apprenticeships**

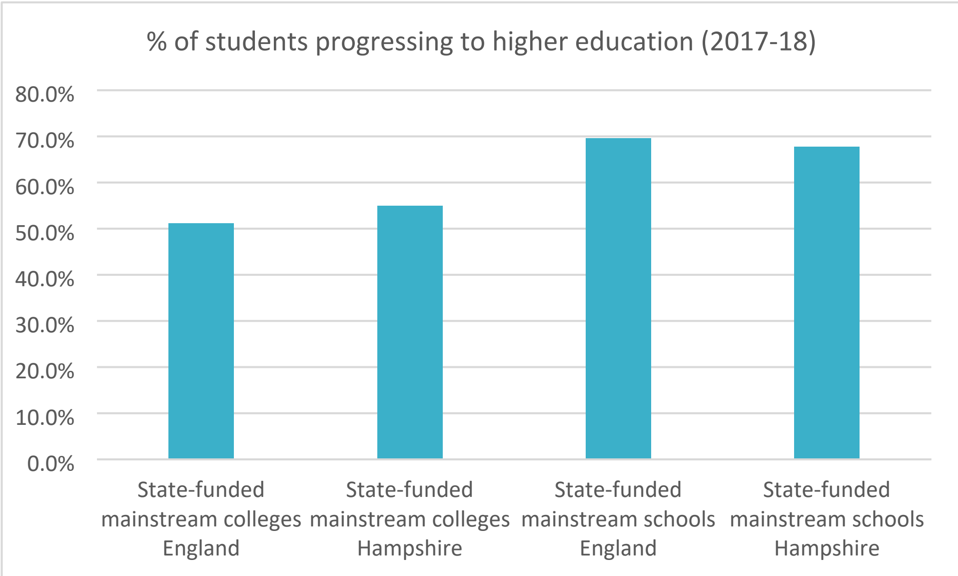
As skills and education are vital to increased human capital, the fact that less of Hampshire's younger population are going on to higher education or starting apprenticeships proves to be a significant challenge for Hampshire as it is losing its pool of future knowledge and skills.

40.1% of the working-age population in Hampshire are qualified to NVQ L4+ in 2021, which is lower than the South East (45.1%) and UK (43.5%), but this varies significantly between districts in Hampshire, ranging from 48.7% in Winchester to 32.1% in Havant.



Source*: ONS Annual Population Survey 2021*

Between 2017-18, while a higher-than-average proportion of young people continue in education or employment after completing Key Stage 5, fewer young people from state-funded mainstream schools in Hampshire (67.7%) progress to higher education than nationally (69.9%), though there is a slightly higher percentage of students from state-funded mainstream colleges that go onto higher education (54.9%) than nationally (51.1%)



Source: *Department for Education Progression to higher education or training*

Similarly, in Hampshire, only 1.8% of young people in 2017-18 went on to do an apprenticeship after leaving school/college. There is a need to increase progression into Level 4 and 5 learning as well as raise uptake of apprenticeships to raise skills levels to meet the needs of the local labour market.

Interventions

Assets

- **Increase the number of affordable housing developments across Hampshire.** The county is increasingly becoming unaffordable to young people, particularly families. The cost of housing is increasing, which means Hampshire is losing its supply of skills and new talent. Building affordable housing, using the County's land where possible and appropriate, will improve Hampshire's offer to young people and attract them to locate in the region. This will be critical for the continued growth of human capital in Hampshire.

- **Use HCC assets to integrate services and deliver support and care when and where people need it.** HCC's extensive estate of community centres and healthcare premises should be developed into community hubs, providing residents wraparound care across a range of services. This integrated approach can prevent people falling out of the system, becoming long-term sick, and human capital being lost. During the pandemic, our public health partners in local authorities and the NHS across the area have worked closely together, including cross-border in our neighbouring Unitary Authority areas. We want to build on this joint working to ensure seamless access to health and early years services and advice for all our residents. A particular focus on access should be in communities where there are pockets of lower health and wellbeing outcomes.

Policies

- **Pilot reforms to strengthen the adult social care workforce**. As with places across the country, Hampshire is experiencing recruitment challenges in social care services, raising issues around both providing good work in the sector, and ensuring residents receive the care they need. Much of the large geography could benefit from more geographically bound domiciliary care teams to reduce required travel and secure care provision. In the south of the County, Hampshire County Council works with neighbouring Unitary Authorities in delivering and providing care facilities and services. This can be built on to implement smart single commissioning across the area, that would include local recruitment and training so that contracts aren't competing across the patch to deliver in different places, and our workforce can benefit from local domiciliary care delivery areas and good jobs. This would also include exploring how to support micro businesses delivering social care across our rural populations.

- **Create a Skills Assembly with employers, representatives including the Chamber of Commerce and FSB, local colleges, and providers.** This would build on the work of the LEP Skills Advisory Panels and develop the approached being piloted through DfE's Strategic Development Fund led by Fareham College and the Chamber of Commerce. It would work strategically to support decision making on devolved funding and to adapt our skills system in Hampshire so that it is agile and delivers skills that our employers need now and in future. This responds to Government policy – through the Skills and post-19 Education Act – putting employers at the heart of delivering the skills employers need now and in future.

- **Review current careers advice and support in schools and colleges.** It is important that all students and young people are aware of their opportunities and career paths after leaving school or college. It is particularly important for NEET or those at risk of being NEET to have the same support that other students receive, and the right forms of alternative provision are made available to young people.

Programmes and funding

- **Implement an overarching skills and training programme to develop and enhance technical skills and education.** There is currently a alack of strategic alignment of technical education provision, with many organisations working in isolation. As the skills gap in Hampshire is widening, it is important to ensure that young people are aware of the opportunities available and can access the different routes to career development.

- **Undertake a scoping exercise to help identify business needs around skills and employment.** Businesses, particularly SMEs, often struggle with understanding their skills needs and gaps usually due to a lack of financial support and capacity. Running a programme for businesses to identify their skills needs and either providing them with bespoke support or directing them to the relevant body will ensure that businesses can increase investment in their staff.

Partnerships

- **Partner with skills providers to focus on training for older workers.** While Hampshire has many good skills providers, there can be informational barriers preventing the right people getting the right training at the right time. An older population will also need more skills training during the working lifetime – most of 2032's workers are already in the labour force now. HCC can co-ordinate activity between employers, workers, and training providers to fill these skills gaps, such as basic digital skills, as well as more technical courses.
- **Partner with businesses to focus on good health in the workplace.** Many workers are returning to the office after working from home for the entirety of the pandemic. While some businesses adopt a hybrid model, it will be important to ensure employees have good working environments both at home and at the office. Having a job is good for our health, but the quality of our jobs makes the difference, and ensuring people have a safe and supportive working environment will keep them well and in work for longer. HCC can appoint a Workplace Health Co-Ordinator with the sole remit of engaging businesses to bring about change, discussing what support is needed and recognising employer contribution to worker health and wellbeing.

Measuring progress

Progress on this capital can be monitored using a range of metrics:

- Population skills levels
- Healthy life expectancy, life expectancy, morbidity and mortality statistics
- Educational attainment and progression to higher education and/or training
- Apprenticeship starts
- Employment levels
- Productivity levels and economic activity

Knowledge capital

Knowledge capital is the intangible value of an organisation or place made up of its knowledge, relationships, learned techniques, procedures, and innovations. It refers to the accumulated 'best practices' and 'ways of doing things' that arise from learning-by-doing and which enable innovation in management and business processes. Having employees and residents with skills and access to knowledge capital will put Hampshire at a comparative advantage, fostering innovation to drive up productivity.

Strengths

- **Hampshire sees relatively high levels of innovation across the county**

Innovation is the source of growth and competitiveness of regions and countries, and having innovative businesses in Hampshire will ultimately increase the county's knowledge capital and bring prosperity through new opportunities to innovate.

The South East is already considered a powerhouse of advanced engineering R&D, particularly in the aerospace and defence, digital, marine and maritime, telecoms and automotive industries.

Large technology firms have based themselves in Hampshire, such as IBM's Emerging Technology team in Hursley which is its main R&D lab. Major ICT firms also have a substantial presence in the region, with Fujitsu, Vodafone, Oracle, Telefonica, and Huawei based in the county.

Digital technology represents around 10% of Hampshire's economic output and digital tech is a major growth area due to the concentration of the digital ecosystem and existing strengths in AI, gaming, and data science.[12]

A profile on the EM3 LEP area taken from the Smart Specialisation Hub shows that Space and Digital Services are the top two sectors which receive grants offered by Innovate UK. The EM3 area also has 1.13 times more innovative active firms than the LEP-wide average, particularly in telecoms and digital communications which see a high level of activity.[13] A profile on the Solent LEP area also taken from the Smart Specialisation Hub shows that the business enterprise spending on R&D in the Solent is higher than average, and that Aerospace and Advanced Materials are the top two sectors receiving Innovate UK grants. Both LEP profiles, covering all of Hampshire, highlights the high levels of innovation and significant amount of spending and investment on R&D in the area.

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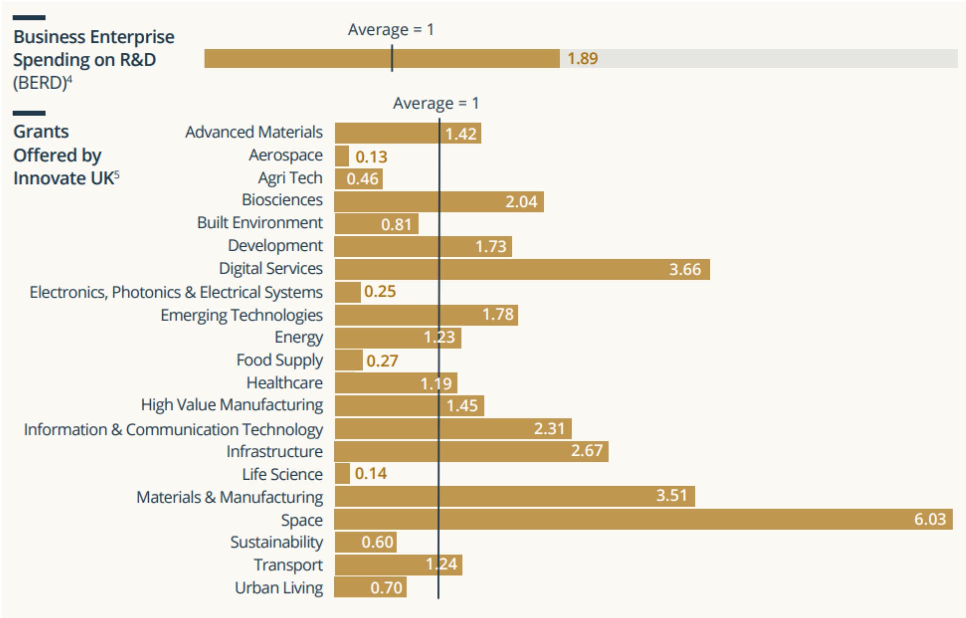
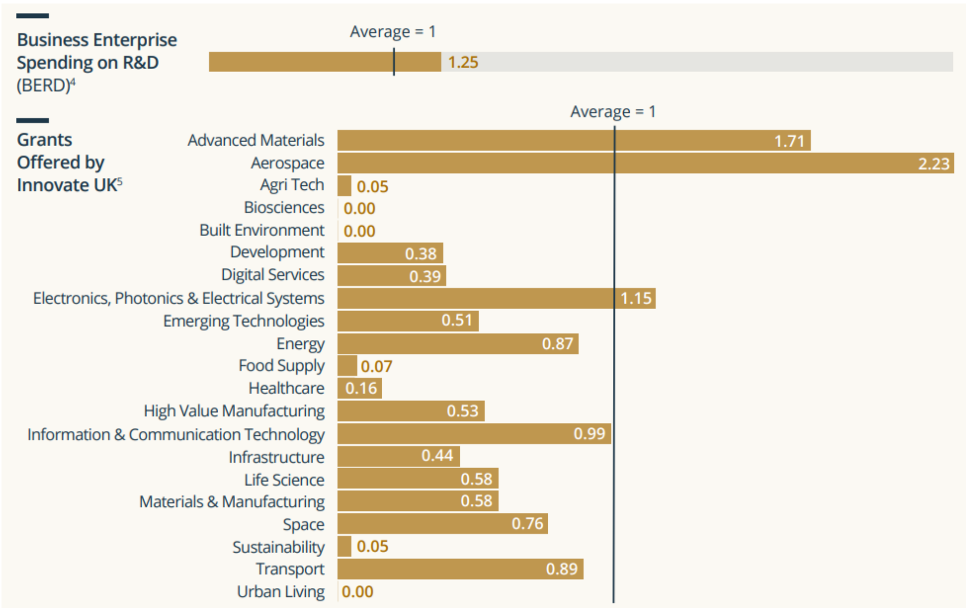
[12] Business Hampshire (2021) *Life Sciences Proposition*. Available at: https://businesshampshire.co.uk/3d-flip-book/test/ (Accessed: 07 June 2022).
[13] Enterprise M3 (2020) *Sectors & Innovation*. Available at: https://enterprisem3.org.uk/sites/default/files/2020-02/sectors%20%26%20innovation%20evidence%20base%20-%20interventions%20260220.pdf (Accessed: 07 June 2022).



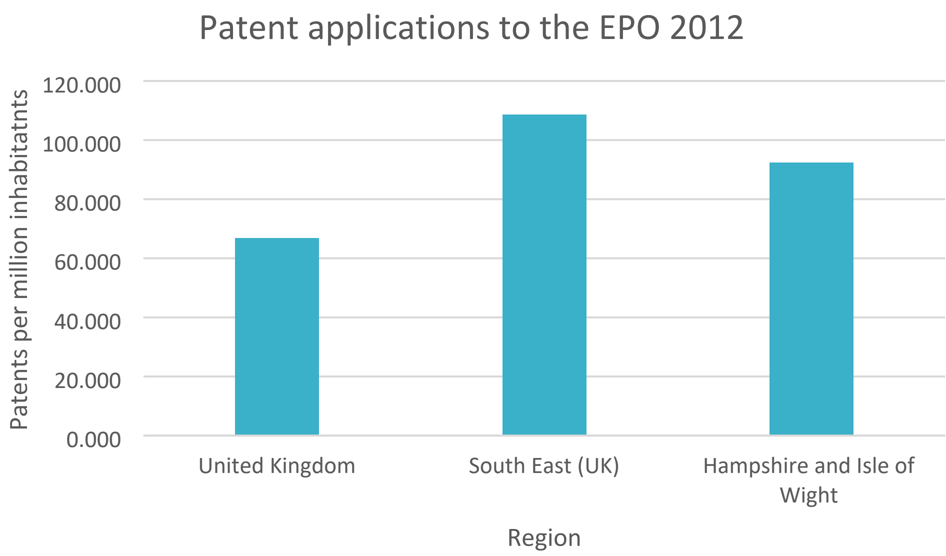
***Source:** Smart Specialisation Hub Enterprise M3 LEP Profile*



***Source:** Smart Specialisation Hub Solent LEP Profile*

Similarly, patents can support understanding of the amount of research and entrepreneurship of an area. in 2012, Hampshire and Isle of Wight outperformed the national average (66.9) for the number of patent applications per million inhabitants (92.4) though lagged the South East (108.6). Southampton was a relatively leading contributor to patent applications (114.1) with Hampshire County Council the second leading contributor to patent applications in 2012 (103.5).[14]

[14] Beauhurst (2022) *Spotlight on Spinouts: UK academic spinout trends.* Available at: https://www.beauhurst.com/research/spinouts-



Source: *Eurostat Patent applications to the EPO by priority year by NUTS 3 regions*

In 2022, data from Beauhurst showed that Southampton ranked 10th in the UK on both the number of projects (215) and size of grants (£52.4m) from Innovate UK. 41 spinouts since 2011 were tracked from University of Southampton, with 21 of these (51.2%) raising equity. One example is Synairgen which developed a new drug during the COVID-19 pandemic that has the potential to reduce hospitalised COVID-19 patients' odds of developing severe symptoms by up to 80%.[15]

Hampshire also sees a large concentration of engineering businesses, with a number of aerospace and defence sector companies around Farnborough, including QinetiQ, BAE Systems, and Airbus UK.

- **Hampshire has a fairly strong offer of incubation space for start-ups**

Incubation space and business accelerators are vital to knowledge capital as they foster business growth and knowledge and skills transfer. Hampshire already has a fairly strong offer of incubator space for start-ups across the county including:

spotlight/#:~:text=Spotlight%20on%20Spinouts%202022%20%7C%20Free%20Report%20%7C%20Beauhurst&text=Our%20platform%20is%20the%20best,Take%20a%20look%20for%20yourself.&text=Everything%20you%20need%20to%20know,we%20identify%20high%2Dgrowth%20companies. (Accessed: 07 June 2022).

[15] Beauhurst (2022) *Spotlight on Spinouts: UK academic spinout trends.* Available at: https://www.beauhurst.com/research/spinouts-spotlight/#:~:text=Spotlight%20on%20Spinouts%202022%20%7C%20Free%20Report%20%7C%20Beauhurst&text=Our%20platform%20is%20the%20best,Take%20a%20look%20for%20yourself.&text=Everything%20you%20need%20to%20know,we%20identify%20high%2Dgrowth%20companies. (Accessed: 07 June 2022).

Space	Location(s)	Offer
IncuHive Space – offers business incubation and co-working centres with a creative twist, aiming to create a diverse and innovative business community	Hursley, Andover, Stockbridge, Brockenhurst, Chandlers Ford, Southampton, Winchester, New Milton, Basingstoke	• Co-working space • 1-2-1 mentoring • Access to investment acceleration programmes • Networking opportunities • In-house accounting, payroll, legal, and web development services
SETsquared – an enterprise partnership between the Universities of Bath, Bristol, Exeter, Southampton and Surrey to maximise the entrepreneurial and commercial potential of the universities	Southampton	• Business planning advice • Business review panels • Market and customer identification • Investor readiness programme • Investor showcase
ImpactSE – a social enterprise incubation hub providing a flexible, collaborative and convenient space for start-ups and established social enterprises looking to scale and grow	Winchester	• Co-working space • Networking opportunities • In-house marketing, bid-writing and competitive tendering expertise • IT and HR support and leadership coaching • Access to investment support
Halpern House – designed to encourage business creativity, Halpern House provides a welcoming environment for start-ups, local business and entrepreneurs	Portsmouth	• Co-working and meeting space • Members-only business incubation support

Space	Location(s)	Offer
BASE Bordon Innovation Centre – a central hub for businesses to grow and excel	Bordon	• Co-working space • Business support via workshops, growth planning, business coaching, and networking

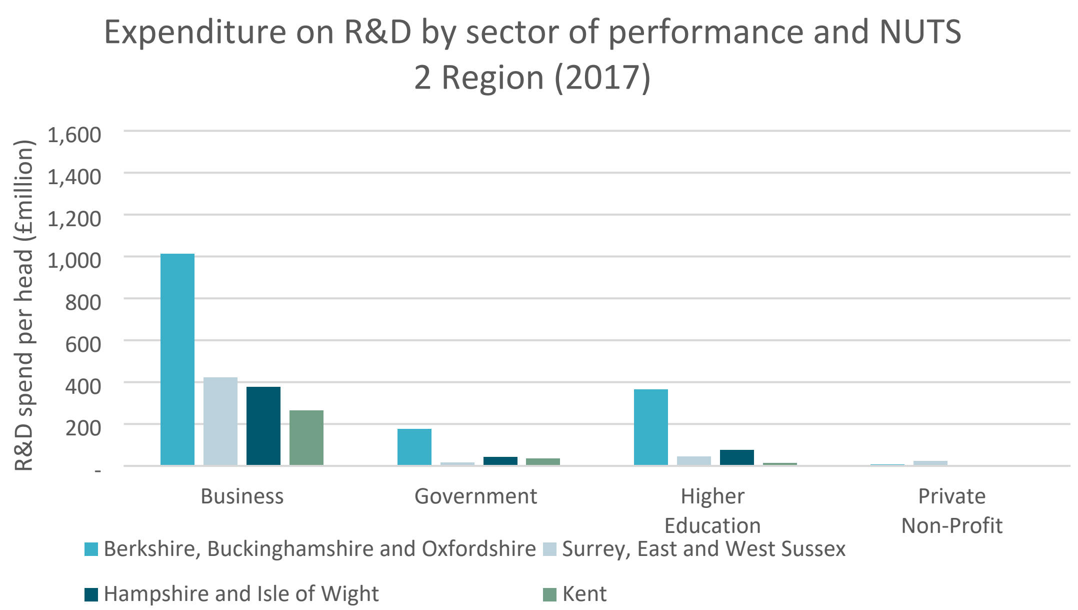
Having a good selection of incubation space is essential to ensure businesses are able to access varied support at each stage of the business life cycle.

Weaknesses

- **While Hampshire has lots of innovative businesses, it lags most areas in the South East**

Remaining competitive will put Hampshire at an advantage over its neighbours, however, in terms of expenditure on R&D by sector of performance and NUTS 2 region, Hampshire and Isle of Wight sees a share of only 14.5% of total R&D spend in 2017 despite having 21.8% of the total population in the South East.

It lags Berkshire, Buckinghamshire, and Oxfordshire which make up 55.4% of total R&D spend and Surrey, East and West Sussex which make up 21.6%.



Source: *ONS Expenditure on R&D by sector of performance and NUTS 2 region 2017; ONS Population estimates – small area based by single year of age – England and Wales*

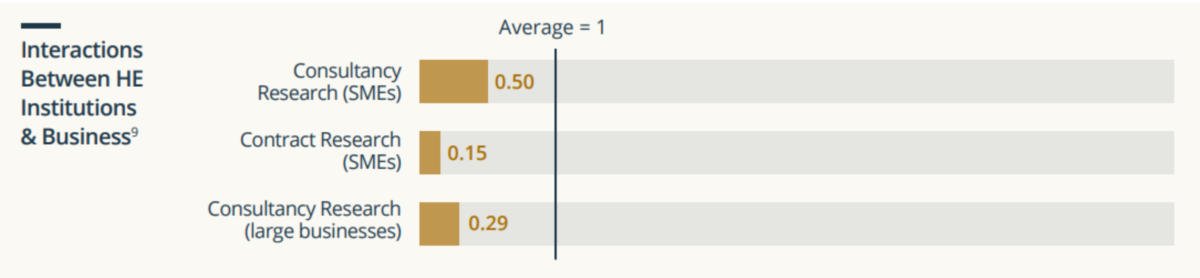
Innovation in Hampshire is also often siloed and obscured. While the county has a strong defence sector with high levels of innovation, by its nature it is often kept secret from other private and public sector bodies.

- **Hampshire has lower levels of collaborative innovation**

Hampshire is home to some key collaborative partnerships between anchor institutions and businesses, such as the University of Portsmouth's Zeiss Global Centre (ZGC) with Carl Zeis Ltd, and the University of Southampton's Institute for Life Sciences network. However, these are mostly concentrated in the dense urban areas of Portsmouth and Southampton, with the rest of Hampshire not able to access the benefits of these collaborations and overall seeing less collaborative innovation.

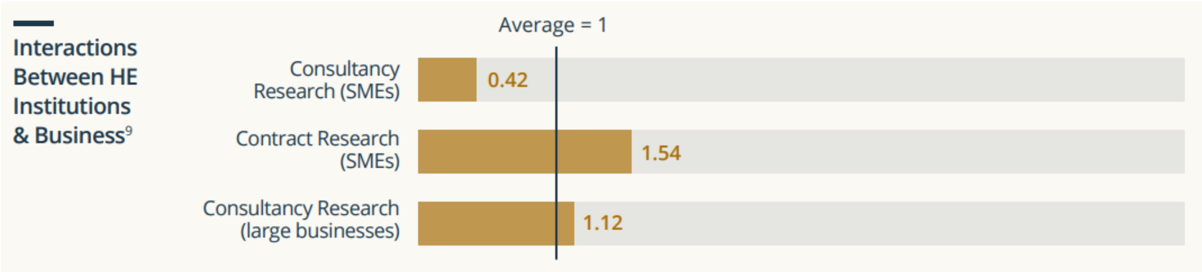
Whilst smaller, more flexible businesses have the means to share workspaces across the county, engaging with larger businesses and anchor institutions in a wide range of areas to foster collaboration can be the key to unlocking the potential of innovation across Hampshire, particularly as the EM3 area ranks 18th amongst all LEPs in terms of collaborative innovation.[16]

As demonstrated in the Smart Specialisation Hub profile for Solent LEP, there are fairly low levels of interactions between HE institutions and businesses in Solent. This is particularly interesting as the Solent includes the University of Southampton, Southampton Solent University, and University of Portsmouth, the former of which has high levels of innovation activity (as mentioned previously). The EM3 LEP area, on the other hand, sees higher than average levels of interactions, particularly with Contract Research SMEs and Consultancy Research large businesses, suggesting that the HE institutions in the area, such as the University of Winchester and University of Creative Arts, are more collaboratively engaged with businesses.



Source: *Smart Specialisation Hub Solent LEP Profile*

[16] Enterprise M3 (2020) *Sectors & Innovation*. Available at: https://enterprisem3.org.uk/sites/default/files/2020-02/sectors%20%26%20innovation%20evidence%20base%20-%20interventions%20260220.pdf (Accessed: 07 June 2022).



***Source:** Smart Specialisation Hub Enterprise M3 LEP Profile*

Without collaborative innovation, Hampshire loses out on the benefits it brings such as better defining and understanding problems and challenges, bringing together different ideas and views to spur new and creative ideas, improving prototyping, selection and testing of new innovations, enhancing the implementation of innovative ideas and solutions, and disseminating innovative practices across social and professional networks.[17]

- **Rural Hampshire lacks the infrastructure to support start-up and scale-up rural businesses**

Having incubation space and the support businesses need across Hampshire is important, however, the offer needs to be consistent throughout the county to ensure it is accessible to all businesses. While there is currently a good selection of incubation space in Hampshire, these are largely concentrated in urban areas such as Southampton, Portsmouth, and Winchester.

Science and technology are key drivers in economic and social change, but the challenge remains to ensure that those operating and living in rural areas are able to harness new innovations.

Work between Hampshire County Council and the LEADER programme identified that young people face challenges with finding appropriate start-up and incubation space in rural areas. Without the right infrastructure, people and businesses will ultimately relocate from rural Hampshire to more urban areas where they can access the support they need. This coupled with the already increasing migration of young people away from Hampshire can lead to rural areas becoming isolated and left behind.

Rural Hampshire is diverse and will benefit from local solutions, however, places will need support to deliver self-help initiatives.

[17] Nesta (2018) *Why and how does collaboration drive innovation in the public sector?* Available at: https://www.nesta.org.uk/blog/why-and-how-does-collaboration-drive-innovation-public-sector/ (Accessed: 07 June 2022).

Interventions

Assets

- **Establish more centres of excellence across Hampshire, particularly in and around rural areas.** Centres of excellence can increase collaborative leadership, best practice, research, support, and space for businesses in Hampshire. The current centres of excellence are located in more urban areas such as Winchester, Southampton, and Portsmouth which means that places outside of these areas, and particularly in rural areas, are less likely to be able to access the benefits and opportunities these institutions bring.

- **Scope out the need for more flexible working space and business incubators**. It has already been identified that Hampshire has a strong offer of business incubators and space, however, these are generally located in and around more urban areas and cities. Rural communities are finding a lack of suitable incubator and start-up space for their businesses where they can access the support they need. Without a wider range of services for rural businesses, there is a risk that Hampshire will lose its innovative rural businesses to neighbouring regions. HCC can use its rural estate to provide premises for this sort of intervention.

Policies

- **Continue to drive Business Hampshire's Innovation Ecosystem approach and priorities.** By supporting Business Hampshire's agenda, Hampshire can ensure that the building blocks for innovation are in place, and restart the delivery of innovation roundtables with universities, key innovative businesses and district authority partners to increase innovative collaboration.

- **Build on the freeport opportunity to bring in innovative businesses.** The Solent freeport is a major opportunity to create jobs and bring in exporting businesses. Hampshire should use this opportunity to target advanced companies in sectors related to the freeport's strengths, increasing the quantity of knowledge capital in the county.

Programmes and funding

- **Explore the creation of a new start up investment fund.** Hampshire's businesses currently see challenges in accessing capital, especially as the venture capital market is generally controlled from London, which puts a strain on micro and small businesses who struggle to find funding for their ideas and innovations. The recent pandemic saw the launch of the Government's Future Fund , which gave out convertible loans to high potential tech startups. Many of these have since been converted into equity shares, giving the Government a stake, and the ability to encourage innovative activity. Hampshire could trial a local version of this model, with criteria around innovation and growth potential to inform investment.

Partnerships

- **Partnerships or knowledge network for businesses and universities.** HCC will support collaboration between businesses and universities to encourage knowledge and skills transfer across Hampshire. This would focus on areas where sectoral opportunities and university expertise align, looking at particular niches where it makes sense for businesses to collaborate due to high costs, such as the space sector.

Measuring progress

Progress on this capital can be monitored using a range of metrics:

- R&D expenditure
- Research quality of academic institutions
- Number of academic-business partnerships
- Number of patents
- Number of incubation spaces and utilisation/vacancy rates

Social capital

Mitra-Kahn and Coyle define social capital as: “Interpersonal trust, shared social norms, neighbourhood belonging and community cohesiveness. It is the glue that holds societies together and it enables us to overcome problems via collective action.”

There is no set criteria for measuring social capital in a place. However, looking at levels of civic engagement, crime [18]rates, cultural and natural assets as well as the use of civic centres can provide an indication of the strength or weakness of social capital.

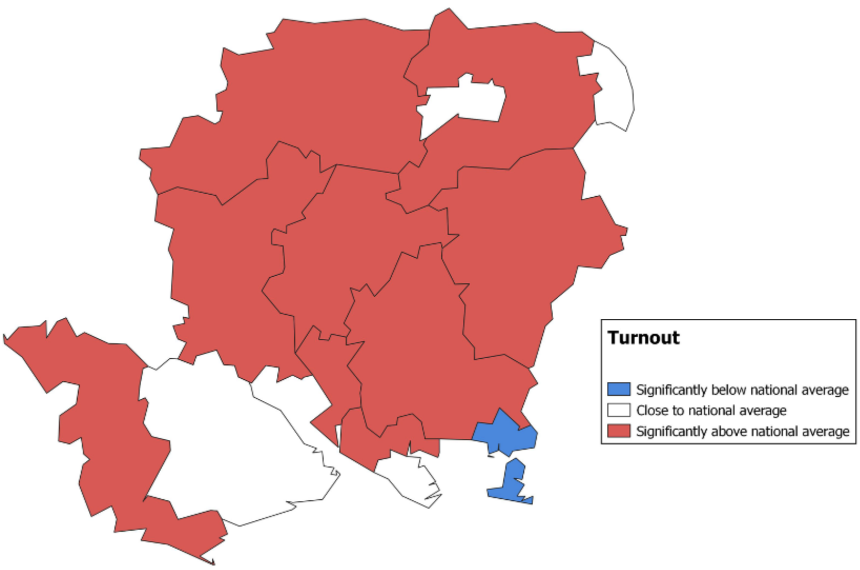
Strengths

- **Higher levels of voter turnout suggest strong civic engagement**

Voter turnout is considered by the OCED as the best existing means of measuring civic engagement. [19] Tendency to vote demonstrates a person’s level of trust, engagement and concern with democratic processes and political and social issues. In respect of local elections, voter turnout can indicate the strength of civic engagement within a local area.

Hampshire generally experiences high voter turnout at local elections and national elections, which indicates strong civic engagement. In the 2019 election, national turnout was 67.9%. In nine of Hampshire’s fourteen constituencies, turnout was at least two percentage points higher than that, and only in one constituency (Havant) was it more than two percentage points below national turnout.

Figure 24. High voter turnout in Hampshire constituencies, 2019 General Election



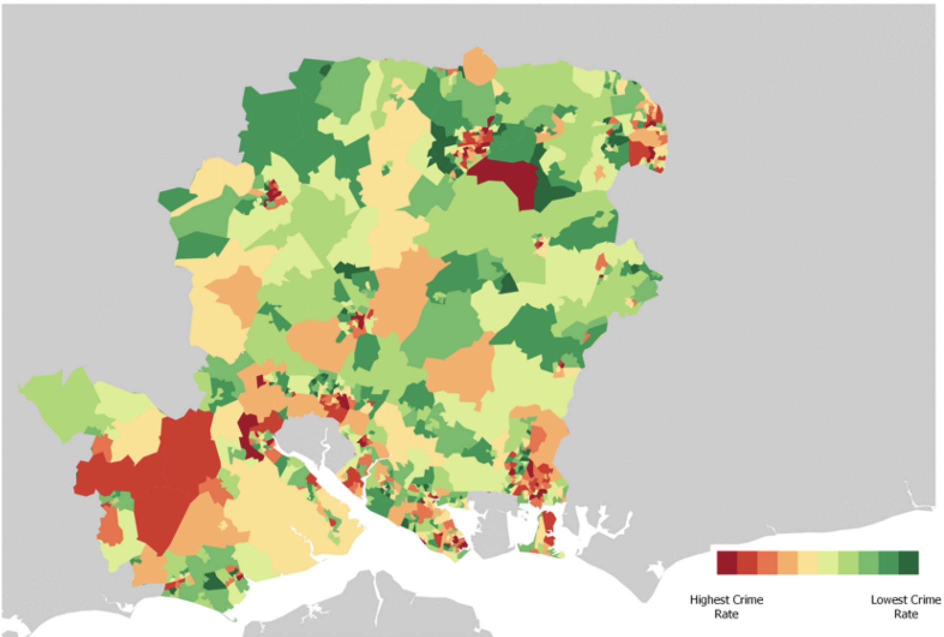
[18] OCED, Better Life Index: https://www.oecdbetterlifeindex.org/topics/civic-engagement/
[19] https://www.oecdbetterlifeindex.org/topics/civic-engagement/

Source: *Electoral Commission*

- **Lower crime levels, in most although not all parts of Hampshire, indicate higher levels of social capital**

Whilst crime is not directly measured as an indicator of social capital, it impacts several factors which are – levels of trust, community cohesion and perceptions of safety and adherence to cooperative norms.[20] In much of Hampshire, particularly rural areas crime rates are below national averages. There are, however, some significant exceptions, with parts of Basingstoke, Winchester, Andover, Havant, and Farnborough in the top decile for crime nationwide. This indicates that levels of social capital are higher in Hampshire, when compared to other parts of the country, but that it varies across the County.

Figure 25. Generally lower levels of recorded Crimes per 1000 People in Hampshire, 2021



Sources: *Crime data is UK Police Data for the period January 2021 - December 2021.Population Data used to calculate crime rates per 1000 people are mid 2020 ONS estimates of population at LSOA level for England and Wales.*

- **A growing visitor economy anchored by strong cultural & natural assets**

In 2019, the Hampshire saw 785,530 visitors, up 21% from the previous year. The most frequently cited purpose of travel to the County was 'visiting friends and family' (45%), followed by 'holiday' (29%) and 'business' (20%).

In spending terms, there was £451.14m spent by visitors in 2019, which reflects a proportionally higher change from 2019 compared to visitor numbers at an 81% increase, indicating that visitors are spending more when they come. Those who visit for study spend

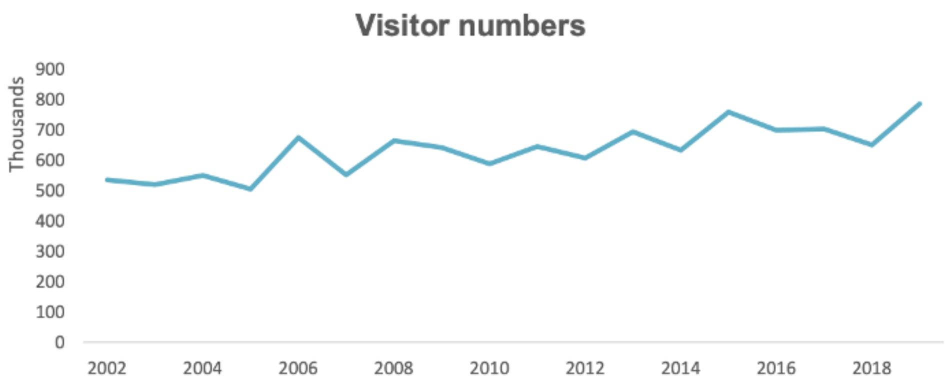
20 ONS, Social Capital in the UK 2020: https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/bulletins/socialcapitalintheuk/2020

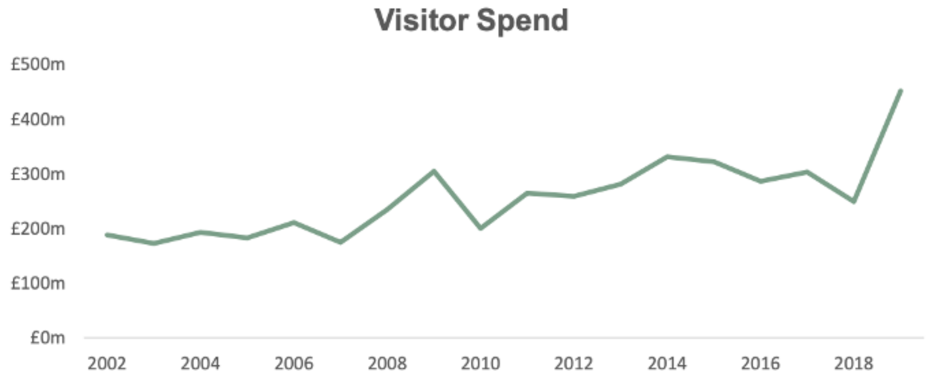
the most at 30% of the total followed by visiting friends and relations (27%) and holiday (22.6%).

In the face of increasing uncertainty and cost of overseas travel, the UK economy stands to benefit from a staycation boom and Hampshire is well placed to capitalise on this and boost its local economy.

The local visitor economy is anchored by strong cultural and natural assets, such as several National Parks, National Trusts and stately homes, castles and gardens including Highclere (the real Downton Abbey in Newbury). It is also home to some of Britain's greatest historical and literary figures - Stratfield Saye House, (Duke of Wellington's country estate), Gilbert White's House and gardens (Selbourne) and Jane Austin's home in Chawton. Other tourist attractions include theme and amusement parts, beach, forest, countryside and urban areas.

Figure 26. Increasing visitor numbers & visitor spend in Hampshire, 2019.





Source: VisitBritain (2019)

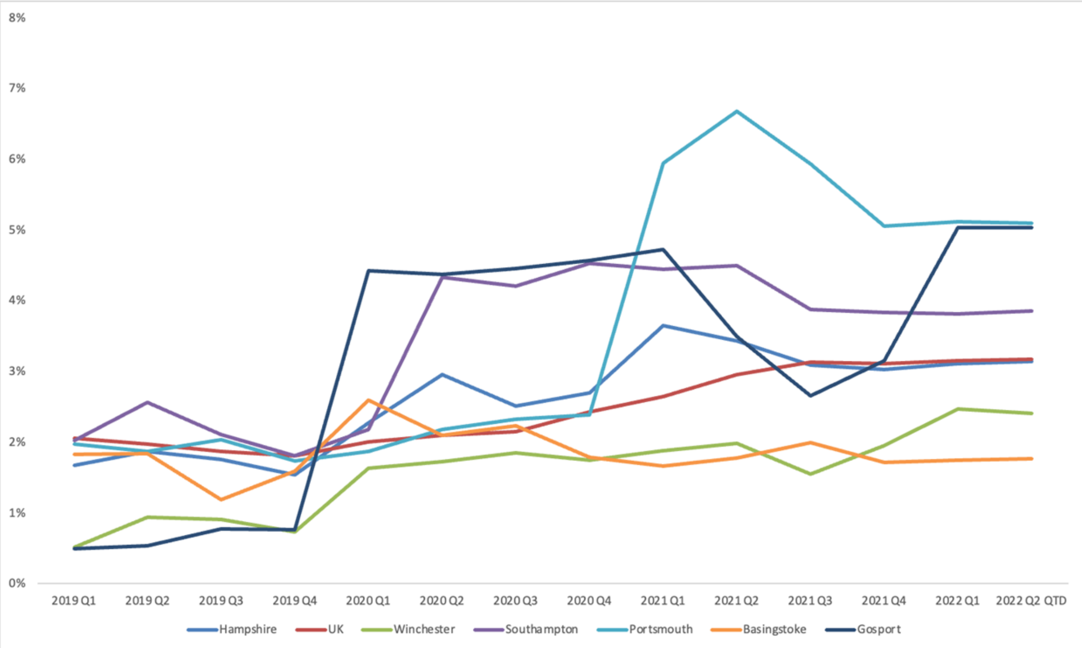
Weaknesses

- **Retail decline & falling footfall in town centres & high streets**

Town centres and high streets serve a vital purpose in society. Not only are they business and commercial centres, but are at the heart of cultural, recreational and civic life.

Like many parts of the country, the role of Hampshire's town centres and high streets is changing. At the end of 2020, just under 14% of high street retail and leisure properties were vacant in Great Britain. This has been accelerated by the COVID-19 pandemic, and the transition to shopping online has threatened the viability of retailers and eroded town centres. At the outset of the pandemic, retail vacancy rates in Hampshire were slightly higher than the national average and remained so until Q3 2021. They now sit just under the national average – though in Gosport they are above.

Figure 27. Retail decline in Hampshire tracks the national trend

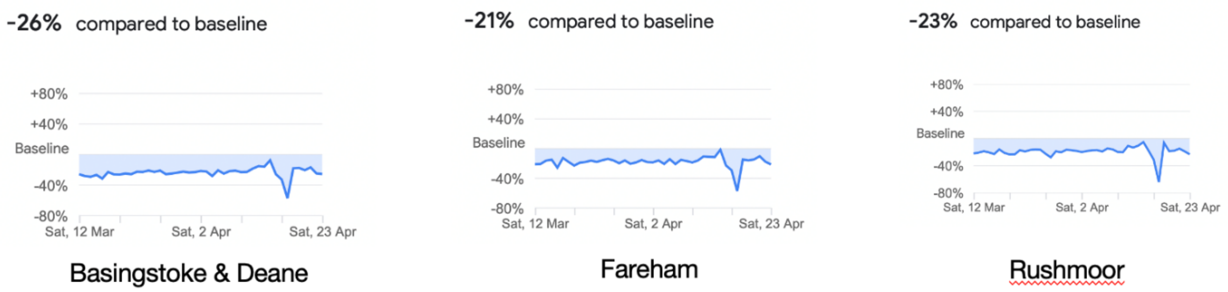


Source:* *CoStar, Q2 2022

Vacancy rates reveal a much more dramatic impact on retail in the County's major cities and towns. Although these have started to decline again, they remain much higher than the national average in most cases.

Footfall is declining in cities and towns across the County too, showing the impact of retail decline. Google Mobility data for places such as restaurants, cafes, shopping centres, theme parks, museums, libraries and cinemas shows a -16% decrease compared to baseline across Hampshire. The decline is particularly acute in Basingstoke and Deane, Fareham and Rushmoor.

Figure 28. Retail footfall is below pre-Covid levels across the County



Source: *Google Community Mobility Data*

The correlation here between the decline in centres and footfall demonstrates the potential threat that the trend poses not just to the local economy but the cultural and social threat. A decrease in town centre services and facilities will negatively impact on their role as cultural and recreational hubs and limit central areas for local people to meet and integrate. One very likely contributing factor in the decline of the towns of Hampshire is the changing demography of the County discussed earlier. The human capital issue: the lack of people with vocational qualifications and the ageing of the population are other facets of a growing social capital issue. At the root of these is a complex know of issues including the changing nature of work and the need to attract younger people and families to jobs in Hampshire, a challenge underpinned by the need to improve and extend the housing offer.

Interventions

Assets

- **Undertake an asset review to identify venues for incorporation into meanwhile use programmes to rejuvenate town centres.** Retail decline has had a significant and detrimental impact on town centres and high streets across Hampshire. Many have seen a reduction in the provision and quality of local leisure and recreational facilities resulting in unoccupied premises and decreased footfall. Meanwhile use programmes have been used as an effective means to rejuvenate town centres, offering businesses and social enterprises flexible spaces in central areas at reduced rates. This in turn can quickly improve the number and range of leisure and cultural facilities on offer in towns high streets, boosting footfall and kick-starting wider regeneration. HCC as a significant asset holder, can conduct an asset review to identify empty town centres premises. HCC can promote these to local businesses, working with district councils to create, or expand existing, meanwhile use programmes.

- **Increase the number of affordable housing developments** across Hampshire. The county is increasingly becoming unaffordable to young people, particularly families. The cost of housing is increasing, which means Hampshire is losing its supply of skills and new talent. Building affordable housing, using the County's land where possible and appropriate, will improve Hampshire's offer to young people and attract them to locate in the region. This will be critical for the continued growth of social as well as human capital in Hampshire.

Policies

- **Encourage more mixed-use developments as part of a new town centre model,** responding to changing demands and providing a strong offer for businesses and residents. The pandemic and retail decline have presented challenges to traditional town centre models and resulted in changing demands on town centres and high streets. Mixed-use developments provide an opportunity to meet both residential and commercial demands on space as well as offer a more versatile town centre model that sees people living more centrally, providing a permanent source of footfall for local businesses. Working with the district local authorities through its regeneration and growth partnerships, HCC can promote and encourage more mixed-use development in the County's town centres and high streets.
- **Work with district councils to develop the overarching Culture Strategy** that knits together the different priorities and demands on areas and caters to both local people and visitors**.** Whilst the larger cultural and natural assets of the County are vital anchors for visitors, locally based assets are what local people really engage with. The Council should undertake a review of which assets are being used and by who, identifying where there are gaps. This should be used to inform and underpin an overarching Culture Strategy with priorities and a programme for activities and investment.

Programmes and funding

- **Use HCC assets to provide a local community and cultural offer in all towns, high streets and neighbourhoods.** HCC can use its estate of libraries, leisure and community centres, and work with VCS partners, to expand the range of events. This will ensure that all communities in Hampshire have access to a basic cultural and community provision. With these events playing an important role in bringing people together, this will serve to strengthen community spirit. Given the wider role that cultural can play in regeneration.
- **Work with local district councils to build a pipeline of projects to enhance local leisure and cultural assets that can be put forward for future funding bids.**

Partnerships

- **Work with District Councils through regeneration partnerships to support strategic plans for town centres and high streets to offer a flexible, place-based approach to regeneration.** The challenges and opportunities facing town centres and high streets, varies across the County**.** As such the types of projects and levels of investment required to address these will also vary**.** HCC can use local regeneration and growth partnerships with district local authorities **to** support the development of strategic plans to drive a coherent programme of town centre regeneration that reflect the unique needs of each place and resident population.

- **Facilitate local town centre/neighbourhood partnerships to inform, consult and promote regeneration plan – encouraging buy in from key stakeholders .** The Council can use its position as an anchor institution, utilising its existing networks and partnerships with town centre managers, local businesses and representatives from the VCS to build local town/neighbourhood teams. These teams can be used to consult with on future regeneration plans to ensure they are consistent with local need and demands whilst also being used as local ambassadors to champion plans, helping to build support locally and promote the Council's work. Over time, these forums can ensure consistency and a long-term vision to see longer term regeneration plans through.

Institutional capital

Institutional capital refers to the quality and reliability of governance and relationships between institutions and organisations in a local area. We refer here to the range of institutions in Hampshire that includes businesses, academic institutions, government, and defence sectors.

Again, there are no set criteria for measuring institutional capital in a place. However, looking at the number and range of established institutions operating in an area as well as their breadth and depth of responsibilities, and engagement with each other and other organisations, can provide an insight into the strength of local institutional capital. We have identified the key institutions operating across the public and private sector in Hampshire and have conducted research to provide a brief assessment of the strength of these and the value they add locally. We have presented the results of this research below, categorising the different types of institutions as strengths and weaknesses depending on the outcome of this assessment.

Strengths

- **At the heart of the UK's defence capability**

Pan-Hampshire is home to some of the UK's most important defence forces and organisations. This includes:

- Portsmouth, the UK's oldest naval base and remains at the heart of the Royal Navy's operations, with 2/3 of the surface fleet stationed there.
- HMS Collingwood, in Fareham, is the Royal Navy's largest training establishment.
- The British Army Land Forces Headquarters, which controls all the troops of the British Army across the world, is based in Andover, with more than 2,000 military and civilian personnel stationed there.
- Aldershot Garisson is recognised as "the home of the British Army", having served as a garrison since the 1850s, with a current population of over 10,000.
- The oldest military airfield site in the UK is in Farnborough (now part of London Farnborough Airport).
- RAF Odiham is a front-line support helicopter base, which is home to the UK's Chinook Force.
- Two Defence Science and Technology Laboratories at Fareham (Portsdown West), with the other (Porton Down) just across the border in Wiltshire. at the heart of developing new technologies and equipment for the defence sector.

As well as these major assets, Pan-Hampshire hosts some of the largest private sector operators in the Defence and Aerospace sectors. BAE systems, QinetiQ, Safran, Surface Technology International, and Airbus all have large sites in the county, supporting a symbiotic relationship with public bodies.

- **Strong academic and research institutions**

Pan-Hampshire has a strong, established higher education offer that compromises four major universities and several Further Education sites, with specialisms linking to its sectoral base. A list of these includes:

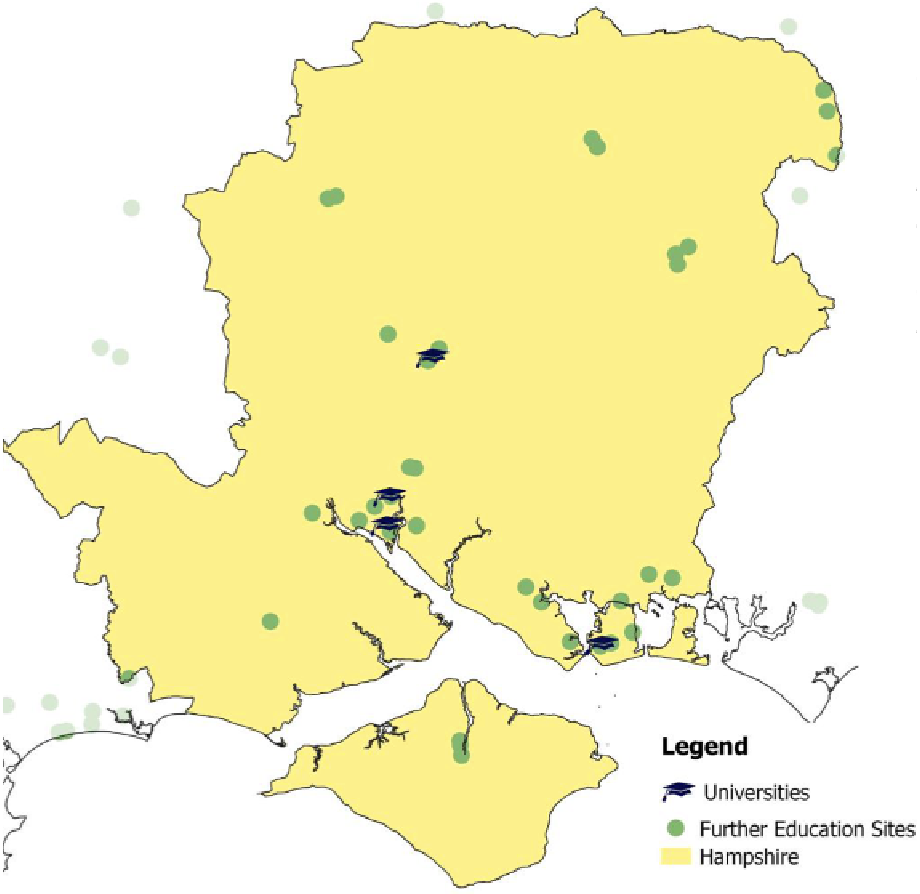
- The University of Southampton is a founding member of the Russell Group of Universities - ranked 15th in the UK in the Sunday Times rankings, and has the 8th highest research intensity for a UK university. Its departments include the Southampton Marine and Maritime Institute (SMMI), which has direct links to local natural assets, and is a thought leader in Global Marine Technology trends. Southampton University is also home to the National Oceanography Centre.

- The University of Portsmouth has a research focus on Transportation and Maritime Systems, within a broader focus on Operational Research and Logistics. It has a strong focus on international reach, with over 4,000 international students from over 150 countries, and regional offices in 78 countries.

- Solent University is also closely tied into Pan-Hampshire's maritime specialisms, with the UK's largest ship and port simulation centre, and the Warsash Maritime School. Winchester University, meanwhile, is closely linked to Pan-Hampshire's professional services sector specialisms, with the Hoare Centre for Responsible Management and the Centre for Information Rights.

In addition, Pan-Hampshire's FE colleges house specialist training centres such as Fareham College's Centre of Excellence in Engineering, Manufacturing and Advanced Skills Training (CEMAST), linked to Pan-Hampshire's manufacturing specialisms, and the Farnborough College of Technology which has an apprentice programme for the aviation sector.

Figure 29. Overview of Hampshire's main educational sites



Source:

Source: Ordnance Survey Points of Interest

- **A prime international gateway**

Hampshire's strategic transport links make it a prime international gateway to the UK, cementing its economic importance to the UK economy.

Figure 30. Overview of Hampshire's key transport assets

Source: Ordnance Survey

Between them, Portsmouth and Southampton shipped 37 million tonnes of freight in 2019. Southampton is the sixth biggest port in the UK by tonnage of freight moved, and the 3rd biggest for trade outside of the EU. It also handles 83% of all of international cruise passengers visiting the UK. This puts it right at the heart of the Government's global Britain agenda. Southampton is also the UK's number 1 vehicle handling port.

Currently, Portsmouth has the third highest number of passengers for short sea journeys in the UK, with connections to France, Spain, the Channel Islands, and the Isle of Wight. While a new development at the Solent Gateway (Marchwood port) will further support international trade as well as strengthening the MoD estate.

Southampton International Airport in Eastleigh has routes abroad to nine different countries, and handles 1.8m passengers a year. Farnborough Airport is a premier business airport, voted Number One European Fixed Base Operation (FBO).

The two main passenger terminals – the airport and Portsmouth harbour – have direct rail connectivity to London in less than two hours, and direct routes across the South East, South West, and into the Midlands.

In addition, the UK's largest oil refinery is at Fawley, a piece of critical national infrastructure supplying the UK's major airports.

Hampshire's strategic transport prowess would be boosted further by the establishment of a Solent Freeport with the proposal for this looking to bring together these assets to enable the growth of a major new trading area at the heart of global Britain. While Aa County Deal would enable Pan-Hampshire to capitalise on the opportunity this will provide, harnessing it for the benefit of the whole county.

- **Home to leading UK and international business**

Alongside its defence and strategic transport assets, Hampshire is home to several leading national and international businesses. The top 10 businesses in Hampshire by turnover with their town locations are listed below. These include finance and insurance, information and communication, scientific and defence companies, which overlap with the area's sector specialisms, and show the strength of diversity of the area's private sector businesses.

Table 1. Hampshire's Top 10 Businesses by Turnover

Company	Turnover	Location
Zurich Insurance	£43.2b	Fareham
Vodafone	£37.3b	Fareham
Auroa Kendrick James	£20b	Chatham
BAE Systems	£6.1b	Chelmsford
INEOS	£5b	Lyndhurst
TASC	£4.9b	Andover
BDW	£4.7b	Southampton
BMW	£3.9b	Farnborough
SERCO Group	£3.9b	Hook
B&Q	£3.6b	Eastleigh

Weaknesses

- **Complex governmental structures**

Hampshire has a two-tier governmental structure that comprises the County Council working with several borough and district councils. This brings local accountability and additional institutional capacity. It increases potential for pan-area collaborative projects. However, the additional layer of governance can lead to complications and challenges. Often decision-making, involving a wider pool of individuals across different organisations can result in delays and make regional projects more difficult to deliver.

Other challenges include:

- Fragmented funding distribution across the different layers mean opportunities for cross-border working are missed; and
- A lack of integration between the provision of different services in Pan- Hampshire, with most local authority assets and land not being used in a co-ordinated and strategic way. This is evidenced by deprivation in access to key services, with many rural parts of Pan-Hampshire in the top 20% most deprived.

Alongside these institutional complexities, additional governmental challenges include:

- Government policy to integrate LEPs with local institutions , what this means for business support in the local area; and
- The implications of the Levelling Up White Paper with a focus on other regions of the country outside of the South-East.

Interventions

Much of the proposed interventions below will depend on the new powers derived from County Deal and how these are shaped to support and strengthen existing institutions. From consultations with stakeholders from local government, it is clear that these should be implemented and operationalised in a way that seeks to simplify local governance, not make it more cumbersome, and be transparent – ensuring all layers continue to be involved in decision-making.

Policies, Programmes & funding

- **A single devolved investment fund for all existing and future growth funding –** This will bring together income streams across Pan-Hampshire and will include funding for economic development activities such as creating business space on high streets and supporting high-value companies. As part of a County Deal this could include funding from Government, as well as business rate retention.
- **Continued investment in local institutions –** empowering and enabling local anchors to work towards goals such as net zero and community wealth building. Creating stronger institutions importantly also supports social capital, for example, in Hampshire growing the success of attainment in high performing schools.

Partnerships

- **Deeper collaboration with other authorities, strengthened by a County Deal.** The County Deal is the major opportunity to increase institutional capital in Hampshire. It can bring new powers and funding, enabling the creation of strong governance structures which can invest in Hampshire for the long term. It will enable the County to become less dependent on Central Government, and move away from a cycle of bidding for opportunities – instead using local resources to fix local problems. For this to truly deliver on its potential for Hampshire, deep partnership and engagement with other authorities is needed. On a number of interventions suggested here, collaboration between local authorities will increase impact through scale, but also ensure that unspent resources can be minimised, and that there aren't gaps in service delivery or access to opportunity for any community.

Summary of interventions

The below tables summarise the interventions we have set out in the above section on capitals – this draws together proposed interventions across the six capitals – physical, natural, human, knowledge, social and institutional, and four levers for action – assets, policies, programmes and funding, and partnerships. The interventions proposed here are indicative and high level. They will be tested and developed further through consultation with partners and the development of a detailed action plan that prioritises, sequences and resources a set of specific interventions.

Physical capital

- A programme to tackle derelict sites, starting with the County Council's own estate.
- A proactive transport policy aimed at reducing car ownership.
- A coordinated housing retrofit programme.
- Regeneration partnerships with districts and neighbouring unitary authorities.
- A focus on attracting high-quality office space.

Natural capital

- A decarbonisation programme focused on Hampshire County Council's estate.
- Use of county farms and other agricultural assets to support biodiversity.
- Use of Local Nature Recovery Strategy to fight back against biodiversity loss
- Developing financial mechanisms to recognise the value of biodiversity.
- Continued close working with the National Parks and AONBs.
- A partnership to deliver skills for sustainable farming.
- A marine protection partnership with local universities.

Human capital

- Increase the number of affordable housing developments across Hampshire.
- Use HCC assets to integrate services and deliver support where people need them.
- Pilot reforms to strengthen the adult social care workforce.
- Create a Skills Assembly with employers, providers and representatives.
- Review current careers advice and support in schools and colleges.
- Implement a skills and training programme to develop technical skills.
- Undertake a scoping exercise to help identify business skills needs.
- Partner with skills providers to focus on training for older workers.
- Partner with businesses to focus on good health in the workplace

Knowledge capital

- Establish more centres of excellence across Hampshire.
- Scope out the need for more flexible working space and business incubators
- Continue to drive Business Hampshire's Innovation Ecosystem approach.
- Build on the freeport opportunity to bring in innovative businesses.
- Explore the creation of a new start up investment fund.
- Partnerships or knowledge network for businesses and universities.

Social capital

- An asset review to identify meanwhile use projects to rejuvenate town centres.
- Increase the number of affordable housing developments.
- Encourage more mixed-use developments as part of a new town centre model.
- Work with district councils to develop the overarching Culture Strategy.
- Use HCC assets to enhance local community and cultural offer.
- Work with district councils to enhance local leisure and cultural assets.
- Facilitate local town centre/neighbourhood partnerships to inform, consult and promote regeneration plan – encouraging buy in from key stakeholders.

Institutional capital

- A single devolved investment fund for all existing and future growth funding
- Continued investment in local institutions
- Deeper collaboration with other authorities, strengthened by a County Deal

8 Next steps

This Strategy has been developed as a framework that underpins Hampshire County Council's work and collaboration with partners on economic development, supports other important strategic initiatives, and provides a foundation for an ambitious Pan-Hampshire County Deal.

As the immediate next steps, we suggest Hampshire now takes the Economic Strategy forward in the following ways:

- discuss the analysis and strategic framework across the Council and with partners
- ensure that the framework is then reflected in how Hampshire and partners take forward LEP integration and County Deal planning
- develop a detailed action plan and list of agreed interventions
- discuss and agree with partners and District Authorities who will be responsible for taking forward interventions.

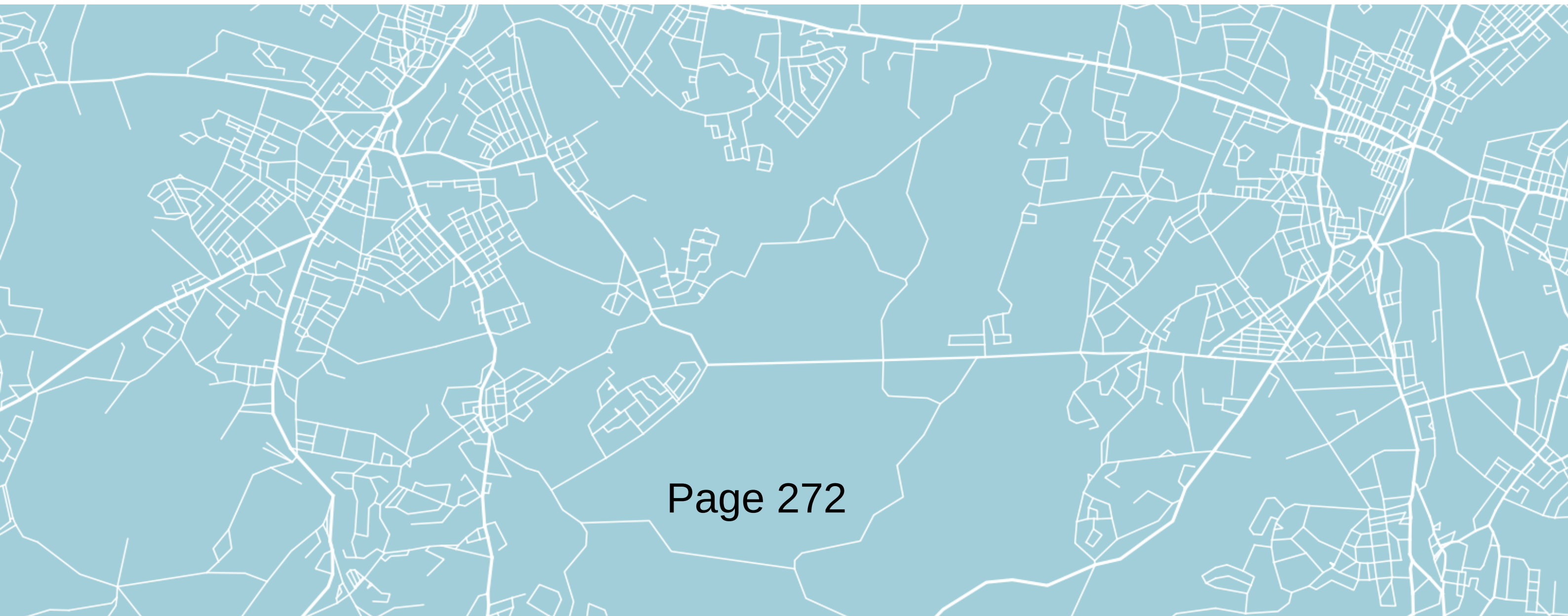
Metro —— Dynamics

3 Waterhouse Square
138 Holborn
London
EC1N 2SW

020 3868 3085

Elliot House
151 Deansgate
Manchester
M3 3WD

0161 393 4364



HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	19 July 2022
Title:	Local Enterprise Partnerships (LEP) Integration
Report From:	Director of Economy, Transport and Environment

Contact name: Ian Gray

Tel: **Email:** ian.gray4@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to update the Cabinet on the current Central Government guidance for Local Enterprise Partnership (LEP) integration into Upper Tier authorities as part of Devolution Deals and to present a number of options for the actions required.

Recommendation

2. That Cabinet approves the preferred course of action identified in this report:
   - to continue to engage with neighbouring areas concerning their devolution ambitions and programmes in the context of LEP integration;
   - to progress the ongoing discussions with the two LEPs in the Hampshire area, regarding their short-term business case submissions to Government and their proposals in light of the revised Government guidance for LEP integration;
   - to prepare the ground for a pan-Hampshire LEP Integration Plan for January 2023, subject to progressing devolution negotiations with Central Government and
   - to explore the opportunities for the development of a Member-led Hampshire Business Engagement Forum; a revision of the Place Leadership Group to integrate into the Forum ; and greater collaboration on Economic Development activities across the economic geographies covered by the existing LEPs.

Executive Summary

3. This paper seeks to:
   - outline the contextual background to the existing LEP Integration situation.

- present the outstanding integration issues.
- achieve the endorsement of the preferred course of action.

Contextual information

4. On 31 March 2022, a joint letter was issued by the Parliamentary Under Secretaries of State for the Departments of Levelling Up, Housing and Communities and for Business, Energy and Industrial Strategy outlining guidance to LEP integration. The letter was addressed to LEP Chairs, Combined Authority Mayors and the Mayor of London. Along with the Levelling Up White Paper this letter concluded the LEP review undertaken by Government.
5. It was acknowledged by Government that LEPs have played and continue to play a valuable role in supporting local economic growth from their inception in 2011. LEPs have brought businesses, education, and local government together, delivered large capital investment schemes, provided vital support to businesses during COVID-19, hosted impactful programmes on behalf of government departments and developed economic strategies for their areas. Government has reinforced that it values the contribution LEPs have made and continue to make to their local economies.
6. Central Government has indicated that it will support the integration of LEP functions and roles into the institutions that sit at Levels 2 and 3 of the devolution framework as set out in the Levelling Up White Paper 2021. These Levels 2 and 3 bodies are single institutions such as a (Mayoral) Combined Authority ((M)CA), a county council and a unitary authority or another County Council across a functional economic area with (Level 3) a directly elected mayor or without a directly elected mayor (Level 2). The guidance is now determining that LEP functions and roles will be integrated into institutions with devolved powers for the purpose of hosting a County Deal.
7. The letter and guidance outlines that where devolution deals are set to be negotiated, the integration of LEP functions, roles and boundaries will be considered as part of those negotiations. LEPs are asked to support local leaders, where requested, in embedding a private sector perspective into that conversation. Once a future devolution deal is agreed and implemented, or where an institution progresses to at least Level 2 of the devolution framework, LEP functions and roles will then be integrated.
8. Where no devolution deal is in place, LEPs will be maintained until a devolution deal is agreed, subject to future funding decisions via the annual business case route. In these circumstances it will be important to maintain current engagement arrangements. Where a devolution deal geography cuts across a current LEP geography (as could potentially happen with Enterprise M3 LEP) Government has indicated that they will engage with local partners and consider the best outcome for local businesses on a case-by-case basis guided by local preferences. It is also very clear that democratically accountable local leaders will lead the integration of LEP functions and roles into their respective institutions, working jointly with LEPs and, where necessary, other local stakeholders.

9. The future role of individual LEPs will differ depending on local circumstances and the status of devolution locally. With regard to the two LEPS in the Hampshire area namely Enterprise M3 and Solent, this is extremely evident. With Enterprise M3, its boundaries including Hampshire and Surrey will mean that its integration will need to reflect the devolution timescales within both counties. For Solent, a pan-Hampshire devolution geography is simpler, but the emergence of the Solent Freeport and its Government backed governance may have a distinct impact.

10. In general Government is expecting the future role of LEPs – or the local democratic institution after LEP functions have been integrated – will be to:

    a. Embed a strong, independent and diverse local business voice into local democratic institutions.

    b. Carry out strategic economic planning in partnership with local leaders that clearly articulates their area's economic priorities and sectoral strengths. This should involve building and maintaining a robust local evidence base that identifies local strengths and challenges, future opportunities and the actions needed to support priority sectors, aligned to the relevant levelling up missions. The nature of this role will depend on individual LEPs' integration pathway. Across all pathways, LEPs, or local democratic institutions where LEP functions and roles have been integrated, should continue to use their convening power to bring together business, education, and other local economic stakeholders.

    c. Continue to deliver a number of functions on behalf of government departments, shaped by the local business voice where relevant. Future programme and funding decisions will be taken by each respective department according to their own decision-making and business planning processes, priorities, and timescales. However, at the present juncture we would expect departments to continue to engage with LEPs, or begin to engage with the respective local democratic institution once LEP functions have been integrated, on the delivery of:

        i. Growth Hubs, on behalf of the Department for Business, Energy and Industrial Strategy;

        ii. International trade and investment activity, provision of local business intelligence, grant funding and levelling-up focused projects, on behalf of the Department for International Trade;

        iii. Local Digital Skills Partnerships, on behalf of the Department for Digital, Culture, Media and Sport;

        iv. Careers Hubs, on behalf of the Department for Education;

        v. Local skills analysis via Skills Advisory Panels, on behalf of the Department for Education; and

        vi. Monitoring and assurance pertaining to existing local growth programmes and funds for which LEPs are responsible.

d. Where appropriate, LEP business boards can help broker and support new or deeper devolution deals, where requested by local partners. New or deeper devolution deals will not need to be signed off by LEPs.

Integration Pathways

11. Government does acknowledge that the principles it has set out may need to vary considerably in different local contexts. It sees this as largely depending on the status and outcome of local devolution negotiations. The expectation is however that individual LEPs will follow one of three "integration pathways" namely:

    I. Integrating LEPs into (M)CAs or institutions with devolved powers for the purpose of hosting a county deal;

    II. Maintaining LEPs until a devolution deal is agreed;

    III. Finding a local solution where one or more (M)CA or institution with devolved powers for the purpose of hosting a county deal covers only part of the LEP area, leaving part(s) of the LEP area outstanding.

12. At the present juncture, it is expected that most areas will either be on pathway I or II with only a few on pathway III.

Pathway II: Maintaining LEPs until a devolution deal is agreed

13. The existing situation in Hampshire is that the integration will follow Pathway II: "Maintaining LEPs until a devolution deal is agreed". Government is keen to ensure that businesses outside of devolution areas are still able to access the support, insights, and representation LEPs currently provide. Where no devolved institutions exist in an area, Government is committing to support LEPs as they are currently constituted until there is devolution, subject to future funding decisions. Where a future devolution deal is agreed, or where the devolved institution progresses to a higher level of the devolution framework, LEPs will move onto integration pathway I. In Hampshire progress has been made on the basis of a potential Pan-Hampshire County Deal. Whilst this work is at an early stage, it has been shared with the Minister, and it provides an opportunity to begin to plan for an appropriate LEP Integration plan, subject to securing local agreement first and then Whitehall capacity to negotiate a Deal. On this basis January 2023 seems an appropriate target date by which to plan for LEP integration.

14. In areas that have not as yet reached a devolution agreement the Government is still expecting the following:

    a. With respect to business voice, Government will support LEPs to continue to embed a strong, independent and diverse local business voice into the local decision-making fora they are party to. Local authorities in England may wish to consult with LEPs, along with other local partners, as part of the development of local plans and applications to local growth funds such as the UK Shared Prosperity Fund (UKSPF) or Levelling Up Fund, where projects have an economic development purpose.

Government encourages all local and relevant national partners to engage with LEPs where a private sector and economic perspective can add value to local decision-making and expect LEPs to readily offer advice where requested.

b. With regards to strategic economic planning, Government will support LEPs to develop local economic strategies and maintain business and economic intelligence for their areas. LEPs outside of devolution areas should set out how they intend to utilise their strategic economic function. These should have been published by 30 June 2022. In considering how to employ their strategic economic development function, LEPs should consider what will add most value to their local area, aligning where possible to the levelling up missions set out in the Levelling Up White Paper, in particular mission 11.

c. With regard to devolution negotiations, LEPs can offer advice where requested by local partners on deepening their devolution deals. Devolution deals will not be subject to sign off by LEPs.

15. As outlined in the following finance section, the Government position on core funding provides LEPs with clarity for the current financial year only for those currently on Pathway II. The LEPs on Pathway II receive £375,000 for the financial year 2022/23. Subject to future business case approvals, LEPs on Pathway II will continue to be the recipient of core funding and their respective local authority will remain the accountable body. For Enterprise M3 LEP, this is Hampshire County Council and for the Solent LEP, Portsmouth City Council.

16. Devolution is seen in Government as a process and not an individual event, and it is understood that some areas may need time to decide which if any devolution arrangement is right for them. Long-term future funding for LEPs outside of (M)CA or county deal areas will be subject to future funding decisions and business planning. The Government position will be kept under review, by considering the progress of local devolution negotiations.

17. There will be two parts to assuring LEPs on Pathway II, covering: (a) the financial year (2022/23); and (b) the period thereafter.

(a) LEPs needed to publish their delivery plans for the current year (2022/23) by 30 June 2022 at the latest. These documents were to set out how LEPs intend to use the full range of their core functions and roles to support their local economies and local decision-making. Government will work with LEPs to develop measures to report against in these plans. These will be considered as part of the annual assurance process. The National Local Growth Assurance Framework (NLGAF) will continue to apply to LEPs as at present. These plans for both of Hampshire's LEPs will come to Cabinet following their Board approval to ensure they are in keeping with the aspirations of future LEP integration.

(b) For future years, LEPs on this Pathway II will agree delivery plans alongside delivery and performance metrics with government in advance of publication. The government's current expectation is that LEPs will need to submit draft delivery plans for 2023/24 by 25 November 2022. This will only happen should negotiations with Government on securing some form of County Deal not have begun by then. Future provision of core funding will be subject to agreement of these plans with government and, thereafter, subject to meeting agreed delivery and performance metrics.

Pathway III: Finding a local solution

18. With County Deal ambitions being pursued in both Hampshire and Surrey there is the potential that the issue highlighted in Pathway III could occur if one deal is secured whilst another is being progressed within the Enterprise M3 LEP boundaries. The issue is that a part of the former LEP area could remain outside a devolution deal and therefore outside the proposed integration. If this were to happen for Enterprise M3 LEP area, then a local solution would need to be found.

19. The key issue is whether the residual area not contained within the devolution deal can form an economic geography on its own. If so, then Government outlines that it can either survive on its own with Pathway II then applying or if it is not viable then there are three options being:

    1. An upper tier authority situated within the outstanding area may be able to take on some of the LEP functions

    2. A neighbouring (M)CA or institution with devolved powers for the purpose of hosting a county deal may be able to service the outstanding area

    3. A bespoke solution may be required.

Issues to Consider

20. The issues from the Government's latest letter and guidance are as follows:

- In order to integrate the LEP functions into the appropriate body, it is clear there is a need to understand what is the position and likelihood of any devolution in both the counties of Hampshire and Surrey and what will be the governance of the Solent Freeport and its relationship with the Solent LEP;
- The options available to Hampshire County Council are dependent upon any devolution deal being approved;

- If no devolution is secured in either Hampshire or Surrey, the LEPs will operate as business as usual until a solution is found subject to annual Business Case review by Central Government;
- If a Pan Hampshire or Surrey devolution deal was approved prior to any devolution deal in the other area, the outstanding area of the Enterprise M3 LEP area in the non devolution area could be serviced by the newly devolved power body or a bespoke solution found for integration of the role and functions of the LEP;
- The approval of the Full Business Case for the Solent Freeport will include appropriate devolved governance. It is unclear currently how the implications of this may impact upon the integration of the Solent LEP into any devolved or upper tier authority;
- With the potential of LEP integration, there is a need for the creation of a Member Forum for Economic Development focussing on Strategy and Delivery. This is a Member-led space for the Economy that will ensure the wider economic benefits of LEP integration are secured for the entire area.
- The current Hampshire Place Leadership Group acts as a strategic forum for the promotion of Hampshire and the Hampshire Story initiative. There is an opportunity, with the prospect of LEP integration, to expand and amend the role of this Group into a broader Business Engagement Forum, potentially, with local agreement, extending into the Pan Hampshire geographic area,. This forum would need to be widened to include the LEP Chairs; the key business and sector leaders; research institutes and the existing major stakeholders, plus partner authorities if its extended to the Pan Hampshire geographical footprint.
- There is also an opportunity to explore the potential for closer collaboration across the public sector bodies with an Economic Development function including all the local authorities and the LEPs with the prospect of greater integrated working leading to improved effectiveness and efficiency. This could also ensure, during any transition periods, greater certainty for external stakeholders and partners of current LEP services and teams.

Preferred Course of Action

21. The preferred action available to Hampshire County Council is:

    - To maintain support for and participation in the existing groups which facilitate local authority engagement with the LEPs as they currently operate, pending LEP integration;
    - to continue to progress the County Deal negotiations and plan for LEP integration for January 2023 given the readiness of the area to begin negotiations, albeit conditional on securing capacity from Government to do so;
    - to continue to engage with neighbouring areas concerning their devolution ambitions and programmes in the context of LEP integration;

- to progress the ongoing discussions with the LEPs regarding their business case submissions to Government and their proposals in light of the revised guidance for LEP integration; and
- to explore the opportunities for the development of a Member-led economic forum potentially through evolution of the current Place Leadership Group into a Business Engagement Board; and for greater collaborative working on Economic Development issues across the economic geographies covered by the existing LEPS.

Finance

22. The Government has outlined that for LEPs that are set to be integrated, they are proposing a system of 'transition' funding. However, they are also indicating that for LEPs that are not set to be integrated in the current year or once their functions and roles have actually been integrated into local democratic institutions, the system will become 'core' funding. They will allocate core/transition funding of £375,000 for the full financial year 2022/23, with this however being subject to business case approvals.
23. Where LEPs are integrated into (M)CAs or institutions with devolved powers for the purpose of hosting a county deal and there are subsequent boundary changes, the Government will proportionately alter future core/transition funding grants on an individual business case basis. The expectation that match funding of at least 50% of government's core funding grant must be secured will continue. Where there is going to be an agreed integration, a reasonable proportion of LEP core funding can be used to cover essential preparatory work and legal costs associated with the integration process.

Consultation and Equalities

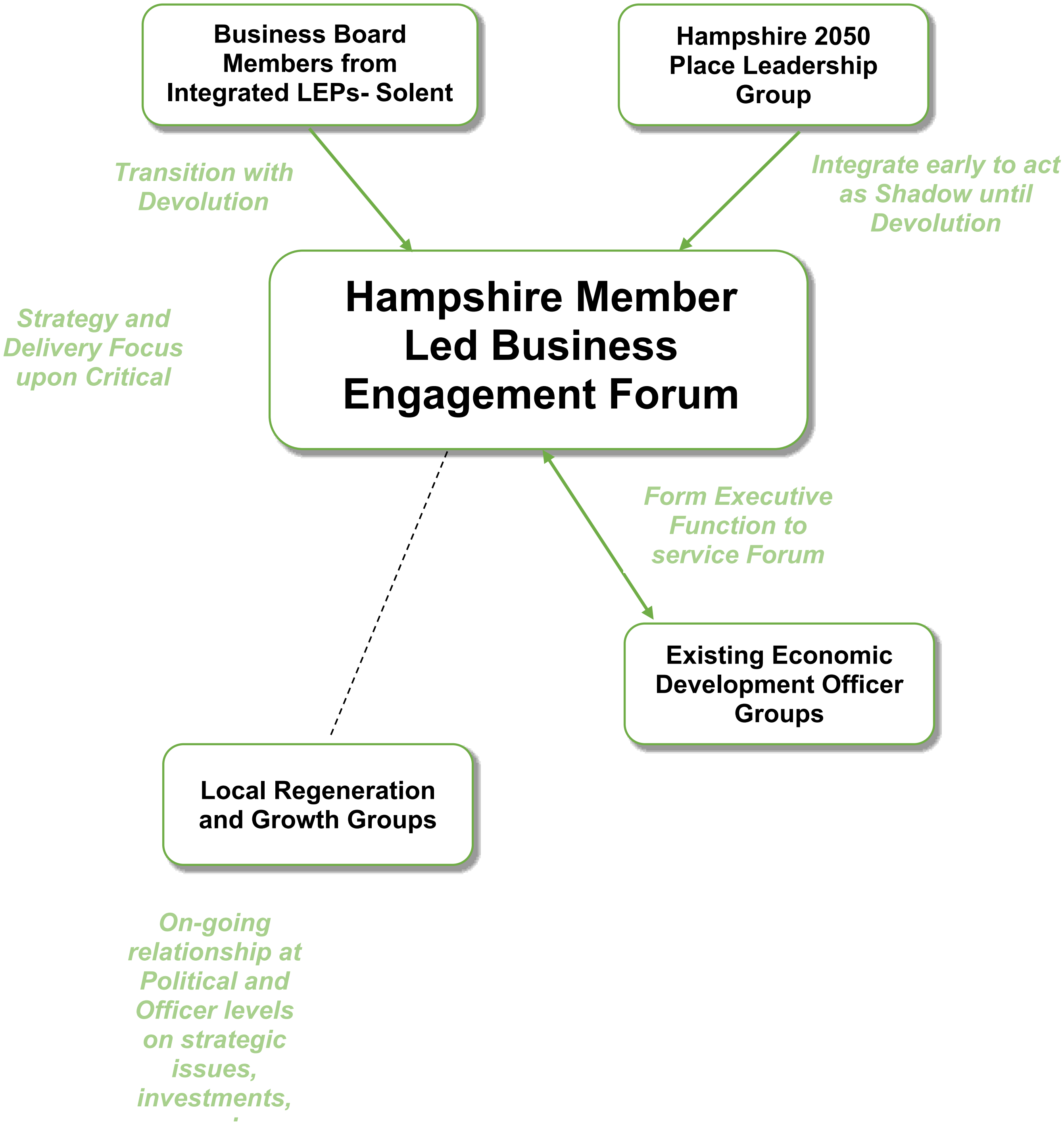
24. Following completion of an Equalities Impact Assessment, it is considered that the proposal will have a neutral impact on groups with protected characteristics as it relates to the County Council's engagement and future relations with key partners rather than any direct interventions which will impact people with protected characteristics.

Climate Change Impact Assessments

25. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

26. The tools employed by the County Council to assess impacts on climate change adaptation and mitigation were utilised and found not to be applicable on grounds that the decision relates to the County Council's engagement and future relations with key partners rather than any direct interventions which will impact climate change.

APPENDIX 1
<u>LEP Integration Potential Leadership Structure</u>



REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes
People in Hampshire live safe, healthy and independent lives:	Yes
People in Hampshire enjoy a rich and diverse environment:	Yes
People in Hampshire enjoy being part of strong, inclusive communities:	Yes
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:	

Other Significant Links

Links to previous Member decisions:	
Title	Date
Direct links to specific legislation or Government Directives	
Title	Date

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	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

2. **Equalities Impact Assessment:**

2.1 Following completion of an Equalities Impact Assessment, it is considered that the proposal will have a neutral impact on groups with protected characteristics as it relates to the County Council's engagement and future relations with key partners rather than any direct interventions which will impact people with protected characteristics.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	19 July 2022
Title:	Hampshire County Council Climate Change Initiatives – Progress Report
Report From:	Director of Culture, Communities and Business Services

Contact name: Chris Dear

Tel: +44 370 779 2605 **Email:** Christopher.dear@hants.gov.uk

Purpose of this Report

1. This report provides a progress update surrounding delivery of the programme of climate change initiatives relating to the operational activities of the County Council, as agreed by Cabinet in July 2021.

2. The report presents the financial position of the programme following year one delivery, summarises completions to-date and outlines key milestones achieved ahead of programme completion in March 2023.

Recommendation

3. Members note the positive progress in the first year of delivering the internal climate change initiatives programme.

Executive Summary

4. In July 2021, Cabinet approved £1.2m one-off funding for an internal Hampshire County Council (HCC) climate change programme. The programme was developed in order to build on recent successes in reducing carbon emissions and, simultaneously, serve as the catalyst for further sustainable change. The two year delivery programme culminates at the end of 22/23.

5. The programme comprises a number of projects across several themes:

Table 1: Programme Overview

Theme	Project title
Alternative Fuels	Enhancements to the electric vehicle fleet
	Electric alternatives for operational heavy vehicles and electric power tools
	Expansion of Hydrotreated Vegetable Oil pilot
Natural Environment	Hillier's Propagation Unit – phase one Frontier Garden project
	Tree Planting
	Rewilding / landscape-scale regeneration (proof of concept) and promotion
	Climate positive carbon negative country park at River Hamble
Waste & Recycling	Proof of Concept: Food waste station installation at Royal Victoria Country Park
	Onsite composting to facilitate sustainable approach to biodegradable and compostable food packaging in addition to food waste
	Increased recycling facilities and signage at customer-facing sites
Energy	Renewable Energy Studies including Solar Farm potential
	Extension of LED lighting programmes at HCC corporate sites
	Energy efficiency for community buildings (additional to Parish and Town Council Funding)
	Renewable energy in HCC depot locations
	Demonstration project for carbon neutrality at Runway's End Eco-Activity Centre
	Feasibility, design and proof of concepts for building technologies to test reductions in carbon emissions and explore innovation
Education	Range of initiatives to engage positively with schools and visitor groups of all ages around climate change and to facilitate community learning
Resilience	Commission expertise to look at the need to adapt our land and assets to be resilient to the impacts of climate change
	Overheating research with University of Southampton

6. At the end of May 2022, £342,000 of the £1.2m programme budget had been spent, representing slightly under 30% of the total. The majority of the spend is scheduled for 22/23. Original funding allocations – as set out in the report to Cabinet in 2021 – have been updated to reflect project closures or projects completed with underspend, as shown in Table 2 below. A new project has been added to the programme with a funding allocation of £20,000, this has been offset by reductions in the allocation to two research projects with University of Southampton that were provided pro bono and therefore the programme total is still £1.2m.

7. Considerable progress has been made across the programme to-date. Completed projects include:

   - Carbon negative country park at River Hamble

- Food waste station installation at Royal Victoria Country Park
- Commissioning expertise to look at the need to adapt our land and assets to be resilient to the impacts of climate change

8. The majority of projects are in progress and scheduled for completion before the end of 22/23. Notable milestones and achievements include:
    - Over 50 enquiries have been received and, to-date, almost £76,000 has been awarded to 12 projects through the Parish and Town Council Investment Fund to support energy-efficient community buildings. Grant funded projects include LED lighting replacements, installation of solar panels, replacing fossil-fuel heating systems, building insulation, etc.
    - The Hydrotreated Vegetable Oil (HVO) expanded pilot period is nearing completion with utilisation of HVO from HCC depots above 80%. HVO is produced from 100% sustainable renewable waste feedstocks, is a drop-in replacement and provides a range of benefits including reducing greenhouse gas emissions by up to 90%.
    - Phase 1 of the tree planting project has been completed with trees planted at a number of sites including Lepe Country Park and Manor Farm. In total, 337 standard trees and 6,300 whips have been planted which will ultimately help to increase carbon sequestration and contribute to the County Council's carbon neutral 2050 target.
    - Collaboration with University of Southampton on a number of projects to encourage collective intelligence and ensure the County Council is knowledge-rich in its climate change endeavours. This includes exploring the potential overheating impact on the schools estate and, separately, how to encourage customers at HCC catering sites to choose plant-based meal options.

9. The programme is on track for delivery by the end of March 2023. Beyond this, measures are in place to monitor direct benefits including forecast carbon and financial savings across the programme. Significant indirect benefits are anticipated as a result of engagement, influence and information sharing with staff and service users.

Contextual information

10. In 2019, HCC declared a climate emergency and, subsequently, developed a Climate Change Strategy and Climate Change Action Plan to support targets to be carbon neutral by 2050 and resilient to the impacts of a 2 degrees Celsius temperature rise.

11. In the following years, the County Council has taken steps to decarbonise its own estate and operations through a range of programmes. The council was successful in receiving circa £30m grant funding through the Public Sector

Decarbonisation Scheme to mitigate climate change impacts across the built estate. A decision was taken corporately to transition to electric vehicles by default for in-scope vehicles at the end of their useful life. Procurement guidance was developed to enable commissioning managers to embed climate change and sustainability principles into the process of tendering for goods and services.

12. In July 2021, Cabinet approved £1.2m one-off funding for an internal HCC climate change programme to build on recent successes and demonstrate leadership by encouraging long-term sustainable change. The two year delivery programme culminates at the end of 22/23. The programme was designed to have a direct impact on carbon reduction, whilst simultaneously influencing staff and service users through engagement and information sharing to achieve indirect benefits.

13. Projects were identified for delivery through several climate themes including:
    - Alternative fuels
    - Natural environment
    - Waste and recycling
    - Energy
    - Education
    - Resilience

14. These themes, and the programme as a whole, offered the County Council the opportunity to act as a role model on climate change action, exploring new technologies and inspiring action across the county. As many of the projects are pilot schemes, they have the potential to be the catalyst for long-term sustainable change if proven viable, but many will not progress beyond pilot stage.

Finance

15. At the end of May 2022, £348,000 of the £1.2m programme budget had been spent, representing slightly under 30% of the total. The vast majority of the spend is scheduled for 22/23.

16. Funding allocations within the £1.2m programme envelope have changed since Cabinet approval in 2021 following, for example, project closures resulting in funds being reallocated. However, the total programme funding remains unchanged at £1.2m. An overview of the allocated funding to individual projects is detailed in Table 2 below.

Summary of Programme Funding Allocations

17. An overview of programme themes, projects, original and updated funding allocations and spend to-date is detailed below:

Table 2 – Programme Funding Summary

Theme	**Project title**	**Original Allocation** (£'000)	**Updated Allocation** (£'000)	**Spent** (£'000)
Alternative Fuels	Enhancements to the electric vehicle fleet	30	30	0
	Electric alternatives for operational heavy vehicles and electric power tools	20	20	0
	Expansion of Hydrotreated Vegetable Oil pilot	57	105	38
Natural Environment	Hillier's Propagation Unit – phase one Frontier Garden project	150	150	150
	Tree Planting	200	200	70
	Rewilding / landscape-scale regeneration (proof of concept) and promotion	100	52	0
	Climate positive carbon negative country park at River Hamble	35	45	45
Waste & Recycling	Proof of Concept: Food waste station installation at Royal Victoria Country Park	10	10	10
	Onsite composting to facilitate sustainable approach to biodegradable and compostable food packaging in addition to food waste	45	45	0
	Increased recycling facilities and signage at customer-facing sites	5	5	0
Energy	Renewable Energy Studies including Solar Farm potential	10	0	0
	Extension of LED lighting programmes at HCC corporate sites	100	0	0
	Energy efficiency for community buildings (additional to Parish and Town Council Funding)	150	150	0
	Renewable energy in HCC depot locations	10	0	0
	Demonstration project for carbon neutrality at Runway's End Eco-Activity Centre	50	50	5

	Feasibility, design and proof of concepts for building technologies to test reductions in carbon emissions and explore innovation	100	200	0
Education	Range of initiatives to engage positively with schools and visitor groups of all ages around climate change and to facilitate community learning	118	118	30
Resilience	Commission expertise to look at the need to adapt our land and assets to be resilient to the impacts of climate change	10	0	0
	Overheating research with University of Southampton	0	20	0
Total		1,200	1,200	348

18. A number of customer-facing sites are strongly positioned to facilitate the programmes objectives. Sir Harold Hillier Gardens is to lead on the delivery of a number of projects, notably electric power tool alternatives and two education projects – one of which is to engage schools in a Climate Unity project, and another to work with other customer-facing services to introduce climate-themed interpretation. To support this, in addition to the £150,000 grant specifically referenced in the table above for the Propagation Unit, it is planned to award Hillier Gardens grant funding of up to £30,000 for these projects.

19. Further information pertaining to project funding allocations is included in the ‘performance’ section below.

Performance

20. Considerable progress has been made across the programme to-date. One of the most notable completions is the ‘Climate positive carbon negative country park at River Hamble’ project. The eco-barn, with its numerous climate credentials partly funded through this programme, opened in March 2022. It’s anticipated to have both direct and indirect benefits – the former will be achieved with new technology to minimise energy consumption including innovative heating solutions and solar PV, whilst the latter will be realised through visitor engagement and information sharing to raise awareness of positive actions that could be taken by visitors to be energy-efficient in domestic settings.

21. The ‘Energy efficiency for community buildings’ project is underway. Interest in the grant funding – available through the Parish and Town Council Investment Fund - to enhance energy performance has been high. There are

currently over 50 enquiries from applicants seeking improvements to village halls and community buildings including solar PV, LED lighting, insulation, energy reports, etc. Almost £76,000 has been awarded to-date to 12 projects for a range of measures which are forecast to achieve an annual carbon reduction of over 22tCO2e and annual financial savings of over £16,000[1] for the successful applicants.

22. One of the projects is an extensive programme of works at Newton Valence Village Hall. The building currently has very poor energy efficiency, rated 'G' which is the lowest possible energy efficiency rating. Proposals to insulate the building, replace windows, install LED lighting and replace the oil-fired heating system with an electric system are forecast to significantly improve the energy-efficiency of the building, increasing the rating to a 'C'. This project alone – which is set to cost circa £30,000, will achieve an annual carbon saving of over 7tCO2e, on top of annual financial savings of almost £4,500 for Newton Valence Parish Council.

23. Funding to support the Hydrotreated Vegetable Oil (HVO) expanded pilot has successfully enabled an immediate direct reduction of the County Council's fleet-based emissions. HVO is produced from 100% sustainable renewable waste feedstocks and is a drop-in replacement for other fuels. Utilisation of HVO is high across the organisation with 80% of fleet fuel being HVO sourced from HCC depots. HVO has the potential to reduce carbon emissions by almost 90% - it's forecast that over a 12 month period this could realise a carbon saving of 1,207tCO2e – equivalent to driving over 2.7 million miles in an average passenger vehicle[2]. Additional funding has been allocated to the project to offset fuel price increases, however the pilot has proven that HVO is a viable option to reduce fleet-based emissions and, consequently, will cease early because of rising costs. A decision will now be sought on continuing with HVO or reverting to diesel.

24. Phase 1 of the tree planting project has completed with phase 2 scheduled for the next 'window' in the autumn of 2022. £70,000 of the £200,000 allocated is spent to-date. Phase 1 included tree planting at a number of sites including Lepe Country Park, Manor Farm, River Hamble Country Park and Staunton Country Park. In total, 337 standard trees and 6,300 whips have been planted which will ultimately help to increase carbon sequestration and contribute to the County Council's carbon neutral 2050 target. These tree planting initiatives complement other ongoing programmes of work including delivery of the Tree Strategy and The Queen's Green Canopy initiatives.

25. Other notable achievements and milestones across the programme include the formation of a replacement plan to support the transition to electric power

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[1] Financial savings are calculated for each application on the basis of current energy prices and energy consumption and forecast energy consumption following completion of energy efficiency measures.
[2] Emissions converted using the United States Environmental Protection Agency Greenhouse Gas Equivalencies calculator

tools at Sir Harold Hillier Gardens and Hampshire Outdoor Centres; proposals have been agreed to support nature recovery as part of the landscape-scale regeneration project; a renewable energy viability study has been completed for Runway's End carbon neutrality demonstration project; a menu carbon labelling project with University of Southampton has commenced, which is one of a range of educational initiatives designed to engage and influence through customer sites such as libraries, outdoor centres and country parks.

26. A small number of additional projects are completed including two research projects in collaboration with University of Southampton - originally allocated £10,000 each – and a food waste project at Royal Victoria Country Park. The research projects – one of which focused on overheating in Hampshire schools and resilience to the impacts of a 2 degrees Celsius temperature rise - were completed 'pro bono' allowing funding to be reallocated across the programme.

27. Two projects have been closed: 1) Extension of LED lighting programmes at HCC corporate sites; 2) Renewable energy in HCC depot locations. The former wasn't required following the successful rollout of an LED lighting programme through Property Services in CCBS, whilst the latter was delivered through the solar PV workstream of the Public Sector Decarbonisation Scheme. The original funding allocations have been reallocated across the programme.

28. One new project has been added to the programme, owing to the reallocations and the insight gathered from research with University of Southampton. A further research project is to be developed, focusing on overheating of schools and care homes, building on the findings of the initial research completed. To aid this project, match funding is being sought to resource a research fellow role, which would generate robust, academically-informed insight to support future decision making surrounding resilience of the estate.

29. Programme benefits are being monitored to not only recognise the impact of individual projects but to ensure lessons can be learnt and, if a project is particularly successful, scaled up and shared to enable wide-reaching impacts. Where relevant and as already noted in this section, carbon emissions savings are being projected for each project. An overall forecast carbon reduction saving will be available at the end of the programme before actuals are recorded in subsequent years. In some instances, financial savings are projected across the programme, although naturally there is also an uplift cost for new, innovative technologies in other areas.

30. Beyond carbon and financial impacts, several other benefits are anticipated including the invaluable insight obtained from research projects and the opportunity to engage and influence staff and service users to encourage impact beyond direct delivery of the programme itself. The former will ensure

the County Council is strongly positioned to make evidence-based decisions that have a long-term impact. The latter will enable increased awareness and knowledge at individual level on how to contribute, which when aggregated will have a significant benefit for Hampshire and beyond.

31. Risks and issues across the programme are being actively managed including:
    - Volatility of HVO pricing means the uplift cost exceeded the original funding allocation for the project. Funding has been reallocated to offset price increases.
    - A shortage of trees could threaten the ability for the tree planting project to obtain access to desirable species and/or deliver the project within defined time tolerance.
    - Delays in the supply chain and availability of supplies/equipment could threaten the proposed timescales for Hillier's Propagation Unit project delivery which could increase project costs.

Consultation and Equalities

32. A high-level Equalities Impact Assessment (EIA) has been completed and no negative impacts have been identified at this stage. Individual project leads, where necessary, will undertake a detailed EIA if deemed appropriate to fully consider the equalities impacts at project level as they are developed.

Climate Change Impact Assessment

33. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

34. The climate change tools were not applicable because this is a strategic programme. However, where appropriate, the tools will be applied to individual projects to assess carbon mitigation and vulnerabilities to adaptation to enable the best outcomes. The programme is anticipated to have a favourable impact on climate change, positively contributing towards carbon neutrality and increased resilience to the impacts of a 2 degrees Celsius temperature rise.

Conclusions

35. The programme is on track for completion by end of March 2023 and numerous milestones have already been achieved including the completion of the ‘Climate positive carbon negative country park at River Hamble’ project, the ongoing success of the ‘Energy efficiency for community buildings’ project and the immediate benefits realised through the ‘Expansion of Hydrotreated Vegetable Oil pilot’ project.

36. Funding allocations have been updated following project completions and closures, resulting in one new project in the programme. £342,000 – representing almost 30% of the total funding – has been spent as at the end of May 2022.

37. Carbon savings have already been realised for HCC, whilst the County Council has benefited from research projects to ensure its knowledge-rich in its efforts to tackle climate change. The County Council cannot tackle it alone, however, and considerable work has and will take place to engage, influence and educate staff and service users in support of climate change objectives.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes
People in Hampshire live safe, healthy and independent lives:	yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	yes

Other Significant Links

Links to previous Member decisions:	
Title HCC Climate Change Initiatives - Decision Record	Date 13 July 2021
Direct links to specific legislation or Government Directives	
Title	Date

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	

EQUALITIES IMPACT ASSESSMENT:

38. **Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

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

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

39. **Equalities Impact Assessment:**

See guidance at https://hants.sharepoint.com/sites/ID/SitePages/Equality-Impact-Assessments.aspx?web=1

*Insert in full your **Equality Statement** which will either state:*

(a) why you consider that the project/proposal will have a low or no impact on groups with protected characteristics or

(b) will give details of the identified impacts and potential mitigating actions