# Public Document Pack

Hampshire County Council

**NOTICE OF MEETING**

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| **Meeting** | Policy and Resources Select Committee |
| **Date and Time** | Thursday, 27th October, 2022 at 10.00 am |
| **Place** | Mitchell Room, EII Court, 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 3 - 6)

To confirm the minutes of the previous meeting on 23 June 2022.

**4. DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

**5. CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6. 2021/22 - END OF YEAR FINANCIAL REPORT** (Pages 7 - 80)

To receive a report on the County Council's End of Year Financial report for 2021-22.

**7. DEVELOPING A MEDIUM TERM FINANCIAL STRATEGY** (Pages 81 - 104)

To receive a report on the County Council's Medium Term Financial Strategy.

**8. SCRUTINY PROTOCOL, PLANNING AND RESOURCE ALLOCATION** (Pages 105 - 116)

To consider a report of the Chief Executive seeking approval of a Scrutiny Protocol and allocation of available resources to each Select Committee.

**9. WORK PROGRAMME** (Pages 117 - 124)

To review and approve the current work programme for the Policy and Resources Select Committee.

**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 Policy and Resources Select Committee of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Thursday, 23rd June, 2022

Chairman:
* Councillor Jonathan Glen

* Councillor Rod Cooper
* Councillor Graham Burgess
  Councillor Adrian Collett
* Councillor Alex Crawford
* Councillor Tim Davies
* Councillor Zoe Huggins
  Councillor Wayne Irish
* Councillor Peter Latham
* Councillor Derek Mellor
* Councillor Rob Mocatta
* Councillor Neville Penman
* Councillor Jackie Porter
* Councillor Bill Withers

*Present

Also present with the agreement of the Chairman: Councillors Steve Forster, Executive Member for Commercial Strategy, Estates and Property and Kirsty North, Executive Member for Performance, Human Resources and Inclusion & Diversity.

52. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Adrian Collett and Wayne Irish.

53. **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 Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 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.

54. **MINUTES OF PREVIOUS MEETING**

The minutes of the last meeting were reviewed and agreed

55. **DEPUTATIONS**

The Committee received a deputation from Jonathan Booth in relation to Item 6 – Broadband update.

56. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman made no announcements on this occasion.

57. **BROADBAND UPDATE**

A deputation was received from Jonathan Booth on this item.

The Committee received presentations from both the Director of Culture, Communities and Business Services and Openreach giving an update on the Hampshire Superfast Broadband Programme. It also gave an overview on the developing Government plans for gigabit coverage.

During questions, Members heard:

- Details of wayleave agreements
- Necessity for broadband to be installed in all new-build homes
- schemes progressing more quickly

The Chairman thanked officers and Openreach for their very interesting presentation.

RESOLVED:

That the presentation be noted.

58. **SERVING HAMPSHIRE - 2021/22 YEAR END PERFORMANCE REPORT**

The Committee considered a report of the Director HR, OD, Communications and Engagement giving an update on the year end performance against the Serving Hampshire Strategic Plan for 2021-2025.

The Director introduced the report and examples were highlighted of strong performance against key strategic objectives, including apprenticeships, recycling and the resettlement of refugees. A number of questions were answered which included; labour market and skills, developer contributions, inclusion and diversity and complaints to Ombudsman.

RESOLVED:

That the Select Committee:

a) notes the County Council’s performance for 2021/22;
b) notes progress to advance inclusion and diversity;
c) notes progress against the Council’s Climate Change Strategy and Action Plan 2020-2025; and
d) notes the 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.

59. **ANNUAL REPORT OF THE SELECT COMMITTEES**

The Committee received a report of the Chief Executive providing a summary of the work of each of the Select Committees over the last 12 months.

RESOLVED:

That the Policy and Resources Select Committee approved the summary of work of each of the Select Committees over the past year, for submission to County Council as the Scrutiny Annual Report.

60. **WORK PROGRAMME**

The Committee received the work programme for the coming year. During discussion, it was agreed that an item on Apprenticeships would be added for the November meeting.

RESOLVED:

That the work programme be agreed.

Chairman,
27 October 2022

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**HAMPSHIRE COUNTY COUNCIL**

**Report**

| | |
|---|---|
| **Committee:** | Policy and Resources Select Committee |
| **Date:** | 27 October 2022 |
| **Title:** | 2021/22 – End of Year Financial Report |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Rob Carr

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

### Purpose of this Report

1. The purpose of this report is to update Members giving a summary of the 2021/22 final accounts, as outlined in the attached Cabinet report.

### Recommendation

That the Policy and Resources Select Committee notes the content of the 2021/22 – End of Year Financial Report.

**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 |
| | |
| | |

**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:**

2.1. This is a covering report. Impact Assessments have been considered as part of the substantive report attached.

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Cabinet<br>County Council |
| **Date:** | 19 July 2022<br>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. |

| Service Area | Variance (Under) / Over Budget £'000 | % | Reason for Variation |
|---|---|---|---|
| **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.<br>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.<br>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.<br>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.<br>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 | | Reason for Variation |
|---|---|---|---|
| | **£'000** | **%** | |
| 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.<br>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.<br>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.<br>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

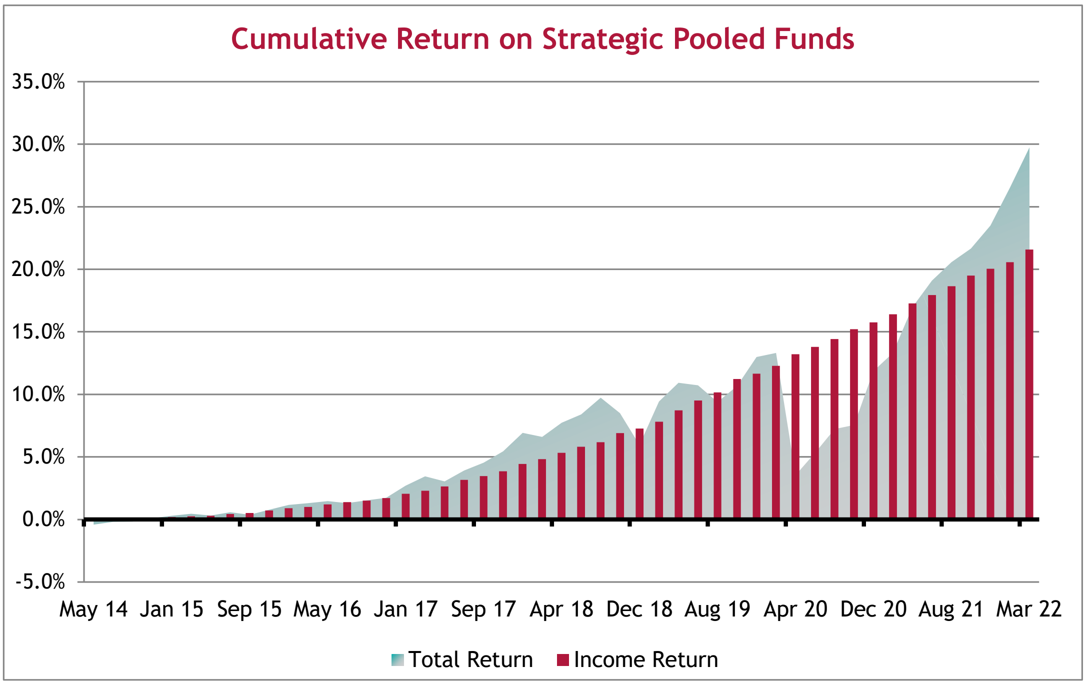
56. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.24% pa since purchase against the higher yielding strategy target of 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<br>£'000 | Department shares already added<br>£'000 | Department shares now available to add<br>£'000 | Retained for corporate priorities<br>£'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**

**Report**

| | |
|---|---|
| **Committee:** | Policy and Resources Select Committee |
| **Date:** | 27 October 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

## Purpose of this Report

1. The purpose of this report is to update Members on the current progress towards developing a Medium Term Financial Strategy (MTFS) to 2025/26 as outlined in the attached Cabinet report.

## Recommendation

That the Policy and Resources Select Committee notes contents of the Medium Term Financial Strategy (MTFS) to 2025/26 report.

## 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 |
| | |
| | |

**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:**

2.1. This is a covering report. Impact Assessments have been considered as part of the substantive report attached.

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Cabinet<br>County Council |
| **Date:** | 19 July 2022<br>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**<br>**£'000** | **2024/25**<br>**£'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.<br>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.<br>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.<br><br>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**

| | |
|---|---|
| **Committee:** | Policy and Resources Select Committee |
| **Date:** | 27 October 2022 |
| **Title:** | Scrutiny Protocol, Planning and Resource Allocation |
| **Report From:** | The Chief Executive |

**Contact name:** Barbara Beardwell & Rob Carr

**Tel:** 0370 779 3751<br>0370 779 2647 **Email:** Barbara.beardwell@hants.gov.uk & Rob.Carr@hants.gov.uk

## Purpose of this Report

1. The purpose of this Report is to seek the Committee's approval of a Scrutiny Protocol which sets out the framework within which Select Committees should operate and to seek the Committee's approval for the allocation of available resources to each Select Committee.

## Recommendation(s)

2. That the Scrutiny Protocol set out in Appendix 1 be approved.

3. That the resource envelope available to each Select Committee set out in paragraph 16 and the principle that each Select Committee should autonomously operate within that envelope be approved.

4. That it be approved that a review be undertaken in a year's time to ensure that the protocol and allocation of resources is working as intended.

## Executive Summary

5. This Report seeks to propose measures to enhance the efficiency and efficacy of Select Committees and to explain why a Scrutiny Protocol has been developed and why the resource envelope available to support Select Committees has been established.

**Contextual information**

6. The Constitution provides that the responsibility for managing the resources available to support Scrutiny Committees should be undertaken by the Policy and Resources Select Committee. For example, the Policy and Resources Select Committee is required to co-ordinate the Scrutiny function so as to ensure effective resource allocation and to approve the establishment of task and finish working groups by the other Scrutiny Committees.

7. The work of Select Committees is an integral and key part of the County Council's governance arrangements but the resources available to support the work of the committees are finite and need to be used in the most efficient and effective way possible.

8. A Scrutiny Protocol, set out in Appendix 1 has therefore been developed which provides a framework for the operation of Select Committees including guidance on selecting topics for scrutiny, the operation of working groups and the operation of Call-In powers.

9. In addition, Officers have reviewed the work undertaken by each Select Committee over the past three years and have established the baseline level of support that is provided to each committee. The review has established that there are some consistencies between Committees and that there are different types of reports that are presented to the Committees which have differing resource requirements from Departments, as set out in the next section.

10. Going forward it is recommended that each Select Committee has the freedom to choose which topics to scrutinise and how to carry out that scrutiny provided the resources required to support that work remain broadly within the established resource baseline. This can be used to aid with agenda planning over the year and to ensure that resources are prioritised to the key issues that the Select committees want to scrutinise.

11. If the recommended approach is adopted the approval of the baseline resource allocation as set out in this report will, in effect, be how the Policy and Resources Select Committee discharges the responsibilities set out above. Going forward it will be the responsibility of each Select Committee to decide whether or not to establish a working group, without further reference to the Policy and Resources Select Committee, provided that sufficient resource remains available from that Committee's allocation, or additional resources are requested and approved.

## Planning and Resource Allocation

12. A review of items presented to Select Committees has been carried out by Officers and Departments were requested to estimate the amount of Officer time involved in bringing each item forward. Democratic Services, Legal and Senior Officer support was very similar across all Select Committees (albeit Health and Adult Social Care (HASC) Select Committee has 6 meetings a year rather than 4) and this will continue to operate as normal.

13. In broad terms, there were many similarities between the Culture and Communities Select Committee and the Transport and Environment Select Committee, dealing with a range of smaller service-based issues along with some larger reviews around significant policy decisions. Resource levels within the Departments to service these committees was also broadly comparable.

14. Children's and Young People and HASC Select Committees were also comparable in resource terms as both committees have a high volume of external reports from Health etc and the number of HCC service specific reports is much lower than other select committees.

15. Policy and Resources Select Committee generally has more pre-scrutiny and annual report type items than other committees which means it has a lower call on officer resources than the other committees even though the agendas are full and varied.

16. The table below shows the resource allocation in hours each year allocated to each Select Committee based on the last 3 years (excluding, Democratic Services, Legal and Senior Officer time) taking into account the types of items presented:

| | |
|---|---|
| Culture and Communities | 200 |
| Transport and Environment | 200 |
| Children and Young People | 100 |
| HASC (6 meetings a year) | 150 |
| Policy and Resources | 120 |

17. In terms of types of items being taken to Select Committees, they fall into five main categories:

- **Annual / Regular Reports –** where the main Officer effort is in the production of the report itself, there is no additional effort in researching or analysing the topic.

- **Pre-Scrutiny Item –** for this category, the majority of the effort is vested in the production of the decision report itself which will be making its way to Cabinet or Executive Member decision making. On the basis that this would need to have been undertaken anyway, the only additional effort is in producing a cover report and potentially presentations for the Select Committee.
- **Light Touch Review –** where work is required in the Department to review a particular aspect of a service or known problem area and report through to the Select Committee.
- **Medium Sized Review –** more aligned to a whole service or more complex item that requires greater levels of officer time for analysis and research.
- **Task and Finish Groups –** a more intensive pro-longed piece of work that involves touch points with Members on the Group and may be developed into policy recommendations over time. Requires support from Departments and Democratic Services.

18. Even with these categories there was no 'one size fits all' resource requirement and it has therefore been necessary to average this across the Committees to give a rough proxy for the amount of officer time involved in each piece of work as follows:

| | |
|---|---|
| Annual / Regular Report | 7 |
| Pre-Scrutiny (assumes report already being prepared) | 5 |
| Light Touch Review | 15 |
| Medium Review | 25 |
| Task & Finish Group | 45 |

19. It should be stressed as this point that there is no intention to undertake strict time recording and analysis throughout the year to record against each committee's work. The aim is to aid agenda planning throughout the year and to ensure that the level of officer resource remains broadly in line with the allocations outlined.

20. It is also important to note that these allocations do not include major policy reviews (such as those undertaken for Orchard Close Care Home closure or the Libraries Strategy) as it is important that Select Committees have the freedom to scrutinise major policy decisions and feed into the final decision-making process.

21. The allocations also do not include any allowance for call-ins as constitutionally Select Committees have the authority to recommend that Executive decisions not yet implemented be reconsidered. It is however suggested that so as to make best use of the County Council's resources that

requests for call in of decisions as appropriate should operate in line with the proposed Protocol.

22. If Select Committee Chairpersons feel that significant additional resources are required in a year for their committee, then as with other decisions on resources this would need to be referred for a formal decision and additional resources allocated as appropriate.

**Climate Change Impact Assessment**

23. 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.

24. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision is administrative in nature

**Conclusions**

25. The adoption of the Scrutiny Protocol and the agreement of the resource envelope available to support each Select Committee will provide a framework which will enhance the contribution of Select Committees to the good governance of the County Council and aid future agenda planning.

26. However, given that these are new arrangements, it is recommended that a review be undertaken in a years' time to ensure that they are operating as intended.

## 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 |

**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:

As an administrative Report no equality impacts have been identified arising from the recommendations set out in the Report

# HAMPSHIRE COUNTY COUNCIL

## SELECT (OVERVIEW AND SCRUTINY) COMMITTEES – OPERATING PROTOCOL

### 1) Function of Scrutiny

Legal requirements relating to scrutiny are set out in the Local Government Act 2000 and reflected in the County Council's Constitution. Within their scope, Select Committees can:

- review and scrutinise decisions made, or actions taken, in connection with the discharge of Executive functions
- make reports or recommendations to the County Council or the Executive, in connection with the discharge of Executive functions
- review and scrutinise decisions made or actions taken, in connection with the discharge of Non-Executive functions;
- make reports or recommendations to the County Council or the Executive, in respect of the discharge of Non-Executive functions
- make reports or recommendations to the County Council or the Executive on any matter affecting the County Council's area or members of the public in Hampshire
- call in decisions made by the Executive which have not yet been implemented which they consider should be reviewed or scrutinised
- review and scrutinise the exercise by risk management authorities of flood and coastal erosion management functions which affect the County Council's area
- review and scrutinise decisions made, or other action taken, in connection with the discharge by the County Council of its crime and disorder functions and make reports and recommendations to the County Council in respect of the discharge of such functions.

A role of Select Committees is to hold the Executive to account, and Select Committees also have a broad advisory role in relation to the functions of the whole County Council and matters affecting the locality of Hampshire. In addition, statutory guidance suggests that Overview and Scrutiny Committees can also play a valuable role in developing policy.

## 2) Managing the Agendas of Scrutiny Committees

2.1. The Forward Work Plan of a Select Committee is developed between the Chairman of the Committee and the relevant departmental Director or Directors and is agreed by each Scrutiny Committee on a regular basis. The HASC Work Programme is also informed by changes to health services being proposed by the NHS and other issues relevant to the planning of health services.

2.2. At each meeting of a Select Committee, Members have the opportunity to review the work programme and request that topics be added to the work programme. In scheduling of items, account is taken of their timeliness and priority, which can change over time based on new information. Chairmen of Scrutiny Committees plan the agendas so as to ensure they are manageable and topics are prioritised appropriately.

2.3. Where Members of a Scrutiny Committee put forward topic suggestions to the Chairman, these are considered by the Chairman at agenda planning meetings.

2.4. In addition, the Constitution provides that a Member of a Scrutiny Committee may give notice that they wish an item relevant to the functions of the Committee to be included on the agenda for the next convenient meeting. In such a case, an item will be included on the agenda for the next convenient meeting. The Scrutiny Committee will then apply the criteria outlined at paragraph 2.5 below to determine whether the item warrants further discussion or action. In the event that the Scrutiny Committee decides that the item is not suitable for consideration no further action will be taken.

2.5. **Suitability of topics for Scrutiny**

Topics are suitable for Scrutiny when:

2.5.1 scrutiny could have a material impact and add value

2.5.2 resources are available that would be required to conduct the review, in terms of manpower and budget

2.5.3 it avoids work duplication elsewhere

2.5.4 the issue is one that the Scrutiny Committee can realistically influence

2.5.5 the issue is related to an area where the County Council, or one of its partners could improve its performance

2.5.6 the issue is relevant to all or large parts of the County Council's area or members of the public in Hampshire.

Topics are <u>not</u> suitable for scrutiny when:

2.5.7 the issue is already being addressed elsewhere

2.5.8 the topic would be better addressed elsewhere, for example at a Member briefing or in another forum

2.5.9 scrutiny would have limited or no impact upon outcomes

2.5.10 the topic may be sub-judice

2.5.11 the topic is too broad for a realistic review

2.5.12 new legislation or guidance relating to the topic is expected.

**3) Task and Finish Working Groups**

Task & Finish Working Groups will:

3.1. be prioritised by the relevant Scrutiny Committee in accordance with the criteria set out above

3.2. deal with topics which require additional support from Officers and require a process which would not be possible within the formal Scrutiny meeting structure

3.3. usually comprise Members of the relevant Select Committee drawn from each of the political groups as far as is reasonably practicable, together with any non-voting Co-opted Members and or others, where the Task & Finish Working Group considers this would be advantageous to their work

3.4. comprise topics which have been put forward from internal or external sources.

**4) Operation of Task & Finish Working Groups:**

The following principles apply:

4.1. Task & Finish Working Groups will be established with a minimum of three County Councillors and be appointed by their 'parent' Committee, where possible on a proportional basis, and shall appoint their own Chairman

4.2. Each Task & Finish Working Group will report back to its ‘parent’ Scrutiny Committee

4.3. Working Groups will operate on a ‘task and finish’ basis and are ad hoc and informal. They are free to analyse topics in greater detail and to carry out scrutiny in ways which are not conducive to formal business meetings.

4.4. When considering the report of a Task & Finish Working Group a Scrutiny Committee will review how any recommendations they ratify should then be pursued. Recommendations may be made to an individual Executive Member, to Cabinet or Full Council as the Committee deems appropriate. Any recommendations agreed to be taken forward will normally be presented by the Chairman of the Working Group.

**5) Allocation of Scrutiny Resources:**

5.1. The County Council has a finite level of resource to dedicate to Scrutiny. Each Scrutiny Committee is responsible for agreeing the allocation of resources available to support its work programme together with the allocation of resources to support Task and Finish Working Groups within the resources available to it.

**6) Call-In**

6.1. Provisions regarding call-in are contained in Part 3 Chapter 3 Paragraphs 1.17 and 1.18 of the Constitution. Scrutiny Committees have the power to call-in decisions which have been made but not implemented.

6.2. The County Council’s governance arrangements require Executive Decisions made by Members to be made in public, with agendas and reports published in advance of the decision. This coupled with the practice of pre-scrutinising significant decisions means that the need for call-in should be significantly reduced as Members will have been able to express their views in advance of any decision, and Executive Members will make decisions with the benefit of the views of Scrutiny Committees.

6.3. Consequently, it is envisaged that matters that have been pre-scrutinised should only be called in in exceptional circumstances.

**HAMPSHIRE COUNTY COUNCIL**

**Report**

| | |
|---|---|
| **Committee:** | Policy and Resources Select Committee |
| **Date:** | 27 October 2022 |
| **Title:** | Work Programme |
| **Report From:** | Chief Executive |

**Contact name:** Louise Pickford, Democratic and Members Services

**Tel:** 0370 779 1898 **Email:** louise.pickford@hants.gov.uk

## Purpose of the Report

1. To consider the Committee's forthcoming work programme.

## Recommendation

2. That the Committee agrees the Work Programme as attached and makes any amendments as necessary.

**REQUIRED CORPORATE OR 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 |

**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:**

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- 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 is a scrutiny review document setting out the work programme of the Committee. It does not therefore make any proposals which will impact on groups with protected characteristics.

## 3. Climate Change Impact Assessment:

This is a scrutiny review document setting out the work programme of the Committee. It does therefore not make any proposals which will impact on climate change.

# WORK PROGRAMME – POLICY & RESOURCES SELECT COMMITTEE

| Topic | Issue | Reason for inclusion | Status and Outcomes | 27 Oct 2022 | 17 Nov 2022 | 19 Jan 2023 |
|---|---|---|---|---|---|---|
| **Pre-scrutiny** | Consideration of revenue and capital budgets within P&R | To pre-scrutinise the budget proposals, prior to approval by the Executive Members within P&R | Considered annually in advance of Council in February. Transformation savings pre-scrutiny alternate years at Sept meeting. | | | **X** |
| **Budget Monitoring** | | (a) End of Year Financial Report considered at summer meeting, to see how the budget was managed for the year compared to plan. | | **X** | | |
| | | (b) Medium Term Financial Strategy – considered when appropriate to provide longer term financial context | | **X** | | |

| Topic | Issue | Reason for inclusion | Status and Outcomes | 27 Oct 2022 | 17 Nov 2022 | 19 Jan 2023 |
|---|---|---|---|---|---|---|
| **Overview** | Covid-19 Financial Update | For the Committee to receive an update regarding the financial impact of the Covid-19 crisis. | presented at the June 2020 mtg<br>Retain for future update | | | |
| **Overview** | Serving Hampshire - Performance | To monitor how performance is managed corporately and consider the performance information to support identification of areas to focus scrutiny. | Members requested to consider the performance report annually. Last received June 2022, next update expected summer 2023.<br><br>Mid-year update due Jan 2023. | | | **X** |
| **Overview** | IT developments and issues (including Digital Strategy) | Monitoring contribution of IT to change programmes, major projects and policy issues in relation to underpinning council services (e.g. disaster recovery plans) | Update considered at January mtg. | | | **X** |
| **Crime & Disorder (Annual Item for Nov mtg)** | Duty to review, scrutinise, and report on the decisions made, | This duty passed from the Safe & Healthy People Select Committee to this | Annual update on work of Hampshire Community Safety Strategy Group **plus particular focus topic:** | | **X** | |

| Topic | Issue | Reason for inclusion | Status and Outcomes | 27 Oct 2022 | 17 Nov 2022 | 19 Jan 2023 |
|---|---|---|---|---|---|---|
| | and actions taken by 'responsible authorities' under the Crime and Disorder Act. | committee in May 2014 | **Child Exploitation** - Nov 2018<br>**Reducing Serious Violence** - Nov 2019<br>**County Lines** – Nov 2021<br>**Restorative justice** – Nov 2022 | | | |
| **Collation of Annual Report of Select Committees activity (Annual Item)** | To support oversight of the scrutiny function, and the role of this committee to ensure scrutiny activity is having impact and being evaluated. | The Constitution requires that this committee report to Full Council annually providing a summary of the activity of the select committees | Annual report to this meeting in June for submission to Full Council in July | | | |
| **Overview** | Scrutiny Protocol | | | X | | |
| **Overview** | Apprenticeships Scheme | To receive an update | | | **X** | |
| **Overview** | Climate Change Strategy | **only in respect of resources in the context of budget provision | | | | |

| Topic | Issue | Reason for inclusion | Status and Outcomes | 27 Oct 2022 | 17 Nov 2022 | 19 Jan 2023 |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Overview** | Local Enterprise Partnerships | Requested by Chairman | Introductory presentation Nov 2018. Chief Executive of both LEPs gave a presentation to Nov 2020 meeting.<br><br>Retain for future meeting. | | | |

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