HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	12 December 2023
Title:	Financial Update and Budget Setting and Provisional Cash Limits 2024/25
Report From:	Chief Finance Officer and Director of Corporate Operations

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Section A: Purpose of this Report

The purpose of this report is to:

1. Provide an update to Cabinet on the in-year financial position as at the end of September, including the Transformation to 2021 Programme and Savings Programme to 2023.

2. Set out the process and framework for setting the 2024/25 budget and the next steps in looking to close the remaining 2025/26 budget deficit.

3. Consider the financial impact of the Autumn Statement, announced by the Government on 22 November, and to consider the Council's overall financial prospects.

4. Present the inflationary and other unavoidable pressures that have been identified to date as part of the preparatory work for the 2024/25 budget.

Section B: Recommendations

It is recommended that Cabinet:

5. Notes the latest financial position for the current year as at the end of September.

6. Notes the increasing cost pressures building across both Adults, Health and Care and Children's Services Directorates.

7. Notes the announcement by Government of an Autumn Statement and the impact on the County Council's financial planning, set out in Section E.

8. Approves the provisional revenue cash limits for 2024/25 set out in Appendix 1.

9. Delegates authority to the Director of Corporate Operations to allocate additional permanent revenue funding for inflationary pressures in 2024/25 up to a value of £5m, to be funded from contingencies as required.

10. Approves the capital guideline amounts for 2024/25 as set out in paragraph 81 and notes the changed treatment of capital guidelines from 2025/26 onwards.

11. Notes the updated capital programme in paragraph 87 and the use of the inflation risk reserve as set out in paragraph 84.

12. Notes the County Council's performance against its Prudential Indicators relating to capital investment set out in Appendix 2.

Section C: Executive Summary

13. This report is the standard pre-budget setting report that comes to Cabinet each December and is mainly concerned with setting revenue cash limits and capital guidelines and looking at the prospects for the budget for the next financial year.

14. The Autumn Statement delivered by the Chancellor on 22nd November did not include any additional financial measures to ease the pressures facing local authorities. Furthermore, the continued upward pressure on the National Living Wage and tightening of medium term departmental spending plans to provide the scope for the tax cuts announced in the budget sets a worrying backdrop for the medium term outlook for local government finance.

15. Continuing and building pressure on the Adults, School Transport and Special Educational Needs budgets is forecast for the current year, amounting to some £18m. The future year impact of the transport and SEN pressures is being assessed, however the increase in Adult Social Care clients is expected to add £10.5m to the cost of service delivery in 2024/25. A further £1m is also required to fund additional Coroners costs, though a range of mitigating measures currently being implemented are expected to improve this position over the medium term.

16. In addition, the Council could face extra costs in relation to cyber security, other IT pressures and health and safety improvement work. Risk also remains around the T21 and SP23 savings still to be delivered within demand led social care budgets. The budget setting report to Cabinet and Council in February 2024 will provide a further update on the position for these items, and on the future year impact of the pressures noted above. Overall, at this stage, the additional funding to be included in the provisional cashlimits for inflation, growth and pressures amounts to some £130m.

17. The Council will undertake an exercise to establish the legal minimum service levels across all services to understand any further options for service changes or reductions to close the budget gap to 2025/26, and to consider what further options could be implemented in the face of a Section 114 notice. This exercise will be concluded by the Autumn and will form an important part of the evidence for subsequent discussions with Government.

18. It is proposed that Cabinet approves the allocation of capital cashlimits to directorates for 2024/25 only at this stage. It is recommended that the amounts for 2025/26 and 2026/27 are held centrally, allowing the County Council time to continue to consider the evolving MTFS position. This is a pragmatic approach that balances recognition of the importance of capital investment with the need to review and challenge all revenue based expenditure given the exceptional financial environment.

Section D: Contextual Information

19. The County Council received a report in November on the updated MTFS position together with savings proposals for the 2025/26 financial year (Savings Programme to 2025 – SP25). It was reported that even if all of the savings proposals were implemented (following stage 2 consultations where appropriate) there would still be a recurring gap of £41.6m and a total gap in 2025/26 of £56.7m due to the timing of savings delivery.

20. The background to this position is well documented with the County Council declaring publicly in 2018 that if something didn't fundamentally change in the system for local government finance that we would not be sustainable in the longer term as we cannot continue to make savings in other services to fund the growth in social care services in particular.

21. This position has been exacerbated in more recent years, with extremely high inflation on top of continued growth in service demand in major spend areas such as social care, Special Educational Needs (SEN) and school transport. These pressures have led to a predicted gap of £132m by 2025/26, although the factors outlined in this report will place further pressure on this forecast position as we head into the budget setting round for 2024/25.

22. The County Council has continued to lobby the government for additional temporary funding in 2024/25 whilst we await the long delayed review of the local government finance system, which is widely recognised as not being fit for purpose.

23. In July, the government announced an additional allocation of winter pressure funding for Adult Social Care in 2023/24 and 2024/25 through the Market Sustainability Improvement Fund. Hampshire will receive £7.2m in the current year and £4.1m in the forthcoming year, which will be used to offset pressures in the system.

Section E: Autumn Statement

24. The Government announced the 2023 Autumn Statement on 22 November. Disappointingly, the Statement didn’t include any additional financial measures to ease the pressures facing local authorities, despite strong lobbying from the sector in the period leading up to the Statement, which attracted widespread press coverage. The Statement was focused mainly on tax measures, with little new public spending announced.

25. The headline announcements in the Statement were a 2% cut to the rate of Employee National Insurance contributions and the introduction of permanent tax reliefs on business investment. Of particular interest to Local Government was the announcement of a 9.8% increase in the National Living Wage for 2024/25 to £11.44 per hour. This significantly exceeds the previous central estimate of £11.16 published by the Low Pay Commission in May on which the current MTFS forecasts are based. This increase is likely to result in additional financial pressures for the Council, both through increasing costs for our service providers and also impacting future local government pay awards. A full review of the financial impact will be undertaken prior to budget setting in February 2024.

26. The Council tax referendum limit was confirmed as 3% for 2024/25, plus an additional 2% for increases to the Adult Social Care Precept. It was also announced that thank you payments for Homes for Ukraine sponsors would be extended into a third year; these will remain at £500 per month.

27. The Economic and Fiscal Outlook published by the Office for Budgetary Responsibility (OBR) alongside the Statement showed that the net use of reserves by local authorities increased by £2.3bn in 2022/23. Furthermore, Councils are expected to use £1.5bn reserves in 2023/24 and £0.8m in 2024/25 to meet “ongoing funding pressures”. Both year’s figures were originally zero in the March forecasts.

28. The OBR’s report goes on to highlight the risks caused by pressures on local authority finances, with Local Authority spending falling from 7.4% of GDP to just 5% since 2010/11 and with a further fall to 4.6% of GDP expected by 2028/29. The government’s planned departmental spending levels beyond 2024/25 are expected to grow by just 0.9% per year in real terms. After accounting for commitments to larger increases in NHS funding, spending in unprotected departments (including local government) would fall by 2.3% each year in real terms. This sets a worrying backdrop for the medium term outlook for local government finance and suggests that there is unlikely to be sufficient scope to address the funding shortfalls faced by Councils within the government’s current spending plans.

Section F: Highways maintenance funding

29. On 17th November, the Department for Transport (DfT) announced that £8.3 billion of redirected High Speed 2 capital funding would be used to provide an

investment package for Highway Maintenance over the next 11 years. This is the largest ever funding allocation for a road resurfacing programme and represents an increase of more than two thirds in DfT support for local roads. The local authority allocations for 85% of the funding have been announced, with the remaining 15% of funding remaining to be allocated at a later date. The 15% not allocated will be dependent on future updates to the formula funding approach, completion of local highway PFIs within the 11-year period, and possible changes to incentive-based funding centred around innovation and best practice.

30. Hampshire will receive a minimum of £132.3m additional funding over the eleven years to 2033/34, of which £4.225m will be allocated in both 2023/24 and 2024/25. If the remaining funding is divided equally across the remaining 9-year period from 2025/26, this would provide an additional £13.76m per year. This assumes an equal straight-line distribution across the funding period, but the actual distribution of funding has not yet been confirmed.

31. The timing of the larger longer-term element of the additional DfT funding from 2025/26 onwards is significant as it coincides with the proposed reduction of £7.5m per year as part of the Savings Programme to 2025. Assuming the DfT base funding remains unchanged for 2025/26 onwards, there would still be a net gain in funding for structural highway maintenance after accounting for the planned savings.

32. Conversations are already underway with the Council's highways contractor to ensure that the County Council remains in a strong position to deliver work on the ground at an increased scale in light of the significant funding announcement. With increased funding it is proposed to reintroduce more planned works following the managed scaling back of this type of work following the impacts of the severe 2022/23 winter and the need to refocus resources on reactive works. This will mean more surface treatments, resurfacing schemes and larger programmes of structural repairs that will be delivered alongside continuing routine and reactive works.

Section G: 2023/24 Business as Usual Financial Monitoring

33. Balanced positions have been reported for the period to the end of September by Universal Services, Corporate Services and Hampshire 2050. Some early delivery of SP2025 savings is expected within the non-social care directorates which will be transferred to the Budget Bridging Reserve at the end of the year to contribute to balancing the budget for 2025/26. However, significant pressures exist within Adults and Children's services after utilising all remaining cost of change funding which will need to be met from general contingencies and central budgets. The key areas of pressure are discussed in further detail in the following sections.

Inflation Underwrite

34. The central contingencies budget includes an earmarked sum of £15m to meet significant unfunded directorate inflationary pressures on an exceptions basis. To date, over £9.9m has been allocated from the contingency budget; most significantly £5.3m for School Transport and £4.4m for Adults care budgets. The remaining balance of the underwrite is required to offset inflationary price increases budgeted for 2024/25, which significantly exceed the contingencies earmarked for this purpose. Any further inflationary pressures emerging within the current and next year will therefore impact general contingencies going forward, with potential implications for the 2025/26 budget gap.

35. The key factors impacting this position include the use of current year inflation rates to set the uplifts for a number of the Council's high value contracts, with rates remaining higher than previously expected. Additionally, the government's announcement of a 9.8% increase in the National Living Wage for 2024 is an important driver of costs, particularly within social care, and now exceeds the level of general inflation. Finally, the Council continues to face challenges around sourcing sufficient appropriate service provision in key areas due to a lack of supply and therefore market competition which continues to push up prices, particularly for services such as School Transport.

Adults' Social Care

36. There is a forecast pressure on care packages for all client groups of £10.8m in addition to the £10.8m that has previously been anticipated within the MTFS. There are forecast to be over 200 more Residential and Nursing clients by the end of the year than budgeted levels, which is the primary reason for the reported pressure. Pressures within Younger Adults are mainly due to the increasing number of clients with complex needs since the start of the financial year, although there have also been some increases in volumes and particularly average placement costs since the budget was set.

37. There remains approximately £6.4m from the additional Market Sustainability Improvement Fund (MSIF) grant allocated by the government in July which can be used to help fund these pressures, reducing the net pressure to £4.4m.

38. The recent increases in client numbers have impacted the proposed budget for 2024/25, with an extra £10.5m growth funding expected to be required. However, given that levels of demand across the second half of this year and future pressure funding from government remain uncertain, it is not yet possible to confirm whether this will result in an increase to the 2025/26 budget gap. The budget setting report to Cabinet and Council in February 2024 will provide a further update on the position.

Special Educational Needs

39. The 2023/24 budget included additional funding of some £3.8m for the Special Educational Needs Service and Educational Psychologists as a result of a significant rise in the number of requests for Education Health and Care Plans (EHCPs) in recent years. Despite this additional funding, the service is forecasting a pressure of £3.5m as at Q2. Market supplement proposals have been approved which are expected to reduce the agency staffing pressure on the service, though this is unlikely to significantly impact the current year position. Further work has been requested from Children's Services to determine a minimum viable establishment structure for the service which is commensurate with current EHCP growth forecasts. It is expected that this will result in an ongoing pressure well in excess of the numbers presented for the current year, which will need to be considered as part of the Council's budget setting process in February 2024.

School Transport

40. The Medium Term Financial Strategy approved by Council in November highlighted a growing pressure on School Transport due to increased complexity of pupil needs, shortages of appropriate transport and the lack of locally available, suitable Special Educational Needs places. The reported pressure has risen in recent months due to recommissioning of 60% of mainstream school routes over the summer, leading to 14-15% price rises coupled with some operators deciding not to bid, giving notice or cancelling 23 contracts at short notice. This has resulted in more expensive alternative arrangements needing to be implemented. Many of the retendered contracts were previously extended under special measures during the pandemic and were some of the oldest, and therefore cheapest that the service held.

41. The transport pressure is now expected to be £9.9m above budget plus contingencies in the current year. Whilst it remains possible to offset this pressure in the short term using the substantial increase in interest income on cash balances which the Council expects to receive over the next two years, any impact on the modelled MTFS pressure of £17.8m extra by 2025/26 risks further increasing the £132m budget gap. The MTFS projections will be updated at a later date to reflect the latest data on pupil numbers and will also take account of the impact of the current year pressure and the extent to which this might extend into our future cost base.

Coroners

42. The 2023/24 provisional cash limits report to Cabinet in December 2022 highlighted a 50% increase in Coroners inquests since 2019 resulting from increasing numbers of complex or uncertified referrals and acute shortages in mortuary capacity. An additional £578k was added to the service's budget for 2023/24, however a pressure of £546k is expected for the current year, rising to around £1m in 2024/25 and this will be reflected in the proposed budget for

Universal Services. This includes funding for an additional Area Coroner position and Assistant Coroners which will provide extra capacity to reduce the backlog of inquests, in turn reducing spend on mortuary provision. In addition, potential upcoming changes to legislation are expected to help reduce levels of post- mortem referrals, reducing the future costs of service delivery. The budget position for the service will therefore be kept under close review and will be adjusted to reflect the impact of savings as and when these can be realised.

Future IT Costs

43. It is usual at this time of the year to consider any additional pressures within the IT service in the same way that we do for other services such as social care or school transport. It is clearly more difficult to do that for services where there is not a direct link between demand and costs, particularly in an area such as cyber security, where threats are constantly changing and the amount you can spend on putting mitigations in place is based on a subjective assessment of how effective they will eventually be.

44. In the past, the County Council has continued to invest in new technology to combat the changing threat of cyber attacks and new investment is planned for next year which equates to an additional recurring revenue pressure of £405,000 per annum alongside around £638,000 of other costs associated with unavoidable IT pressures which have arisen over the last year.

45. However, given the financial pressure that the County Council is under the Chief Financial Officer wanted to test the additional investment against the 'legal minimum service level' criteria (discussed later in the report) to ensure that it is fully justified in terms of adding further costs to the recurring bottom line position of the authority. This will be discussed at Corporate Management Team with any proposals coming forward as part of the budget setting report in February next year.

HSE improvement work

46. Cabinet will be aware that the County Council received an improvement notice from the Health and Safety Executive (HSE) in respect of two separate incidents of lifting equipment failure which was supplied by the Hampshire Equipment Store (HES).

47. The County Council must respond to the improvement notice by January 2024 and significant work has already been completed to fully understand how the incidents occurred and what improvements are required within our systems, processes and staff training to ensure that future incidents are mitigated as far as we are able.

48. Some of this work will require system changes and data cleansing activity as well as ensuring that all of our records and equipment checks are fully up to

date. Early estimates indicate that this could cost up to £500,000 on a one off basis to complete.

49. Furthermore, the County council will need to invest in additional resources to ensure that its requirements under Lifting Operations and Lifting Equipment Regulations (LOLER) and Provision and Use of Work Equipment Regulations (PUWER) are fully discharged. Initial assessments indicate that additional recurring funding of around £250,000 will be needed to meet our obligations.

50. At this stage therefore, provision for these amounts will be made in the draft budget, but final costs will be confirmed once more detailed requirements and costings have been produced.

Section H: Transformation to 2021 and Savings Programme to 2023

51. For Tt2021 and SP2023 as part of the financial planning for the update of the MTFS in February next year, CMT have been asked to look closely at any current Red rated savings to determine whether these are truly deliverable in the future or whether they ought to be included as an additional pressure for the medium term forecast to 2025/26. There are currently £3.0m of savings that are rated as Red and all of these relate to Adults or Children's social care proposals.

52. The need to review these savings more closely reflects the fact that economic and market conditions have changed significantly in a number of the key areas where savings are still to be made, and it may no longer be possible to achieve the same level of savings as a result. If this turns out to be the case, it is important that this is reflected in our forecasts when we report next February.

Section I: Overall Budget 2024/25

53. It is not possible at this stage to fully update the Medium Term Forecast as we do not have details of the provisional local government finance settlement and allocations for 2025/26 and beyond have not been released, given that they fall into the next Government Spending Review period. Furthermore, as mentioned above we are reviewing the forecast pressures in Adult Social Care, Special Educational Needs and Home to School Transport to determine whether the cost increases seen during the current year could impact on budget forecasts to 2025/26. A full update will be provided in February but at this stage, given the substantial short term increase in interest income on the Council's cash balances and saving due to the prepayment of employer pension contributions for the period of 2023/24 to 2025/26, it is anticipated that the budget shortfall is likely to remain in line with the position reported in the MTFS.

54. As part of the financial outturn reporting process for 2022/23, a review of the Council's reserves and commitments was undertaken. Through reprioritising

earmarked funding, including monies set aside to fund future capital programmes and corporate policy objectives, most of the additional funding required to bridge the £86m gap for 2024/25 was identified, albeit a small deficit of £2.4m still remained. The position will be kept under review in the light of the outturn position for 2023/24, early achievement of SP25 and further review of options to re-purpose earmarked reserves.

Section J: Provisional Cash Limits 2024/25

55. Provisional cash limits are set to enable Directorates to prepare their detailed budgets for the next financial year. These cash limits take account of changes in the base budget, for example as a result of grant changes or transfers between Directorates, approved growth and inflation for the year.

56. Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation and the impact of the 2023/24 pay award. An allowance for the 2024/25 pay award will be held in corporate contingencies and allocated to Directorate budgets when the agreed pay award is known.

57. The calculation of the provisional cash limits is shown in detail in Appendix 1 and demonstrates all too clearly the pressures we face next year with over £130m of inflation, pressures and growth added since 2023/24. This does not include the impact of the 2023/24 local government pay award, which is expected to add a further £22m to directorate cashlimits. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2024/25 position has been updated taking into account forecast changes, such as increases in respect of the pupil premium and other grant related changes.

58. Funding previously approved to meet growth in demand-driven services has also been allocated and is reflected in the provisional cash limits, with the exception of inflation on energy budgets, a further general inflation underwrite of £5m (to be allocated on an exceptions basis), the provision for the 2024/25 pay award, and funding for children’s agency staffing, as this pressure can vary across the year.

59. The cash limits include additional funding to cover the full impact of inflation at forecast levels where the Council is contractually committed to increase payments to suppliers in line with general inflation. However, for adults and children’s social care budgets and other non-pay spend, a base level of inflation has been included within the cash limit which reflects the limit of affordability within the current MTFS, and a corporate inflation underwrite will be held to meet the cost of any additional increases that may be required. The base inflation allocation on non-pay expenditure remains some £15.7m higher than the inflation allocated for 2022/23. The additional underwrite of £5m is factored into the Council’s budget gap, so will only be called upon in exceptional circumstances where there are significant implications for service delivery.

60. Additionally, the 2024/25 cash limits include £5.7m of income inflation which increases directorate targets for income generation through increasing existing fees and charges in line with cost increases where it is possible to do so. A general increase of 3% has been assumed for budgeting purposes, however fees and charges will be reviewed on a case by case basis and in some areas could increase by a higher level to allow the council to continue to provide discretionary services on a cost neutral basis. The Revenue Budget Reports to Executive Members and Select Committees in January will include a full list of the Council's proposed fees and charges for each portfolio area for 2024/25.

61. Chief Officers, with Executive Members will be developing their detailed budgets within these provisional guidelines, subject to their approval, so that the Leader and Cabinet can make the final budget recommendations for 2024/25 at the meeting in February 2024.

Section K: Review to establish legal minimum service levels

62. Cabinet will be aware that in developing the Savings Programme to 2025 (SP2025) no specific savings targets were set for Directorates in the same way that we have for every other savings programme to date. Instead, Directorates were asked to come up with proposals, based on moving towards a minimum level of service.

63. This wording was chosen carefully for two reasons, firstly, reflecting the fact that there is no clear definition of what a legal minimum service looks like and secondly, because it was recognised that even after the SP25 programme was approved there would still be further challenge as to whether that did in fact represent a legal minimum service level.

64. Even if all of the savings proposals for SP25 were fully implemented, there is still a £41.6m recurring gap in the budget from 2025/26 onwards and the County Council must therefore continue to look at what options are available to it to help close this gap on an ongoing basis.

65. To facilitate this, Corporate Management Team have implemented a piece of work to look more closely at what a Legal Minimum Service Level (LMSL) looks like across our full range of services, with a view to concluding a piece of work by Autumn next year.

66. This is a very different exercise to anything that we have undertaken in the past and will challenge our thinking on how we provide services into the future. Importantly, it will concentrate on two distinct strands of work:

   - Further options for service change or reductions that could be implemented in order to help close the remaining gap for the 2025/26 budget.
   - Options for service reductions that would only be implemented in the face of a Section 114 notice.

67. For the first tranche of work, this will include some potential changes that are already in train following the Chief Executive's 'fit for the future' programme, concentrating on the enabling functions review, the customer contact review and the admin. review.

68. Whilst in recent savings programmes, members expenses have not been reviewed as part of the proposals, this will need to be included for this exercise, in particular the members devolved budgets which currently total £624,000.

69. The second part of the exercise will be more challenging as it means the County Council will need to consider options that based on past work do not necessarily make sense. For example, we currently make an annual contribution each year towards capital spend (see later in this report) and towards replacing IT infrastructure and desktop kit, all of which could be stopped. Clearly, longer term this does not make sense as it only stores up financial problems for the future, but in the face of a Section 114 notice they are options we would have to consider.

70. Similarly, the work we currently do on preventative services would need to be assessed as to whether it needed to stop even though we know that this will create more costs further down the line. Within this area however, we need to be aware that some services require us to prevent access to services as part of our statutory duties, so this will need to be looked at closely.

71. It is not expected that this work will find the full remaining £41.6m of savings needed to balance the budget in 2025/26 but is an important part of the evidence we need for Government and in reviewing submissions we therefore need to be able to apply the 'commissioner test'. In essence, if commissioners were sent in to review our financial position, they should not be able to find any instance of expenditure that was not already at the LMSL. With this in mind, the intention would be to consider any added value of having external validation of the work that had been completed as this would form a very important part of our submission to Government in advance of the Comprehensive Spending Review, highlighting that the County Council is unable to balance its budget with the funding it has and cannot make any more savings to close the financial gap.

72. At this stage, it would be pointless issuing a Section 114 notice (albeit the regulations would require us to) since issuing an instruction to County Council to address the budget shortfall when we had already exhausted all options for saving money would clearly not achieve anything.

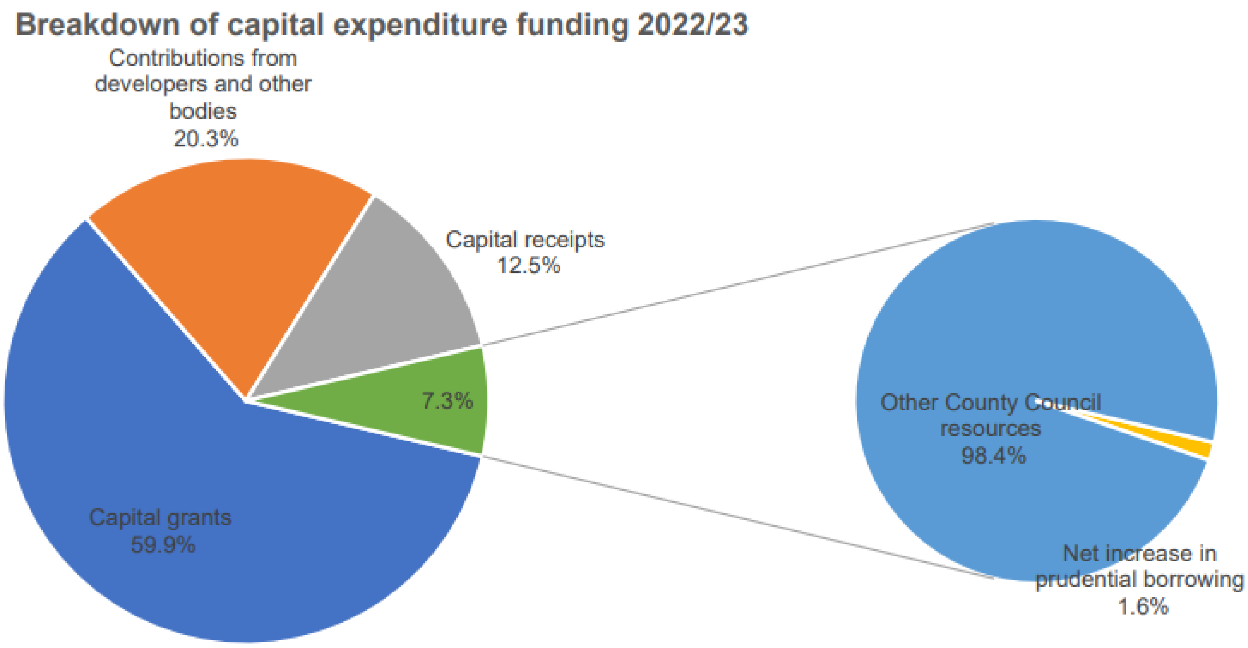
Section L: Capital Investment

73. The County Council has maintained its capital programme throughout the period of austerity, doing so by making use of external sources to fund a

significant proportion of expenditure, supplemented by the use of capital receipts and the County Council's own revenue resources.

74. Actual capital expenditure varies from year to year due to the nature of the delivery of capital schemes but has averaged around £205m per annum over the past 5 years, equating to over £1bn in aggregate. This is a significant investment in assets to support and enable the provision of local services and also delivers benefits to the local economy.

75. The breakdown of funding of actual capital expenditure for the 2022/23 financial year is shown in the graph below. In this period c.80% of expenditure



was funded from external sources, or approximately £153m of the £191m total spend.

76. Where expenditure is funded from local resources, this impacts the revenue budget in one of three ways:

1. A reduction in existing reserves
2. Increased capital financing costs (e.g. interest and MRP) as a result of prudential borrowing
3. The need for direct contributions to schemes from the revenue budget

77. The County Council has maintained planned revenue contributions to capital as part of its revenue budget throughout the period of austerity, recognising the need for continued capital expenditure in areas such as essential health and safety improvement works across the County Council's built estate and the investment in highways. As such, the revenue budget approved in February 2023 included a revenue contribution to capital of £13.6m, a key component of the capital cash limit guidelines for the current financial year.

78. As explained in detail earlier in this report, the County Council faces an increasingly challenging financial position. The forecasts contained within the current MTFS assume the annual revenue contribution to capital of £13.6m continues. It is proposed, however, that Cabinet at this stage only approves the allocation of amounts from within this sum to services for 2024/25 when setting the provisional capital cash limit guidelines. It is recommended that the amounts for 2025/26 and 2026/27 are centrally held at this stage, allowing the County Council time to continue to consider the evolving MTFS position. This is a pragmatic approach that balances recognition of the importance of capital investment with the need to review and challenge all revenue-based expenditure given the exceptional financial environment.

79. This approach is also compatible with the way the County Council sets its three-year capital programme each February, whereby the second and third years are always provisional. Executive Members will have the certainty of funding to be able to put forward locally resourced schemes within their capital programmes for 2024/25, while high priority schemes that may require funding from local resources in 2025/26 and 2026/27 can continue to be identified by Executive Members to enable funding options to be considered. Where external funding is anticipated, provisional programmes for 2025/26 and 2026/27 can continue to be proposed as usual.

80. The capital cash limit guidelines also include amounts funded from prudential borrowing. This includes the annual amount of £3.4m for vehicles to be purchased by Hampshire Transport Management where costs are recovered through charges to HTM service users. In addition, a further £6.8m is included for 2024/25 only relating to essential health and safety and regulatory compliance and life cycle replacement costs. This amount received previous approval linked to the July 2022 report to Cabinet on developing a Medium-Term Financial Strategy. It should be noted that prudential borrowing creates a pressure on the revenue budget through interest and repayment of principal (Minimum Revenue Provision) costs.

81. The result is the following provisional capital cash limit guidelines:

Capital cash limit guidelines	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**
Adults' Health and Care	481	0	0
Children's Services	100	0	0
Universal Services	22,642	3,400	3,400
Hampshire 2050	646	0	0
Centrally held	0	13,669	13,669
Total	**23,869**	**17,069**	**17,069**
Funded by			
Direct revenue contributions	13,669	13,669	13,669
Prudential borrowing	10,200	3,400	3,400
Total	**23,869**	**17,069**	**17,069**

82. Cabinet is requested to approve these provisional guidelines to allow directorates to prepare their detailed capital programmes for approval as part of the budget setting process in January and February.

Capital inflation risk reserve

83. Cabinet and County Council received a report on developing a Medium Term Financial Strategy in July and September 2022 respectively. This report identified the significant inflationary pressure on capital allocations and especially approved projects out to tender and in progress. It was agreed that contingency funding of £15m would be made available through a corporate capital inflation underwrite where inflation on individual schemes could not be met from approved budgets. It was subsequently agreed by Cabinet in December 2022 that any unused amount from this £15m would be used to create a new capital inflation risk reserve.

84. A number of draws from this reserve were identified as part of the February 2023 capital programme report to Cabinet and County Council, leaving an unallocated balance of £4.801m. A further £1.650m has subsequently been approved under the approval delegated to the Deputy Chief Executive and Director of Corporate Operations, leaving a balance of £3.151m. Any unspent amounts upon completion of these schemes will be returned to the capital inflation risk reserve.

	Inflationary pressure £'000
Original capital inflation underwrite	**15,000**
Approved draws December 2022	(950)
Approved draws February 2023	(9,249)
Capital inflation risk reserve balance brought forward	**4,801**
STCF Marchwood Bypass	(400)
TCF Portsmouth (Delme/Gosport)	(1,000)
TCF Southampton (A27 Providence Hill)	(250)
Remaining reserve balance	**3,151**

Revisions to the 2023/24 programme

85. There are no revisions to the 2023/24 programme requiring the approval of Cabinet or County Council.

86. A number of revisions to the Universal Services programme relating to the installation of ground source heat pumps at schools and various countryside schemes were covered at the 27 November 2023 decision day of the Executive Lead Member for Universal Services.

87. Taking these changes into account, the updated capital programme is as shown in the table below.

Prior Years £'000		Revised 2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
20,242	Adults' Health & Care	47,910	14,733	14,733	97,618
15,759	Children's Services	51,313	107,941	85,954	260,967
0	Hampshire 2050	0	0	0	0
255,458	Universal Services	186,841	138,792	115,858	696,949
291,459	**Total**	**286,064**	**261,466**	**216,545**	**1,055,534**
			764,075		

2023/24 monitoring and Prudential Indicators

88. The CIPFA Prudential Code (2021) requires quarterly reporting against the prudential indicators included within the Capital and Investment Strategy. This is to support the County Council in ensuring that capital expenditure, investment and borrowing decisions are prudent, sustainable, and affordable. The prudential indicators for Quarter 2 are included in Appendix 2.

89. The Prudential Indicators include the latest forecasts for capital expenditure as shown in the table below. The current forecast is based on the timing of expenditure related to the updated capital programme set out in the section above, reflecting changes to the programme since February 2023.

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	Future years Estimate	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
February 2023 original forecast	296,655	281,486	229,601	192,802	1,000,054
Current forecast	339,339	290,118	229,601	196,476	1,055,534

Section M – Consultation, Equalities and Climate Change Impact

90. 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.

91. This report deals with the provisional revenue and capital budget guidelines for services to enable detailed budget preparation to progress for 2024/25. This is the interim year of the two year financial planning cycle when no new savings proposals are being considered. Therefore, no consultation or Equality Impact Assessments are required.

92. 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.

93. This report deals with the provisional revenue and capital budget guidelines for services to enable detailed budget preparation to progress for 2024/25. Climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. There are no further climate change impacts as part of this report which is concerned with setting the process and framework for budget preparation.

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 2025 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=63758#mgDocuments	Cabinet – 10 October 2023 County Council – 9 November 2023
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:

94. **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.

95. **Equalities Impact Assessment:**

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

Appendix 1

PROVISIONAL CASH LIMITS – 2024/25

Directorate	2023/24 Cash Limit £'000	Base Changes £'000	Inflation, Growth & Pressures £'000	2024/25 Cash Limit £'000
Adults' Health and Care	528,166	9,853	66,928	604,947
Children's – Schools	1,075,676	(23,136)	0	1,052,540
Children's – Non Schools	313,045	(10,679)	53,204	355,570
Corporate Operations	37,280	3,324	(656)	39,948
People & Organisation	15,882	(1,868)	133	14,147
Universal Services	146,619	(1,371)	10,505	155,753
Hampshire 2050	15,891	58	35	15,984
Total	**2,132,559**	**(23,819)**	**130,149**	**2,238,889**

Notes:

Base Changes

1. Additional Market Sustainability and Improvement Fund Grant and Discharge Fund Grant (£7.0m)
2. Schools supplementary grant adjustment (£9.0m) and academy conversions (£11.3m)
3. Anticipated ending of Household Support Fund Grant (£14.2m)

Inflation, Growth & Pressures

4. 2024/25 non-pay inflation (£39.8m)
5. Children's Services pressures, including growth and inflation funding for Home to School Transport (£24.9m), growth in Children Looked After (£13.8m), Special Educational Needs and Educational Psychologists (£3.8m)
6. Adult Social Care growth funding at current MTFS level (£41.8m)

Prudential Indicators Q2 2023/24

The Prudential Code requires the County Council to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set prior to the start of each financial year, which is done as part of the Capital and Investment Strategy, which is an appendix to the February budget setting report [Revenue Budget Appendix 7 - Capital and Investment Strategy.pdf (hants.gov.uk)]

The Prudential Code requires the Chief Financial Officer to establish procedures to monitor and report performance against these indicators. From 2023/24 this reporting must be on a quarterly basis and the intention is to report this information within the following Cabinet reports during 2023/24:

- Q1 – MTFS update – October 2023
- Q2 – Financial update and provisional cash limits – December 2023
- Q3 – Revenue budget and precept – February 2024
- Q4 – End of year financial report – July 2024

Capital programme forecast expenditure (Prudential Indicator 1)

1. The County Council has a significant capital programme. As with any large programme of capital expenditure, the exact timing of expenditure across financial years is always likely to vary to some degree as schemes progress. The most recent forecast for the timing of capital expenditure for the updated capital programme reported to Cabinet in December 2023 is shown in Table 1 alongside the equivalent figures from the February 2023 capital programme report.

Table 1: Capital programme forecast expenditure flows (Prudential Indicator 1)

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	Future years Estimate
	£'000	£'000	£'000	£'000
February 2023 forecast	296,655	281,486	229,601	192,802
Q2 2023/24 forecast	339,339	290,118	229,601	196,476

Ensuring Borrowing is only for capital purposes (Prudential Indicator 2)

2. The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP)

charges to the revenue budget and any capital receipts or other contributions used to replace debt.

3. The Prudential Code states that a local authority must ensure that gross debt is only for capital purposes over the medium term, which means that gross external debt must not exceed the total of the CFR from the preceding year plus the estimates of any additional CFR for the current and next two financial years, except in the short term. This is a key indicator of prudence.

4. Actual figures for the CFR and debt at 31 March 2023 and forecasts for the next three years are shown in Table 2 and confirm that the County Council expects to remain compliant with the requirements linked to this indicator.

Table 2: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	31/03/23 Actual £M	31/03/24 Estimate £M	31/03/25 Estimate £M	31/03/26 Estimate £M
CFR	**750**	**748**	**757**	**733**
Debt				
Borrowing	202	172	162	153
PFI liabilities	121	113	104	95
Leases	-	-	15	14
Total Debt	**323**	**285**	**281**	**262**

Affordable borrowing limits (Prudential Indicators 3 and 4)

5. The County Council is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower ‘Operational Boundary’ is also set as a warning level should debt approach the limit. The Operational Boundary is based an estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Table 3: Affordable Borrowing Limits (Prudential Indicators 3 and 4)

	2023/24 £M	2024/25 £M	2025/26 £M
Authorised limit	920	920	925
Operational boundary	880	875	885
Maximum borrowing forecast (including PFI and leases)	323	285	281
Compliance with authorised limit?	Yes	Yes	Yes

Ratio of financing costs to net revenue stream (Prudential Indicator 5)

6. Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs such as interest payable under finance leases and amounts relating to the early settlement of borrowing. In aggregate these costs are known as financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.

7. Table 4 shows the proportion of the County Council's net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the capital programme.

Table 4: Ratio of Financing Costs to Net Revenue Stream (Prudential Indicator 5)

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio – Q1 23/24 forecast	4.8%	4.4%	4.1%
Ratio – Q2 23/24 forecast	4.8%	4.5%	4.2%

8. There have been slight increases in the ratios for 2024/25 and 2025/26 since Q1 to reflect a change to the accounting treatment of the Council's Streetlighting PFI contract previously approved by External Audit. The ratio is unchanged for 2023/24 due to an increase in the net budget position which has offset the adjustment to financing costs.

Net income from commercial and service investments to net revenue stream (Prudential Indicator 6)

9. The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income.

Table 5: Net Income from Commercial and Service Investments to Net Revenue Stream (Prudential Indicator 6)

	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio – Feb 2023 forecast	0.1%	0.1%	0.1%
Ratio – Q2 23/24 forecast	0.1%	0.1%	0.1%

10. The County Council has a small number of legacy arrangements that generate income from commercial investments and holds a number of further

assets classified as investment properties within its Balance Sheet. These income from these investments does not have a significant impact on the County Council's revenue budget.