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Hampshire County Council

NOTICE OF MEETING

Meeting	Cabinet
Date and Time	Tuesday, 7th February, 2023 at 2.00 pm
Place	EII Court, The Castle, Winchester
Enquiries to	members.services@hants.gov.uk

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

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

AGENDA

1. **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

2. **DECLARATIONS OF INTEREST**

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

3. **MINUTES OF PREVIOUS MEETING** (Pages 5 - 10)

To confirm the minutes of the previous meeting.

4. **CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

5. **DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

6. **DRIVING TOWARDS ECONOMIC STRENGTH** (Pages 11 - 28)

To consider a report of the Director of 2050 and Assistant Chief Executive regarding long-term economic strength for Hampshire.

7. **REVENUE BUDGET & PRECEPT 2023/24** (Pages 29 - 142)

To consider a report of the Director of Corporate Operations regarding proposals for the revenue budget and precept for 2023/24, and an update on the financial position for 2022/23.

8. **CAPITAL PROGRAMME 2023/24 TO 2025/26** (Pages 143 - 192)

To consider a report of the Director of Corporate Operations regarding the proposed capital programme for 2023/24 and provisional programmes for the subsequent two financial years.

9. **SERVING HAMPSHIRE - 2022/23 HALF YEAR PERFORMANCE REPORT** (Pages 193 - 220)

To consider a report of the Director of People and Organisation on strategic oversight of the County Council’s perfomance against the Serving Hampshire Strategic Plan.

10. **CONSTITUTIONAL UPDATE** (Pages 221 - 230)

To consider a report of the Director of People and Organisation regarding changes to the Constitution of Hampshire County Council.

ABOUT THIS AGENDA:

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

ABOUT THIS MEETING:

The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require

wheelchair access, please contact members.services@hants.gov.uk for assistance.

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

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AT A MEETING of the Cabinet of HAMPSHIRE COUNTY COUNCIL held at the Castle, Winchester on Tuesday, 13th December, 2022

Chairman:
* Councillor Rob Humby

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

Also present with the agreement of the Chairman: Councillors Glen, Mellor, Penman and Withers.

88. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillor North, who was on maternity leave.

89. **DECLARATIONS OF INTEREST**

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

90. **MINUTES OF PREVIOUS MEETING**

The minutes of the previous meeting held on 18 October 2022 were reviewed and agreed.

91. **CHAIRMAN'S ANNOUNCEMENTS**

The Leader recognised the tragic death of a child in a Hampshire school from Strep A, sending condolences to the family on behalf of Cabinet and the County Council. Communication via schools to provide advice on the symptoms was detailed and the public health team thanked for their response.

It was confirmed that there had been two cases of avian flu in kept birds in Hampshire, which were part of a series of outbreaks nationally. These cases were being dealt with and the County Council was working with other owners of kept birds to try to prevent further outbreaks.

It was noted that the Solent Freeport had received Government approval and this important step was welcomed by the Leader.

The Leader drew attention to the new Cabinet portfolios which would take effect from January 2023 to align with the new organisational structure and would ensure that the Council was best placed to face the challenges ahead.

92. **DEPUTATIONS**

No requests to make a deputation had been received.

93. **FINANCIAL UPDATE AND BUDGET SETTING AND PROVISIONAL CASH LIMITS 2023/24**

Cabinet considered a report of the Director of Corporate Operations regarding the financial position and Budget Setting and Provisional Cash Limits for 2023/24.

In introduction, it was explained that the report addressed the significant pressures facing the County Council, in particular the impact of inflation in areas such as social care and home to school transport. These additional pressures would add approximately £150million to the budget in a single year, which was roughly equivalent to the previous four years' savings. The expected outcome of the forthcoming local government settlement was set out and assuming a Council Tax increase at the new referendum limit of 5%, it was projected that there would be £50million gap for 2023/24 to be met from the budget bridging reserve.

Cabinet welcomed the comprehensive report and noted that it relied on a number of assumptions in an unstable economic period. It was confirmed that the most concerning of these assumptions were the level of volatility in the provision of Adult Social Care and in the level of social care grant, for which the distribution formula had not yet been confirmed. It was furthermore confirmed that the 2023/24 budget had a 3% pay award built in, but should another flat rate pay award be agreed, this may not be sufficient and increases in the national living wage would also have to be accounted for.

The Director of Adults' Health and Care joined the meeting and was asked to detail the pressures facing their Department and any connection with the Covid crisis. It was explained that there were increasing numbers of younger adults with complex needs and high cost care packages. The cost inflation in this area was significant with some now costing £3900 per week, resulting in very high ongoing pressure. Demand also had increased due to an increase in self-harm by young adults and a reversal of family carers providing support following the pandemic. The recruitment and retention of staff was difficult, particularly in some complex care areas. Cabinet asked whether the funding requirements for this area were likely to be met by the provision announced in the Autumn Statement, as suggested by the Secretary of State, and it was confirmed that it was unlikely to be sufficient to meet the additional pressures being faced.

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

94. **DRIVING TOWARDS ECONOMIC STRENGTH**

Cabinet considered the regular report of the Chief Executive regarding working towards economic strength for Hampshire.

With reference to the report, the national position and Hampshire's specific response was outlined, as was the progress being made by the first wave of Authorities with a County Deal. It was noted that Hampshire was ready to progress its own Deal and hoped to do so in the new year. The leadership restructure to focus the organisation on the 2050 vision and to drive economic strength was highlighted.

Cabinet recognised the positive steps forward and noted the particular importance of international trade links in the context of predictions that the UK recession will be the longest of all G7 economies. The readiness of Hampshire to enter into a County Deal was also welcomed and as well as the prospectus, the extent of the work undertaken with MPs, partners and local businesses was noted.

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

95. **ECONOMIC STRATEGY**

Cabinet considered a report of the Director of Economy, Transport and Environment providing an update on the Economic Development Strategy Consultation.

It was confirmed that a consultation on the draft Economic Strategy presented to Cabinet earlier in the year had been carried out and approval was now sought for the updates arising from the consultation. Once approved, a detailed action plan would be drawn up to implement the Strategy.

Cabinet discussed the role of devolution in delivering the Strategy and recognised that meaningful devolution would allow more significant decisions to be made locally. As the South East is a net contributor to the UK economy and Hampshire is a significant element of the region, devolution could help to maintain international competitiveness that would be of benefit to the Hampshire economy and to the whole of the UK.

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

Following consideration of the report, Cabinet recognised the final Cabinet meeting before retirement for the Director of Economy, Transport and Environment, Stuart Jarvis. On behalf of the County Council, he was thanked for his hard work and significant contribution to Hampshire and to the Hampshire economy over many years. Mr Jarvis thanked Cabinet members for their comments and all County Councillors for their support. He noted the huge level of ambition and passion in Hampshire and the importance of the economy in underpinning safe, healthy and successful communities.

96. **STRATEGIC ASSET MANAGEMENT PLAN**

Cabinet considered a report of the Director of Culture, Communities and Business Services the new 5-year Strategic Asset Management Plan for the County Council's estate.

With reference to the report, it was explained that the new Plan was designed to provide a framework for the management of land and assets to support corporate priorities. In the context of organisational change, its focus was on principles and objectives.

Cabinet noted the overall size of the County Council's estate and it was clarified that the majority of this was operational (schools and care homes etc), with about 3% having commercial potential. The focus on commerciality was welcomed and it was confirmed that new opportunities would be considered under the strategy. It was recognised that the new 2050 Directorate would support improved engagement with local Members with regards any asset disposals in their area.

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

97. ANNUAL SAFEGUARDING REPORT - CHILDREN'S SERVICES 2021-22

Cabinet considered the annual safeguarding report from the Director of Children's Services.

It was noted that the annual report covered all safeguarding activity in the Department. It was highlighted that there had been a sustained increase in demand for children's social care services, but despite this performance had remained strong. The primary drivers behind the increased demand were identified as being an increase in mental health issues in both children and adults following the pandemic as well as an increase in domestic abuse. Cabinet's attention was drawn to the independent review of children's social care, which concluded that potential delivery improvements existed but would require significant investment.

Concern was raised around the funding support gap for unaccompanied asylum seekers when they became care leavers. It was explained that Hampshire was particularly affected by this due to the number of spontaneous arrivals, combined with those arriving in Hampshire via the national transfer scheme.

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

98. ANNUAL SAFEGUARDING REPORT - ADULTS' HEALTH AND CARE 2021-22

Cabinet considered the annual safeguarding report from the Director of Adults' Health and Care.

With reference to the annual report, the trend of increasing demand for services and the increasing complexity of support required was highlighted. It was noted that safeguarding reviews throughout the year had provided significant learning and that service improvements had been brought forward. The introduction of liberty protection safeguards and the impact and implications of these were set out, in particular the role of senior social workers in carrying out reviews. The successful fire prevention programme, led by the Hampshire and Isle of Wight Fire and Rescue Service, and the “see it to stop it” app, which allowed concerned individuals to make referrals were both drawn to Cabinet’s attention.

Members welcomed the report and questioned how Hampshire compared with other similar areas. It was confirmed that Essex and Kent were both experiencing a similar increase in referrals, driven by the common themes of acts of omission, self-neglect and physical abuse.

The outcomes of the enhanced support worker pilot were discussed and it was confirmed that around 40 individuals had been referred through the scheme and intervention had been possible to address risks from issues such as fire and hoarding in conjunction with a range of partners. A fuller update would be available in 12 months.

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

99. **HAMPSHIRE COMMUNITY SAFETY STRATEGY GROUP**

Cabinet considered the annual Community Safety Group report from the Director of Adults’ Health and Care.

In introducing the report it was highlighted that the Group, which is led by the County Council and incorporates a number of partners, meets on a regular basis. Its overarching aim is to make Hampshire safer and it achieves this through a focus on specific issues and the high level co-ordination of response.

Cabinet welcomed the update and discussed in particular actions being taken to reduce drug abuse and drug related violence and work to tackle violence against women. It was noted that responsibility for addressing anti-social behaviour was with local crime and disorder partnerships, but was reported up to the county-wide group in order that patterns and causation could be considered.

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

100. **ANNUAL PREVENT REPORT**

Cabinet considered the annual PREVENT report from the Director of Adults’ Health and Care.

With reference to the report it was explained that the County Council’s role in PREVENT was to work in the pre-criminal space, to try to avert radicalisation. Recent world events had led to increased referrals both nationally and in Hampshire and the Hampshire response had been assessed as meeting or exceeding requirements. It was recognised that the high volume of referrals was partially due to the scale of the County, but also reflective of the pro-active approach to raising awareness. Within the County Council, e-learning on the PREVENT responsibilities had been undertaken by almost all staff. Work to reduce the likelihood of a terror attack in Hampshire was also discussed and it was noted that this was based on: a number of specific duties, on collaboration with partners, on an awareness of the way in which organised crime can support ideological extremism and on positive messaging.

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

Chairman,

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	7 February 2023
Title:	Driving Towards Economic Strength
Report From:	Director of 2050 and Assistant Chief Executive

Contact name: Gary Westbrook, Director of 2050 and Assistant Chief Executive

Tel: 0370 779 8940 **Email:** gary.westbrook@hants.gov.uk

Purpose of this Report

1. As reported in December 2022, the economic picture continues to be extremely challenging, with the Bank of England still forecasting a long and far-reaching recession which they suggest could last until mid-2024. This would make it the longest recession since records began. The focus for this and future reports is working towards economic strength for Hampshire, recognising the importance of a strong and prosperous economy as a critical enabler of wider long-term outcomes across the County.

Recommendations

It is recommended that Cabinet:

2. Continues to note the potential impacts of the forecast prolonged economic recession and confirm that supporting the Hampshire Economy remains a top priority for the County Council, including continuing to invest in infrastructure and support businesses, during an extremely challenging time in which unemployment is expected to rise, business failures increase and living standards are expected to fall nationally.

3. Note the analysis of the economic impact and issues highlighted which emphasises that the County Council continues to use its scale and influence to drive towards long term economic strength in Hampshire, through shaping and influencing the key priorities set out in the Economic Strategy approved by Cabinet in December 2022. This also includes the County Council's role in promoting place-based regeneration and growth partnerships, the integration of the LEP's and a new Strategic Asset Management Plan approved by Cabinet in December 2022.

4. Continues to endorse the County Council's commitment to engage with Government for a Pan-Hampshire County Deal as part of the next Wave of national negotiations. This recognises the significant opportunity for a Deal to enable the County Council's economic ambition, catalyse significant investment and benefit the lives of residents and communities.

Executive Summary

5. The most recent data from official sources and business and consumer surveys continues to suggest that the economy has already entered a recession and is expected to last until mid-2024. Hampshire's above average household incomes, a tight labour market and its exports should cushion the impact of the recession to some degree, but the impact is going to be uneven across Hampshire with some areas more resilient to the impact of the downturn than others.

6. To increase its competitiveness and ensure sustainable rates of economic growth that would lead to increases in wages, living standards and economic prosperity over the medium-to-long term Hampshire will need to address some major challenges associated with shrinking labour supply, dwindling investment and sluggish and uneven productivity growth.

7. This report provides an analysis of the economic impact and outlines those issues that the County Council continues to use its scale and influence to contribute to economic recovery going forward, particularly in the context of the recently approved Economic Strategy and Strategic Asset Management Plan.

8. The report also outlines the position on the continued aspiration to negotiate greater levels of devolved funding and powers through a County Deal, recognising the significant contribution a Deal could make to both economic recovery and also the longer-term economic ambition for our area.

The current economic challenge and our response

9. The recent downward economic revisions to the UK estimate by the Office for National Statistics (ONS) suggests that the worst recession in living memory was even deeper than previously thought and that the economy is still smaller than its pre-pandemic size.

10. The recovery was strong in 2021, and the economy did better in the second calendar quarter of 2022 than previously thought. However, the tailwinds from the reopening of the economy have now faded, having been overtaken by the headwinds of rising geopolitical tensions, sky rocketing energy prices and inflation, supply delays, labour shortages and an increasingly gloomy outlook for the economy.

11. In its November Monetary Policy Committee (MPC) report the Bank of England expects the UK economy to be in recession with GDP expected to have contracted by around 0.75% in the second half of 2022 followed by further falls throughout 2023 and in the first half of 2024. This is expected to be the longest recession since the records began but the recession is expected to be shallow. The Bank's central projection for calendar year growth points to a 1.5% contraction in 2023 followed by a 1% contraction in 2024. At the December MPC meeting the Bank expects GDP to have declined by 0.1% in 2022 Q4, 0.2 percentage points stronger than expected in the November Report. The December meeting also saw the Bank Rate raised by 0.5 percentage points, to 3.5%, the highest level since 2008.

12. The Office for Budget Responsibility is more optimistic than the Bank of England and expects a shorter recession lasting from Q3 2022 to Q3 2023. The squeeze on real incomes, the rise in interest rates, and fall in house prices will all weigh on consumption and investment, tipping the economy into a recession lasting just over a year from the third quarter of 2022, before returning to growth in 2024.

13. The impact of the last two recession on Hampshire was mixed if compared to the national average. Hampshire was more resilient during the 2008/9 recession but the impact of the pandemic in 2020 was greater than the UK average. Since households are expected to rein-in on discretionary expenditure Hampshire's accommodation & food and arts & entertainment, the sectors that have not fully recovered from the pandemic, are likely to be affected the most. The same is true of local authorities that are heavily dependent on discretionary consumer-facing service activities.

14. The Bank's expectation of a UK wide recession in the second half of 2022 is corroborated by the most recent evidence from official data and business surveys. Local estimates from ONS are not available but our preliminary estimates suggest that Hampshire's (Hampshire & Isle of Wight) economy contracted by about -0.3%, comparable to the UK average.

15. Timely data from surveys of purchasing managers (PMI) suggests that business activity in the region fell in Q4 2022 and dipping below the national average. The volume of new orders, a leading indicator of growth in the region fell for the third successive month, and largest drop since Jan 2021, with sharper decline than the UK.

16. Consumer surveys and retail sales are equally downbeat. Consumers struggle with a cost-of-living crisis driven by rapidly rising food prices, utility bills and mortgage payments. Black Friday sales failed to boost retail sales volumes in November (-0.4%) with weaker figures than expected following on from October's bounce back (0.9%) following the State Funeral in September.

17. October saw a 27% rise in utility bills due to the increase in the Ofgem price cap. The Ofgem energy cap was to increase further but it has been superseded by the Energy Price Guarantee (EPG) introduced by the former Prime Minister

Liz Truss. The new Government will honour that commitment but the guarantee of no further rises in utility bills for households has been shortened from October 2024 to April 2023. In January 2023 arrangements beyond April 2023 have been clarified by Government, including the removal of the energy grant for all households, but more targeted support for lower income households. Alongside this it was also announced that the Energy Bill Relief Scheme for businesses will also end on 31st March 2023.

18. Some 841,000 Hampshire households (588,000 of which are in the County Area) stand to benefit from the freeze of domestic gas and electricity prices. This policy is expected to save the average household at least £1,000 a year based on current energy prices from October but households across Hampshire will still face energy bills that are about double what they were last winter. Nevertheless, they will be little more than half of what they would have been without the guarantee.

19. Rising interest rates represent another headwind to consumer spending and growth in Hampshire but the latest signals from the Bank of England suggest that the rates are expected to peak at around 4% instead of 5% and that they could start falling later this year.

20. High inflation and rising interest rates continue to weigh down on the housing market in the UK, where prices fell by 1.4% in November, the third monthly decline in a row (Nationwide). Although the volume of sales in Hampshire has begun to stall house price inflation in Hampshire was still rising. Residential investment is sensitive to interest rate rises and as such more cyclical and therefore prone to greater falls than consumer spending. A fall in residential investment would further constrain the supply of housing in Hampshire and affect housing affordability over the medium-to-long term. According to the Land Registry the average price of a property in the Hampshire County Council area was close to a third above the England average.

21. Anecdotal intelligence from Hampshire points to the low supply of new office stock and strong demand for sub 5,000 sq. ft offices. Recent trends in industrial and logistics also point to strong demand fuelled by ecommerce. Recent significant occupier transactions in Hampshire include Tech Data (51,764 sq. ft) in Basingstoke, Lloyds Register EMEA (20,000 sq. ft) and Greentech Plastics (46,556 sq. ft) in Eastleigh, and ParcelJet Technology Limited (71,797 sq. ft) in Gosport.

22. Business intelligence from Hampshire's Economic Development team suggests that Hampshire continues to receive a steady flow of inward investment enquiries from Department for International Trade (DIT), but business investment is just as cyclical as residential investment and as such this is unlikely to last. Business investment is expected to fall sharply over the next 12 months as higher costs and interest rates reduce corporate profits, but the fall is likely to be smaller than residential investment.

23. Falling demand and spiralling business costs could lead to a sharp increase in business failures among micro businesses (businesses with between 0 and 9 employees). The most exposed businesses are likely to be businesses that depend on discretionary spending - independent pubs, chains that charge low prices, independent coffee shops and small retail outlets.

24. The effect of soaring cost pressures and in particular energy bills could mean many Hampshire businesses become uneconomical to operate and this would be felt across Hampshire and especially in rural villages and small towns. Anecdotal evidence suggests that trading conditions remain difficult for tourism and hospitality operators in Hampshire with reports of reduced opening hours and increased risk of permanent closures.

25. Visitor attractions, particularly in rural locations, may decide to completely close over this winter if they are unable to remain profitable given this is their quietest period. There are estimated to be around 41,700 'direct' hospitality and tourism jobs in Hampshire, potentially rising to 96,900 jobs when industries associated with tourism are taken as a whole.

26. The new Chancellor has reversed scrapping the proposed cut in corporation tax from April next year (from 25% to 19%) and the cancellation of the scheduled cut to the Annual Investment Allowance (the amount of spending on plant and machinery that businesses can deduct from their taxable profits) that were introduced by the previous administration.

27. Higher energy, material, transportation, and wage costs for businesses imply that Hampshire businesses have been forced to pass on rising costs to consumers. The Consumer Prices Index (CPI) rose by 10.7% in the 12 months to November 2022 but the introduction of the Energy Price Guarantee (EPG) for consumers and businesses alongside growing signs of easing in business costs and global inflationary pressures imply that inflation is now expected to peak at between 11% and 12% according to the Bank of England.

28. The tightness of the labour market in Hampshire means that wages will remain a source of inflationary pressure. The ending of the EPG scheme in April 2023 and the 'second-round effects' from businesses passing their energy costs onto consumers will feed into higher price and wage expectations this year. This is expected to keep inflation at around 5.2% in Q2 2023 after which inflation is expected to come down sharply.

29. Hampshire is the most export intensive county in England according to Oxford Economics, and Hampshire's net trade should benefit from the weakening in domestic demand (imports) and recovery in external demand from some of its largest trading partners such the United States. Thus, net trade should to some degree limit the extent of the downturn in Hampshire.

30. Anecdotal intelligence suggests that weak sterling against the dollar is leading to an increase in visits to the UK from the United States, but whilst this is

Hampshire's most important overseas market by value annually (£50m) it is still dwarfed by domestic overnight tourism (£500m).

31. Growth in PAYE employment has eased on an annual basis and only slightly on a monthly basis. The monthly payroll still increased by over 3,000 employees in November (2.3%) to a new record high of 905,800. The latest data suggests that the number of online job postings in Hampshire not adjusted for seasonal factors continues to defy expectations of a sharp slowdown.

32. Unemployment on the broader headline (survey-based) measure in Hampshire stands at 3.9%, comparable to the England average. In the County area unemployment stands at just 3.3% and comparable to the South-East average. The latest national forecasts from the Bank of England point to a sharp increase in unemployment in the UK. The Bank expects unemployment to increase to 6.5% in 2025.

33. The latest population projections suggest that in the County area the working age population could peak in 2024 and begin to decline from 2025 onwards. The increase in state pension age might soften the impact by increasing working age, but it will not offset the long-term trend.

34. The older population in the County area is forecast to grow over the long term, with those aged 65 or over increasing by over 60,000 by 2030, and by over 111,000 by 2043. Around 1 in 10 residents were aged 75 or over in 2021 but potentially rising to 1 in 8 by 2030 and to 1 in 6 by 2043. The strong growth in older population will lead to a sharp increase in demand for care that is already heavily constrained.

35. The long-term funding issue of health & social care remains one of the biggest challenges faced by local government. The Health and Social Care Levy was effectively introduced via a 1.25 percentage point rise in National Insurance Contributions (NICs) that took effect from April 2022. The new administration has confirmed that it will proceed with the scrapping of the rise from 6 November and that it will continue with the abolition of the Health and Social Care Levy as planned by the previous administration.

36. At the time of writing, it is not clear whether new funding will be made available for health and social care or whether funding will be made available to a new £500 million Adult Social Care Discharge Fund announced on 22 September to support the discharge of hospital patients into their own homes or community settings. On 22 November, the government announced that the £500 Adult Social Care Discharge Fund will be pooled into the Better Care Fund (BCF). This will be divided between Integrated Care Boards (ICB) with £300 million allocated and £200 million to local authorities based on the Adult Social Care Relative Needs Formula. Pan-Hampshire has been allocated around £6.27 million, with Hampshire (County area) allocated £3,962,081, the Isle of Wight £638,679, Portsmouth £742,014, and Southampton £924,488.

37. There are substantial differences in productivity levels within Hampshire. For example, with labour productivity (output per hour worked) of around 54% above the national average North Hampshire is the most productive sub-area outside London and the third most productive area in the country after Tower Hamlets and Campden & City of London. On the other hand, labour productivity on the Isle of Wight is about 15% below the national average with even relatively prosperous Central Hampshire having productivity levels below the national average. Portsmouth also stands below the average while Southampton has been losing ground relative to the national average.

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

39. Economic Intelligence Dashboard (Annex 1) produced in late-December contains additional information on the current economic trends and business intelligence (the most up to date at the time of writing).

County Deal

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

41. Over the past 12 months the County Council has worked collaboratively with all Local Authorities to agree a Statement of Common Ground, as well as a Pan-Hampshire County Deal Prospectus which was shared with Government in November 2022. This document sets out an independent Functional Economic Market Assessment (FEMA) for the Pan-Hampshire Area, as well as identifying a range of agreed opportunities for new powers and funding to explore with Government as part of Deal negotiations in the following thematic areas:

- Supporting Sector Growth and Skills
- Place Strategy
- Net Zero and Net Environmental Gain
- Integrated and Sustainable Transport.

42. The national agenda continues to be underpinned by the Government White Paper, Levelling Up the United Kingdom, which was published in February 2022 and set out an ambition to extend, deepen and simplify devolution across the country, and commits to establishing a new model of Combined Authority that would enable devolution deals to be agreed by County Councils and/or

Unitary Councils, encouraging collaboration where relevant with District Councils.

43. On the back of the White Paper, legislation has also been developed to establish a new form of County Combined Authority (CCA). Key points of clarity in the Bill are:

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

- The Secretary of State considers that to do so is likely to improve the economic, social, and environmental well-being of some or all of the people who live or work in the area.
- The Secretary of State considers that to do so is appropriate having regard to the need:
- To secure effective and convenient local government, and
- To reflect the identities and interests of local communities
- The Secretary of State is satisfied that the proposal will achieve the stated purpose of establishing a CCA.
- The constituent councils' consent, and
- Any public consultation required has been carried out.

44. Within the White Paper the Government announced 9 Wave 1 areas which are being negotiated first. These are:

- Cornwall;
- Derby and Derbyshire;
- Devon, Plymouth and Torbay;
- Durham;
- Hull and East Yorkshire;
- Leicestershire;
- Norfolk;
- Nottinghamshire and Nottingham; and
- Suffolk.

45. The majority of the Wave 1 Deals have now been agreed, following recent announcements in December 2022 for Deals in Suffolk, Norfolk, Durham, and Cornwall.

46. As the Wave 1 now turns to implementation, the Secretary of State confirmed that Wave 2 Deals will commence in early 2023, and the County Council has continued to engage actively with officials in preparation for these announcements and agreed across the Pan-Hampshire Authorities that Partners now stand ready to get to the negotiating table with Government.

Hampshire Economic Strategy

47. At the Cabinet meeting in December 2022, Cabinet received and approved the Economic Strategy reflecting the comments and changes from stakeholder consultation. The final approved version of the strategy has subsequently been published in January 2023: https://www.hants.gov.uk/business/economic-strategy

48. As noted in December, following the finalisation of the strategy the next steps are to develop the strategic action plans to best enable the delivery of the ambitions as set out in the strategy. This will include developing the associated partnership governance to develop, shape and deliver the economic strategy, recognising the key role of stakeholders including business representatives, Local Enterprise Partnerships, the Solent Freeport, Local Authorities and Education and Skills providers across the wider Pan-Hampshire functional economic area.

49. A key enabler of the Economic Strategy will be the recently announced Solent Freeport, as one of the first UK Freeports to be fully approved by Government. This is a significant opportunity to drive significant investment and growth, both within the designated tax site areas located within the County boundaries, but also the wider regional economic impact across the wider Hampshire area. In particular, the Freeport is anticipated to create approximately 15,000 jobs and attract £1.35bn of private investment for the area.

HCC's Strategic Asset Management Plan

50. In December 2022, Cabinet approved a new 5-year Strategic Asset Management Plan (SAMP) for the County Council's property and land assets.

51. The County Council has a good record of enabling development of its strategic land holdings to meet the demand for new housing in Hampshire. However, it is recognised that there are broader opportunities to support, enable and contribute to economic regeneration and growth through the County Council's assets, particularly in our town centres.

52. Steps are now underway to develop key strategic actions within the plan to stimulate and support economic regeneration and growth and contribute to the shaping of Hampshire as a place. Specific opportunities will be explored and taken forward as part of the Hampshire 2050 agenda, within the framework of the Economic Strategy and in consultation with District Councils through the Regeneration and Growth Partnerships.

Regeneration and Growth Partnerships

53. The County Council Cabinet approved a new approach to partnership working on growth and regeneration across Hampshire at its meeting in March 2022. The aims of the new approach will streamline, and better co-ordinate initiatives aimed at supporting local economic growth and physical regeneration of town

centres and other economically important areas. It was intended to promote effective partnership working through mutually established bi-lateral arrangements with Districts and Boroughs, and with neighbouring Unitary Authorities where desired.

54. In December 2022, Cabinet received the summary findings and recommendations of the externally commissioned work to engage with Districts and Unitary Councils to advise on the design principles for effective future arrangements in Hampshire. This was a collaborative exercise involving the consultants interviewing 10 District Councils and 2 Unitary Authorities as part of the commission, and their feedback has helped to inform the emerging conclusions of the work.

55. Following the commencement of the new Directorate structure implemented in January 2023, work is now underway to engage with District Councils to establish priorities and the bi-lateral approach for more effective and joined up place shaping. In doing so the County Council will maintain an overall Hampshire wide perspective, ensuring appropriate strategic interdependencies are effectively overseen and maintaining the focus on the place-based ambitions set out in the Hampshire 2050 vision and the more recently developed Hampshire Economic Strategy.

LEP Integration

56. On 31 March 2022, a joint letter was issued by the Parliamentary Under Secretaries of State for the Departments of Levelling Up, Housing and Communities and for Business, Energy and Industrial Strategy outlining guidance to Local Enterprise Partnerships (LEP) integration. The letter was addressed to LEP Chairs, Combined Authority Mayors, and the Mayor of London. Along with the Levelling Up White Paper this letter concluded the LEP review undertaken by Government.

57. The letter and guidance outlines that where devolution deals are set to be negotiated, the integration of LEP functions, roles and boundaries will be considered as part of those negotiations. LEPs are asked to support local leaders, where requested, in embedding a private sector perspective into that conversation. Once a future devolution deal is agreed and implemented, or where an institution progresses to at least Level 2 of the devolution framework, LEP functions and roles will then be integrated.

58. Where no devolution deal is in place, LEPs will be maintained until a devolution deal is agreed, subject to future funding decisions via the annual business case route. In these circumstances it will be important to maintain current engagement arrangements. Where a devolution deal geography cuts across a current LEP geography (as could potentially happen with Enterprise M3 LEP) Government has indicated that they will engage with local partners and consider the best outcome for local businesses on a case-by-case basis guided by local preferences. It is also very clear that democratically accountable local leaders will lead the integration of LEP functions and roles

into their respective institutions, working jointly with LEPs and, where necessary, other local stakeholders.

59. With regard to the two LEPs in the Hampshire area namely Enterprise M3 and Solent, this is extremely evident. With Enterprise M3, its boundaries including Hampshire and Surrey will mean that its integration will need to reflect the devolution timescales within both counties. For Solent, a pan-Hampshire devolution geography is simpler, but the emergence of the Solent Freeport and its Government backed governance may have a distinct impact.

With this context of national government guidance, the County Council continues to take the position previously shared with Cabinet:

- continue to engage with neighbouring areas concerning their devolution ambitions and programmes in the context of LEP integration;
- progress the ongoing discussions with the two LEPs in the Hampshire area, regarding their short-term business case submissions to Government and their proposals in light of the revised Government guidance for LEP integration;
- prepare the ground for a pan-Hampshire LEP Integration Plan, subject to progressing devolution negotiations with Central Government and;
- explore the opportunities for the development of a Member-led Hampshire Business Engagement Forum in accordance with establishing leadership and governance for the recently approved Economic Strategy; a revision of the Place Leadership Group to integrate into the Forum; and
- promote greater collaboration on Economic Development activities across the economic geographies covered by the existing LEPs.

Conclusion

60. The County Council continues to maintain a focus on driving towards economic strength for Hampshire. Following the implementation of the new Directorate structure in January 2023, steps are now underway to progress the leadership, governance, and implementation of recently approved Economic Strategy. This will be enabled through the continued development of key strategic enablers such as Regeneration and Growth Partnerships, the integration of LEPs, the County Deal and the introduction of the new Strategic Asset Management Strategy.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

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

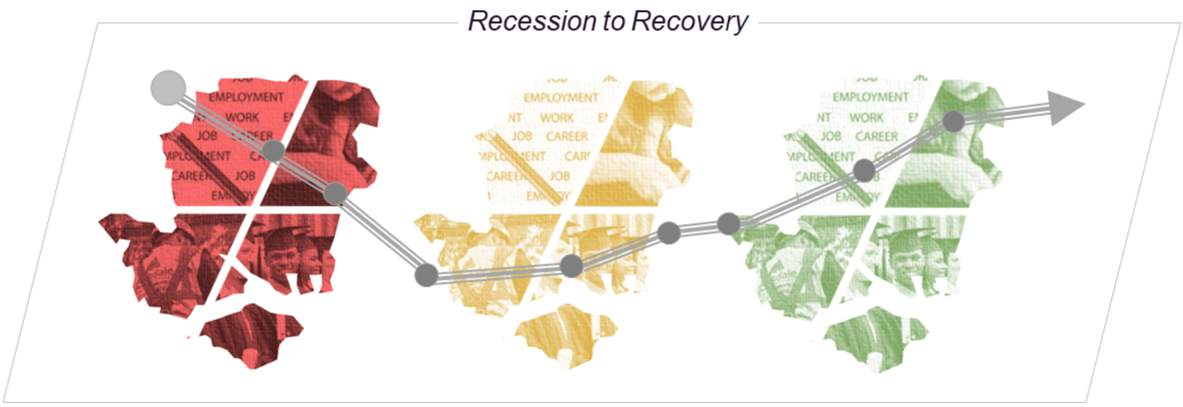
Due regard in this context involves having due regard in particular to:

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

2. **Equalities Impact Assessment:**

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

ANNEX 1



Hampshire Monthly Intelligence Dashboard

December 2022

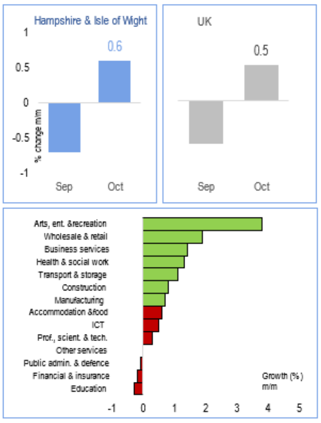
Hampshire County Council
Economy, Transport and Environment

Contents

Business Activity

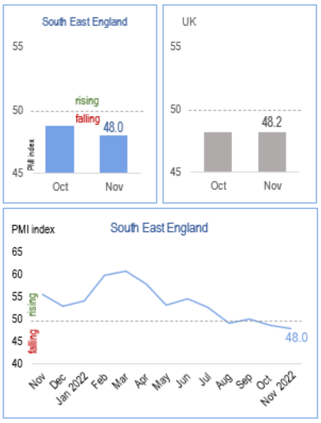
1

Economic Growth



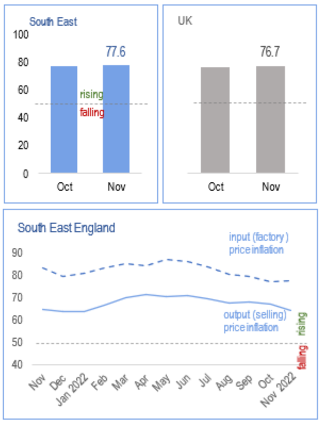
- Hampshire & Isle of Wight economy expanded by 0.6% in October but growth was mostly due to the rebound following September's extra bank holiday. UK growth was 0.5% and -0.3% over the quarter to Oct.
- October's growth was driven by several large service sectors, construction and manufacturing.

Business Activity



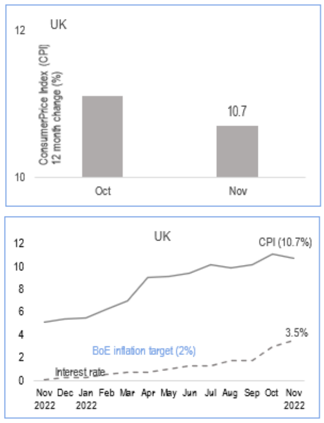
- Survey evidence suggests business activity fell in the region in November dipping below the national average. The PMI survey excludes retail, a sector which will continue to weigh on growth.
- Third successive monthly fall in new orders, and largest drop since Jan 2021, with sharper decline than UK.

Business Prices



- Business prices remain elevated, and following modest easing in growth November saw an upturn in costs.
- Weaker pound and energy, material, transportation, utility and wage costs cited as primary drivers for rising costs. Output costs at 9-month low with competitive pressures forcing some businesses to absorb costs.

Inflation

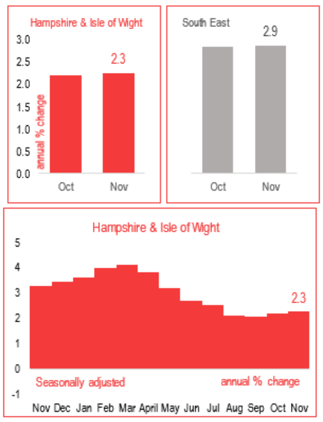


- Lower fuel prices helped price rises slow to 10.7% in November but cost of living remains close to 40-year highs.
- Inflation may have peaked but it will remain elevated in the short-term. The BoE increased the base rate by 50bps to 3.5% in December, the highest rate since 2008.

Jobs and Earnings

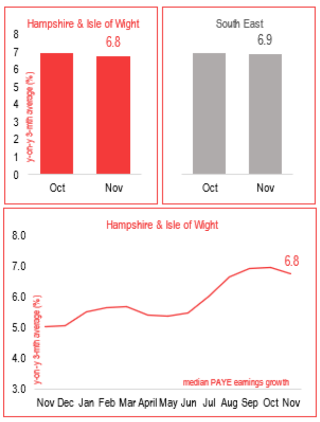
2

PAYE Employees



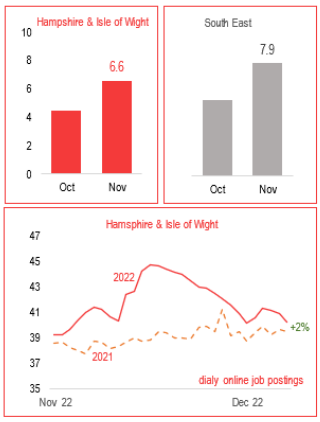
- PAYE employment in Hampshire and the Isle of Wight continues to rise, hitting a new record high of 905,800 payrolled employees in November.
- Growth on revised monthly payrolled employment was 0.3% (+3,100 employees). Annual and monthly growth both increased in November, but at a slower pace than SE or UK.

PAYE Earnings



- Early payroll estimate for Hampshire & Isle of Wight points to a small decrease in median monthly PAYE pay growth at 6.8% in the quarter to November compared to Nov 2021.
- Real earnings (adjusted for inflation) continue to be eroded by inflation. The gap in public and private sector wage growth is near a record high.

Labour Demand



- Job vacancies (the number of online job postings) in Hampshire & Isle of Wight grew by 6.6% in November, improving on October's 4.5%.
- Demand for labour continues to defy expectations of a sharp slowdown but the uptick could be driven by seasonal demand (shown in daily trends) or simply reflect shortages.

Demand by Occupation

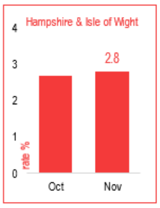
Unique jobs postings by Occupation (SOC)	Nov	% of total
Programmers & Software Development Professionals	3,147	7.3
Care Workers and Home Carers	2,569	6.0
Other Administrative Occupations n.e.c.	2,259	5.3
Sales Related Occupations n.e.c.	2,253	5.2
Nurses	1,973	4.6
Customer Service Occupations n.e.c.	1,767	4.1
IT Business Analysts, Architects & Systems Designers	1,437	3.3
Kitchen and Catering Assistants	1,373	3.2
Managers and Proprietors in Other Services n.e.c.	1,071	2.5
Chefs	1,061	2.5

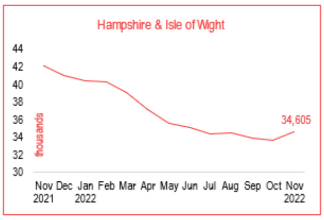
Unique jobs postings by Occupation (SOC)	Sep	% of total
Care Workers and Home Carers	2,352	6.1
Programmers & Software Development Professionals	2,350	6.1
Other Administrative Occupations n.e.c.	2,085	5.4
Customer Service Occupations n.e.c.	1,914	5.0
Sales Related Occupations n.e.c.	1,854	4.8
Nurses	1,516	3.9
Kitchen and Catering Assistants	1,477	3.8
IT Business Analysts, Architects & Systems Designers	1,118	2.9
Human Resources and Industrial Relations Officers	1,017	2.6
Cleaners and Domestics	1,002	2.6

- Top in-demand jobs in Hampshire & Isle of Wight continue to be IT, care and business services (sales, admin).
- Demand for nursing and care increased but IT and customer services eased.
- The top five in-demand specialised skills were in business (finance, auditing, marketing, performance).

Unemployment

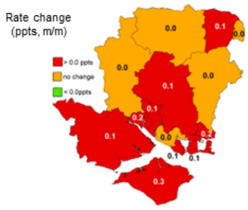
Claimant Unemployment

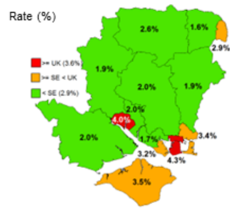




- Working age unemployed claimant counts in Hampshire & Isle of Wight (not adjusted for seasonal factors) saw a sharp increase (940) to 34,605; rising across all broad age groups but disproportionately for the 18-24s.
- The unemployed claimant count rate rose to 2.8% in Nov. The count is 35% higher than pre-pandemic levels.

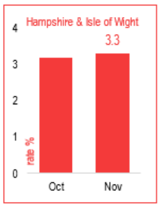
Local Claimants

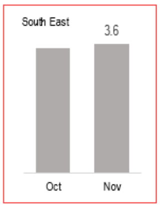


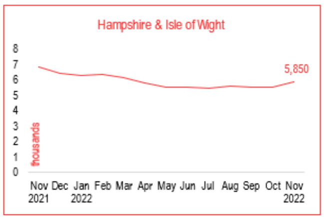


- Nine of the 14 local authorities in Hampshire & Isle of Wight saw a monthly increase in their claimant count rates; five saw no change.
- The two cities and Isle of Wight, accounted for two thirds of the increase in November.
- The two cities' working age rates are above the SE and UK averages.

Youth Unemployment

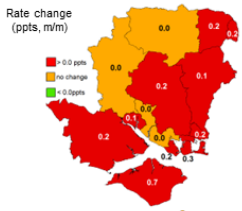


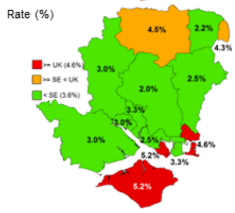




- The number of young unemployed claimants aged 18–24-year-olds in Hampshire & Isle of Wight also increased sharply (305) in November to 5,850 claimants.
- The youth claimant unemployment rate increased to 3.3% in November. Hampshire rate below both the South East (3.6%) and UK (4.6%) averages.

Local Young Claimants

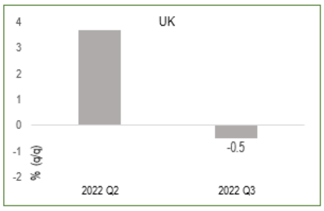


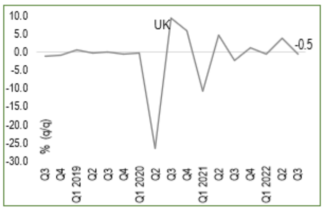


- Ten of the 14 Hampshire & Isle of Wight local authorities saw an increase, and four no change in their monthly rates.
- Eight Hampshire & Isle of Wight districts had rates below the SE and UK rates, while Gosport (5.2%), Havant (4.6%), and IoW (5.2%) are above or equal to the UK rate.

Sentiment and Investment

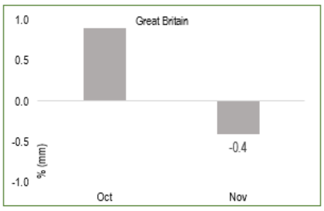
Business Investment

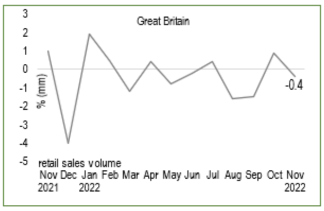




- Business investment fell in Q3 (ONS) with weak demand, tighter financial conditions and uncertainty contributing to reduced investment in Q4 according to BoE.
- Business investment is pro-cyclical and is forecast to be 9% below pre-pandemic levels in 2023 (CBI), with subdued outlook until in 2024.

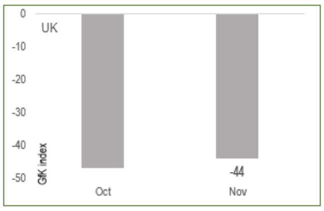
Retail Sales

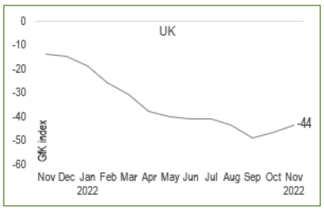




- Black Friday failed to boost retail sales volumes in November (-0.4%) with weaker figures than expected following on from October's bounce back (0.9%).
- High inflation and interest rates will continue to squeeze real spending and keep retail sales volumes subdued in the coming months.

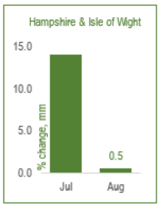
Consumer Confidence

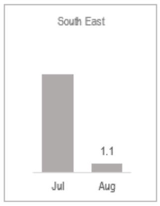


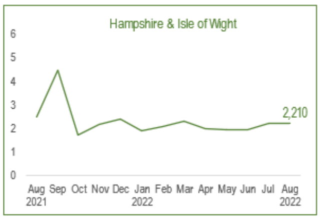


- Consumer confidence fell to its lowest level since July 2008 in April with consumer outlook for personal finances and the general economy being worse than in 2008.
- Preliminary data for May showed that consumer sentiment dropped to its lowest level for nearly 50 years amid the cost-of-living crisis.

House Sales







- House sales in Hampshire & Isle of Wight saw little movement in Aug (0.5%, +12), following robust growth in July, as the housing market cools.
- High inflation and rising interest rates continue to weigh down on the housing market in the UK. Prices fell by 1.4% in November, the third monthly decline in a row.

How to read 'traffic lights':

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

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

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

Little or no change on previous period.

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

Sources:

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

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

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

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

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

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	7 February 2023 23 February 2023
Title:	Revenue Budget and Precept 2023/24
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 County Council's proposals for the revenue budget and precept for 2023/24. It also provides an update on the financial position for 2022/23, together with details of the financial prospects for the County Council over the next few years.

Section B: Recommendation(s)

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

2. Notes the latest position for the current year as compared to that reported to the last Cabinet.

3. Approves the updated cash limits for Directorates for 2023/24 as set out in Appendix 2.

4. Delegates authority to the Director of Corporate Operations, following consultation with the Leader and the Chief Executive to make changes to the budget following Cabinet to take account of new issues, changes to figures notified by District Councils or any late changes in the final Local Government Finance Settlement

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

a) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 6) be taken into account when the Council determines the budget and precept for 2023/24.

b) The Revised Budget for 2022/23 set out in Appendix 1 be approved.

c) The Revenue Budget for 2023/24 (as set out in Appendix 3 and Appendix 4) be approved.

d) Any early delivery of savings approved in November 2023 will be contributed to the Budget Bridging Reserve rather than Directorate Cost of Change Reserves.

e) The **council tax requirement** for the County Council for the year beginning 1 April 2023, be £781,761,571.99.

f) The County Council's band D council tax for the year beginning 1 April 2023 be £1,460.25, an increase of 4.99%, of which 2% is specifically for adults' social care.

g) The County Council's council tax for the year beginning 1 April 2023 for properties in each tax band be:

	£
Band A	973.50
Band B	1,135.75
Band C	1,298.00
Band D	1,460.25
Band E	1,784.75
Band F	2,109.25
Band G	2,433.75
Band H	2,920.50

h) Precepts be issued totalling £781,761,571.99 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authority's area as determined by them and as set out below:

Local Authority	**Tax Base**	**Council Tax Precept (HCC share)**
Basingstoke and Deane	69,037.30	100,811,717.33
East Hampshire	52,581.28	76,781,814.12
Eastleigh	48,510.23	70,837,063.36

Fareham	44,139.40	64,454,558.85
Gosport	27,056.00	39,508,524.00
Hart	42,313.27	61,787,952.52
Havant	42,218.31	61,181,992.58
New Forest	72,271.70	105,534,749.93
Rushmoor	32,959.11	48,128,540.38
Test Valley	51,968.00	75,886,272.00
Winchester	52,626.87	76,848,386.92

i) The Capital & Investment Strategy for 2023/24 (and the remainder of 2022/23) as set out in Appendix 7 be approved.

j) The Treasury Management Strategy for 2023/24 (and the remainder of 2022/23) as set out in Appendix 8 be approved.

k) An increase to the allocation targeting higher yields from £250m to £320m (as set out in the Treasury Management Strategy in Appendix 8) to provide extra flexibility given the forecast level of cash balances be approved

l) Authority is delegated to the Director of Corporate Operations to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

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) The Treasurer's report under Section 25 of the Local Government Act 2003 (Appendix 6) and take this into account when determining the budget and precept for 2023/24.

b) The Revised Budget for 2022/23 set out in Appendix 1.

c) The Revenue Budget for 2023/24 (as set out in Appendix 3 and Appendix 4).

d) That any early delivery of savings approved in November 2023 will be contributed to the Budget Bridging Reserve rather than Directorate Cost of Change Reserves.

e) That the council **tax requirement** for the County Council for the year beginning 1 April 2023, be £781,761,571.99.

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Band A	973.50
Band B	1,135.75
Band C	1,298.00
Band D	1,460.25
Band E	1,784.75
Band F	2,109.25
Band G	2,433.75
Band H	2,920.50

h) Precepts to be issued totalling £781,761,571.99 on the billing authorities in Hampshire, requiring the payment in such instalments and on such date set by them previously notified to the County Council, in proportion to the tax base of each billing authority's area as determined by them and as set out below:

Local Authority	Tax Base	Council Tax Precept (HCC share)
Basingstoke and Deane	69,037.30	100,811,717.33
East Hampshire	52,581.28	76,781,814.12
Eastleigh	48,510.23	70,837,063.36
Fareham	44,139.40	64,454,558.85
Gosport	27,056.00	39,508,524.00
Hart	42,313.27	61,787,952.52
Havant	42,218.31	61,181,992.58
New Forest	72,271.70	105,534,749.93
Rushmoor	32,959.11	48,128,540.38
Test Valley	51,968.00	75,886,272.00
Winchester	52,626.87	76,848,386.92

i) The Capital & Investment Strategy for 2023/24 (and the remainder of 2022/23) as set out in Appendix 7.

j) The Treasury Management Strategy for 2023/24 (and the remainder of 2022/23) as set out in Appendix 8.

k) An increase to the allocation targeting higher yields from £250m to £320m (as set out in the Treasury Management Strategy in Appendix 8) to provide extra flexibility given the forecast level of cash balances.

l) The delegation of authority to the Director of Corporate Operations to manage the County Council's investments and borrowing according to the Treasury Management Strategy Statement as appropriate.

Section C: Executive Summary

6. The purpose of this report is to set out the County Council's proposals for the revenue budget and precept for 2023/24. It also provides an update on the financial position for 2022/23 and the medium term position to 2025/26.

7. Savings targets for 2023/24 were approved as part of the Medium Term Financial Strategy (MTFS) in 2020 and detailed savings proposals have been developed through the Savings Programme to 2023 (SP2023) which were agreed by Cabinet and County Council during October and November 2021. Savings totalling £80m have been removed from Directorate cash limits in 2023/24 with any delayed savings being supported through cost of change or corporate reserves in line with the County Council's financial strategy.

8. During January individual Executive Members have been considering their revenue budget proposals with the Leader and Cabinet and Select Committees who provide overview and scrutiny. This report consolidates these proposals together with other items that make up the total revenue budget for the County Council in order to recommend a budget, precept and council tax to the meeting of full County Council on 23 February 2023.

9. In December, additional anticipated resources arising from the Autumn Statement were presented to Cabinet, together with significant growth and inflation pressures that added over £150m to Directorate cash limits, the most ever in a single year.

10. The provisional local government finance settlement was released on 19 December and confirmed that £33m of net additional resources were available to the County Council next year through business rates, social care grant and services grant. This was £10.2m higher than assumed in the December Cabinet report.

11. Key assumptions, issues and recommendations within this report are:

    - A recommended council tax level of 4.99% for 2023/24 and for each year to 2025/26 in line with current County Council policy of increasing to the maximum permissible.
    - An assessment of potentially undeliverable Tt2021 and SP23 savings of £12.9m that have been added to the budget deficit from 2023/24 onwards.

- A revised budget deficit for 2023/24 taking into account all known factors including collection fund positions of £57.7m.
- Meeting the anticipated 2023/24 and 2024/25 budget deficits from reserves.
- The need to increase contributions to the Budget Bridging Reserve to allow this to happen, including a change to the policy of the use of early delivery of savings, which it is recommended are now added to the Budget Bridging Reserve.
- A revised budget gap to 2025/26 of £132m assuming council tax is set in line with current policy, but without assuming any additional government funding for that year.

12. It should be noted that the figures in this report in respect of government grant levels and figures notified to the County Council by District Councils are provisional at this stage and will be subject to change. Revised figures will therefore be presented to full County Council and this report seeks delegated authority for the Director of Corporate Operations in consultation with the Leader and Chief Executive to make these changes as appropriate.

13. The medium term outlook continues to be of concern particularly as it is not currently felt that we can meet the £132m through further savings alone. It is not surprising that we have reached this position as we have repeatedly said to Government since 2018 that without a sustainable funding solution to the growth in social care costs, the County Council is not financially sustainable in the longer term. We will focus lobbying attention on the Spending Review expected in 2024 and will push for fundamental changes to the way that local government is funded during the next Spending Review period.

14. The Treasurer's report under Section 25 of the Local Government Act 2003, which has to be taken into account when the Council determines the budget and precept for 2023/24, is set out in Appendix 6 and also considers the future financial resilience of the County Council in this context.

Section D: Contextual Information

15. The financial strategy which the County Council has operated successfully to date works on the basis of a two year cycle of delivering directorate savings targets to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Budget Bridging Reserve (BBR) and with any early delivery of resources retained by directorates to use for cost of change purposes or to cash flow delivery and offset service pressures.

16. However, the current planned programme of savings is not sufficient to balance the budget in the year of full implementation, with a further significant deficit expected in 2023/24 which must be met from the BBR. The forecasts that led to an £80m estimated deficit were produced in a pre-pandemic environment and without any knowledge of the financial crisis that has recently hit the country. A

number of factors including a significant spike in post-pandemic demand for adult social care, a marked increase in caseloads for children's social workers due to pandemic-related factors and the recent surge in inflation impacting both pay and non-pay costs have resulted in a further budget deficit for 2023/24 of £57.7m. Owing to the Council's careful management of reserves over many years, this deficit can be funded from the BBR on an interim basis pending further permanent savings to close the gap.

17. The provisional Local Government Finance Settlement was announced on 19 December 2022 and more detail about the provisional settlement is set out in Section H of this report, but the increases in funding are not sufficient to address the additional pressures we face next year. The settlement provided the Council with a 9.4% increase in core spending power, however around half of this increase is dependent upon the Council raising Council tax to the maximum permitted level of 4.99%. The Council welcomes the increase in Social Care Grant, which exceeded earlier forecasts, however the funding remains insufficient to meet the growing pressures in social care over the next year.

18. The final grant settlement for 2023/24 is not due out until this report has been dispatched, however it is not anticipated that there will be any major changes to the figures that were released in December 2022.

19. In December 2022 Cabinet received a budget update report that set provisional cash limit guidelines for directorates, taking into account inflation, savings and base changes. This report confirms the cash limits that will be applied to directorates next year and the individual reports approved by Executive Members during January all show that the proposed budgets are within the cash limit guidelines that have been approved, albeit that the additional pressures in adults social care are being dealt with as a corporate issue.

Section E: 2022/23 Financial Monitoring

20. As at the end of October all Directorates are currently forecasting balanced positions in-year. The consolidated position for all directorates for 2022/23 requires corporate contingency funding of £48.3m to meet additional pressures in-year, most significant of which are the growth in adults care packages and increase in energy costs. The increased numbers and prices of adult's care packages, particularly for younger adults, are set to exceed the funding set aside in the MTFS for the current year by around £9m. This pressure can be covered from cost of change reserves on a one-off basis in-year, however a further significant corporate funding allocation will be required to meet the ongoing impact in future years, as set out in section P.

21. Within Children's Services, there are staffing pressures within the Special Educational Needs Service, Education Psychology Service and Subject Access Requests Team, totalling £4.6m. These pressures are expected to be offset by early delivery of SP2023 savings in-year, however they present a further risk to the medium term financial position, as noted in the December provisional cash

limits report to Cabinet. Additionally, a £2.5m net pressure is expected to remain on Home to School Transport budgets after allocation of £4.5m additional corporate support funding, agreed by Cabinet in December. However, additional funding will be retained in contingencies to address future years shortfalls, which could rise to around £7.6m annually by 2025/26.

22. Early delivery of around £21m SP2023 savings is expected in-year. These include placement costs for Children Looked After, which are tracking below MTFS levels, Discharge to Assess services, which have benefitted from additional funding from the NHS for provision of discharge beds, and Concessionary Fares, where there has been a sustained reduction in patronage, which is reflected at a national level. The provision of additional social care grant funding through the 2022/23 settlement also allowed the SP2023 grant funding requirements for adults and children's services to be satisfied a year earlier than expected.

23. In addition to SP2023 early delivery, further in-year savings have also been reported in some areas. Within Adult Health and Care, there are savings forecast on non-care budgets including contracts, administration, and equipment/telecare. Children Looked After activity and average unit costs within the Children with Disabilities service are currently forecast to be below the anticipated MTFS levels. The Swanwick Lodge secure unit is forecasting an improved position following implementation of a new business model aiming to achieve full cost recovery. Additionally, partnership income forecasts have increased since the start of the year and income generation for educational visits in the outdoor service are currently running at higher than anticipated levels.

24. Universal Services and Corporate Services are reporting staffing underspends totalling more than £5m arising from the challenges of recruitment and retention of staff and due to early delivery of savings. The Council's Corporate Management Team have established a Strategic Workforce Board which will focus on developing a corporate approach to strategic workforce planning and development, including options to help improve staff recruitment and retention. Hampshire 2050 is also reporting savings linked to income received from the BT Openreach gainshare agreement.

25. Within the schools budget there continues to be pressure in the high needs block with a further deficit of £29.2m expected this year which will bring the cumulative deficit to £89.2m. A statutory override provided by the DfE (which has recently been extended to 2025/26) has strengthened the ringfence on the DSG deficit by allowing local authorities to charge negative DSG balances to a separate account rather than offsetting the general fund revenue account. However, this provision does not offer a long-term solution to address the cumulative deficits held by authorities or the continuing inadequacy of high needs funding, issues which must be dealt with at a national level.

Review of Tt2021 and SP23 Savings Programmes

26. In the report to Cabinet in December, it was reported that the Tt2019 Programme was expected to be completed by the end of the current financial year and that Directors were reviewing any outstanding ‘Red’ rated savings for Tt2021 and SP23.

27. This was to ensure that all potential financial pressures that the County Council could face in the future were properly captured in this February budget setting report and that the County Council did not simply assume that all of these savings were still deliverable, particularly in the face of the significant growth and inflationary pressures across some of the services where savings still needed to be made.

28. The results of this exercise have highlighted two areas where it is felt that the delivery of the remaining savings proposals is at risk and should be reflected in the forecasts going forward:

    - Older Adults’ Residential, Nursing and domiciliary care (£11.75m)
    - Home to School Transport (£1.159m)

29. For Older Adults’ services, there are savings across Tt2021 and SP23 of £4.85m and £6.9m respectively that are no longer expected to be delivered. As previously reported, these services are seeing significant growth and price increases and it is therefore very unlikely that the planned savings in these areas can be achieved in this environment.

30. Similarly, the December Cabinet report highlighted the significant growth in the activity and pricing for Home to School Transport, being driven by increasing numbers of pupils with Special Educational Needs and fuel and workforce pressures. Given this position it has been assumed that £1.159m of the predicted £2.5m SP23 savings will not be delivered.

31. Directorates will continue to pursue these savings and it is possible that some delivery will still be achieved, but it is prudent at this stage to include the total potential losses of £12.909m in the forecasts from 2023/24 onwards.

Section F: Revised Budget 2022/23

32. During the current financial year there have been a number of changes to the original budget that need to be taken into account, some of which have already been reported to Cabinet. In addition, it is also timely to review some of the high level numbers contained within the revenue budget to assess the likely impact on the outturn position for the end of this year.

33. Appendix 1 provides a summary of the original budget that was set for 2022/23, restated to reflect the new Directorate structure, together with adjustments that have been made during the year. The proposed Revised Budget for 2022/23 is then set out for information. The variance between the adjusted and revised budget gives an indication of any one off resources which may be available at

the end of the year and could be used to fund one off investment or provide additional contributions to the BBR. Proposals will be brought back to Cabinet as part of the year end reporting once the final outturn position is confirmed and the balances and commitments against earmarked reserves have been reviewed.

34. The following paragraphs explain the main adjustments that have been made to the budget during the year:

Adjusted Budget 2022/23

35. Directorate Spending – Budgeted directorate cash limits have increased by around £96.3m and the reasons for this are highlighted in the following table:

	£m
Net increase in specific grants	63.2
Tt2019 and Tt2021 Corporate Cashflow Support	13.1
In Year Children's Services draw from central contingency	6.8
2021/22 Local Government Pay Award	6.3
Use of Directorate earmarked reserves	4.7
Delivery of Strategic Land Programme	3.8
In Year Universal Services draw from central contingency for Highway Maintenance and Ash Dieback	1.8
Changes to Revenue Contributions to Capital Outlay (RCCO)	(1.8)
Other Net Changes	(1.6)
Total	**96.3**

36. The increases in budgeted directorate spending are mainly because of increased government grants, the majority of which are:

- Adjustments to Public Health grants, including carried forward Covid grants (£19.0m)
- Household Support Fund (£14.2m) provided to assist vulnerable residents with the cost of living
- Homes for Ukraine grants (£22.3m)
- Unaccompanied Asylum Seeking Children (£5.7m)

37. The true value of recurring increases is much smaller and relates to the allocation of inflationary and growth funding for Children's Social Care and Universal Services from contingencies, but this reflects a transfer rather than new unanticipated spend.

38. **Non-directorate Spending** - The paragraphs below outline changes to the other items that make up the overall revenue account.

39. **Capital Financing Costs and Interest Income -** The decrease in net financing costs is largely due to significantly greater than expected returns on the Council's cash investments owing to the impact of recent increases in interest rates. Additionally, the revised budget reflects the latest estimates of capital financing costs, which are expected to be lower than budgeted due to the use of prudent estimates and the continuing use of 'internal borrowing' to fund capital expenditure rather than taking out long term loans at this point.

40. **Revenue Contributions to Capital Outlay (RCCO)** – The increase in RCCO reflects changes made to the Capital Programme and its financing during the year but this is entirely offset by other funding changes in budgets or to earmarked reserves so that there is no bottom line impact in 2022/23.

41. **Contingencies** – The reduction in contingencies is partly the result of transfers made to Directorate budgets during the year in relation to the items set out in Section 35, most notably cash flow support to Directorates for Tt2019 and Tt2021, funding for the 2021/22 Local Government Pay Award, and growth funding for Children's Social Care and Universal Services. Additionally, a saving on the corporate inflation underwrite is expected due to careful budget management by Directorates and robust negotiation with suppliers, recognising the longer term implications for the Council's budget of any additional price increases agreed during the year.

42. **Dedicated Schools Grant (DSG) and Specific Grants** – The reduction in DSG reflects the conversion of some maintained schools to academies during the year. The increase in specific grants is mainly due to Public Health grants, the Household Support Fund, Homes for Ukraine and Unaccompanied Asylum Seeking Children grants as set out in Section 36.

43. **Business Units (Net Trading Position)** – A net reduction in the trading surplus for the School Improvement Service is expected following the annual Budget Plan Review.

44. Most of these changes have had no overall impact on the bottom line of the revenue account as they mainly represent transfers between different areas of the budget or represent matching changes to expenditure and income, as is the case with specific grants.

Revised Budget 2022/23

45. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2022/23. The revised budgets for directorates include:

- Funding for the 2022/23 Local Government Pay Award (£19.6m)

- Children’s Services growth pressures as agreed by December Cabinet, including additional social worker capacity (£12.5m)
- IT reserve draws, including funding for the device refresh programme (£6m)
- Additional specific grant funding (£2.1m)

46. It is anticipated that there will be early delivery of SP2023 savings in the majority of directorate budgets by the end of the year. However, in line with current policy this can be transferred to directorate earmarked reserves, to be used to fund the cost of change in future years and will therefore have no impact on the bottom line position of the revenue account.

47. All directorates are forecasting break even positions against the revised cash limits reflecting this policy and the fact that directorates are managing their bottom line positions to contain spending pressures and are using cost of change in the year as required.

48. **Interest on Balances and Capital Financing Costs** – The County Council adopts a very prudent approach to estimating for treasury management given the number of different variables involved. A saving of £3.3m is expected as a result of lower than budgeted capital financing costs linked to the continuing use of ‘internal borrowing’ to fund capital expenditure rather than taking out long term loans at this point. It is proposed that this saving is transferred to the BBR in order to help balance the budget in 2023/24.

49. Additionally, as detailed in the Treasury Management Strategy (Appendix 8) investment returns have risen significantly over the last 12 months due to increasing interest rates. As a result, it is anticipated that we will receive an additional £7.8m this year, which will be transferred to the BBR. However, it should be noted that this will not necessarily be recurring over the medium term depending on economic conditions.

50. **Contingencies** – The key items within this budget relate to risk contingencies set aside to reflect the pressures in social care, the major change and savings programmes that were being implemented during the year, growth in waste disposal costs, contingencies in respect of pay and price increases, and the general inflation underwrite.

51. In considering the revised budget position, it is timely to review these contingencies in light of the extremely challenging medium term financial position discussed in Section N. At this stage of the year, it is considered prudent to release contingency budget of £10m earmarked for the general inflation underwrite, which will be used to increase the budgeted contribution to the BBR. Sufficient funding will be retained to cover potential adverse movement in the final quarter of the year given the recognised volatility, particularly in respect of social care budgets.

Section G - Unavoidable revenue pressures

52. We have been experiencing a significant rise in the number of requests for Education Health and Care Plans in recent years, not just as a continuing trend following the change in legislation to extend special educational needs (SEN) support to age 25, but also because there just seems to be more pressure from parents to seek support for their child through this route. Over the last year, the SEN service has agreed over 2,600 assessments, all of which require support from Hampshire & IOW Educational Psychology (HIEP).

53. The service has been working hard over the last 18 months to improve its performance in accordance with the requirements of the Code of Practice. In December 2022, the service achieved over 61% of cases delivered in 20 weeks, compared to 2019, which was only 1.5%. By August 2023, the aim is to deliver 75% of cases within 20 weeks, with no case exceeding 30 weeks.

54. The service is now maintaining over 14,600 EHC plans, each requiring an annual review, and changes to the structure of the SEN and HIEP teams is required to manage this increased workload in line with national standards for caseloads and to meet the target performance set out above. A permanent budget increase is therefore required from 2023/24 of £2.1m for SEN and £1.66m for Educational Psychologists and has been include within the overall 2023/24 budget recommended for approval by Cabinet and County Council.

55. The Government SEND review is due to be published by the end of March 2023 and may lead to legislative change in the future that will help to relieve some of the pressure and realise savings against the uplifted budgets. Meanwhile, the County Council is participating in the DfE led Delivering Better Value (DBV) programme which is being supported by the Newton CIPFA Delivery Team. This programme has a number of aims, which look to understand the national and local SEND context, and to identify how best to respond to the challenges that are evident at this time. Consultants working on the DBV programme have provided forecasts for EHCP demand that are broadly in line with those estimated locally (though slightly higher). These indicate a stepped increase in statutory demand (approx. 11% each year) over the next 3-4 years for which some contingency funding is included in the medium term financial forecast.

Section H: Local Government Finance Settlement

56. The Provisional Local Government Finance Settlement sets out the key funding allocations that the Council will receive from Government for the coming financial year. Despite calls from the sector for a multi-year settlement to provide additional financial certainty, this year’s settlement covers 2023/24 only. However, the government has provided a Finance Policy Statement which sets out the principles for the 2024/25 finance settlement to assist Councils with medium term planning. Disappointingly, the policy statement confirmed that the

long-awaited Fair Funding Review expected prior to the 2023/24 settlement will be delayed, once again, beyond the end of the current parliament.

57. The key outcomes of the settlement for the County Council are shown below and are split between general resources which will contribute to meeting the Council's overall budget requirement, and specific resources which are earmarked to meet specific directorate pressures:

Funding Source	**2022/23 allocation (£m)**	**2023/24 allocation (£m)**	**Change (£m)**
Social Care Grant [1]	41.3	64.8	+23.5
Services Grant	8.3	4.7	-3.6
Business rates grant [2]	12.3	25.3	+13.0
Total 'general' resources	**61.9**	**94.8**	**+32.9**

[1] 2022/23 allocation includes the Independent Living Fund Grant, which has been rolled into the finance settlement from 2023/24.

[2] 2023/24 allocation estimated pending confirmation of the impact of business rates revaluations which take effect from April 2023.

Funding Source	**2022/23 allocation (£m)**	**2023/24 allocation (£m)**	**Change (£m)**
Market Sustainability Fund	3.2	11.1	+7.9
Adult Social Care Discharge Fund	-	4.4	+4.4
Improved Better Care Fund	31.3	31.3	-
New Homes Bonus	3.4	1.8	-1.6
Total 'specific' resources	**37.9**	**48.6**	**+10.7**

58. The key features of the settlement are:

- A 9.4% increase in Core Spending Power, of which 4.6% is attributable to the grant allocations set out above and 4.8% is attributable to council tax increases (including 2% for ASC) and tax base growth. This compares with an average 9.9% increase for Shire Counties.
- The Services Grant will continue to be distributed based on the local government funding formula, however the total grant has been reduced from £822m to £464m. This is in part because there will no longer be an increase in National Insurance Contributions, therefore the government proposes not to compensate local government for these contributions from 2023/24. In addition, some funding will go to increase the funding for the Supporting Families programme and to pay for other parts of the settlement, such as increasing Revenue Support Grant for some authorities.
- Local authorities receive indexed linked increases to business rates income as set out in the Local Government Finance Act, and when the government freezes the business rates multiplier it must provide Councils

with compensation through Section 31 Grants. In previous years, the increase has been aligned to the Retail Price Index (RPI), however from 2023/24 the government proposes to link business rates increases to the Consumer Prices Index (CPI). This policy change has reduced the income that the Council expects to receive through S31 Grants by around £3m, however due to the current rate of inflation a substantial increase of around £13m is still expected.

- The settlement maintains the current levels of Fair Cost of Care funding for local authorities for 2023/24, worth £3.2m to the County Council. This is intended to continue to support the progress local authorities and providers have already made on fees and cost of care exercises. An additional £400m allocation was announced at the Autumn Statement, of which Hampshire's share is £7.9m. The Settlement states that the grant should be used to make tangible improvements to adult social care, including addressing discharge delays, social care waiting times, fee rates and workforce pressures. However, given that the Council faces a substantial deficit in maintaining existing levels of service provision, the first call on this funding will be to ensure continuity and sustainability of current arrangements, as far as possible under the grant conditions. As of the date of reporting these have yet to be published.
- £300m of additional funding will be allocated to local authorities from the £600m of new hospital discharge funding announced at the autumn statement, with the remainder allocated to the NHS. This grant will be required to be pooled as part of the Better Care Fund and is therefore not available to contribute to meeting the budget gap.
- The New Homes Bonus was expected to end in 2022/23 but will instead continue for a further year to 2023/24, albeit at a reduced level and has traditionally been used for one-off purposes by the County Council.

59. The net impact on the bottom line of these changes compared to what was reported in December is an increase in resources of £10.2m, which has been taken into account in the revised budget position for 2023/24. The final Local Government Finance Settlement for 2023/24 is still awaited at the time of the publication of this report, however, it is not anticipated that there will be any major changes to the figures that were released in December last year.

Council Tax

60. The MTFS approved by the County Council in November 2021 assumed that council tax will increase by the maximum permissible without a referendum in line with government policy. The 2022 Autumn Statement set a referendum limit of 4.99% in each year up to 2027/28. Given the long term financial outlook, it is recommended in this report that Council tax is increased in line with the referendum limit of 4.99%. This proposed increase will see the council tax for a Band D property increase by £69.45 per annum (approximately £1.34 per week) to £1,460.25.

61. This will generate around £35m of additional income, however forecast inflationary and growth pressures are expected to exceed £154m in 2023/24, equivalent to a 22% increase in Council tax. Even after accounting for the proposed 4.99% increase, it is anticipated that Hampshire will have the second lowest council tax of any county across the country in 2023/24 and with this position continues to maintain strong performance both within its financial management and service provision. The average council tax across all counties in 2022/23 was just over £1,496, more than £105 higher than Hampshire's level in that year. If the County Council set its council tax at this average amount, it would receive around £56m a year more income than current levels.

62. Total income from council tax in 2023/24 is expected to be around £840m and represents 89.4% of the total funding of the County Council's net budget as compared to 73.6% in 2011/12.

Section I: Service Cash Limits 2023/24

63. In December Cabinet considered a budget update report which set provisional cash limit guidelines for directorates for 2023/24.

64. Appendix 2 sets out the cash limits agreed in December and provides information on adjustments that have been made subsequently, which are largely a result of changes to grants within the local government finance regime. Overall, cash limits have increased by £94.9m. This is principally due to an increase in DSG however there are additional minor changes, largely relating to reductions in the employer contribution rate for National Insurance and the pension contribution rate following the recent pension fund valuation, as detailed in Appendix 2.

65. In consideration of the current trajectory for the National Living Wage and previous advice from the National Employers that a further significant uplift to lower pay scales is expected for 2023/24, an increased budget provision has been set aside for the 2023/24 pay award. This accounts for a potential increase in the base pay point to £11.50 per hour with proportionally smaller increases for higher grades as reflected in the current year's pay award. This is equivalent to an average pay increase of 5.6%. The allowance returns to an increase of 2% for all grades from 2024/25. These amounts will be held in corporate contingencies until any pay awards are agreed.

66. As reported to Cabinet in December, general inflation is forecast to average around 7.5% in 2023/24, with a potential overall impact on non-pay spend in excess of £50m. It is not possible to fully provide for the potential impact of inflation on this scale within directorate cash limits whilst keeping funding to affordable levels. It was therefore proposed to earmark an additional sum of £10m within corporate contingencies to meet any significant unfunded pressures, to be allocated to directorates in-year on an exceptions basis where required. Given that the finance settlement for 2023/24 was more favourable

than expected, it is proposed that this provision is increased to £15m, which represents a more prudent estimate of the potential shortfall for directorates.

67. The unprecedented increase in energy prices since 2021 remains a key driver of the increase in general inflation. The Council continues to adopt a progressive buying approach to achieve best value, which involves purchasing ‘blocks’ of gas and electricity at different times as and when market conditions are favourable in order to spread risk. However, the Council still expects to face an additional inflationary pressure of around £4m on energy bills in 2023/24.

68. A one-off inflationary provision of £4m has therefore been included within central contingencies to meet the forecast energy cost increase in 2023/24, which will be allocated to directorates in-year as required. Due to continuing uncertainty as to how long supply issues might persist, it remains difficult to determine the extent of any permanent budget uplift that may be required, and this will therefore be reassessed during the 2024/25 budget setting process.

69. Appendix 3 provides a summary for each directorate of the main services under their control and shows the original budget for 2022/23, the revised budget for 2022/23 and the proposed budget for 2023/24. All directorates are proposing budgets that are within their cash limits, albeit the additional pressures in adults’ social care are being dealt with corporately.

70. It is worth reiterating that directorates have been required to achieve some £640m in savings since the period of austerity began. These have been applied on a straight line basis proportionate with directorate cash limits, which has allowed the Council to protect spending on non-social care services in relative terms compared to many other local authorities. However, growth allocations provided in recognition of growing demand and service pressures, which principally arise in social care services, mean that spending in these areas continues to increase at a faster rate than in non-social care directorates as set out in the table below. The bottom line increase in directorate cash limits of over 16% after accounting for £80m SP2023 savings is unprecedented for the County Council, and highlights the severity of the financial challenges we face, and the significant uncertainties which have impacted budget forecasts in recent years.

	2022/23	**2023/24**	**Change**	**Change**
	£’000	**£’000**	**£’000**	**%**
Adults’ Health and Care	445,112	530,166	+85,054	+19.1%
Children’s Services – Non Schools	256,488	313,285	+56,797	+22.1%
Universal Services	144,658	151,193	+6,535	+4.5%
Hampshire 2050	9,531	10,815	+1,284	+13.5%
Corporate Services	54,110	54,136	+26	0.0%
	909,899	**1,059,595**	**+149,696**	**+16.5%**

Section J: 2023/24 Overall Budget Proposals

71. Whilst service budgets make up the clear majority of the total budget there are several other items that need to be taken into account before the overall budget and council tax can be set for the year.

72. Appendix 4 sets out a summary of the overall revenue account starting with the cash limited expenditure for departments discussed above. The following paragraphs outline the other items that make up the overall revenue account and provide explanations for any significant variances compared to the 2022/23 budget.

73. **Revenue Contributions to Capital Outlay (RCCO)** – Each year, revenue contributions are made to help fund the Capital Programme. These were reviewed last year and a proportion was identified to fund the revenue costs associated with the Strategic Land Programme. The ongoing RCCO represents an affordable annual allocation to supplement the various sources of external funding for the capital programme.

74. **Contingencies** – The budget for contingencies has reduced by around £35m compared to the 2022/23 original budget, after accounting for the early allocation of contingency amounts held for social care and inflation. The contingency budget for 2022/23 includes £20m of one-off Covid funding and £12m one-off Tt2021 cashflow support which will be utilised in-year and is therefore not included in the 2023/24 budget.

75. Contingency provisions in respect of key risk items, notably social care growth allocations, the general inflation contingency and allowance for the 2023/24 local government pay award have been retained in the base budget. These provisions represent the recommendation by the Director of Corporate Operations, as the Authority's Chief Financial Officer (CFO) of a prudent approach to budgeting given the potential pressures the County Council faces. In addition to these contingencies, the County Council has access to sufficient reserves to manage any unforeseen risks that may impact the 2022/23 budget position.

76. **DSG** –The increase in the DSG reflects the increase in funding announced by the Government in the Autumn Budget, the detail of which was clarified in the subsequent schools' revenue funding settlement in December 2022.

77. **Specific Grants** – This income budget has been updated following grant notifications for 2023/24 and the increase is largely due to the additional funding announced in the Autumn Statement which was subsequently allocated through the Provisional Local Government Finance Settlement and a supplementary grant for Asylum Seeker Support.

78. **Pension Costs** – Following the previous triennial revaluation in 2019, the Pension Fund was found to be fully funded as a result of improved investment returns over the period. The eradication of the deficit removed the need for service payments made in previous years which were budgeted for on an

ongoing basis. This provided a net saving for the County Council of £15.0m per annum. Considering the need to fund a £40.2m gap for the 2022/23 interim year of the SP2023 Programme, Council approved the allocation of savings arising from the valuation to top up the BBR over the period from 2020/21 – 2022/23. Following the recent valuation, it has been confirmed that the Pension Fund is expected to remain fully funded over the MTFS period and it is therefore proposed to use the £15m annual contribution to offset baseline pressures from 2023/24.

79. **Business Units** – The net trading position of business units has been updated, and whilst overall the current business as usual estimate is a net trading surplus, it is always difficult to predict at this stage future income generation. In any event, at the end of the year the position will be balanced through a contribution to or from earmarked reserves that the trading units hold and so there is no impact on the revenue budget.

80. **Earmarked Reserves** – Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account. However, there is a significant planned draw from earmarked reserves in 2023/24 due to the planned use of the BBR to balance the budget in 2023/24 as outlined elsewhere in the report. The County Council's reserves strategy is set out in Appendix 5.

81. **Use of General Balances** – The 2022/23 original budget assumed a net contribution to general balances of £0.9m and this prudent annual amount has been continued for 2023/24 in order to maintain general balances at around 2.5% of the County Council's net budget requirement; in line with the CFO's recommended level.

Section K: Budget and Council Tax Requirement 2023/24

82. The report recommends that council tax is increased by 4.99% in 2023/24, in line with the referendum limit and with government policy which presumes that local authorities will put up their council tax by the maximum they are allowed.

83. In addition to the recommended increase for council tax, there are other changes within the council tax calculation that have an impact on the budget. The council tax base represents the estimated number of houses eligible to pay council tax and the latest forecasts provided by the District Councils, which take into account expected growth and any adjustments for the impact of their Council Tax Reduction Schemes, result in additional income of £6.9m in 2023/24. This has been included in the forecast budget position for 2023/24 as set out in section 87.

84. The County Council is also notified by Hampshire Districts, of the estimated level of collection fund surpluses or deficits that need to be taken into account in setting the council tax for 2023/24. In addition to the figures for council tax, Districts are required to provide estimates of their surplus or deficit on the

business rates collection fund, following the introduction of Business Rates Retention in April 2013.

85. For 2023/24 a net council tax collection fund surplus is anticipated, mainly arisen due to general increases in the council tax base during the year. However, some Districts have yet to confirm their collection fund figures so a prudent assumption of a balanced position has been used for budgeting purposes.

86. Similarly, Districts have provided estimates of what business rate income they expect to receive for 2023/24 based on their experience during the current financial year. These estimates have yet to be finalised and, given the increased risk and volatility due to the business rates revaluation which takes effect in 2023/24, a balanced position has been assumed for budgeting purposes. We will await confirmation of final figures and any adjustment will be reported at County Council. Any net surplus on the Council tax and Business Rates collection funds will be transferred to the BBR to contribute to bridging the budget gaps in future years.

87. Taking account of all the budget changes outlined in this and previous sections of this report, the County Council can set a balanced 2023/24 budget as follows:

	£m
Forecast Gap per December report to Cabinet	**51.2**
Loss of Business Rates Income	3.0
Undeliverable Savings Tt2021 and SP2023	12.9
SEN and HIEPS Educational Psychologists	3.8
New Gross Budget Gap	**70.9**
Additional Social Care grant	(8.5)
Additional Service grant	(4.7)
New Net Budget Gap	**57.7**
Draw from the Budget Bridging Reserve	(57.7)
Balanced Budget	**0**

88. Local authorities are required to report a formal council tax requirement as part of the budget setting process and the recommendations to Council in this report show that the Council Tax Requirement for the year is £781,761,571.99.

Section L: Capital and Investment Strategy

89. The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Treasury Management Code of Practice require local authorities to provide a Capital Strategy, which is to be a summary document approved by full Council covering capital expenditure and financing, treasury

management and non-treasury investments. In addition, Government investment guidance includes the requirement to produce an Investment Strategy. For the County Council, these are combined into a single Capital and Investment Strategy which is set out in Appendix 7 for approval by full County Council.

90. The Treasury Management Strategy (TMS), as referenced below and set out in Appendix 8, supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and treasury investments, and the associated risks.

91. The County Council's Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It also includes more detailed forecasts of capital expenditure and financing and the associated prudential indicators relating to financial sustainability.

92. This Strategy covers:

- Governance arrangements for capital investment.
- Capital expenditure forecasts and financing.
- Prudential indicators relating to financial sustainability (see section 4 of Appendix 7).
- Minimum Revenue Provision (MRP) for the repayment of debt.
- Treasury Management definition and governance arrangements.
- Investment Strategy.
- Knowledge and skills.
- Chief Financial Officer's conclusion on the affordability and risk associated with the Capital and Investment Strategy.
- Links to the statutory guidance and other information.

Prudential Indicators

93. The Prudential Code that applies to local authorities ensures that:

- Capital programmes are affordable in revenue terms.
- External borrowing and other long-term liabilities are within prudent and sustainable levels.
- Treasury management decisions are taken in line with professional good practice.

94. Some of the limits have been altered to reflect the revised TMS and Capital and Investment Strategy although this does not expose the County Council to any greater levels of risk.

95. Section 4 of Appendix 7 also contains the Prudential Indicators required by the Code for the County Council which will now be submitted for approval by the full County Council in setting the budget for 2023/24.

Section M: Treasury Management Strategy for 2022/23

96. The CIPFA Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires authorities to determine their Treasury Management Strategy Statement (TMSS) before the start of each financial year.

97. The County Council's TMS (including the Annual Investment Strategy) for 2023/24; and the remainder of 2022/23 has been reviewed in the light of current and forecast economic indicators and is set out in Appendix 8 for approval and fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Investments Targeting Higher Returns

98. 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.

99. Higher yields can be targeted through longer term cash investments and by investing in asset classes other than cash. Following advice from our advisers, Arlingclose, the County Council has constructed an investment portfolio that is diversified across asset classes and regions. This has been achieved by investing in pooled investment vehicles (pooled funds) alongside long term lending to other local authorities and loans relating to the Manydown development project. This diversification helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

100. The use of pooled funds also enables the County Council to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

101. Reserve levels have continued to increase and the profile of use of reserves is tracked as part of our Treasury Management Activity. Based on this position, this report seeks an increase in our higher yielding investments from £250m to

£320m including the £35m allowance previously allocated for investments in Manydown.

102. 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, set at 2.5% of the maximum value of higher yielding investments. The balance held in this reserve is currently £6.25m. The recommended increase to £320m would require the reserve to increase by £1.75m to £8m, which will be considered at the end of 2022/23 given that it will take some time to get up to this maximum level of investments in any event.

103. Going forward however, changes to International Financial Reporting Standards means that capital gains and losses on investments need to be reflected in the revenue account on an annual basis. There is currently a statutory override in place for local authorities that exempts them from complying with this requirement but this ends after 2023/24. In setting the Treasury Management Strategy for future years therefore consideration will need to be given to the level of the risk reserve, if it is also required to cover potential swings in the capital value of investments.

104. As at December 2021, just under £217m of the allocation to higher yielding investments has now been invested, with the remaining balance earmarked. The investment strategy continues to perform well, and the position at the end of December 2021 is set out in the table below:

Investments targeting higher yields portfolio

Investment type	**Amount invested**	**Market value at 31/12/2022**	**Gain/(fall) in capital value**	
			Since purchase	**One year**
	£m	**£m**	**£m**	**£m**
Long-term loans	23.0	23.0	-	-
Pooled property funds	75.0	71.5	(3.5)	(8.3)
Pooled equity funds	51.0	52.8	1.8	(0.9)
Pooled multi-asset funds	48.0	44.1	(3.9)	(6.1)
Total*	**197.0**	**191.4**	**(5.6)**	**(15.3)**

* Excludes £10.2m invested in pooled funds on behalf of Thames Basin Heath Partnership

105. Capital values have struggled in the past 12 months due to market conditions and total pooled funds are showing capital below the amount originally invested, however, with the dividends earned, the total return is positive. The total return for pooled funds since purchase was 22.2% at 31 December 2022.

106. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever materialise since the County Council would avoid selling investments that realised a capital loss. The weighted average return for investments targeting higher yields was 4.3% for the 12 months up to 31 December 2022.

107. The County Council's investments in pooled funds bring significant benefits to the revenue budget, with over £43m of dividends earned since it first made these investments, beginning in 2014. The approach set out in the TMS is still considered to be appropriate and prudent and continues to deliver good returns.

Interest Rate Environment and Pension Pre-payments

108. The strategy of higher yielding investments was developed during a very low and stable interest rate environment, which has not only limited the value of returns on the bulk of our cash holdings but has also limited other opportunities such as the repayment of borrowing. In 2020, The Hampshire Pension Fund offered the option of pre-payment of employer pension contributions as this offered an alternative means by which substantial returns could be made on our cash investments through pension fund investments.

109. This has proved to be very successful over the last three years with the full value of the pre-payment (£225m) benefitting from strong investment returns over the period which have contributed to our surplus position as part of the 2022 valuation. For 2023/24 onwards the Pension Fund has also offered the option of pre-paying employees as well as employer contributions, albeit these are at a much lower value.

110. Whilst this seemed like an attractive proposition given the performance of the Fund last time, there are still potential risks of taking up this option and Officers were also cognisant of the fact that the interest rate environment and alternative higher yielding investments presented more potential opportunities than in previous years. The Chief Financial Officer under his delegated powers therefore looked to pursue a diversified range of tactical options before considering the pension pre-payments that needed to be agreed before the end of January.

111. As a result of this work the following tactical opportunities were implemented:

- £41m of loans were repaid (£12m of PWLB and £29m of current and former LOBOs – Lenders Option, Borrowers Option) at an average discount rate of 4.18%
- Invested £27.7m in up to 3 year bonds at an average rate of 4.73%

112. Following these transactions, we still expect to have £760m of cash available which has been managed in order to provide the flexibility for any pre-payments on the 1 April. However, in order to maintain the balance between higher yielding investments, Pension Fund Pre-payments (which cannot be withdrawn once committed) and short term liquid investments to fund cash flow requirements, the Chief Financial Officer took the delegated decision to only pre-pay employer contributions on 1 April equating to a payment of around £250m.

Section N: Medium Term Financial Position

113. The medium term forecast to 2025/26 has varied significantly over the past year. In February 2022 we forecast that the gap could be around £157m but hyper-inflation across a range of services and continued growth in areas such as younger adults, children's social work capacity and home to school transport extended the budget deficit to around £214m before the Autumn Statement was announced in November.

114. The Autumn Statement was less dire for upper tier local government as a whole, providing additional funding for social care services in particular and allowing greater freedoms for council tax rises, but this did not change the underlying position for the County Council of not being financially sustainable beyond 2025/26 without a fundamental review coupled with multi-year funding certainty. The increase in Core Spending Power for local government is predicated on local authorities taking the maximum increase in council tax (which for Hampshire is 4.99% per annum, 2% of which is for adult social care). Figures quoted in this section assume for planning purposes that the maximum increase will be taken in line with current County Council policy to set Council Tax at the maximum permissible, albeit that is of course a decision for full County Council each year.

115. Whilst it is possible to track all of the changes that have been made since the original £157m was calculated, it is considered to be more helpful at this stage to outline to Members the overall changes in the budget to provide an updated budget gap following the release of the provisional local government finance settlement on 19 December last year.

116. The table below highlights the additional resources arising from the settlement, together with other funding assumptions we had already made. This is then compared to the inflationary and growth pressures that we face over the three year period to 2025/26:

	£m
Council Tax at 2.99% per annum	(68)
Extra 2% council tax per annum	(48)
Additional Business Rate Income	(21)
Additional Social Care Grant	(34)
Pension Fund Fully Funded	(15)
Total Additional Resources	**(186)**
Pay Inflation	35
Price Inflation (incl. energy)	103
Price Inflation Underwrite	15
Pay and Price Inflation	**153**
Adult social Care Growth	73
Children's Social Care Growth (incl. social workers)	62
Other Growth and Pressures	13
Legislative Change	4
Undeliverable Savings	13
Growth and Pressures	**165**
Total Cost Pressures	**318**
Net Gap to 2025/26	**132**

117. The table shows that the increased council tax, business rates and social care grant have provided £103m of additional resources that have helped bring the gap down to £132m after taking account of increases in the costs of Younger Adults reported to Cabinet in December and the undeliverable savings totalling £12.9m explained in Section F.

118. Whilst this position is much less worse than previous forecasts, it should be borne in mind that this is still some £52m above the two year gap that we faced for both the Tt2021 and SP2023 savings programme and comes after a total of £640m has already been removed from the County Council's budget. It also assumes that there are no further major financial shocks during the next 3 years, which is optimistic given the period we have faced over the last 12 months.

119. The Corporate Management Team have been doing some early work on what savings options might be available towards the 2025/26 gap in order to determine whether or not the County Council can close its budget gap through its own actions. This has not followed the usual process of issuing a 'straight line' target for each Directorate but instead has concentrated on what savings might be achievable if we were to move towards a 'bare minimum' provision of services, albeit that this is difficult to accurately define in many areas.

120. The initial high level results of this work indicate that it is unlikely that savings in excess of £100m could be achieved on top of what has already been delivered, without impacting on the County Council's ability to deliver on its statutory functions. It is not surprising that this position has been reached, as the County Council has been stating publicly since 2018 that unless something is done about the increasing costs of social care and the underlying model for funding upper tier local government, that it is not financially sustainable, since it cannot indefinitely make savings in other services to fund the growth in social care.

121. This position was true when inflation and growth were relatively stable in financial terms, but the unprecedented position we have seen in this financial year which impacts on our forward forecasts means that the gap to be bridged is too large unless there is new government funding and a fundamental change in the way that local government is funded, which has been promised (through a Fair Funding Review) but not delivered, since 2016.

122. In considering our approach going forward it is worth understanding what is happening nationally. The Autumn Statement increased funding to upper tier local Government at a time when it too was facing a black hole in its finances. This would indicate that the financial case has been made by local government and that the Government now understands the sector is under significant pressure.

123. The extra funding targeted for the next two financial years is clearly designed to put a temporary 'sticking plaster' over the problems, before potentially considering more fundamental change as part of the next Spending Review which is likely to be in Summer 2024 in the lead up to setting budgets for 2025/26. Without fundamental changes in the quantum and distribution methodology for local government funding, it is likely that many authorities will start to fail in this timeframe and the Spending Review 2024 (SR2024) is therefore pivotal to the future sustainability of upper tier local government. Lobbying activity will therefore need to focus on the need for these changes in the run up to the Spending Review.

124. What the County Council cannot do however is assume that there will be some sort of central Government bailout that will fix the problem from 2025/26 onwards. Whilst a Spending Review is expected in Summer 2024, it is possible that this could be disrupted by a general election and a further one year settlement agreed for 2025/26. In fact, looking at the past decade this has been a common pattern for local government finance in particular.

125. At this stage therefore, the County Council must continue to work to its usual timeframes for agreeing savings proposals, albeit this may not be sufficient to close the gap by 2025/26 without legislative change or fundamental changes to the way in which local government is funded. The Corporate Management Team will therefore continue to look at all options for detailed savings proposals to attempt to close the predicted gap, which will form the basis for a public consultation over the Summer, leading to decision making by Executive Members, Cabinet and County Council in the Autumn of this year.

126. One option could still be to close any remaining gap in 2025/26 through the use of reserves on a temporary basis, but this will require substantial contributions to the Budget Bridging Reserve and / or the temporary use of other earmarked reserves. This report recommends a temporary change to the policy that was introduced at the beginning of austerity that allows Directorates to retain any early delivery of savings. This will be amended so that any early delivery of savings approved in November 2023 will be contributed to the BBR.

127. These options are only possible due to the strength of our reserves position and in line with the Government's suggestion that local authorities should use reserves in the short term to meet the inflationary pressures they are facing. As outlined previously, the County Council may need to 'borrow' from some reserves to meet the budget gaps in future years, but this will need to be replaced in due course, given that the bulk of our reserves are already committed for a specific purpose. DLUHC have recently called for greater transparency over local authority reserves and Hampshire has contacted the Director of Local Government Finance to offer our support in this regard as we believe that the way that we report our reserves in the current reserves strategy is already clear and transparent.

128. In the meantime, lobbying activity will continue to try to bring about the changes needed within the local government finance system to make it more financially sustainable in the face of ever growing demand pressures, which will hopefully be reflected in a Comprehensive Spending Review in Summer 2024.

Section O: Consultation, Equalities and Climate Change Impact

129. A consultation was undertaken against the background of the next stage of the County Council's transformation and efficiencies programme, SP2023, to inform the overall approach to balancing the budget by 2023/24 and making the anticipated £80m additional savings required in full by April 2023. These savings have now been removed from Directorate budgets in 2023/24, albeit that we now know that £80m of savings does not close the gap for next financial year.

130. Equality Impact Assessments were completed for all of the savings proposals and were further updated where any stage 2 consultations were required on specific service changes.

131. Details of the County Council's revenue budget, capital programme and council tax plans have been sent to the business community for consultation through the Chamber of Commerce and any feedback will be reported to Cabinet and County Council.

132. 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.

133. This report deals with the revenue budget preparation for 2023/24 for the County Council. Climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. There are no further climate change impacts to be considered as part of this report at this 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
Budget Setting and Provisional Cash Limits 2022/23 (Cabinet) https://democracy.hants.gov.uk/documents/s88288/Financial%20Update%20Budget%20Setting%20-%20Cabinet.pdf	7 December 2021
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

   The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

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

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

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

2. **Equalities Impact Assessment:**

   The budget setting process for 2022/23 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.

REVENUE BUDGET – LIST OF APPENDICES

1. Revised Budget 2022/23
2. Final Cash Limit Calculation 2023/24
3. Proposed Directorate Service Budgets 2023/24
4. Proposed General Fund Revenue Budget 2023/24
5. Reserves Strategy
6. Section 25 Report from Chief Financial Officer
7. Capital and Investment Strategy 2023/24
8. Treasury Management Strategy Statement 2023/24

Revised Budget 2022/23

	Original Budget 2022/23 £'000	Adjustment £'000	Adjusted Budget 2022/23 £'000	Revised Budget 2022/23 £'000	Variance £'000
Departmental Expenditure					
Adults' Health and Care	445,112	25,317	470,429	478,793	8,364
Children's – Schools	1,007,261	205	1,007,466	1,007,654	188
Children's – Non Schools	256,488	32,515	289,003	307,418	18,415
Universal Services	144,668	8,817	153,485	157,528	4,043
Hampshire 2050	9,531	4,217	13,748	14,104	356
Corporate Operations	41,217	21,298	62,515	71,061	8,546
People and Organisation	12,893	4,153	17,046	17,921	875
	1,917,170	**96,522**	**2,013,692**	**2,054,479**	**40,787**
Capital Financing Costs					
Committee Capital Charges	155,575	0	155,575	155,575	0
Capital Charge Reversal	(158,269)	0	(158,269)	(158,269)	0
Interest on Balances	(13,938)	0	(13,938)	(21,610)	(7,672)
Capital Financing Costs	53,854	1,361	55,215	51,787	(3,428)
	37,222	**1,361**	**38,583**	**27,483**	**(11,100)**
RCCO					
Main Contribution	3,978	1,792	5,770	5,720	(50)
RCCO from Reserves	0	0	0	36	36
	3,978	**1,792**	**5,770**	**5,756**	**(14)**
Other Revenue Costs					
Contingency	126,875	(29,888)	96,987	54,647	(42,340)
Dedicated Schools Grant	(915,976)	5,378	(910,598)	(910,781)	(183)
Specific Grants	(291,283)	(68,569)	(359,852)	(361,755)	(1,903)
Levies	2,907	0	2,907	2,907	0
Coroners	2,391	(1)	2,390	2,512	122
Business Units (Net Trading Position)	(386)	172	(214)	(214)	0
	(1,075,472)	**(92,908)**	**(1,168,380)**	**(1,212,684)**	**(44,304)**
Net Revenue Budget	**882,898**	**6,767**	**889,665**	**875,034**	**(14,631)**
Contributions to / (from) Earmarked Reserves					
Transfer to / (from) Earmarked Reserves	(33,140)	(6,595)	(39,735)	(25,104)	14,631
Trading Units Transfer to / (from) Reserves	537	(172)	365	365	0
RCCO from Reserves	0	0	0	0	0
	(32,603)	**(6,767)**	**(39,370)**	**(24,739)**	**14,631**
Contribution to / (from) Balances	900	0	900	900	0
NET BUDGET REQUIREMENT	**851,195**	**0**	**851,195**	**851,195**	**0**

Appendix 1

	Original Budget 2022/23 £'000	Adjustment £'000	Adjusted Budget 2022/23 £'000	Revised Budget 2022/23 £'000	Variance £'000
NET BUDGET REQUIREMENT	**851,195**	**0**	**851,195**	**851,195**	**0**
Funded by:					
Business Rates and Government Grant	(117,412)	0	(117,412)	(117,412)	0
Business Rates Collection Fund Deficit / (Surplus)	9,237	0	9,237	9,237	0
Council Tax Collection Fund Deficit / (Surplus)	(4,948)	0	(4,948)	(4,948)	0
COUNCIL TAX REQUIREMENT	**738,072**	**0**	**738,072**	**738,072**	**0**

Final Cash Limit Calculation 2023/24

	December Cash Limit Guideline	Grants	Other	Final Cash Limit 2023/24
	£'000	£'000	£'000	£'000
Adults' Health and Care	507,545	10,309	10,312	528,166
Children's – Schools	1,001,830	73,846		1,075,676
Children's – Non Schools	313,243		42	313,285
Universal Services	151,762		(569)	151,193
Hampshire 2050	10,941		(126)	10,815
Corporate Operations	38,570		(621)	37,949
People & Organisation	16,434		(247)	16,187
	2,040,325	**84,155**	**8,791**	**2,133,271**

Notes:

Grants

- The increase for Adults' Health and Care is due to increases in grant funding for Market Sustainability and Improvement and hospital discharges, announced as part of the Provisional Local Government Finance Settlement in December 2022.
- The increase for Children's – Schools reflects increases in the Dedicated Schools Grant, Pupil Premium Grant, Covid-19 Recovery Premium and School-led Tutoring Grant.

Other

- The increases for Adults' Health and Care and Children's – Non Schools include the undeliverable savings to be added to the budget gap as set out in Section 28 of the report.
- There are reductions for all Directorates except Children's – Schools due to reductions in the employer contribution rate for National Insurance and the employer pension contribution rate following the recent pension fund valuation.

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Proposed Directorate Service Budgets 2023/24

<u>Adults' Health and Care Directorate</u>

Service Activity	Original Budget 2022/23 £'000	Adjusted Budget 2022/23 £'000	Proposed Budget 2023/24 £'000
Director	**1,722**	**1,629**	**1,555**
Headquarters	**19,468**	**21,309**	**20,478**
Older Adults			
Older Adults Community Services	153,497	157,513	209,460
Reablement	17,010	17,316	18,097
	170,507	**174,829**	**227,557**
Younger Adults			
Younger Adults Other	10,943	9,719	10,420
Learning Disability Community Services	117,328	119,246	136,138
Mental Health Community Services	17,667	19,000	22,854
Physical Disability Community Services	33,537	34,153	40,413
	179,475	**182,118**	**209,825**
HCC Care	**46,404**	**45,478**	**45,388**
Governance & Assurance	**1,782**	**1,870**	**1,729**
Centrally Held	**(28,658)**	**(30,452)**	**(32,778)**
Total Adult Social Care	**390,700**	**396,781**	**473,754**

Service Activity	Original Budget 2021/22 £'000	Adjusted Budget 2021/22 £'000	Proposed Budget 2022/23 £'000
Children and Young People 0-19	24,267	24,323	24,267
Community Safety & Violence Prevention	1,145	4,415	1,161
Drugs and Alcohol	8,480	11,037	8,586
Health Check	1,187	1,187	1,187
Protection & Intelligence	24	30	30
Mental Health & Wellbeing	333	1,939	1,939
Nutrition, Obesity & Physical Activity	465	778	465
Older People	251	251	256
Public Health Central	6,689	4,725	4,916
Sexual Health	9,326	9,607	9,390
Tobacco	2,245	2,215	2,215
Public Health Covid-19 Specific	0	13,141	0
Total Public Health	**54,412**	**73,648**	**54,412**
Total Adults Health and Care	**445,112**	**470,429**	**528,166**

Children's Services

Service Activity	Original Budget 2022/23 £'000	Adjusted Budget 2022/23 £'000	Proposed Budget 2023/24 £'000
Early Years	**83,516**	**85,563**	**90,035**
Schools Block			
Schools Budget Shares	649,673	649,313	679,252
Schools De delegated	2,171	2,171	2,310
Central Provision funded by Maintained Schools	4,000	4,000	5,191
Growth Fund	4,168	4,091	4,845
	660,012	**659,575**	**691,598**
High Needs			
High Needs Block Budget Shares	39,449	39,457	43,203
Central Provision funded by Maintained Schools	93	93	126
High Needs Top-Up Funding	112,673	112,668	128,124
SEN Support Services	7,436	7,639	7,903
High Needs Support for Inclusion	3,072	3,072	3,315
Hospital Education Service	1,645	1,645	1,710
	164,368	**164,574**	**184,381**
Central School Services	**8,080**	**8,080**	**7,967**
Other Schools Grants	**91,285**	**89,674**	**101,695**
Schools	**1,007,261**	**1,007,466**	**1,075,676**

Social Care			
Residential & Supported Accommodation	59,802	57,487	73,024
Fostering & Adoption	49,325	50,811	52,473
Leaving Care	7,505	7,707	8,727
Special Guardianship Support	6,569	7,099	7,312
Asylum Seekers	5,157	9,479	14,198
Children Looked After Total	**128,358**	**132,583**	**155,734**
Safeguarding Children & Early Help	33,278	38,542	48,306
Targeted and Universal Services for Families	6,478	21,160	21,205
Children with Disabilities	7,730	7,059	6,738
Management & Support Services	8,904	10,553	9,917
Social Care Total	**184,748**	**209,897**	**241,900**
Education, Learning & Business Support			
Home to School Transport	34,697	39,865	39,941
Inclusion	6,140	7,105	6,465
Skills & Participation	1,460	1,792	1,963
Standards & Improvement	861	893	99
Early Years Education & Childcare	1,415	1,456	1,505
Library Service	9,275	9,559	9,916
Management & Business Support Services	8,454	5,818	8,075
Education, Learning & Business Support Total	**52,302**	**66,471**	**67,964**
Early Achievement of Savings	**6,305**	**8,801**	**-**

Partnerships	**3,233**	**3,959**	**3,421**
Non-Schools	**256,488**	**289,003**	**313,285**
Children's Services	**1,263,749**	**1,296,469**	**1,388,961**
STS Units Trading Accounts	**(628)**	**(447)**	**(596)**
Children's Services Total	**1,263,121**	**1,296,022**	**1,388,365**

Corporate Services

Service Activity	Original Budget 2022/23 £'000	Adjusted Budget 2022/23 £'000	Proposed Budget 2023/24 £'000
Corporate Operations			
Audit	797	841	812
Finance	7,091	7,020	6,833
Pensions, Investments & Borrowing	(377)	(210)	(23)
IBC	13,439	14,029	13,758
IT	30,928	34,190	31,684
Strategic Procurement	2,196	2,236	2,201
Shared Services Partnership Income	(16,789)	(17,512)	(17,759)
Corporate Operations – Other	417	417	443
Cost of change – Corporate Operations	-	(820)	-
Total Corporate Operations	**37,702**	**40,191**	**37,949**
Government Grants	-	(5)	-
Net Expenditure Corporate Operations	**37,702**	**40,186**	**37,949**
People & Organisation			
Governance	1,082	1,146	1,107
Emergency Planning	301	486	297
Legal Services	3,300	3,655	3,123
HR Operational Services	6,457	6,856	6,118
Health & Safety	770	789	740
Communications & Engagement	1,360	2,288	1,467
Chief Executive & Leaders Office	572	745	703
Members Support Costs	1,708	1,729	1,769
Members Devolved Budgets	624	624	624
People & Organisation – Other	234	234	239
Cost of Change – People & Organisation		(1,506)	
Total People & Organisation	**16,408**	**17,046**	**16,187**
Government Grants		(153)	
Net Expenditure People & Organisation	**16,408**	**16,893**	**16,187**
Net Expenditure Corporate Services	**54,110**	**57,079**	**54,136**

Universal Services

Service Activity	Original Budget 2022/23 £'000	Adjusted Budget 2022/23 £'000	Proposed Budget 2023/24 £'000
Highways Maintenance	26,109	28,306	27,125
Street Lighting	12,041	10,685	10,551
Winter Maintenance	5,964	5,965	6,489
Traffic Management and Road Safety	2,414	2,566	2,492
Capital Works Implementation	(169)	(329)	(317)
Concessionary Fares	13,328	12,928	11,718
Other Public Transport	4,884	4,862	4,426
Integrated Transport	(53)	(53)	(54)
Spatial Planning	72	658	500
Highways, Engineering & Transport	**64,590**	**65,588**	**62,930**
Waste Disposal	46,090	54,825	53,623
Development Management, Minerals and Waste Policy	126	133	160
Environment	534	541	445
Asbestos	83	102	75
Scientific Services	211	680	204
Trading Standards	1,379	1,653	1,643
Waste & Environmental Services	**48,423**	**57,934**	**56,150**
Countryside Services	2,891	3,387	3,283
Outdoors Centres	397	399	291
Rural Affairs	269	419	271
Rural Estates (County Farms)	(328)	(325)	(316)
Sir Harold Hillier Gardens (room hire)	64	64	64
The Great Hall	4	7	13
Registration	(1,244)	(1,169)	(1,071)
Archives	577	631	712

Culture & Information Strategic Management	1,203	1,179	1,153
Recreation, Information & Business Services	**3,833**	**4,592**	**4,400**
Business Support	521	452	577
Business Development Team	682	1,087	754
Business Strategy & Improvement and Transition	1,086	1,500	1,193
Contact Centre Team	345	351	278
Departmental and Corporate Support	3,365	721	3,410
Facilities Management	3,890	3,955	4,047
PrintSmart	(57)	(57)	(57)
Hampshire Printing Services	(24)	(24)	(24)
Office Accommodation	4,010	3,960	4,073
Property Services	2,183	2,308	2,947
Repairs and Maintenance	9,292	9,272	9,980
Sites for Gypsies and Travellers	41	42	44
Manydown and Other Miscellaneous	(8)	(1)	(1)
Net Contribution To / (From) Cost of Change	2,496	1,805	4
Property, Business Development & Transformation	**27,822**	**25,371**	**27,713**
Net Cash Limited Expenditure	**144,668**	**153,485**	**151,193**
Hampshire Transport Management	(39)	(39)	(42)
Universal Services Trading Units	**(39)**	**(39)**	**(42)**
Coroners	**2,391**	**2,390**	**2,968**

Hampshire 2050

Service Activity	Original Budget 2022/23 £'000	Adjusted Budget 2022/23 £'000	Proposed Budget 2023/24 £'000
Climate Change & Environmental Strategy	528	317	318
Rural Broadband	130	179	5
Development Management, Minerals and Waste Policy	142	75	85
Economic Development	1,047	1,390	1,047
Integrated Transport	585	473	465
Spatial Planning	1,760	1,808	1,769
Skills and Participation	0	0	0
Economy & Skills	**4,192**	**4,242**	**3,689**
CCBS Grants Fund	32	32	32
Energise Me (Sport) / The Spring Grants	116	116	116
Arts and Museums (including HCT grant)	2,326	2,326	2,326
Sports Bursaries	18	10	10
Leader's Grants	400	773	400
Culture & Communities	**2,892**	**3,257**	**2,884**
Corporate Estate	(180)	(180)	(177)
Development Account	(358)	(358)	(356)
Property Services	1,728	1,754	1,522
Feasibility	1,035	1,035	1,035
Strategic Land	0	3,783	1,996
Strategic Land Disposal of Sites	236	236	243
Manydown	(14)	(21)	(21)
Strategic Assets	**2,447**	**6,249**	**4,242**
Net Cash Limited Expenditure	**9,531**	**13,748**	**10,815**

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Revenue Budget 2023/24

	Original Budget 2022/23 £'000	Adjustment £'000	Proposed Budget 2023/24 £'000
Directorate Expenditure			
Adults' Health and Care	445,112	83,054	528,166
Children's – Schools	1,007,261	68,415	1,075,676
Children's – Non Schools	256,488	56,797	313,285
Universal Services	144,668	6,525	151,193
Hampshire 2050	9,531	1,284	10,815
Corporate Operations	41,217	(3,268)	37,949
People and Organisation	12,893	3,294	16,187
	1,917,170	**216,101**	**2,133,271**
Capital Financing Costs			
Committee Capital Charges	155,575	0	155,575
Capital Charge Reversal	(158,269)	0	(158,269)
Interest on Balances	(13,938)	(2,464)	(16,402)
Capital Financing Costs	53,854	(1,626)	52,228
	37,222	**(4,090)**	**33,132**
RCCO			
Main Contribution	3,978	(174)	3,804
RCCO from Reserves	0	0	0
	3,978	**(174)**	**3,804**
Other Revenue Costs			
Contingency	126,875	(35,287)	91,588
Dedicated Schools Grant	(915,976)	(50,811)	(966,787)
Specific Grants	(291,283)	(70,025)	(361,308)
Levies	2,907	0	2,907
Coroners	2,391	577	2,968
Business Units (Net Trading Position)	(386)	3	(383)
	(1,075,472)	**(155,543)**	**(1,231,015)**
Net Revenue Budget	**882,898**	**56,294**	**939,192**
Contributions to / (from) Earmarked Reserves			
Transfer to / (from) Earmarked Reserves	(33,140)	(5,514)	(38,654)
Trading Units Transfer to / (from) Reserves	537	(3)	534
RCCO from Reserves	0	0	0
	(32,603)	**(5,517)**	**(38,120)**
Contribution to / (from) General Balances	900	0	900
NET BUDGET REQUIREMENT	**851,195**	**50,777**	**901,972**

	Original Budget 2022/23 £'000	Adjustment £'000	Proposed Budget 2023/24 £'000
NET BUDGET REQUIREMENT	**851,195**	**50,777**	**901,972**
Funded by			
Business Rates and Government Grant	(117,412)	(5,482)	(122,894)
Business Rates Collection Fund Deficit / (Surplus)	9,237	(8,778)	459
Council Tax Collection Fund Deficit / (Surplus)	(4,948)	7,173	2,225
COUNCIL TAX REQUIREMENT	**738,072**	**43,690**	**781,762**

Reserves Strategy

1. Introduction

1.1 The level and use of local authority reserves has been a regular media topic over a number of years, and recently the Government has reiterated the view that reserves should feature more significantly in plans to reduce the impact of current financial pressures, and especially the impact of high inflation. Whilst helpful in the short term, as demonstrated by the County Council's use of its Budget Bridging Reserve, in the medium term, one-off reserve funding does not provide a sustainable solution to on-going financial pressure.

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

1.3 At the end of the 2021/22 financial year the total reserves held by the County Council together with the general fund balance stood at almost £883m an increase of £128m on the previous year. This is primarily as a result of savings in Directorate expenditure due to reduced activity and additional NHS funding for adults' social care, transfers to the budget bridging reserve, capital grants received in advance of their planned use to fund capital schemes and an increase in reserves held by individual schools.

1.4 This Appendix sets out in more detail what those reserves are for and outlines the strategy that the County Council has adopted.

2. Reserves Position 31 March 2022

2.1 Current earmarked reserves together with the General Fund Balance totalled £882.98m at the end of the 2021/22 financial year. The table below summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2020/21.

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

	Balance 31/03/2021 £'000	**Balance 31/03/2022 £'000**	**% of Total %**
General Fund Balance	**23,198**	**24,098**	**2.7**
<u>Fully Committed to Existing Spend Programmes</u>			
Revenue Grants Unapplied	18,969	8,438	1.0
General Capital Reserve	148,963	167,414	19.0

	Balance 31/03/2021 £'000	Balance 31/03/2022 £'000	% of Total %
Street Lighting Reserve	27,228	26,835	3.0
Public Health Reserve	5,758	8,869	1.0
Other Reserves	1,198	1,361	0.2
	202,116	**212,917**	**24.2**
Directorate / Trading Reserves			
Trading Accounts	8,800	11,038	1.3
Directorate Cost of Change Reserve	140,690	175,079	19.8
	149,490	**186,117**	**21.1**
Risk Reserves			
Insurance Reserve	39,589	43,684	4.9
Investment Risk Reserve	6,250	6,250	0.7
	45,839	**49,934**	**5.6**
Corporate Reserves			
Budget Bridging Reserve	68,170	98,971	11.2
Invest to Save	17,215	15,581	1.8
Corporate Policy Reserve	7,300	8,107	0.9
Organisational Change Reserve	3,422	3,163	0.4
	96,107	**125,822**	**14.3**
HCC Earmarked Reserves	**493,552**	**574,790**	**65.2**
EM3 LEP Reserve	4,760	3,741	0.4
Schools' Reserves	66,667	83,903	9.5
Total Revenue Reserves & Balances	**588,177**	**686,533**	**9.9**
Total Capital Reserves & Balances	**166,672**	**196,447**	**22.2**
Total Reserves and Balances	**754,849**	**882,980**	**100.0**

General Fund Balance

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

Fully Committed to Existing Spend Programmes

2.4 By far the biggest proportion of revenue reserves are those that are fully committed to existing spend programmes and around £167m of this funding is required to meet commitments in the Capital Programme. These reserves really represent the extent to which resources, in the form of government grants or revenue contributions to capital, are received or generated in advance of the actual spend on projects.

2.5 The Street Lighting Reserve represents the anticipated surplus generated by the financial model for this Public Finance Initiative scheme that is invested up front and then applied to the contract payments in future years, and the Public Health reserve represents the balance of the ring-fenced government grant carried forward for future public health expenditure.

2.6 These reserves do not therefore represent ‘spare’ resources in any way and are being utilised as planned in the coming years.

Directorate / Trading Reserves

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

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

2.9 Directorate reserves are generated through under spends in annual revenue expenditure and Council policy was changed in 2010 to allow directorates to retain all their under spends in order to provide resources to implement changes associated with savings proposals and to manage the cash flow impact of later delivery of savings and in year budget pressures.

2.10 Utilising reserves in this way and allowing directorates and trading services to retain under spends or surpluses, encourages prudent financial management as managers are able to ensure that money can be re-invested in service provision without the need to look to the corporate centre to provide funding. This fosters robust financial management across the County Council and is evidenced by the strong financial position that the County Council has maintained to date.

2.11 All directorates will be utilising their reserves to fund the activity to deliver the remaining elements of the Tt2021 and SP2023 programmes and to fully cash flow the later delivery of savings if needed. The reserves will also be used for essential service investment and equipment replacement.

Risk Reserves

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

2.13 Each year the County Council sets aside an insurance provision to meet claims resulting from incidents that have occurred during the year, along with reserves to cover potential claims arising from incidents in that year but where the claims are received in the future.

2.14 Regular actuarial reviews on the overall Insurance Fund have provided assurance that the County Council has been setting aside appropriate levels of funding against future liabilities to date.

2.15 The Investment Risk Reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns. Following changes to the accounting treatment of some investments going forward the reserve has been increased and currently equates to 2.5% of the total higher yielding investment portfolio.

Corporate Reserves

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

2.17 This leaves other available earmarked reserves that are under the control of the County Council and totalled nearly £126m at the end of last financial year. Whilst it is true to say that these reserves could be used to mitigate the loss of government grant, the County Council has decided to take a more sophisticated long term approach to the use of these reserves, that brings many different benefits both directly and indirectly to the County Council and the residents of Hampshire. These reserves are broken down into four main areas:

2.18 **Budget Bridging Reserve (BBR)** – This reserve was set up many years ago to deal with changes in government grant that often came about due to changes in distribution methodology that had an adverse impact on Hampshire compared to other parts of the country.

2.19 More latterly the reserve has been used to fund budget deficits in the ‘interim’ year of the two year savings cycle and to provide any corporate cash flow support needed for the planned later delivery of savings.

2.20 The increased deficit over and above the £80m accounted for in the 2023/24 budget and the predicted deficit in the 2024/25 ‘interim’ year will need to be met from the BBR and have been factored into the updated MTFS set out in the main body of the report.

2.21 However, beyond this date, the BBR will be insufficient to meet the forecast budget gap. Therefore, without fundamental change in the way local government is funded, the County Council does not have a sustainable financial strategy. In the short term, it may need to temporarily re-purpose some of its earmarked reserves simply to balance the budget one year at a time. However, in such a scenario it is difficult to see how those reserves will be replenished to achieve the planned service investment that is essential to maintain delivery of statutory services.

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

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

2.24 **Organisational Change Reserve** – The County Council is one of the largest employers in Hampshire and inevitably reductions in government funding, leading to reduced budgets, alongside the need to deal with service and inflationary pressures means that there is an impact on the number of staff employed in the future.

2.25 The County Council, as a good employer, has attempted to manage the reduction in staff numbers as sensitively and openly as possible and introduced an enhanced voluntary redundancy scheme back in 2011. This has been changed and adapted over the years with a revised voluntary redundancy scheme now in place that is used on a targeted basis. Directorates continue to pick up the compulsory costs of any redundancy and this reserve funds the enhanced element where applicable.

2.26 This reserve also funds aspects of management development approved under the Workforce Development Strategy to support a range of middle and senior management developmental work which has been critical to the delivery of transformation and has also been a key factor in the County Council's ability to recruit and retain the best senior staff.

2.27 It should be highlighted that the total 'Corporate Reserves' outlined above accounted for only 14.3% of the total reserves and balances that the County Council held at the end of the 2021/22 financial year, and these have largely been set aside as part of a longer term strategy for dealing with the significant financial challenges that have been imposed on the County Council.

2.28 The reserves detailed above represent the total revenue reserves available to the County Council and amounted to £574.79m at the end of the 2021/22 financial year, as shown in the table above. In addition, the County Council is required to show other reserves as part of its accounts which are outlined below.

Enterprise M3 Local Enterprise Partnership (EM3 LEP) Reserve

2.29 The County Council is the Accountable Body for the funding of the EM3 LEP and has therefore included the EM3 LEP's income, expenditure, assets and liabilities, (including reserves) in its accounts. The County Council does not control the level or use of the EM3 LEP Reserve.

Schools' Reserves

2.30 Schools' reserves accounted for almost £84m or 9.5% of total reserves and balances at the end of the 2021/22 financial year. Schools reserves must be reported as part of the County Council's accounts, but since funds are delegated to schools any surplus is retained by them for future use by the individual school concerned. Similarly, schools are responsible for any deficits in their budgets and they maintain reserves in a similar way to the County Council to smooth fluctuations in cash flow over several years.

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

2.32 In line with statutory reporting requirements, the table of earmarked reserves excludes the cumulative deficit against the Dedicated Schools Grant (DSG) which was just over £60m at the end of 2021/22. This deficit will increase again this financial year with School's Forum agreeing for this to be carried forward and be funded from future years DSG allocations. In December 2022, the Government announced the extension to 31 March 2026 for the 'statutory over ride' currently in place to separate this deficit from the local authority reserves. This provides more time for the Government to determine a sustainable solution to balance the overall schools' budget.

Capital Reserves

2.33 The Capital Grants Unapplied Reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

2.34 A sum of more than £196.4m was held within capital reserves and balances at the end of the 2021/22 financial year, although of this £22.5m related to the EM3 LEP which is included in the annual accounts, as the Council is the Accountable Body. EM3 LEP capital grants unapplied have increased as part of a deliberate strategy to ensure that major projects are approved based on the outcomes they will deliver rather than the speed at which funding provided by the Government can be spent.

3. Reserves Strategy

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

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

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

3.3 We are in an extended period of tight financial control which will last longer than anyone had previously predicted, and the medium term view highlights a continued need for reserves to smooth the impact of reductions in funding and enable time for the planning and implementation of change to safely deliver savings, albeit the approach for 2025/26 onwards will need to be different.

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

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

3.5 This cycle has been clearly evident since 2010, with surplus funds generated in advance of need as part of budget setting and then supplemented by further resources released in the year. Achievement in advance of need within directorates and efficiencies in contingency amounts due to the successful implementation of change has meant that the Council has been able to provide material funding including the following:

- Directorate reserves to pay for the cost of change associated with their own transformation and savings programmes and to manage service pressures.
- Funding within the Invest to Save Reserve to help support digital and other IT improvements.
- Additional funds to help smooth the impact of our two year savings cycle, and safely manage the implementation of change, giving the County Council maximum flexibility in future budget setting processes.

3.6 It is recognised that each successive change programme is becoming harder to deliver with some elements of Tt2021 and the SP2023 Programmes still to be delivered over the next 13 months, before we begin to address the challenges ahead.

3.7 The strategy will be to use reserves to fund the additional deficits in both 2023/24 and 2024/25 to give the County Council the maximum time and flexibility to address the financial challenges from 2025/26 onwards, but it is clear that it cannot do this alone and we will continue to lobby the Government to provide additional financial support and financial flexibilities going forward.

3.8 In addition, while the overall level of reserves currently exceeds £0.88bn, it is also important to consider the level of the available resources in the context of the scale and scope of the County Council's operations. Correctly used however, they do provide the time and capacity to properly plan, manage and implement change programmes as the County Council has demonstrated for many years now.

Section 25 Report from Chief Financial Officer

Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (the Director of Corporate Operations) to report to the County Council when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The County Council is required to have regard to this report in approving the budget and council tax. It is appropriate for this report to go first to Cabinet and then be made available to the County Council in making its final decision.

Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year but most also look ahead at future years. Given the significance of the medium term forecasts to 2025/26 outlined over the past year and updated in the budget report, this Section 25 report considers not only the short term position but also the position beyond 2023/24 in the context of Government funding and the service pressures we face.

Robustness of Estimates in the Budget

The budget setting process within the County Council has been operating effectively for many years and is based on setting cash limits for directorates each year allowing for pay and price inflation and other marginal base changes in levels of service whether these be the increasing cost of social care or the requirement to make savings to balance the budget.

Individual directorates are then required to produce detailed estimates for services that come within the cash limits that have been set. More recently, the requirement to make savings has dominated the budget setting process and major transformation and savings programmes have been put in place to effectively and corporately manage the delivery of savings within the required timescales, or as is more recently the case, to provide cash flow funding to support a longer delivery timescale for the more complex elements of the programmes.

Appropriate provisions for pay and price inflation are assessed centrally with directorate input and are allocated to directorate cash limits. Specific inflationary pressures within the financial year are expected to be managed within a directorate's bottom line budget but general and specific contingencies are still held centrally in the event that inflationary pressures have a severe impact in any one area (for example, energy costs).

Separate work is also undertaken to assess the demand led areas of service provision, which mainly relate to:

- Adults' Social Care.
- Children's Social Care.
- Waste Disposal.

Any requirement to increase budgets in these areas is considered corporately and may require additional savings to be made across the board to meet the increased demand. This is seen as a more effective way of managing cost pressures and enables strategic decisions to be made about resource allocation and the impact on service provision, rather than these decisions potentially being made in isolation by each directorate.

The budget preparation process for 2023/24 has had a much greater focus on inflationary pressures due to the unprecedented economic conditions that are putting pressure on wage inflation, energy and fuel which in turn is feeding into many of the services that the County Council provides directly or procures from third parties.

Budget management within the County Council remains strong as demonstrated by the outturn position each year since funding reductions began and as reflected in the annual opinion of the External Auditors who have given an unqualified opinion on the annual accounts and in securing value for money / financial resilience.

In producing the budget position for 2023/24 and the forecast to 2025/26 all key elements of the financial picture have been reviewed, including the remaining Tt2019, Tt2021 and SP23 savings. Whilst the Tt2019 Programme is expected to be fully delivered by the end of this financial year, there are elements of the other two programmes which Directors feel are unlikely to be delivered. Whilst activity on these proposals will continue, a prudent assumption of £12.9m of undeliverable savings has been taken into account in the forecasts for 2023/24 and beyond

Budget 2023/24

The budget for 2023/24 has been produced in line with the process outlined in the section above and therefore I am content that a robust, Council wide process has been properly followed and driven through our Finance Business Partners working with the Operational Finance Team. Further oversight is then provided by the Head of Finance and myself, in presenting the final budget and council tax setting report to Cabinet and County Council. This included a significant piece of work to consider all of the additional inflationary pressures that the County Council is facing in 2023/24 which are set out in detail in the December Cabinet report that set the provisional cash limits for the new directorates, linked below:

Financial Update and Budget Setting and Provisional Cash Limits 2023/24 (hants.gov.uk)

This included a further £80m that has been removed from detailed budgets and this is reflected in the directorate summaries contained in Appendix 3. Whilst there are some delivery timescales that extend beyond the end of 2023/24, this is at a much lower level than previous programmes and is supported by cashflow funding as appropriate.

Despite additional funding being made available through the Autumn Statement and the provisional local government finance settlement, the County Council faces a range of increased financial pressures due to workforce pressures, high inflation, fuel and energy costs and further growth in services to younger adults which have added to the significant extra pressure in adult's social care approved within the budget last year.

Clearly the SP2023 savings were expected (at the time) to close the predicted budget gap in 2023/24, but the impact of pay and price inflation and growth in services means that an unplanned draw from the Budget Bridging Reserve (BBR) is required in

2023/24 to balance the budget, which impacts on our usual strategy to balance the budget in the interim year using the BBR (2024/25) before looking to address the gap in 2025/26, both of which are discussed in more detail later in this report.

The robustness of the budget is underpinned by the detailed work that is carried out to predict financial pressures in demand led services and to reflect that properly in the budget underpinned by contingencies as well as by the existence of directorate cost of change reserves, which can be used to meet unforeseen costs during the year as well as providing funding for investment to achieve savings.

Risks in the Budget 2023/24

Since the period of austerity began from 2010, the biggest financial risks related purely to reductions in government funding, and social care demand and cost pressures. Since 2019/20 the County Council has not received any Revenue Support Grant so the risks have shifted towards the extent to which increasing cost pressures outstrip available funding, particularly given the Government control over council tax rises. These items together with other traditional risks are outlined below:

a) **Government Funding and Policy** – The Autumn Statement announced last year did provide additional resources to the County Council, both for 2023/24 and into 2024/25.

   Whilst we therefore have certainty of funding for the next two years, our medium term financial planning horizon extends to 2025/26 and it is difficult therefore what to predict for this year, albeit as outlined later in the report, fundamental change will be required in the next Spending Review if the County Council is to remain financially sustainable.

b) **Social Care Demand Pressures** – This is by far the biggest financial risk that the County Council faces. In last year's budget we saw price increases in the residential and nursing sector of between 16% to 18% and this created full year costs of £35.3m in 2022/23 rising to £45m in 2023/24 on top of the £13.5m per annum we already set aside.

   This year, since September has seen increases in the number of high cost younger adults coming forward for care and this has added £14m to the budget for 2023/24.

   The County Council cannot ignore this potential increase and must budget accordingly, which it has done and must continue to closely monitor actual costs against this position during the year.

   Children's social care continues to experience high levels of 'front door' activity post pandemic and this is increasing costs in a range of areas albeit it is not showing significant numbers of new looked after children. Costs for social workers and agency staff remain high and recurring funding of £9.7m has been added to the budget next year as a continuation of the additional funding for social workers added in response to the post pandemic surge in activity. Without this continued funding, caseloads would rise to unacceptable levels given the increased levels of activity that the County Council is responding to.

   I am therefore content that the budget for 2023/24 contains a realistic assessment of the likely growth we will face in the year, backed up by further contingency amounts and reserves if growth should be higher than forecast.

c) **Council Tax** – The Government has presumed that local authorities will increase council tax by the maximum permitted by the referendum thresholds and on this basis, in line with current County Council policy, the recommended increase is 4.99%, of which 2% relates to adults' social care, in line with the thresholds included in the Autumn Statement and provisional local government finance settlement released in December last year. It should also be noted that this increase is less than half the current rate of inflation.

   This change as I understand will stay in place at least until 2025/26 so provides some certainty for the future albeit it still requires full County Council to agree the increase in each of the years. Nevertheless, from my viewpoint as Chief Financial Officer, given the County Council's predicted financial position, I will be recommending that council tax is increased by 4.99% in each of the years, since without this increase in funding it will increase the gap we face by 2025/26 and place even more pressure on services to reduce spend.

d) **Pay Inflation** – In previous years, this has not been seen as a major issue within the budget especially as wage rates within Council's have aligned to the National Living Wage over time. However, the full year impact of the April 2022 flat rate award has increased costs by some £12m in future years and there are concerns that there will be calls for much higher pay awards as part of the April 2023 negotiations.

   At this time, the County Council has allowed for an average increase of 5.6% in 2023/24, reflecting the Government's call for wage restraint in the public sector next year, but also allowing for the impact of the National Living Wage, which will have a big impact on the lower scales. This does however remain a risk in the budget for the first time in many years and would need to be covered by general contingencies if an award greater than this was agreed.

e) **Pension Costs** – The 2022 Pension Fund valuation has shown a fully funded position against liabilities for the first time since pension funds were required to cover 100% of their liabilities, albeit the 2019 valuation was over 99%. This has meant that overall our employer pension contribution rate has seen a small decrease from 18.4% to 17.8% from 2023/24 onwards, which gives surety for the next 3 years. The County Council decided not to take the full benefit of the surplus position given the downturn in the economy since the date of the valuation and this provides a small buffer against any potential losses at the next triennial valuation.

   What it does also mean is that the £15m deficit contribution that was saved as part of the last valuation and used to contribute to reserves in the meantime is now available to build into the bottom line of the budget and has been taken into account from 2023/24 onwards.

f) **Price Inflation** – This is usually an area of low risk outside the potential increases within social care. However, for 2022/23 we saw a significant spike in energy costs due to global issues with supply. This equated to nearly £7m additional costs for the County Council, which was allowed for within central contingencies but was expected to be temporary.

   During 2022/23 we have seen significant pressure in workforce costs, energy costs and fuel all of which have fed through into the costs of our own direct service delivery and for services that we procure from third parties. The December Cabinet report (linked above) has set out in detail the inflationary pressures that have been taken into account in setting cash limits for next year, which I believe to be robust.

In addition, a specific recurring contingency has been created in 2023/24 for any emerging pressures during the year, which will be allocated on a business case basis. This is in addition to our normal level of general contingency and seems prudent in light of the inflationary environment we continue to face.

g) **Treasury Risk** – The County Council has limited exposure to interest rate risk as most long term borrowing is undertaken on a fixed rate. At the present time we are not undertaking any new or replacement long term borrowing due to the significant 'cost of carry' involved and our ability to internally borrow given our high level of reserves and cash balances. However, we do need to be mindful of the fact that we do not want to store up a large value of external borrowing that needs to be taken out in less favourable circumstances as our reserves reduce. Given current predictions on base rate levels and the fact that long term borrowing rates are based on the price of gilts rather than the underlying base rate, this is still considered low risk at this stage.

The recent rapid changes in the Bank of England base rate have not only meant that we have benefited from increased investment income, this year and next, but has also provided some opportunities for the repayment of debt, which has not been a feature for many years now. This both reduces the debt charges we have to pay and reduces our investment risk exposure as cash is used to repay the debt.

No long term benefit of additional investment income has been taken into account in the 2025/26 forecast as it is expected that interest rates will regularise over time, albeit some economists predict that this will not be at the low levels experienced for at least the last decade. Again this is considered to be a prudent position.

The Adequacy of Reserves

The County Council's policy on general balances is to hold a minimum prudent level which based on the previous risk assessment is around 2.5% of net expenditure. The level of general fund balances was 2.6% of net expenditure at the beginning of 2022/23.

Overall the level of earmarked reserves and balances that the County Council holds stood at £883m (including schools and the Enterprise M3 LEP reserve) at the end of March 2022 and these reserves, the majority of which are held for specific purposes as set out in the Reserves Strategy in Appendix 5, underpin the overall MTFS and the Capital Programme.

Those reserves that are available to support the revenue position are used sensibly to manage change and provide the time and capacity to properly implement savings plans that seek to minimise the impact on service users. Cash flow funding to support the Transformation to 2021 and SP2023 savings programmes has already been included in our financial plans.

What is different this year is that not only do we need to draw from balances to meet the deficit in the 'interim year' 2022/23, but we also have a gap of £53m?? in 2023/24 which will need to be balanced by the use of the BBR. On top of this, if we are to align with the current plan for the medium term, the gap in 2024/25 will also need to be met from reserves to balance the budget. At this point in time, the BBR can only cover the deficit in 2023/24 leaving the County Council some £100m short of balancing the budget in 2024/25.

Whilst this is a concerning position, the very fact that the County Council has a healthy level of reserves means that there are options for using these flexibly in the short term to meet the deficit, which could include:

- Identifying any uncommitted revenue reserves with Directorate cost of change reserves that could be diverted to the BBR
- Temporarily using risk reserves that would need to be re-instated as quickly as possible.
- Borrowing to fund the capital programme or reducing the size of the capital programme to release revenue reserves to add to the BBR.

The last two of these options should be seen as a last resort and the County Council will also need to consider other ways of supplementing the BBR in the intervening period to increase its size before the 2024/25 financial year begins. At the end of this financial year a review of reserves will be undertaken and it is proposed that any early delivery of savings approved in November 2023 is contributed to the BBR rather than to Directorates cost of change reserves. This is a change in the current reserves policy that will need to be agreed by County Council.

Given the flexibility in the total level of reserves that the County Council has and as long as further action is taken to increase the size of the BBR in the run up to the 2024/25 financial year, I am content that there are adequate levels of reserves to underpin the County Council's financial strategy and that there are other options that could be deployed if necessary that give further assurance in this regard.

CIPFA Financial Resilience Index

Following the heightened national focus on the finances of local government due to a number of local authorities experiencing severe financial difficulties and requiring Government support, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a Financial Resilience Index (FRI) which uses a range of financial information and other factors to generate a series of measures against which all authorities are 'stress tested'.

The Index for 2021/22 has been published, but there are some elements around reserve levels that are missing for Hampshire due to the complication of how to deal with a negative DSG reserve, which we are following up with DLUHC and CIPFA as clearly this is a national issue. Having said this we know that our level of reserves is one of the highest in the country and is therefore one of our lowest risk areas.

There are no material changes to our higher risk areas, the only change of note is that our social care spend ratio (as a proportion of net expenditure) is now relatively higher risk when compared to other similar authorities, reflecting the fact that for 2021/22 the overall net spend figure will have reduced due to Tt2021 savings but the level of social care spend has remained high in relative terms.

I am still content that the results of the FRI reflect what we already know about the financial sustainability of the County Council and is supported by the fact that there are only a few areas flagged as high risk and these remain the same as previous years.

CIPFA Financial Management Code

In addition to the FRI outlined above, CIPFA have also published a Financial Management Code, designed to aid local authorities in assessing and developing their financial management activities across all areas of governance and management.

Full compliance with the code is now required and the County Council has already taken steps to self-assess itself against the code and make a number of improvements and changes to ensure compliance.

As with last year, there remains one standard where our practices are not in strict alignment with the exact wording of the code, which is :

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

The guidance quotes various specific areas covered by this Standard including:

- Capital investment and the maintenance of assets
- *Long and short term investments*
- *Debt collection*
- *Cash flow management*
- *Borrowing*
- Reserves

Whilst we do not present these items in the context of a balance sheet, all of them are covered through specific or general financial reporting to the Corporate Management Team (CMT), albeit that the items highlighted in italics are delegated to the Chief Financial Officer to deal with on a day to day basis. Having said that they do of course form part of the medium term financial planning carried out through CMT.

I therefore believe that the County Council is still compliant with this item and the code overall.

Budget 2023/24 – Conclusion

Given the details outlined above, provided that the County Council considers the above factors and accepts the budget recommendations, including the need to put of council tax by the maximum permissible (in line with the Government's presumption and the County Council's policy) and the level of earmarked reserves and balances, a positive opinion can be given under Section 25 on the robustness of the estimates and level of reserves for 2023/24.

The Position to 2025/26

The main report outlines the medium term forecast to 2025/26 which has varied significantly since reported in February last year when a cumulative budget deficit of £157m was expected.

Over the year, inflation and service growth pressure have increased the deficit, but following the Autumn Statement a total of £103m of additional resources have been identified through Government grant, business rates and increased council tax levels (assuming they are agreed by County Council) which reduce the forecast deficit to £132m by 2025/26, albeit we do not have any settlement figures beyond 2024/25.

The County Council has consistently stated that unless something is done to address the annual growth in social care costs, that we are not financially sustainable in the medium term, as it is not possible to continually remove money from other budgets to meet the increased demand in these areas.

Whilst the forecast deficit has reduced to £132m, the Corporate Management Team have been reviewing their budgets and options for further savings, on top of the £640m that has already been removed, and concluded that even at the highest level, savings in excess of £100m are extremely unlikely and will have severe impacts on service provision if implemented.

2025/26 represents the first year of a new Spending Review period and it is hoped that the financial case for upper tier local government has already been made to central government given that social care was one of the few services to receive extra funding in the Autumn Statement.

It is therefore still possible that with a combination of :

- Achievable savings
- Legislative change
- Additional government funding in 2025/26
- Use of reserves

That the budget for 2025/26 could be balanced. This is not the same thing however as saying that the County Council is financially sustainable as reserves will need to be used to balance the budget in all the years from 2022/23 to 2025/26. As mentioned in the main report, without a fundamental change to the way in which local government is funded in the next Spending Review (essentially Government needs to fund the annual growth in social care costs or remove the referendum threshold) the County Council will be in the position of not being able to balance its budget within the next Spending Review Period, but most likely in either 2025/26 or 2026/27.

The next Spending Review (likely to be in Summer 2024) is therefore critical to ensuring the County Council's future financial sustainability and this will be the focus of lobbying with central government and our MP's over the coming period.

Rob Carr

Director of Corporate Operations

27 January 2023

Capital and Investment Strategy 2023/24 to 2025/26

Contents

1. Introduction

1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

2. Governance arrangements for capital investment

2.1 The County Council's Medium Term Financial Strategy (MTFS) ensures that it continues to invest wisely in its existing assets and to deliver a programme of new ones in line with overall priorities, need and affordability. This is kept under review by the Corporate Management Team and reported through Cabinet for approval by the County Council. The MTFS is closely linked to the 'Serving Hampshire – Strategic Plan 2021 – 2025' and directorate service plans.

2.2 Risk management is an integral part of determining and delivering a capital programme. Given the impact of high inflation alongside wider economic uncertainty within the UK, in planning and monitoring the capital programme and MTFS, the County Council has introduced additional measures to mitigate risk. This includes additional detailed analysis of financial exposure for projects most sensitive to price uncertainty. The County Council also introduced a capital inflation underwrite during 2022, with Cabinet then agreeing to the creation of a capital risk reserve in December 2022.

2.3 In accordance with the MTFS, each year the Cabinet sets cash limit guidelines for a three-year capital programme funded by local resources. Executive Members propose capital programmes within these cash limits together with schemes funded by government grants and other external sources. The proposed programmes are scrutinised by the relevant Select Committee. The final Capital Programme is then presented to Cabinet and to County Council in February each year as part of the formal budget approval. Once a defined scheme has been included in the approved capital programme, approval to spend must be granted either by the relevant Chief Officer in consultation with the Executive Member for schemes up to £500,000 or by the Executive Member for schemes of higher values, in line with the County Council's financial regulations.

2.4 Before a major capital project can be committed, the relevant Chief Officer must ensure it has undergone an appropriate project appraisal. This appraisal should be proportionate to scheme value and complexity including the options considered, appropriate financial analysis of capital and revenue implications, and conclusions setting out why the option proposed is the best use of available resources.

2.5 The 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.

3. Capital expenditure, capital financing and asset management

3.1 Capital expenditure is spending by the County Council on assets, such as land, property, the highway network, or vehicles, that will be used for more than one year. In local government this includes relevant spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.

3.2 The County Council considers estimates for the timing of capital expenditure and the availability of financial resources when determining the capital programme.

3.3 There are a number of ways that capital expenditure can be funded:

- A large proportion of the programme is typically funded from **external sources**, predominantly capital grants and contributions from the Government and other bodies, including developers.
- **Capital receipts** secured through the sale of assets owned by the County Council are also used to fund expenditure, although capital

receipts can vary significantly from year to year and each asset can only be sold once.

- The remaining expenditure is funded through the County Council's own **local resources**, comprising prudential borrowing, contributions from the revenue budget, and the use of reserves. **Reserves** can only be spent once, and **prudential borrowing** creates a future pressure on the revenue budget through interest and repayment of principal (Minimum Revenue Provision) costs. Similarly, pressures on the revenue budget limit the extent to which **planned revenue contributions** can be used as a source of funding.

Capital expenditure

3.4 Table 1 provides details of the County Council's capital programme. As parts of the capital programme are managed on a 'starts' basis, the programme years do not fully reflect when capital expenditure is expected to take place. This is therefore shown separately in the second half of the table and is one of the required Prudential Indicators

3.5 Some of the most significant areas in which the County Council is investing in its assets include:

- the investment in new and extended school buildings to ensure there is a school place for every child in Hampshire
- structural maintenance and improvement of roads and bridges;
- Integrated Transport Plan schemes including schemes specifically focused on walking and cycling improvements
- proposed recycling infrastructure including a new materials recovery facility, two fibre processing plants and upgrades to 11 waste transfer stations
- condition improvements to the schools' estate

3.6 Further details can be found in the February 2023 Capital Programme Report.

Table 1: Capital programme and forecast expenditure flows

Capital programme

Prior years starts*	Directorate programme	Revised 2022/23	2023/24	2024/25	2025/26	Total
£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
34,451	Adults' Health & Care	35,176	14,733	14,733	14,733	113,826
16,019	Children's Services	47,339	34,437	100,691	85,954	284,440
249,067	Universal Services	199,437	125,833	138,342	115,858	828,537
299,537	**Total**	**281,952**	**175,003**	**253,766**	**216,545**	**1,126,803**

** schemes started in prior years that have not yet completed*

Forecast Capital Expenditure Flows (Prudential Indicator 1)

	2022/23	2023/24	2024/25	2025/26	Future years	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Forecast Expenditure	226,259	296,655	281,486	229,601	192,802	1,226,803

Capital financing

3.7 All capital expenditure must be financed, either from external sources, the Authority's own resources, or debt. Debt is only a temporary source of funding and is replaced over time by other financing, usually from revenue through annual Minimum Revenue Provision (MRP) charges. External debt will also incur interest costs. The County Council's borrowing strategy is summarised in Section 6 and forms part of its Treasury Management Strategy.

3.8 The resources to fund the capital expenditure flows set out in Table 1 are shown in Table 2.

Table 2 – resources to fund capital expenditure	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Future**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Prudential borrowing	24,923	41,771	49,330	22,582	32,367
less repayments from capital	(6,950)	(12,881)	(21,686)	(11,225)	(53,738)
Capital grants	123,514	132,232	142,032	115,260	103,419
Contributions from other bodies*	51,620	82,087	69,823	71,922	71,863
Capital receipts	2,848	7,523	19,140	11,662	27,554
Dec 22 cash limit guidelines	3,669	3,669	3,669	3,669	0
Other revenue contributions	4,470	4,378	2,672	564	2,385
Use of the capital reserve	17,414	36,126	16,506	15,167	8,952
Use of revenue reserves	1,077	1,750	0	0	0
Total planned use of resources	**222,585****	**296,655**	**281,486**	**229,601**	**192,802**

* including developers
** difference of £3.6m to Table 1 is a timing difference

Asset management and disposals

3.9 The new 5-year Strategic Asset Management Plan (SAMP) for the **County Council's estate** was presented to Cabinet on 13 December 2022. This followed previous SAMPs published in 2011 and 2015.

3.10 The report sets out the context and drivers for the SAMP, its structure, and the key themes providing direction to the management of the County Council's property assets through a set of strategic actions. The SAMP itself was included as an appendix to the report and is a key enabler of the County Council's corporate strategy to ensure that its large and diverse estate continues to meet corporate priorities and objectives, providing a strategic framework for decision making based on a clear set of principles and mechanisms through which the future use of land and property assets will be considered, together with a high-level action plan to enable the effective management and re-shaping of the estate.

3.11 The SAMP sets out the vision to achieve the optimal financial return and commercial opportunities from the rationalisation and disposal of surplus land and buildings. The plan includes the objective to rationalise the operational estate, achieving reduction through co-location, new ways of working and maintenance optimisation, with an action plan for disposals to:

- Promote appropriate land assets as strategic development sites
- Identify and dispose of strategic sites where multiple benefits can be achieved
- Rationalise and reduce the overall size of the County Council's built estate, starting with office accommodation.

3.12 The County Council also applies asset management principles in relation to its **infrastructure assets** in developing a needs based programme of structural maintenance for its highways assets, developed based on various factors including condition, remaining life and lifecycle planning including whole life costs.

Capital receipts

3.13 The County Council's capital programme is supported by the appropriate use of capital receipts. These receipts vary from year to year and in 2021/22 accounted for about 5% of the funding applied to capital expenditure.

3.14 Capital receipts are generated when a capital asset is identified as surplus to requirements and is then sold. The proceeds from these asset sales may be used to fund new capital assets or to repay debt. The repayment of capital grants, loans and investments will also count as capital receipts, with the same restrictions on future use of the proceeds.

3.15 Capital receipts are fully retained to fund corporately agreed priorities, except where an appropriate business case for alternative use is agreed in advance.

4. Prudence and affordability

4.1 The County Council is required to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set and monitored to help with this requirement, which are set out in the Prudential Code. Actual figures for the prudential indicators at the end of each quarter will be included in regular reporting to Members. The prudential indicators cover:

- Capital expenditure (Tables 1 and 3)
- External debt (Tables 3 and 5)
- Affordability (Tables 6 and 7).

4.2 The Prudential Code sets out that certain acts and practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment. The County Council will not therefore:

- Borrow to invest primarily for financial return
- Make investment or spending decisions that increase the CFR unless directly and primarily related to the functions of the authority (any financial returns should either be related to the financial viability of the project or incidental to the primary purpose).

Prudential borrowing

4.3 Capital financing costs associated with prudential borrowing must be financed by the County Council from its own resources. It is therefore important that the use of prudential borrowing is very closely controlled and monitored. The County Council will only use prudential borrowing where there is a clear financial case to support doing so, although it will not borrow to invest primarily for financial return and therefore retains full access to the Public Works Loan Board (PWLB).

4.4 The County Council operates within a framework for the use of prudential borrowing, as updated by Cabinet in February 2006. This includes:

- Borrowing for which loan charges are financed by virement from the Executive Member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income.
- 'Bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred.
- Capital investment by business units, to be funded by business unit reserves.
- Temporary borrowing to accommodate shortfalls in general capital resources.

Ensuring borrowing is only for capital purposes

4.5 The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts or other contributions used to replace debt.

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

Table 3: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	31/03/23 Revised £M	31/03/24 Estimate £M	31/03/25 Estimate £M	31/03/26 Estimate £M
CFR	**771**	**768**	**777**	**752**
Debt				
Borrowing	221	213	203	200
PFI Liabilities	125	117	109	100
Leases	-	-	15	14
Total Debt	**346**	**330**	**327**	**314**

4.7 Total debt is expected to remain below the CFR during the forecast period. External debt is expected to remain below the CFR because of the County Council's borrowing strategy, whereby it has used internal borrowing (the temporary use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources. Further details are in the County Council's Treasury Management Strategy.

Affordable borrowing limit

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

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

	2022/23 Revised £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Authorised Limit:				
Borrowing	785	780	770	790
PFI and Leases	150	140	150	135
Authorised Limit	**935**	**920**	**920**	**925**
Operational boundary:				
Borrowing	750	745	735	755
PFI and Leases	145	135	140	130
Operational Boundary	**895**	**880**	**875**	**885**

Affordability of financing costs

4.9 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.

4.10 Table 5 shows the proportion of the County Council's net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the County Council's capital programme.

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

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	4.4%	3.7%	3.5%	3.2%

4.11 A low proportion is forecast, demonstrating that the cost of financing is minimised and the proportion of the revenue budget available for delivering services is maximised.

Reliance on income from commercial and service investments

4.12 The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income. Table 6 compares the income from these investments with the net revenue stream (Council Tax, business rates and general government grants) and demonstrates the County Council does not place a significant reliance on this income to balance its revenue budget.

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

	2022/23 Revised	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio	0.1%	0.1%	0.1%	0.1%

5. Minimum Revenue Provision (MRP) Statement

5.1 Where the County Council finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. There are four options provided by the [MHCLG guidance on MRP], however other options may also be considered:

- Option 1: Regulatory Method
- Option 2: CFR Method (4% of the CFR)
- Option 3: Asset Life Method
- Option 4: Depreciation Method

5.2 Prior to 2015/16 the County Council calculated MRP for supported borrowing[1] on a 4% reducing balance basis (Option 2). It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a straight-line basis over 50 years. This is Option 3 from the range provided by the guidance. To be more prudent the 50 years was assumed to have started from 2008, however had the County Council been applying the new policy of a 50-year straight line calculation starting in 2008 it would have made £67m less in MRP payments by 31 March 2016. As agreed in 2016/17 the County Council paused making MRP payments on supported borrowing until it had realigned with the total amount of MRP payments under the new policy, which was during 2021/22 when payments recommenced. No new supported borrowing has occurred since 2013/14 and all MRP payments on pre-existing supported borrowing will cease by 2063/64 when the outstanding CFR balance is fully exhausted.

5.3 The County Council will continue to apply the Asset Life Method (Option 3) in respect of unsupported capital expenditure funded from borrowing. MRP will therefore be determined by charging the expenditure in equal annual instalments over an appropriate useful life for the asset.

5.4 MRP in respect of leases and Private Finance Initiative (PFI) schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability i.e. the element of rent or charge that goes to write down the balance sheet liability.

5.5 The mandatory adoption of the new accounting standard for leases (IFRS 16) has been delayed until April 2024 and the County Council will not be implementing the standard before this date. When the standard is introduced, it will mean that former operating leases will be brought onto the balance sheet on 1 April 2024. Where this is the case annual MRP charges will be set so that the total charge to revenue remains unaffected by the new accounting standard.

5.6 MRP is not charged until the year after the capital expenditure takes place, e.g. capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25.

[1] Borrowing or use other forms of credit to finance capital expenditure, for which central government previously provided a revenue stream to support repayment of principal and interest.

5.7 Based on the Authority's latest estimate of its CFR on 31 March 2023, the budget for MRP has been set as follows:

Table 7: MRP Budget

	31/03/2023 Estimated CFR £M	2023/24 Estimated MRP £M
Supported Capital Expenditure	439	11
Unsupported Capital Expenditure After 31/03/2008	181	13
Leases and PFI	125	8
Transferred Debt	26	1
Total General Fund	**771**	**32**

6. Treasury Management

6.1. The Treasury Management Strategy Statement (TMSS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

6.2. The County Council has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy (TMS).

6.3. The County Council's TMS, included as Appendix 8 to this report, is scrutinised by the Audit Committee and approved by the County Council each year. Actual performance is reviewed by the Audit Committee and reported to Cabinet and County Council.

Treasury management borrowing strategy

6.4. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

Treasury management investment strategy

6.5. 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 rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.6. The contribution that these investments make to the objectives of the County Council is to support effective treasury management activities.

6.7. The County Council's actual and forecast treasury management investment balances are shown in Table 8 with further detail in the TMS. The large reduction in total balances in the year to 31/3/24 assumes the County Council pays its Local Government Pension Scheme employer pension contributions in advance for the 3 year period from April 2023.

Table 8 – treasury management investments

	31/3/22 actual £m	**31/3/23 forecast £m**	**31/3/24 forecast £m**	**31/3/25 forecast £m**
Short term investments	462	478	170	110
Long term investments	15	27	50	50
Higher yielding strategy	205	205	240	240
Total	**682**	**710**	**460***	**400**

*reduction in investments reflects the decision to pre-pay employer pension contributions for three years on 1 April 2023.

Pooled fund investments

6.8. The County Council holds reserves for a number of purposes, which are explained in more detail in the Reserves Strategy (Appendix 5). Where the County Council holds surplus cash, it is invested until it is required, in accordance with the TMS. This includes allocating a proportion to investments in pooled funds and other long term investments appropriately targeting a higher yield of around 4%.

6.9. To date, the County Council has made investments in pooled property, equity and multi-asset funds, as well as long term investments with other local authorities and as part of the Manydown programme.

6.10. Pooled fund investments present a number of risks which must be carefully managed, including the risk of loss of capital, illiquidity, entry and exit fees, and volatility of returns. The initial selection of investments targeting higher yields and their ongoing suitability is carefully managed with the assistance of Arlingclose, the County Council's treasury management advisor. Arlingclose provide advice on the investment strategy, individual investments and the mitigation of risk.

6.11. The principal mitigation for risk is ensuring that investments in non-cash assets are held as long-term investments. This will enable the initial costs of any investment and any periods of falling capital values to be overcome. In order to be managed as long-term investments, the amounts invested need to be taken from the County Council's most stable cash balances. The existing allocation of £250m was based on a prudent assessment of the Council's investment balances and liquidity requirements and it is now recommended that the earmark be increased to £320m.

6.12. The County Council is aware of the risks involved with investing in pooled funds and has an Investment Risk Reserve in place to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £6.25m. This equates to 2.5% of the existing earmark of £250m. The recommended increase to £320m would require the reserve to increase by £1.75m to £8m.

6.13. Pooled funds allow the County Council to invest in a diversified 'basket' of individual investments and to benefit from the expertise of specialist external investment managers rather than having to employ its own specialists.

7. Investment Strategy

7.1. Government issued statutory guidance on local government investments in 2018 and requires an investment strategy to be produced, which may be included alongside the capital strategy and/or treasury management strategy.

7.2. The term 'investments' within the Prudential Code covers all financial investments of the authority as well as other assets held primarily for financial return, such as commercial property. The Government definition goes slightly further in including all non-financial assets that the organisation holds primarily or partially **to generate a profit**. The Government guidance states that assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the Local Government Act 2003 should not be classified as non-financial investments for this purpose.

7.3. The County Council invests its money for three broad purposes:

- Because it holds surplus cash in advance of need (treasury management)

- To support local public services (service investments)
- To generate a financial return (commercial investments)

7.4. Investments are categorised in accordance with the primary purpose of the investment. The majority of the County Council's investments are defined as **treasury management investments** and therefore covered by Section 6 of this document and in more detail in the Treasury Management Strategy.

7.5. This Investment Strategy therefore focuses on **service and commercial investments**. The County Council operates a Commercial Board at officer level to consider the development of commercial opportunities. Opportunities for investment are reported to the appropriate Member meetings and, if additional capital schemes are proposed, approval is sought to add them to the Capital Programme in accordance with the County Council's Financial Regulations.

7.6. The County Council's commercial strategy was presented to Cabinet and County Council in the autumn of 2021 as part of the wider Medium Term Financial Strategy (MTFS) and outlined the County Council's approach to commercialisation.

7.7. There are four main areas where the County Council has sought to generate additional income to help close the budget deficit:

a. Charging users for the direct provision of services.
b. Investing money or using assets to generate a return.
c. Expanding traded services to other organisations.
d. Developing Joint Ventures (JVs) that yield additional income or generate a return

7.8. The second and fourth approaches listed above directly relate to this Investment Strategy, although it is the first and third approaches that contribute the most income on an annual basis to support the County Council's financial position.

7.9. This approach is part of the County Council's desire to **manage and mitigate risk**, through the pursuit of a range of initiatives targeting increased income generation but without overexposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business, or indeed pursuing more niche opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment.

7.10. As part of its commercial strategy the County Council is currently actively pursuing becoming even more active and influential in the market of delivering homes across the county on some of its key sites. Where the County Council does undertake such activity, the categorisation of the investment will be dependent on an assessment of the individual scheme. The largest site to date is Manydown in Basingstoke, a joint venture arrangement between Hampshire, Basingstoke and Deane Borough Council, and a private sector partner (Urban and Civic).

7.11. The County Council holds reserves for a number of purposes and invests cash balances as part of normal treasury management activity until they are required for service objectives. As set out in Section 6 of this document, the County Council has been able to earmark an appropriate proportion of this balance to investments (including pooled funds) targeting a higher yield than would have been available from traditional cash investments.

7.12. **Investments for commercial purposes** are undertaken primarily for financial return but without being linked to treasury management activity or being part of service delivery. They are therefore additional investments taken voluntarily with the primary objective of generating a net financial return or profit. They will usually constitute capital expenditure. The income generated helps the County Council to deliver its service objectives.

7.13. The County Council has a small number of legacy arrangements that generate income from commercial tenants that would be considered commercial investments under the definitions of the MHCLG guidance. It also holds a number of further assets classified as investment properties within its Balance Sheet

7.14. All investment properties included within Table 9 are revalued on an annual basis at fair value based on market conditions. In accordance with government guidance, the Authority considers property investments to be secure where the accounting value is higher than the purchase cost including taxes and transaction costs. The most recent valuations are significantly higher than the purchase cost meaning the underlying assets provide security for the original capital investment.

7.15. These commercial investments generated just over £1m of income in 2021/22 and therefore covered less than 0.1% of the gross expenditure of the County Council. The strategic land holdings are primarily not held to generate income but to generate future financial benefits and the County Council is not heavily reliant on income from its commercial investments to balance its revenue budget.

Table 9 – investment properties at 31/3/22	Purchase cost	Gain/(loss) in fair value	Value in accounts at 31/3/22
	£'000	£'000	£'000
Legacy arrangements generating income from commercial tenants	13,777	1,626	15,403
Legacy arrangements generating income from residential (secure) tenants	304	431	735
Legacy arrangements generating income from other legal agreements	165	102	267
Strategic land holdings	11,751	117,146	128,897
Total investment properties in accounts	**25,997**	**119,305**	**145,302**

The Strategic Asset Management Plan (covered in more detail in Section 3) was recently updated. The vision and objectives identified in the SAMP reflect the role that land and property assets can play in achieving the strategic priorities of the County Council. This includes enabling and contributing to economic regeneration and growth in Hampshire, in line with the Hampshire 2050 strategy, as well as enabling the further transformation of County Council services and maximising the financial return from assets in the context of the significant financial challenges the County Council faces to 2025.

7.16. The SAMP identifies a desire to explore **commercial opportunities** from assets, including through acquisition, with a change in the organisational risk appetite and an agile approach, to achieve commercial advantage. Any activity that constitutes commercial investments will be considered and reported appropriately in accordance with the requirements of the Prudential Code and the Government investment guidance. This will include consideration of the contribution the investment will make to the County Council, the security of the amount invested, an assessment of the risks involved, and an understanding of the impact of the potentially illiquid nature of the assets involved.

7.17. **Investments for service purposes** are those undertaken primarily and directly for the delivery of public services or in support of joint working with others to deliver such services. They will normally constitute capital expenditure and it may be appropriate to borrow to finance these investments. They may or may not deliver financial returns, but this will not be the primary purpose of the investment. The County Council holds a limited number of service investments.

7.18. With the primary aim of improving economic prosperity and related infrastructure within Hampshire, the County Council has granted loans totalling £4.5m at market rates of interest to Farnborough International Ltd. This amount is part of a total of £9.5m including £5m from the Enterprise M3 Local Enterprise Partnership (EM3 LEP), where the County Council is the accountable body. A further £7.9m of loans for other projects have also been granted by the EM3 LEP.

7.19. In May 2022, the County Council approved the creation of a £250,000 Revolving Community Energy Fund (RCEF) from the Climate Change budget. This RCEF will invest in community energy projects with the primary objectives of helping to meet the County Council's climate change target and enabling the County Council to provide leadership and support to communities. Individual investments made through the RCEF will be of a value of up to £25,000 and will typically be made through direct investments in share offerings of small local entities. These investments will bring a greater degree of risk than the County Council would accept for treasury management investments, but it understands and accepts these risks given the way that these investments will help achieve the County Council's service objectives on climate change. Risk is mitigated by the RCEF being a very small proportion of the County Council's overall budget and by a defined due diligence process. The County Council may also in future consider other service investments to help meet its climate change objectives.

7.20. Accounting standards require local authorities to set aside loss allowances for loans, with a greater percentage loss allowance for loans with a greater chance of not being repaid. The loss allowances calculated are not material to the County Council.

7.21. The details of the County Council's service loans at the time of writing are set out in Table 10. This shows separately loans made by the EM3 LEP where the County Council is the accountable body. These amounts appear within the County Council's accounts but the risk of loans not being repaid lies with the LEP.

Table 10 – investments for service purposes	Amount approved £'000	Amount invested £'000	Loss allowance £'000	Approved amount as % of net revenue stream
Farnborough International Ltd (Loan)	4,500	4,500	4	0.5%
Andover Skills Centre – Test Valley BC (Loan)	343	343	0	0.0%
Community energy projects through RCEF (Equity)	250	0	0	0.0%
Total Hampshire County Council	**5,093**	**4,843**	4	0.6%
On behalf of EM3 LEP (Loans)	12,906	12,906		
Total including EM3 LEP	17,999	17,749		

7.22. At the beginning of 2019, the County Council entered into a joint venture with Commercial Services Kent (CSK – owned by Kent County Council) to set up an arms-length trading company that supplies agency staff to the County Council. The arrangement was set up utilising existing expertise, knowledge and legal arrangements and not only saves money compared to other private agencies but should also ensure better quality. The loan made to the company was repaid during 2021/22, however the County Council does continue to benefit from the receipt of dividends from the joint venture.

Investment indicators

7.23. In addition to setting Prudential Indicators required by the Prudential Code, the County Council has also set the following quantitative investment indicators in accordance with the requirements of the MHCLG investment guidance.

Table 11 – Total Investment Exposure (£m) and net rate of return (%)	31.03.2022 Actual		31.03.2023 Forecast		31.03.2024 Forecast	
	Invested £m	Return %	Invested £m	Return %	Invested £m	Return %
Treasury management (long term)	220.6	4.0%	232.0	4.0%	290.0	4.0%
Service investments (loans)	4.5	4.0%	4.5	4.0%	4.5	4.0%
Service investments (equity)	0	n/a	0	n/a	0.1	5.0%
Commercial investments	26.0	4.4%	26.0	4.4%	26.0	4.4%
Total investments	251.1	4.0%	262.5	4.0%	320.6	4.0%

7.24. This shows that the County Council expects the majority of its investments to continue to be for treasury management purposes. The commercial investments will continue to be legacy arrangements and strategic land holdings and in the table are forecast to be unchanged, although this position may evolve as set out in the recent Strategic Asset Management Plan update. None of these investments are funded by borrowing. Figures shown are the amounts invested not the current market value where these amounts vary.

7.25. The figures above exclude invested on behalf of the EM3 LEP (£12.9m) and the Thames Basin Heaths Joint Strategic Partnership Board (£10.7m) where these investments are held on the County Council's balance sheet due to operational arrangements but where risks associated with these investments do not belong to the County Council.

8. Knowledge and skills

8.1. The County Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. This includes the Chief Executive, Director of Corporate Operations (S151 officer) and Assistant Director Finance (Deputy S151 officer) all being longstanding members of the Chartered Institute of Public Finance and Accountancy

(CIPFA). Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process across the County Council, and additionally when the responsibilities of individual members of staff change.

8.2. Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

8.3. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All Members were invited to a workshop presented by Arlingclose in November 2022, which gave an update of treasury matters. A further Arlingclose workshop is planned for 2023.

Investment Advisers

8.4. The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Operations, their staff, and Arlingclose.

9. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy

9.1. This Capital and Investment Strategy has been developed alongside the TMS (Appendix 8) and the Reserves Strategy (Appendix 5). Together, they form an integrated approach adopted by the County Council to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget, whilst recognising and managing risk to an acceptable level.

9.2. The forward planning of capital investment and its funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Director of Corporate Operations that the proposed Capital Programme is prudent, affordable and sustainable.

10. Links to Statutory Guidance and Other Information

10.1. The Local Government Act 2003, Section 15(1) and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] require Local Authorities to have regard to the following guidance:

- Statutory Guidance on Local Government Investments* Government Guidance Investment.
- Statutory Guidance on Minimum Revenue Provision (MRP)
- CIPFA's Prudential Code
- CIPFA's Treasury Management Code

(*Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, and a TMS in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document).

10.2. The County Council includes its non-treasury management Investment Strategy within this Capital Strategy. The TMS is a separate document reported to Cabinet and County Council, (Appendix 8).

10.3. The CIPFA Prudential Code was revised in December 2021 to reflect developments since it was last updated in 2017 and became applicable with immediate effect, however an exception was made to allow the deferral of revised reporting requirements until 2023/24. The revised reporting requirements relate to the capital strategy, prudential indicators and investment reporting. The Treasury Management Code was also revised at the same time.

10.4. The proposed Capital Programme is a separate document presented to Cabinet and County Council in a separate report elsewhere on this Agenda.

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Treasury Management Strategy 2023/24

Introduction

1. In 2018 the Ministry of Housing, Communities & Local Government (MHCLG) produced new Investment Guidance including the requirement to produce an Investment Strategy.

2. The County Council's Capital and Investment Strategy (Appendix 7) sets out the Council's broad approach to investment, including its capital programme, how this is funded, and investments held for service purposes or for commercial profit.

3. This Treasury Management Strategy Statement (TMSS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

4. 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 financial risk are therefore central to the County Council's prudent financial management.

5. Treasury risk management at the County Council is conducted within the framework of the CIPFA Code which requires the County Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This Strategy fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

6. Investments held for service purposes or for commercial profit are considered separately in the Capital and Investment Strategy.

External Context

7. The following paragraphs explain the economic and financial background against which the TMSS is being set.

Economic background

8. The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a

deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

9. The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7:2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

10. The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

Credit outlook

11. Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

12. CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Interest rate forecast

13. The County Council's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

14. While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

15. Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025.

16. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex A.

Balance Sheet Summary and Forecast

17. On 31 December 2022, the County Council held £225.0m of borrowing and £721.5m of investments. This is set out in further detail at Annex B.

18. Forecast changes in these sums are shown in the balance sheet analysis in Table 1.

Table 1: Balance sheet summary and forecast

	31/03/22 Actual £m	**31/03/23 Estimate £m**	**31/03/24 Forecast £m**	**31/03/25 Forecast £m**	**31/03/26 Forecast £m**
Capital Financing Requirement	784	771	768	777	752
New Capital Financing Requirement					
Less: Other debt liabilities*:					
- Leases**	0	0	0	(15)	(14)
- Street Lighting PFI	(90)	(87)	(83)	(79)	(75)
- Waste Management Contract	(42)	(38)	(34)	(30)	(25)
Loans CFR	**652**	**646**	**651**	**653**	**638**
Less: External borrowing***:					
- Public Works Loans Board	(208)	(188)	(180)	(170)	(167)
- Other Loans (incl. LOBOs)	(20)	(12)	(12)	(12)	(12)
- Other short-term borrowing	(21)	(21)	(21)	(21)	(21)
Total external borrowing	**(249)**	**(221)**	**(213)**	**(203)**	**(200)**
Internal borrowing	**403**	**425**	**438**	**450**	**438**
Less: Balance sheet resources:					
- Usable Reserves	(883)	(826)	(776)	(752)	(775)
- Allowance for Working Capital	(169)	(243)	(243)	(243)	(243)
Balance sheet resources	**(1,052)**	**(1,069)**	**(1,019)**	**(995)**	**(1,018)**
Treasury investments	**(649)**	**(644)**	**(581)**	**(545)**	**(580)**

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

** IFRS 16 requires the County Council to change how it recognises its leases from 1 April 2023.

*** shows only loans to which the County Council is committed and excludes optional refinancing

19. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The County Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

20. It is forecast that the County Council will continue to take advantage of internal borrowing, which will increase through 2023/24, whilst paying off Public Works Loan Board (PWLB) debt as maturities arise.

21. Reserves and balances are due to reduce over the forecast period due to the anticipated funding of the Capital Programme and use of the Budget Bridging Reserve (BBR) to balance the budget in the next two years pending further savings to be planned and delivered. The County Council's investment balances are however due to initially rise over the forecast period and then fall during 2023/24, as shown in Table 1. This is because the County Council's employer's LGPS pension contributions were paid early in April 2020 for the period to March 2023, and subject to any unforeseen cash flow requirements the County Council plans to prepay its employer's LGPS pension contributions for three years again on 1 April 2023.

22. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the County Council expects to comply with this recommendation during 2023/24.

Liability benchmark

23. To compare the County Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

24. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the

future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of

25. external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31/03/22 Actual £m	31/03/23 Estimate £m	31/03/24 Forecast £m	31/03/25 Forecast £m	31/03/26 Forecast £m
Loans CFR	652	646	651	653	638
Less: Balance sheet resources	(1,052)	(1,069)	(1,019)	(995)	(1,018)
Net loans requirement	**(400)**	**(423)**	**(368)**	**(342)**	**(380)**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**(390)**	**(413)**	**(358)**	**(332)**	**(370)**

26. At the start of the period, 31 March 2022, the County Council had a Loans CFR of £652m, external borrowing of £249m, balance sheet resources of £1,052m and a liability benchmark of 390m. The difference of £403m between the CFR and external borrowing is internal borrowing which is where the County Council has used its own resources to fund its borrowing requirement.

27. The liability benchmark is the lowest level of debt the County Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The County Council expects a negative liability benchmark across the forecast period, which means that currently 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. The County Council would like to reduce its external borrowing further, although the recent reductions in expectations for future interest rate increases have made the premium charged to repay debt look less attractive. The County Council will continue to monitor opportunities to repay debt with its advisors Arlingclose.

Borrowing Strategy

28. The County Council held £225.0m of loans as at 31 December 2022, which is £73m lower than the previous year. As interest rates have risen the opportunity has been taken to repay £12m of PWLB loans and £29m of other loans (including some LOBOs). This has locked-in a future rate of return for the Council on the use of resources used to repay debt, and reduced overall treasury risk by reducing overall cash balances.

29. The loans are predominantly as a result of the County Council's strategy for funding previous years' capital programmes, but also includes amounts held on behalf of others for governance or administrative purposes. The balance sheet forecast in Table 1 shows that the County Council does not expect to need to take on new external borrowing in 2023/24. The County Council has the option to borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £780m, but does not currently expect to do so.

Objectives

30. The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

Strategy

31. Given the significant cuts to public expenditure and in particular to local government funding, the County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, the County Council expects to continue its approach of internally borrowing instead of taking on additional external borrowing.

32. By internally borrowing, the County Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Arlingclose will assist the County Council in regularly monitoring the benefits of this approach against taking on short term external borrowing and the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

33. The County Council has previously raised the majority of its long-term borrowing from the PWLB. The County Council does not expect to take on any new long-term borrowing in 2023/24, however should the County Council need to borrow any long-term amounts it will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield, however the County Council's investment strategy does not support this activity and so will retain its access to PWLB loans.

34. The County Council may also arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

35. In addition, the County Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

Sources of borrowing

36. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments
- Any other bank or building society authorised to operate in the UK.
- Any other UK public sector body.
- UK public and private sector pension funds (except Hampshire Pension Fund).
- Capital market bond investors.
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other sources of debt finance

37. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative (PFI)
- sale and leaseback.

LOBOs

38. The County Council holds £4.0m 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.

39. All of these loans have options during 2023/24, and with interest rates having risen recently, there is now a greater possibility that lenders will exercise their options. If they do, the Authority will take the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to the current level of £12m.

Short-term and variable rate loans

40. These loans leave the County Council exposed to the risk of short-term interest rate rises. This risk is monitored through the indicator on interest rate exposure in the treasury management indicators in this report.

Debt rescheduling

41. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The County Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

42. The County Council holds invested funds representing income received in advance of expenditure plus balances and earmarked reserves held. In the past 12 months, the County Council's treasury investment balance has ranged between £670.5m and £865.7m.

43. Over the last 12 months the investment balance has risen due to a number of factors. The increase in investment balances partly reflects the difference in timing between income and expenditure and is typical of this time of year. Also, investment balances have been impacted by the decision to pay employer's LGPS pension contributions in advance on 1 April 2020 for the three-year period to March 2023 at a cost of approximately £225m. A further pre-payment for the three-year period to March 2026 is to be made on 1 April 2023 at a cost of approximately £250m.

Objectives

44. 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 rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The County Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

45. The County Council aims to continue to hold a diversified investment portfolio, including investments in more secure and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

46. At 31 December 2022 approximately 55.7% of the County Council's investment balances were invested so that they were not subject to bail-in risk (that investors funds are taken to sure a failing bank), as they were invested in Government investments, secured bank bonds and pooled property, equity and multi-asset funds.

47. Of the 44.3% of investment balances that were subject to bail-in risk at 31 December 2021, 12.8% was held in very short-term notice accounts providing a comparatively favourable rate of interest in exchange for a short notice period within the 100-day maximum recommended by Arlingclose, 73.5% was held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and the remainder was held in overnight bank call accounts for liquidity purposes.

48. Unfortunately, the availability of appropriate longer term investment opportunities has been reduced in comparison to previous years due to an uncertain economic market, and the local authority market has been much reduced due to the amount of funding that has been supplied to the sector from Central Government.

49. Further detail is provided at Annex B. This diversification is a continuation of the strategy adopted in 2015/16.

Business models

50. Under the new IFRS 9, the accounting for certain investments depends on the 'business model' for managing them. The County Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore,

where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Environmental, social and governance factors

51. Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Investments targeting higher returns

52. The County Council agreed in 2021 to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £250m. It is now recommended that this maximum allocation to higher yielding investments is increased to £320m, within the overall limit on principal invested beyond a year (see Table 9 below) of £400m. These amounts are not targets but allow the Council to take advantage of any increase in the levels of its core balances. The Council's expected forecast cashflows will continue to be monitored and longer terms investments identified accordingly if appropriate.

53. 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.

54. Higher yields can be targeted through longer term cash investments and by investing in asset classes other than cash. Following advice from Arlingclose, the County Council has constructed an investment portfolio that is diversified across asset classes and regions. This has been achieved by investing in pooled investment vehicles (pooled funds) alongside long term lending to other local authorities and loans relating to the Manydown development project. This diversification helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

55. The use of pooled funds also enables the County Council to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

56. Diversification in itself does not guarantee positive outcomes. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the County Council's aim of achieving income returns of around 4% per annum (pa) without putting its initial investment at undue risk over the longer term. The County Council is therefore currently invested in pooled funds that specialise in providing income returns to support the revenue budget. As a result of their income focus these funds may not achieve the same capital growth and therefore total return, as other more general investment funds, however they are likely to deliver significantly greater income returns than cash investments, particularly in the current interest rate environment.

57. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisors is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.

58. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The County Council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The County Council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy and process.

59. £207.7m of the allocation to higher yielding investments has now been invested, with the remaining balance earmarked, the majority that remains outstanding relates to the Manydown development. Of the total, £184.7 is invested in pooled funds, including £10.7m 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.

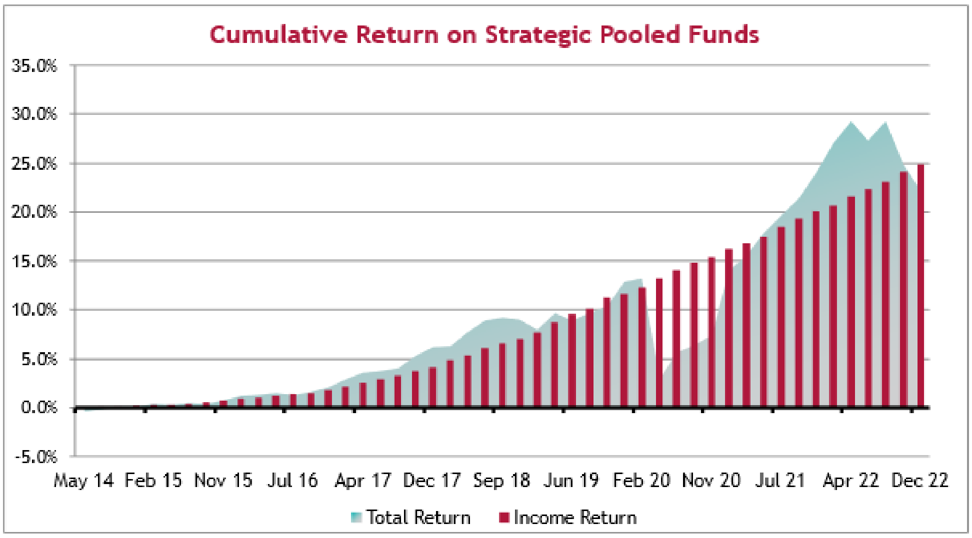
60. The current portfolio of pooled funds investments targeting higher yields is summarised in Table 3.

Table 3: Investments targeting higher yields portfolio

Investment type*	Amount invested	Market value at 31/12/2022	Gain/(fall) in capital value	
			Since purchase	One year
	£m	£m	£m	£m
Long-term loans	23.0	23.0	-	-
Pooled property funds	75.0	71.5	(3.5)	(8.3)
Pooled equity funds	51.0	52.8	1.8	(0.9)
Pooled multi-asset funds	48.0	44.1	(3.9)	(6.1)
Total	**197.0**	**191.4**	**(5.6)**	**(15.3)**

* Excludes £10.7m invested in pooled funds on behalf of TBH JSPB

61. The County Council's investments in pooled funds bring significant benefits to the revenue budget, with over £7.5m of dividends earned in the last 12 months. Capital values have struggled in the past 12 months due to market conditions and total pooled funds are showing capital below the amount originally invested, however, with the dividends earned, the total return is positive. The total return for pooled funds since purchase was 22.2% at 31 December 2022.



Note: the graph above excludes the performance related to £10.7m invested on behalf of Thames Basin Heaths JSPB

62. At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised, since the County Council would avoid selling investments that realised a capital loss.

63. In addition to the risk of realising a capital loss, changes to IFRS 9 mean that capital gains and losses on investments need to be reflected in the revenue account on an annual basis, although there is currently a statutory override in place for local authorities that exempts them from complying with this requirement for the next year.

64. 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. 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 £6.25m. This equates to 2.5% of the total earmark of the current £250m threshold. The recommended increase to £320m would require the reserve to increase by £1.75m to £8m.

65. Table 4 provides an example of the difference in the annualised average income return from the higher yielding strategy at 31 December 2022 and the returns being achieved on the County Council's other investments for the 12 months to that date. Recent rises in interest rates are likely to reduce the gap between investments returns on pooled funds and cash, therefore the Council is unlikely to make further investments in pooled funds beyond its current commitments.

Table 4: Weighted Average Returns and Indicative Annualised Income

	Cash Balance 31/12/2022 £m	**Weighted Average Return %**	**Annualised Income £m**
Short-term and Long-term Cash Investments	533.8	2.7	14.2
Investments Targeting Higher Yields	196.9	4.3	8.47
Total	**730.7**	**3.1**	**22.67**

Investment Limits

66. The maximum that will be lent to any one organisation (other than the UK Government) will be £90m, which is an increase in comparison to the previous TMSS due to temporarily increased investment balances. Although over the longer term it is expected that the County Council's cash balances will reduce, the ongoing pandemic has resulted in world supply issues and so the delivery of elements of the agreed capital programme has been delayed, which may result in raised investment balances for a short time. Increased limits allow the flexibility to ensure that all of the County Council's cash can be invested in accordance with this TMSS.

67. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 5.

Table 5: Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£90m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£225m per manager

Approved Counterparties

68. The County Council may invest its surplus funds with any of the counterparty types in Table 6, subject to the limits shown:

Table 6: Sector and counterparty limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	30 years	Unlimited	n/a
Local authorities & other government entities	25 years	£90m	Unlimited
Secured investments *	25 years	£90m	Unlimited
Banks (unsecured) *	13 months	£45m	Unlimited
Building societies (unsecured) *	13 months	£45m	£90m
Registered providers (unsecured) *	5 years	£45m	£90m
Money market funds *	n/a	£90m	Unlimited
Strategic pooled funds	n/a	£90m	£450m
Real estate investment trusts	n/a	£45m	£90m
Other investments *	5 years	£45m	£90m

This table must be read in conjunction with the notes below

*** Minimum credit rating**

69. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant known factors including external advice will be taken into account.

70. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government

71. Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 30 years.

Secured investments

72. Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured)

73. Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured)

74. Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

75. Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the County Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

76. Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the County Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes

cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the County Council's investment objectives will be monitored regularly.

Real estate investment trusts (REITs)

77. Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments

78. This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the County Council's investment at risk.

79. In addition the County Council can invest in an unrated corporate where it owns an interest in the corporation that gives participation in the company's governance, in which case a limit of £45m for an investment of up to 20 years will apply.

Operational bank accounts

80. The County Council may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept low. The County Council's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts positive, and as close to zero as possible. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the County Council maintaining operational continuity.

Risk assessment and credit ratings

81. Short and long-term credit ratings from the three main providers (Fitch Ratings, Moody's and Standard and Poor's) are obtained and monitored by the County Council's treasury advisers, who will notify changes in ratings

as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

82. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the security of investments

83. The County Council understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the County Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

84. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the County Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the County Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office, or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Liquidity management

85. The County Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the County Council's medium term financial position (summarised in Table 1) and forecast short-term balances.

86. The County Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the County Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

Treasury Management Indicators

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

Interest rate exposures

88. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

Table 7: Interest rate risk indicator

	31 December 2022	Impact of +/- 1% interest rate change
	£m	£m
Sums subject to variable interest rates:		
Investment	481.6	+/- £48.2m
Borrowing	12.0	+/- £1.2m

Maturity structure of borrowing

89. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 8: Refinancing rate risk indicator

	Upper	Lower
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	75%	0%
10 years and within 20 years	75%	0%
20 years and within 30 years	75%	0%
30 years and above	100%	0%

90. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year

91. 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 will be:

Table 9: Price risk indicator

	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£400m	£400m	£400m

Related Matters

92. The CIPFA Code requires the County Council to include the following in its treasury management strategy.

Financial derivatives

93. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

94. The County Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the County Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

95. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit.

96. In line with the CIPFA Code, the County Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Investment training

97. The needs of the County Council's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

98. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

99. CIPFA's Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

Investment advisers

100. The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Operations, his staff and Arlingclose.

Markets in Financial Instruments Directive

101. The County Council has opted up to professional client status with its providers of financial services, including advisers, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the County Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Other Options Considered

102. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Corporate Operations believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 10.

Table 10: Alternative strategies and their implications

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain

Table 10: Alternative strategies and their implications

Alternative	**Impact on income and expenditure**	**Impact on risk management**
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex A – Arlingclose Economic & Interest Rate Forecast - December 2022

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.

- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.

- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.

- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.

- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.

- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.

- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.

- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.

- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.

- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.50	4.00	4.25	4.25	4.25	4.25	4.00	3.75	3.50	3.50	3.50	3.50
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.75	1.50	1.25	1.25
Arlingclose Central Case	3.00	3.90	4.40	4.40	4.40	4.35	4.30	4.25	4.00	3.75	3.75	3.75	3.75
Downside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00
5yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.36	3.65	3.90	3.90	3.90	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
10yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.46	3.70	3.75	3.75	3.75	3.70	3.70	3.70	3.70	3.70	3.70	3.70	3.70
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
20yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.88	4.00	4.00	4.00	4.00	4.00	3.90	3.90	3.90	3.90	3.90	3.90	3.90
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
50yr gilt yield													
Upside risk	0.00	0.60	0.70	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Arlingclose Central Case	3.24	3.40	3.40	3.40	3.40	3.40	3.30	3.30	3.30	3.30	3.30	3.30	3.30
Downside risk	0.00	0.70	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Annex B - Existing Investment & Debt Portfolio Position at 31 December 2022

Treasury investments position

Investments	31/08/2022 Balance £m	Net movement £m	31/12/2022 Balance £m	31/12/2022 Income return %	31/12/2022 Weighted average maturity years
Short term investments					
Banks and building societies:					
- Unsecured	152.0	(59.9)	92.1	2.5%	0.08
- Secured	46.1	(29.1)	17.0	0.5%	0.26
Money Market Funds	153.2	(11.6)	141.6	3.2%	0.00
Government:					
- Local Authorities	78.0	(2.0)	76.0	2.6%	0.48
- UK Treasury Bills	73.0	21.9	94.9	2.9%	0.21
- UK Gilts	25.0	0.0	25.0	0.1%	0.09
- DMO	0.0	25.0	25.0	3.8%	0.24
Cash Plus Funds	10.0	0.0	10.0	1.2%	0.01
	537.3	**(55.7)**	**481.6**	**2.7%**	**0.16**
Long term investments					
Banks and building societies:					
- Secured	0.0	7.2	7.2	4.3%	2.19
Government:					
- Local authorities	5.0	20.0	25.0	3.3%	9.21
Supranational Banks	21.0	(1.0)	20.0	1.3%	2.97
	26.0	**26.2**	**52.2**	**2.7%**	**5.85**
Long term investments – higher yielding strategy					
Government:					
- Local authorities	22.9	(19.9)	3.0	9.4%	4.49
Pooled funds:					
- Pooled property*	75.0	0.0	75.0	3.5%	N/A
- Pooled equity*	51.0	0.0	51.0	5.3%	N/A
- Pooled multi-asset*	48.0	0.0	48.0	4.3%	N/A
	196.9	**(19.9)**	**177.0**	**4.3%**	**4.49**
Total Investments	**760.2**	**(49.4)**	**710.8**	**3.1%**	**0.56**
Thames Basin Heath pooled fund investments	10.7	0.0	10.7		
Total	**770.9**	**(49.4)**	**721.5**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2022 based on the market value of investments 12 months earlier.

Treasury management position	**31/12/2022 Balance £m**	**31/12/2022 Rate %**
External Borrowing: - PWLB Fixed Rate - Other Loans (including LOBO Loans) - Other Short-term Borrowing*	 (192.0) (12.0) 0.0	 9.7% 0.3% 0.0%
Total External Borrowing	**(204.0)**	**4.7%**
Other Long-Term Liabilities: - Street Lighting PFI - Waste Management Contract - Leases	 (90) (42) 0	
Total Other Long-Term Liabilities	(132)	
Total Gross External Debt	**(336.0)**	
Investments	**721.5**	
Net (Debt) / Investments	**385.5**	

* includes balances held by the County Council on behalf of others for governance or administrative reasons

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Cabinet
Date:	8 February 2022
Decision Maker	County Council
Date:	17 February 2022
Title:	Capital Programme 2023/24 to 2025/26
Report From:	Director of Corporate Operations

Contact name: Rob Carr

Tel: 0370 779 2467 **Email:** Rob.carr@hants.gov.uk

Purpose of this Report

1. This report collates the service capital programmes prepared by Executive Members and presents for approval the proposed capital programme for the County Council for 2023/24 and the provisional programmes for the subsequent two financial years. It also provides summary financial information on schemes started in previous financial years that remain in progress. Latter sections of the report cover capital financing and revenue implications.

Recommendation(s)

It is recommended that Cabinet:

2. Recommends to County Council that the capital programme for 2023/24 and the provisional programmes for 2024/25 and 2025/26 as set out in Appendix 1 be approved, including the identified carry forward of resources.

3. Recommends to County Council that the revised capital programme cash limits for 2022/23 be approved.

4. Recommends to County Council that the scheme value for the Botley Bypass project within the Universal Services capital programme is increased by £8m

from £23.1m to £31.1m to be funded from a combination of local resources (£5.09m) and the corporate capital inflation risk reserve (£2.91m)

5. Recommends to County Council that the scheme value for the Stubbington Bypass scheme within the Universal Services capital programme is increased by £2.2m from £42.0m to £44.2m to be funded from a combination of LTP grant (£1.23m) and the corporate capital inflation risk reserve (£0.97m).

6. Recommends to County Council that the scheme value for the Uplands Development Infrastructure scheme within the Universal Services Capital programme is increased by £3.837m from £28.489m to £32.326m to be funded from the corporate capital inflation risk reserve

7. Recommends to County Council that the scheme value for the Hiltingbury Junior School SCOLA recladding project is increased by £2.265m from £1.546m to £3.811m to be funded from unallocated SCA grant (£1.765m), Universal Services climate change resources (£0.2m) and Salix grant (£0.3m).

8. Approves an increase in the scheme value for the M27 Junction 9 project within the Universal Services capital programme of £1.325m from £23.1m to £24.425m to be funded from a combination of developer contributions (£0.725m) and the corporate capital inflation risk reserve (up to £0.6m) pending the conclusion of funding discussions with National Highways.

9. Approves an increase of £0.177m in the scheme value of the Woodhouse Lane South scheme within the Universal Services capital programme from £5.7m to £5.877m to be funded from the corporate capital inflation risk reserve.

10. Approves an increase of £0.755m in the scheme value of the Lynchford Road scheme within the Universal Services capital programme from £12m to £12.755m to be funded from the corporate capital inflation risk reserve

11. Approves an increase of £1.165m in the scheme value of the Springwood Junior patent glazing upgrade scheme from £0.62m to £1.785m to be funded from unallocated SCA grant.

RECOMMENDATIONS TO COUNTY COUNCIL

County Council is recommended to approve:

a) The capital programme for 2023/24 and the provisional programmes for 2024/25 and 2025/26 as set out in Appendix 1, including the identified carry forward of resources

b) The revised capital programme cash limits for 2022/23.

c) That the scheme value for the Botley Bypass project within the Universal Services capital programme is increased by £8m from £23.1m to £31.1m to be funded from a combination of local resources (£5.09m) and the corporate capital inflation risk reserve (£2.91m)

d) That the scheme value for the Stubbington Bypass scheme within the Universal Services capital programme is increased by £2.2m from £42.0m to £44.2m to be funded from a combination of LTP grant (£1.23m) and the corporate capital inflation risk reserve (£0.97m)

e) That the scheme value for the Uplands Development Infrastructure scheme within the Universal Services Capital programme is increased by £3.837m from £28.489m to £32.326m to be funded from the corporate capital inflation risk reserve

f) That the scheme value for the Hiltingbury Junior School SCOLA recladding project is increased by £2.265m from £1.546m to £3.811m to be funded from unallocated SCA grant (£1.765m), Universal Services climate change resources (£0.2m) and Salix grant (£0.3m).

Executive Summary

12. This report sets out for approval the proposed three year capital programme for 2023/24 to 2025/26, comprising schemes totalling £645.3m. The report also provides details of the revised programme for 2022/23, equating to a further £282.0m. This results in a total programme of £927.3m across four years, expected to be one of the largest in the country. In addition, expenditure of £299.5m relating to schemes started prior to 2022/23 has yet to be incurred for schemes still in progress. Including these schemes shows planned capital expenditure in aggregate of £1.23bn. Further details are provided in Table 1.

13. The report collates the service capital programmes prepared by Executive Members based on the cash limit guidelines for the locally resourced programme, together with schemes funded by Government Grants and other external sources.

14. The proposals within this report are in line with the Medium Term Financial Strategy (MTFS) which ensures the County Council continues to invest wisely

in its existing assets and delivers a programme of new ones in line with overall priorities and need. This is kept under review by the Corporate Management Team and reported through Cabinet for approval by the County Council. The MTFS is closely linked to the 'Serving Hampshire – Strategic Plan 2021 – 2025' and directorate service plans.

15. The capital programmes proposed by Executive Members can be financed within the resources available to the County Council, including the planned use of prudential borrowing. When aggregated with the ongoing impact of prior year programmes, it results in estimated outstanding and planned prudential borrowing of £307m under the framework for prudential borrowing agreed by Cabinet in February 2006. The proposed capital programme takes account of the capital financing position and also the level of external debt and the consequences of the programme for the revenue budget and council tax. Prudential Indicators, included in the County Council's Capital and Investment Strategy (Appendix 7 of the revenue budget report) support the assessment that the programme is prudent, sustainable and affordable.

16. The County Council has continued to maintain its capital programme throughout the period of austerity. Despite the challenging financial environment, actual capital expenditure has averaged around £233m per annum over the past 5 years. Within this, the County Council's revenue funded capital guidelines have remained broadly unchanged for a number of years. The July 2022 report to Cabinet on developing a Medium-Term Financial Strategy recommended increasing the capital guidelines by £6.75m and £6.8m for 2023/24 and 2024/25 respectively to meet health and safety and regulatory compliance and life cycle replacement costs. This increase has been applied and will be funded by prudential borrowing.

17. The report also recommends that £9.249m across a number of schemes is drawn from the capital inflation risk reserve to fund pressures on priority schemes where alternative funding sources have been exhausted and appropriate business cases have been presented to the Director of Corporate Operations.

18. The proposed 3 year programme includes:
    - £175m investment in new and extended school buildings to provide school places for children in Hampshire
    - £142m for structural maintenance and improvement of roads and bridges
    - £103m of Integrated Transport Plan schemes including £58m of schemes mainly concerned with walking and/or cycling improvements
    - £100m to address condition-based enhancements to the schools estate.

19. In addition, there are also other significant schemes that were approved in previous years that will continue to progress in 2023/24 and beyond, these total nearly £300m as shown in Table 1 below.

20. The capital programme is summarised in Table 1, with further detail on individual directorate programmes in Appendix 1. The forecast timing of capital expenditure is then shown in Table 2.

Table 1 – proposed capital programme

Prior years starts*		Revised 2022/23	2023/24	2024/25	2025/26	Total
£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
34,451	Adults' Health & Care	35,176	14,733	14,733	14,733	113,826
16,019	Children's Services	47,339	34,437	100,691	85,954	284,440
249,067	Universal Services	199,437	125,833	138,342	115,858	828,537
299,537	**Total**	**281,952**	**175,003**	**253,766**	**216,545**	**1,226,803**
				645,314		

** schemes started in prior years that have not yet completed*

Table 2 – forecast timing of capital expenditure for items in Table 1

	2022/23	2023/24	2024/25	2025/26	Future years	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Expenditure	226,259	296,655	281,486	229,601	192,802	1,226,803

21. The capital programme is supported by Government grants for schools, highways, transport, and disabled facilities. Information on the assumptions around these grants for the proposed 3 year programme is provided in Table 3. In addition, the County Council has and will continue to bid where appropriate for specific government funding through competitive bidding processes.

Table 3 – Government grants

Directorate programme	Funding	Latest position
Children's Services	DfE – Basic Need	Allocations for 23/24 and 24/25 did not allocate any capital funding for Hampshire with potential for zero or low allocation for 25/26.
Children's Services	DfE – Devolved Formula Capital	Allocations to date only confirmed for 22/23.
Adults' Health and Care	DLUHC – Disabled Facilities Grant	Allocations for 23/24 and beyond not yet announced. For planning purposes assumed 22/23 allocations are maintained.
Universal Services	DfE – School Condition Allocation (SCA)	Details of individual local authority capital allocations not yet announced. The programme assumes the same allocations for 23/24 as received for 22/23.
Universal Services	DfT – Integrated Transport and Structural Maintenance	Three year settlement confirmed in 22/23. Programme assumes continues into 25/26 but this is TBC.

22. The capital programme provides a significant boost to the local economy through jobs and the purchase of construction materials. This is a very significant investment in the infrastructure of Hampshire. Furthermore, the capital programme also presents opportunities for the County Council to contribute towards its climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050.

Contextual information

23. The County Council has continued to maintain its capital programme throughout the period of austerity. Despite the challenging financial environment, actual capital expenditure has averaged around £233m per annum over the last 5 years.

24. A large proportion of the capital programme is funded from external sources, predominantly capital grants and contributions from other bodies, including developers. These sources accounted for about 79% of capital expenditure in 2021/22. This expenditure is supplemented by capital receipts from the sale of assets owned by the County Council (5% of the capital programme funding in 2021/22). The remaining expenditure (16% in 2021/22) is funded from the County Council's reserves and the revenue budget, either through in-year

planned contributions to capital or by future obligations created by the use of prudential borrowing.

25. The cash limit guidelines for the new capital programme for 2023/24 to 2025/26 were set out in the Budget Setting and Provisional Cash Limits 2022/23 report to Cabinet on 13 December 2022. This report outlined provisional guidelines to allow detailed capital programmes to be prepared.

26. Executive members have now prepared proposals for:

- A locally resourced capital programme for the three-year period from 2023/24 to 2025/26 within the guidelines set and other resources available to services.
- A programme of schemes supported by Government capital grants.

27. ‘Locally resourced’ schemes are those financed from the County Council’s own resources. This can include capital receipts, contributions from the revenue budget, prudential borrowing, reserves, and other funds. Schemes supported by capital grant from Government are not included.

28. The County Council underwent an organisational restructure in the latter part of 2022, with new directorates and Executive Member responsibilities coming into effect from January 2023.

29. The new Universal Services directorate brings together the delivery of public-facing services universally available to all, sitting alongside directorates for Adults’ Health and Care and Children’s Services, as well as internal enabling services. The restructure also saw the creation of the Hampshire 2050 directorate with the intention of providing a clear separation of ‘strategic functions’ from the more operational service delivery and planning within the public-facing directorates. As a result, the former ETE and CCBS departments have been disbanded and their functions transferred to other directorates.

30. As referenced within the Budget Setting and Provisional Cash Limits report taken to Cabinet on 13 December 2022, whilst the transition into the new corporate structure takes place, the two capital programmes for the former ETE and CCBS departments have been brought together under the new Universal Services directorate. For individual schemes, approval to spend in line with the County Council’s financial regulations will be taken through the relevant Executive Member.

31. It should be noted that elements within the proposed capital programme may need to be moved between directorates depending on the finalisation of the organisational restructure, but this will not change the value of the overall programme or individual schemes.

Inflation and resource capacity issues

32. The County Council continues to be affected by inflation and resource capacity issues**.** The construction industry has continued to face material and labour shortages with cost increases impacting on programmes of work. Instability within the industry on the back of Brexit and the Covid-19 pandemic continues to be evident. The ongoing war in Ukraine is having a significant further impact, creating uncertainty and affecting the availability and cost of critical materials such as steel, iron, timber and bitumen.

33. Headline inflation rates such as CPI and RPI are regularly reported in the media, however BCIS (Building Cost Information Service) construction industry cost data provides a better estimate of the impact of inflation on the goods and services required to deliver the County Council's capital programme. The BCIS are indicating that 2022 saw a 7.6% increase in tender prices from the fourth quarter of 2021, evident in some recent tender returns received by the County Council. BCIS is forecasting a further 5.4% increase in the first quarter of 2023. The maintenance cost indices have shown a slightly higher increase, with the average year on year cost increase during 2022 being between 8-9%.

34. The general position for the UK remains uncertain, with the rising cost of commodities continuing to affect the cost of materials, however material price growth is starting to ease from the high levels of mid-2022. The early engagement with contractors and delivery partners and the continued use of local and regional construction frameworks will help to mitigate the risks of cost uncertainty.

35. To further mitigate risk, Cabinet agreed in December 2022 to the creation of a new capital inflation risk reserve, funded from the previously agreed one-off capital inflation underwrite funding of £15m. Details of schemes requiring corporate support to meet inflationary pressures where all other avenues have been exhausted are provided later in this report.

36. Moreover, it is important that the County Council is fully cognisant of the additional risks when bidding competitively for external funding that is governed by legally binding funding agreements which typically require the County Council both to deliver the agreed scheme in full and to meet any cost overruns incurred. The County Council will also continue to review and reprioritise schemes and work packages to mitigate market capacity issues.

Government supported programme

37. The Government has issued all its support for local authorities' capital expenditure in the form of capital grants

Adult's Health and Care

38. The Secretary of State has not yet announced details of individual local authority capital allocations for 2023/24 or beyond. For planning purposes the continuation of 2022/23 allocations for the **Disabled Facilities Grant** is assumed. The funding is allocated as part of the Better Care Fund (BCF) pooled budget which is overseen by the Hampshire Health and Wellbeing Board. Grant conditions prevent the use of this funding for anything other than awarding grants for changes to a person's home

Children's Services

39. The Secretary of State has previously announced details of individual local authority Basic Need allocations for 2023/24 and 2024/25. Allocations to date for **Devolved Formula Capital** only cover 2022/23.

40. The 2023/24 and 2024/25 **Basic Need** allocations did not allocate any capital funding to Hampshire. Whilst this is disappointing, it was expected. The DfE capital allocations have largely caught up with the requirement and delivery of school places. There is the potential for a zero or low capital allocation in 2025/26 as the DfE assesses the impact of the free school places they directly fund. At this stage, it is considered prudent to assume a zero allocation. An update will be provided as soon as possible following capital announcements in 2023.

Universal Services

41. The **School Condition Allocation** (SCA) grant from Government is included in the Universal Services capital programme (as part of the former **CCBS capital programme**) however priorities are jointly agreed with Children's Services. The Secretary of State has not yet announced details of individual local authority capital allocations for 2023/24, 2024/25 and 2025/26. A continuation of the 2022/23 allocation is assumed in the 2023/24 programme.

42. The **Department for Transport (DfT)** confirmed a three-year settlement for allocations for **Integrated Transport** and **Structural Maintenance** in 2022/23. At the time of writing, the DfT has given no indication of future funding. For planning purposes, the values for 2025/26 included within the Universal Services capital programme (as part of the former **ETE capital programme**) are based on previous allocations, but they are subject to change.

43. Given the modest annual **LTP Integrated Transport Block funding** (£5.338m annually), the programme reflects the need of the County Council

to obtain additional external funding, through competitive bidding processes, to maximise the potential for delivery and address funding gaps.

44. At the time of writing, the County Council is awaiting decision of approximately £40m of transport infrastructure improvements within **Levelling Up Fund** bids across the county. This includes a £17.9m bid covering transport improvements in Havant and Gosport submitted by the County Council and several other bids submitted by Districts which also contained transport elements. Test Valley (Andover Town Centre Masterplan), Basingstoke and Deane (Manydown to Town Centre cycle route) and Havant and Gosport submitted bids which complemented the County Council submission.

45. The County Council also expects to be asked by Active Travel England to bid for **Active Travel Fund Tranche 4** capital funding in early 2023, which is estimated to be in the region of £15m. Furthermore, Active Travel England invited the County Council to submit a feasibility study into Mini-Holland funding for Winchester with potential funding expected to be between £10m and £30m. Although final submission dates have not been confirmed, it is anticipated that this will also be in early 2023.

Guideline cash limits for the remainder of the capital programme

46. The cash limit guidelines for the **locally resourced programme** were set by Cabinet in December 2022 and are shown in Table 4 (the 'original guidelines'). Table 4 also shows the use of reserves proposed by Executive Members and other adjustments to the guidelines, including the planned application of developers' contributions. Table 4 therefore shows all funding except capital grants and contributions from government.

Table 4 – Guideline cash limits for the capital programme*

	2023/24	**2024/25**	**2025/26**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Adults' Health and Care				
Original guideline	481	481	481	1,443
Adults' Health and Care Total	**481**	**481**	**481**	**1,443**
Children's Services				
Original guideline	100	100	100	300
Developers' contributions	9,883	38,900	70,500	119,283
Capital receipts	1,000	1,000	0	2,000
Contribution from reserves	2,750	4,000	1,000	7,750
Children's Services Total	**13,733**	**44,000**	**71,600**	**129,333**
Universal Services				
Original guideline	23,238	23,288	18,264	64,790
Developers' contributions	10,444	20,788	4,910	36,142
Contributions from revenue/reserves	11,039	0	0	11,039

Carry forward from previous years	336	414	0	750
Universal Services Total	**45,057**	**44,490**	**23,174**	**112,721**
Overall Total	**59,271**	**88,971**	**95,255**	**243,497**

* includes all schemes except those funded by government grants

47. The July 2022 report to Cabinet on developing a Medium Term Financial Strategy (MTFS) noted that the approved capital programme only includes the very highest priority schemes funded from local resources in addition to those attracting external funding. Three key actions were proposed by the Corporate Management Team and agreed by Cabinet (and County Council where appropriate). One of these actions was to increase the capital guidelines by £6.75m and £6.8m respectively for 2023/24 and 2024/25 to be funded by prudential borrowing. These increases have been reflected in the cash limit guidelines in this report. The additional money will meet health and safety and regulatory compliance and life cycle replacement costs.

The programmes submitted

48. Based on the capital funding identified in the previous paragraphs, Executive Members have submitted proposed three year capital programmes. The total starts value is £645.3m, as shown in Table 5. It includes £401.8m of schemes supported by Government grants and £243.5m of locally resourced schemes.

Table 5 – starts programme proposed 2022/23 to 2024/25

		Works etc			
	Land	**Locally resourced**	**Supported by Govt allocations**	**Total**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
2023/24	646	58,625	115,732	174,357	175,003
2024/25	646	88,325	164,795	253,120	253,766
2025/26	646	94,609	121,290	215,899	216,545
Total	**1,938**	**241,559**	**401,817**	**643,376**	**645,314**

49. Key themes for each directorate programme are set out below, with full details in Appendix 1.

Adults' Health and Care

50. The Adult Services capital programme for **locally resourced schemes** is £0.481m per annum of the 3 year programme and reflects the strategic aims of enabling people to live safe, healthy and independent lives, enjoy a rich and diverse environment and be part of a strong and inclusive community. It

includes contributions towards priority works on residential and nursing care premises to meet the needs of residents and service users to satisfy the requirements of regulators including the Care Quality Commission, The Fire Service and the Health and Safety Executive.

51. It is recognised that this level of funding enables only the very highest priority works to be carried out at the in-house residential care and nursing homes and over recent years re-allocated funding from the Adults’ Health and Care revenue budget has been approved to progress other essential works identified through asset management surveys and building inspections. The condition and suitability of the in-house residential and nursing care provision for older adults is being reviewed further as part of the longer-term strategy for meeting the needs of older adult clients. This strategy will explore options for future capital investment which may help mitigate financial pressure in the revenue budget for Adults’ Health and Care.

52. In addition to the schemes within the proposed capital programme, a significant programme of works started in previous years continues:

- **Transformation of Adult Learning Disability Services**: eight schemes have successfully been delivered through new facilities and significant improvements to existing assets. The programme has one further scheme in its programme.
- **Older Persons Extra-Care Housing**: A number of schemes to deliver the strategy approved in October 2011 to extend the development of Older Persons Extra-Care Housing.
- **Younger Adults Extra-Care Housing**: A programme to transition service users with a learning and/or physical disability from an existing care home setting to a shared house or individual group of flats
- **Health and Safety**: A programme of works to mitigate a range of health and safety liabilities and work identified through a series of detailed asset management surveys across the estate.

53. The locally resourced capital programme is supported by Government funding for the **Disabled Facilities Grant (DFG),** which is capital money available to local authorities to pay for essential housing adaptations to help disabled people stay in their homes. The Secretary of State has not yet announced details of individual local authority capital allocations for 2023/24 or beyond. For planning purposes, the programme assumes £14.252m in line with the prior year allocation.

Table 6 – Adult Services capital programme summary	**2023/24** **£m**	**2024/25** **£m**	**2025/26** **£m**	**Totals** **£m**
Locally resourced programme	0.481	0.481	0.481	**1.443**

Disabled Facilities Grant	14.252	14.252	14.252	**44.199**
Total	**14.733**	**14.733**	**14.733**	**45.642**

Children's Services

54. The Children's Services capital programme maintains a balanced position between income and expenditure over the proposed three-year programme. Despite the ongoing primary, secondary and SEND pressures, indications are that a balanced position will be maintained over the five-year period beyond the scope of this report. Further work is being undertaken with potential funders, including the Government, Local Planning Authorities, Developers and Local Enterprise Partnerships (LEPs) to maximise contributions from sources other than the County Council. The aim being to keep calls on the County Council's resources to a minimum.

55. The result is a **proposed three year programme of £221.1m, of which £34.4m is to fund schemes starting in 2023/24.** The planned investment programme continues to focus on school places and school condition. The 2024/25 onwards programme is indicative and subject to change.

56. The proposals continue an exciting investment by the County Council for Hampshire children that will not only help raise educational standards, but also create many additional local employment opportunities with its delivery. During the period 2013 to 2022 the County Council will have delivered 14,481 new school places with projects contained within the 2023/24 to 2025/26 programme totalling a further 4,393 places giving a total of 18,874 new school places by September 2025.

57. Hampshire continues to experience a significant pressure for school places across certain areas of the county as high birth years work their way through the school system and new housing (over 45,000 dwellings planned 2021 to 2028) is built across the county. There are also areas where trends suggest that pupil numbers are starting to fall, these will need to be monitored carefully. The new housing has been identified from existing local plan allocations and proposals emerging from District and Borough Council Local Plans currently in consultation.

58. The exciting **investment in new school places for Hampshire children is costed at around £175m** as part of a total investment programme of £221m over the next three years. The programme is then forecast to rise significantly beyond the three-year period of this report.

59. The current presumption (by the DfE) is that every new school will be an academy/free school. This means that once built the County Council hands

over the site and buildings to the Academy on a Full Repairing and Insuring 125-year lease but still retains the freehold of the site. The lead in time to establish a new primary school is around three years and a secondary school around four years, two years in design and statutory consultation and two years to build.

60. 10 schools are on the planning horizon to September 2027, however the timing of new provision to serve new developments will be dependent on the build out of the new housing.

61. There has been a significant increase in numbers of pupils requiring a Special Educational Needs and Disabilities (SEND) specialist school place. The increase in the SEND school population has put a significant pressure on existing special schools and resourced provisions. Increased numbers alongside advances in medical technology are giving rise to some schools having very specific accommodation needs to meet the specialist and often complex requirements of individual pupils. The forward capital programme includes a number of special school projects, with 7 projects totalling over £9m for additional SEND school places in Hampshire in development and to be provided by September 2024.

62. During 2022, the government announced it will build up to 60 new centrally delivered special and Alternative Provision free schools as part of the £2.6bn capital investment in high needs provision across the Spending Review Period, to open from September 2025, creating around 4,500 special school places. As part of Hampshire's SEND Sufficiency Strategy 2023-2027, and to meet the need for children with SEND in Hampshire, the Council has bid to the DfE for two new Special Schools as part of this special programme. The outcome of bids is expected early in 2023.

63. As part of the Early Years Sufficiency Strategy, £3m has been allocated to create new places and improve the condition of existing provision. Part of this funding will support existing operators to operate more efficiently and therefore remain in the market. The funding is for financial year 2023/24. Currently, replacement provision at Little Deer's Day Nursery, Burley and a new provision at Denmead Junior, Waterlooville have been approved from this funding.

64. The focus of capital investment in recent years has been on Basic Need and Capital Maintenance. However, it is recognised that some buildings are now in need of significant suitability investment that is beyond individual school budgets. Resources of £5m (including fees) were allocated over a three-year programme of investment to ensure facilities are fit for purpose and continue to provide good quality learning environments. It is now proposed to continue this important investment programme with an allocation of £2m per annum from 2023/24 onwards. Three key areas of focus for this funding have been identified:

- Improvements to school facilities, such as refurbishment of science laboratories
- Reconfiguration and accessibility work at Special Schools to better meet current curriculum delivery and learning requirements for all pupils
- Environmental improvements to the function of ventilation and acoustics of school facilities.

65. The proposed programme includes other improvement and modernisation projects relating to access to schools, adaptations to properties/equipment for foster carers and disabled children and young people, and schools Devolved Formula Capital.

Table 7 – Children's Services capital programme summary	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**Totals £m**
New schools and extensions	17.223	87.450	70.500	**175.173**
Early Years/Childcare Sufficiency	3.000	0.000	0.000	**3.000**
New modular classrooms	2.000	2.000	2.000	**6.000**
Other special school and SEN improvements	1.000	1.000	1.000	**3.000**
School Suitability Programme	2.000	2.000	2.000	**6.000**
Access improvements in schools	0.500	0.500	0.500	**1.500**
Social Care projects	0.750	0.500	0.500	**1.750**
Health and Safety	0.400	0.400	0.400	**1.200**
Schools' devolved formula capital	3.354	3.354	3.354	**10.062**
Furniture and equipment and ICT	0.250	0.250	0.250	**0.750**
Contingency	3.960	3.237	5.450	**12.647**
Total	**34.437**	**100.691**	**85.954**	**221.082**

Funded by				
Basic Need grant	24.850	49.000	0.000	73.850
Schools' Devolved Capital	3.354	3.354	3.354	10.062
Developers' contributions	9.883	38.900	70.500	119.283
Local resources – capital priorities	2.750	4.000	1.000	7.750
Capital receipts	1.000	0.000	0.000	1.000
Cash limit guidelines	0.100	0.100	0.100	0.300
High Needs Provision Grant carried forward	0.500	30.337	0.000	30.837
Carry forward of resources*	(8.000)	(25.000)	11.000	(22.000)
Total funding	**34.437**	**100.691**	**85.954**	**221.082**

* includes carry forward beyond the 3 year programme

66. There are a number of schemes and allocations where the Executive Lead Member for Children's Services proposes the carry forward of resources to future years of the capital programme. In many cases this is due to the need to obtain the necessary statutory approvals and sometimes as a result of changes in the scope, brief or programming of projects. It is proposed to carry forward resources of £16.050m from 2022/23 across a number of schemes, the most significant of which being Winton Academy (£5.6m).

Table 8 – Children's Services carry forward requests	**Carry forward from 2022/23 £m**	**Carry forward from 2023/24 £m**
Denmead Junior School, Waterlooville	0.700	
Early Years/Childcare Sufficiency	0.600	
Little Deer's Nursery, Burley	0.700	
Liphook Infant & Junior Schools, Liphook	1.300	
Park View Primary School, Basingstoke	0.800	
Sharps Copse Primary School, Havant	1.850	
Winton Academy, Andover	5.600	

Contingency	4.000	
High Needs Grant	0.500	
Subtotal	**16.050**	
High needs provision grant	15.961	14.376
Total	**32.011**	**14.376**

67. Additionally, it is proposed to carry forward the high needs provision grant of £15.961m and £14.376m from 2022/23 and 2023/24 respectively to support named projects in 2024/25.

68. The County Council has established a local and national reputation for the quality of its school buildings. It has continued to deliver cost efficient/better value school projects despite the challenges within the building industry. Delivery has been achieved by forward planning, using existing contractor framework arrangements with common design principles and collaborative, proactive risk management of supply chain pressures. Given the scale of the County Council's Capital Programmes (including Children's Services), early and good design judgements, together with innovation in modern methods of construction and robust cost controls, continue to be imperative.

69. The County Council is continuing to lead the national study to benchmark the cost of schools across the country. This study is endorsed by the DfE and provides invaluable information on the 'true' cost of providing school places. This evidence is being used to benchmark value for money for Hampshire schools and to inform negotiations with Government, local planning authorities and developers to maximise funding for the provision of additional pupil places across Hampshire.

Universal Services

70. The County Council's new directorate structure and Executive Member responsibilities took effect from 1 January 2023. Whilst the transition into the new corporate structure takes place, the capital programmes for the former Economy, Transport and Environment (ETE) and Culture, Communities and Business Services (CCBS) departments have been brought together under the new Universal Services directorate. Key themes from the two programmes are set out below.

Economy, Transport and Environment

71. The Executive Lead Member for Universal Services has proposed a **3 year capital programme totalling £246.2m** relating to schemes put forward by the former ETE department. The proposed programme includes £142.5m of investment in structural maintenance and £103.4m in the integrated

transported programme as well as £0.3m for flood and coastal defence schemes. Government formula settlements (£115.5m) and government competitively bid grants (£54.6m) make up about 70% of the funding. The most significant other funding sources are local resources (£42.8m) and developer contributions (£32.0m).

72. There are significant financial challenges to the Transport and Environment capital programme as the economy experiences the highest rates of inflation for many years, with construction costs, particularly those influenced by oil prices, seeing some of the steepest rises.

73. Increasingly, the County Council will therefore have to rely on its own resources to bring forward new schemes at a time when its budget is facing depletion by high inflation, and manage this either by rescheduling delivery, pushing back or deferring schemes, and doing less within the budget.

74. This is compounded by emerging evidence that indicates a significant reduction in levels of future Government capital funding from competitive bidding, based on the mixed results of bid submissions in early 2022 to the Active Travel Fund, with bids to the Levelling Up fund and the Bus Service Improvement Plan being unsuccessful. This will cause disruption to the forward capital programme and affect the Integrated Transport sub-programme, in particular.

75. Furthermore, the annual settlements for the Highways Maintenance block funding and the Integrated Transport block were set for three years in 2022/23 with no adjustment to allow for inflationary pressures, which will result in less work being delivered on the ground, as funding will in real terms diminish in value over time. At the time of writing, the Department for Transport (DfT) has made no indication about funding beyond 2024/25 which creates uncertainty for the forward strategic outlook.

76. The **Structural Maintenance** budget is used to extend the life of an existing asset and is made up of two major programmes of work:

- The Structural Planned Maintenance programme (£41.9m in 2023/24 includes Operation Resilience, local depot sub-programmes, and Intelligent Transport Systems (replacing life expired equipment). Operation Resilience is expected to comprise about 73% of the spend in 2022/23 (£30.5m).
- The Bridges and Structures programme (£6.5m in 2023/24) consists of works to County Council owned Highway structures, which includes roads, bridges, culverts (1.5m span or more), subways and retaining walls, as well as works on pumps at subways and low spots in the carriageway.

77. Budgets are allocated in line with Hampshire County Council's Asset Management principles and needs based budgeting. Programmes are developed based on various factors, including condition, remaining life and lifecycle planning including whole life costs.

78. The **Integrated Transport Plan (ITP)** programme operates on a 'starts' basis and the proposed total value across 2022/23 to 2024/25 of £103.4m does not therefore include the value of schemes currently in delivery which commenced prior to 2022/23, such as Brighton Hill Roundabout, A326 Fawley Waterside, Lynchford Road and Transforming Cities Funded schemes totalling over £80m. Nor does it include the M27 Junction 10 improvement project of £97.55m as approved by Cabinet on 13 July 2021.

79. The provisional programme for 2024/25 and 2025/26 includes £52m of schemes where funding is not yet secured but where submissions will be made as part of future rounds for Active Travel Funding (£31m), Bus Service Improvement Plan (£11m) and Levelling Up Fund (£10m). The programme also includes a sub-programme of almost £58m relating to schemes mainly concerned with walking and/or cycling improvements, an increase of approximately £8m from 2022/23. This reflects the increased investment in walking and cycling infrastructure and the capital programme's shift in emphasis to sustainable transport measures to contribute to the County Council's de-carbonisation and climate change ambitions.

80. Whilst there remains some uncertainty regarding the details of the secondary legislation covering the implementation of the waste management measures of the Environment Act 2021, it has set a clear direction and in line with that, the County Council has progressed with both the business case and planning permission for a new Materials Recycling Facility (MRF) at Chickenhall Lane in Eastleigh (£30m). These have both been secured successfully and work is now underway on the detailed design and procurement activity with work on site due to commence in early 2024 and the facility being fully operational in 2025/26. Work is also underway as part of the **Waste Programme** on waste transfer stations, the transition to the new system for 13 waste collection authorities and Household Waste Recycling Centre service provision to ensure it provides a fit for purpose and cost effective service for the long term.

81. The County Council's **Flood Risk and Coastal Defence Programme** is an important part of its response to the challenge of climate change. Over the next 3 years, new capital funding from the programme funded by local resources is £0.3m. This does not, however, include the value of schemes currently in design and delivery which started prior to 2023/24 and the estimated value of the total programme is £24.6m. The programme is supported with external funding from the Flood Defence Grant in Aid (FDGiA), Regional Flood and Coastal Committee (RFCC) Local Levy, other local authorities, and developers contributions. Schemes will be identified as areas

at highest risk of flooding become more apparent and will be funded by the unallocated balance of £1.8m.

82. The proposed programme is summarised below with further details in Appendix 1.

Table 9 – Universal Services (ETE) capital programme summary	**2023/24** **£m**	**2024/25** **£m**	**2025/26** **£m**	**Totals** **£m**
Structural Maintenance	48.416	48.816	45.316	**142.548**
Integrated Transport	16.614	53.252	33.500	**103.366**
Flood and Coastal Defence	0.106	0.106	0.106	**0.318**
Total	**65.136**	**102.174**	**78.922**	**246.232**
Funded by				
Direct revenue contributions (Operation Resilience)	10.000	10.000	10.000	30.000
Prudential Borrowing (Developing an MTFS agreed priorities)	3.100	3.500	0.000	6.600
Capital cash limit guidelines (direct revenue contributions)	1.929	1.929	1.929	5.787
Capital receipts	0.000	0.414	0.000	0.414
Developer contributions	6.821	19.948	4.910	31.679
DfT grants and contributions	42.509	65.543	62.083	170.135
Other external sources	0.777	0.840	0.000	1.617
Total funding	**65.136**	**102.174**	**78.922**	**246.232**

Culture Communities and Business Services (CCBS)

83. The Executive Lead Member for Universal Services has proposed a **3 year capital programme totalling £132m** relating to schemes put forward by the former CCBS department.

84. The locally resourced programme includes **prudential borrowing** to enable vehicle purchases by Hampshire Transport Management (£3.4m per annum) where costs will be recovered through business unit recharges to users of the vehicles as well as £3.65m and £3.3m in 2023/24 and 2024/25 respectively to fund health and safety and regulatory compliance and life cycle replacement costs, as agreed in the Developing a Medium Term Financial Strategy report to Cabinet and County Council.

85. The programme also includes various schemes to be funded from a combination of the **capital cash limit guidelines** agreed by Cabinet in December 2022 and **contributions from departmental revenue and reserves.**

86. In addition, it is proposed that **£8.575m is carried forward from the 2022/23 locally resourced programme** and added to the 2023/24 programme. This includes a number of schemes, the largest of which relate to planned investments in the corporate estate that were put on hold in 2022/23 to enable time for further development of the corporate office strategy and asset rationalisation programmes (£3.4m), six AHC Health & Safety schemes funded by the Infection Control Fund grant (£1.5m), and funding as part of the energy performance programme which will enable further investment in the County Council's electric vehicle infrastructure.

87. The CCBS programme also includes schemes to be funded from the central government **School Condition Allocation (SCA)** grant funding. Details of individual local authority grant contributions have not yet been announced by the Secretary of State, so a continuation of the 2022/23 allocation of £23.085m per annum is assumed for planning purposes. Within this funding, a project to re-roof Fleet Infant School is above the threshold for named schemes (£0.75m) with other programmes of work being developed to address identified condition priorities across the schools' estate.

88. In line with normal timescales for design, development and procurement, programmes are planned for delivery on site in future years and it is proposed to **carry forward £30.658m of SCA funding** from the 2022/23 programme into future years.

89. The Universal Services (CCBS) proposed 3 year capital programme is summarised in Table 10, with further details in Appendix 1.

Table 10 – Universal Services (CCBS) capital programme summary	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**
HTM vehicles	3.400	3.400	3.400

Corporate Estate – office accommodation	5.699	1.685	0.185
Corporate Estate – countryside and outdoors	6.781	2.128	0.328
AHC Health & Safety works	1.518		
Energy performance programme	1.450		
Schools Condition Allocation schemes	41.203	28.309	30.601
Advantageous Land	0.646	0.646	0.646
Total CCBS programme	**60.697**	**36.168**	**35.160**
Funded by			
Prudential borrowing (HTM vehicles)	3.400	3.400	3.400
Prudential borrowing (Developing an MTFS agreed priorities)	3.650	3.300	
Capital cash limit guidelines (direct revenue contributions)	1.159	1.159	1.159
Other local resources incl carry forwards	11.375		
External contribution	0.110		
SCA capital grant	23.085	23.085	23.085
SCA capital grant carried forward from 2022/23	17.918	5.224	7.516
Total funding of CCBS programme	**60.697**	**36.168**	**35.160**

Capital inflation risk reserve

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

91. Inflationary levels across the construction sector continue to have a significant financial impact on the delivery of the capital programme. Detailed analysis of live projects and industry analysis has been used to review cost estimates. Industry inflation figures (Building Cost Information Services – BCIS) provide a starting point but are considered to be too low based on actual price increases being experienced and have therefore been increased slightly to more realistically reflect inflationary pressures.

92. The County Council continues to engage collaboratively with delivery partners to anticipate and where possible manage price and delivery pressures in the supply chain and to defer schemes where possible to mitigate inflationary pressures. Moreover, further application of s106 funding to relevant schemes has been applied, enabling the release of LTP funding to offset cost pressures on specific appropriate schemes. As a last resort, where there is no alternative funding source to apply and there is no realistic option to halt a scheme in progress, the County Council will consider the use of the corporate capital inflation risk reserve in relation to unavoidable inflationary and other pressures.

93. Table 11 provides a summary of the recommended draws from the capital inflation risk reserve, with supporting commentary included alongside recommendations for other revisions to the 2022/23 capital programme in the paragraphs following the table. One call on this funding was identified in the December 2022 report and £0.95m was allocated to the A326 (South) project, part of the ETE capital programme. It is now recommended that a further £9.249m is drawn from the original £15m and assuming these amounts are agreed there will be £4.801m left within the new capital inflation risk reserve.

Table 11 – proposed draws from capital inflation risk reserve	**Inflationary pressure** **£'000**
Original capital inflation underwrite	**15,000**
A326 (South) (approved Dec 22)	(950)
Currently unallocated balance	**14,050**
Botley Bypass	(2,910)
M27 J9	(600)
Stubbington Bypass	(970)
Woodhouse Lane South	(177)
Lynchford Road	(755)

Uplands Development Infrastructure	(3,837)
Remaining reserve balance	**4,801**

Revisions to the capital programme 2022/23

94. The sections above detailing the proposed 3 year capital programmes for 2023/2 to 2025/26 include proposals to carry forward amounts from the 2022/23 programme to add to the forward programme.

95. During the current financial year the capital programme has been revised to reflect additional funding sources and revised timetables for some schemes, with reporting and decisions in line with approval thresholds set out within the County Council's Financial Regulations.

96. Executive Members have now proposed further amendments to the 2022/23 capital programme. The revised directorate capital programme cash limits for 2022/23 to be approved by Cabinet and County Council are set out in Table 12. This includes the changes already approved through the relevant routes during the year as well as those set out in individual Executive Member capital programme reports supporting the February 2022 budget setting cycle.

Table 12 – revised 2022/23 capital programme	**Original 22/23 capital programme (Feb 22)** £'000	**Revised 22/23 capital programme** £'000
Adults' Health & Care	14,733	35,176
Children's Services	32,530	47,339
Universal Services	169,462	199,281
Total	**216,725**	**281,796**

97. Where individual changes to schemes require the approval of Cabinet and/or County Council set out in recent Executive Member capital programme reports are detailed below.

Botley Bypass

98. The Botley Bypass scheme forms part of the **Universal Services** capital programme and involves the construction of a bypass for the village of Botley, comprising a new 1.8km long single carriageway two-way road together with associated widening and improvements to a section of Woodhouse Lane. In addition a new four-arm roundabout will be constructed at the eastern end of the bypass.

99. The scheme is predicted to have a significant increase in cost due to inflationary factors. In addition, there is a need to increase the risk contingency to cover other delivery issues such as very challenging ground conditions, particularly in relation to the construction of the new budget over the river Hamble, and a new risk relating to the reclassification of a large diameter water extraction main as being of strategic importance and therefore requiring additional protections.

100. It is recommended that the scheme value is increased from £23.1m to £31.1m with the additional cost to be funded through a combination of additional local resources (£5.09m funded by developer contributions and unallocated budget for amenity trees) and a draw from the capital inflation risk reserve (£2.91m).

M27 Junction 9

101. This scheme is part of the **Universal Services** programme and is jointly funded by Hampshire County Council and National Highways. It is complimentary to and considered critical to ensuring that the £14m invested by the Solent Local Enterprise Partnership (LEP) to widen Whiteley Way and the £150m invested by Highways England in the M27 Smart Motorway scheme will be a success. The scheme is currently on site with completion scheduled for winter 2022/23. Delays with planned utility diversions and additional works have had an adverse impact on the scheme, extending the construction programme at a time of high inflation, creating a cost pressure of £1.325m. It is recommended that the scheme value is increased to £24.453m funded provisionally in part by the use of the capital risk reserve (up to £0.6m) pending the conclusion of funding discussions with National Highways, with the remainder to be funded from s106 developer contributions (£0.725m), which is considered value for money as the scheme will have strategic impact providing wider benefits to the public.

Stubbington Bypass

102. The scheme is funded by the Department for Transport, Solent LEP and Hampshire County Council and is part of the **Universal Services** programme. The new bypass was opened in summer 2022 however delays to street lighting connections, managing the impact of unchartered services and embankment facing works extended the contract into winter 2022/23.

The effect of a prolonged programme combined with inflationary and commercial pressures has increased project costs by £2.2m. It is recommended that the scheme value is therefore increased to £44.195m to be funded by LTP grant (£1.23m) and the capital risk reserve (£0.97m). The LTP funding has been released from other commitments following a review of the planned programme where it is appropriate to use alternative funding in the form of s106 funding.

Woodhouse Lane South

103. Improvements to Woodhouse Lane South to widen the carriageway, improve highway infrastructure and deliver walking and cycling improvements are integral to Phase 1 of the works and valued at £5.7m. The scheme is currently on site with completion scheduled for April 2023 and has been adversely affected by delays associated with utility diversions, design changes and securing statutory approvals. The changes have extended timescales and, when coupled with inflationary pressures, means the scheme value is expected to increase by £0.177m. It is therefore recommended that the scheme value within the **Universal Services** programme is increased to £5.877m, with the increase to be funded by the capital risk reserve.

Lynchford Road

104. Following public feedback, the Executive Lead Member for Economy, Transport and Environment gave approval for the implementation of the Farnborough Growth Package on 18 November 2021, of which this scheme is one element. The scheme has an original value of £12m and is funded by the Enterprise M3 LEP, Active Travel funding and local resources. It is on site with a construction programme which extends into autumn 2023 and forms part of the **Universal Services** programme. The evolution of the works to add value has had an impact on construction costs, as has cost inflation. Tenders have been received relatively recently for this project and it is recommended that the scheme value is increased by £0.755m to cover the proportion of the tender sum assigned to inflation over the construction period. It is recommended that this is funded from the capital risk reserve.

Uplands Development Infrastructure

105. The Uplands Development Infrastructure (UDI) scheme is a project that has and will provide servicing arrangements (highways and utilities) to support the delivery of Deer Park School and housing on the County Council owned Woodhouse Meadows site at Hedge End. It currently has an approved project budget of £28.489m, which is funded by Infrastructure funding (HIF) from Homes England, developer contributions and future capital receipts.

The scheme is nearing completion with £27.2m spent to date at the time of writing

106. Approval is now sought to add £3.837m to the scheme value to cover inflationary cost pressures (£0.758m) as well as other costs arising from a change in scheme design and a significant extension to the construction programme (£3.079m) to be funded by the capital risk reserve. The result is a revised scheme value of £32.326m within the **Universal Services** capital programme.

Hiltingbury Junior School SCOLA recladding

107. The Executive Member for Commercial Strategy, Human Resources and Performance agreed funding of £1.546m for the recladding of Hiltingbury Junior School on 17 March 2021. This scheme formed part of the 2022/23 capital programme to be funded from SCA grant and forms part of the planned carry forward to 2023/24 set out above.

108. The Buildings, Land and Procurement Panel agreed in April 2022 to proposals to develop a pilot project for the recladding of an existing SCOLA school using low-carbon construction, including the installation of heat-pump heating. Hiltingbury School was selected as an appropriate pilot candidate. The proposed project will give the building its intended new lease of life while meeting the key objectives of the pilot around resilience to environmental impacts of climate change, energy efficiency and low levels of embodied carbon for a project of this type. A bid for Salix grant funding to install a ground source heat-pump has also been submitted, however if unsuccessful the project will continue without this element and the scheme value reduced correspondingly.

109. As such, it is recommended that £2.265m is added to the scheme value giving a new scheme value of £3.811m within the **Universal Services** capital programme. The increase will be funded from unallocated SCA funding (£1.765m), CCBS climate change investment programme (£0.2m) and Salix grant (£0.3m). £0.58m will be removed from the scheme value if the Salix grant bid is unsuccessful and the heat pump element removed.

Springwood Junior patent glazing upgrade scheme

110. The Executive Member for Commercial Strategy, Human Resources and Performance agreed funding of £1.165m for the patent glazing upgrade at Springwood Junior School on 17 March 2021. This scheme formed part of the 2022/23 capital programme to be funded from SCA grant and forms part of the planned carry forward to 2023/24 set out above. It is recommended that £1.165m is added to the scheme value, giving new scheme value of £1.785m within the **Universal Services** capital programme. The increase

will be funded from currently unallocated SCA grant and will allow the project to encompass a broader scope of works by upgrading metal sheets on the same roof, alongside the original work to the patent glazing.

Capital financing

111. There are different ways in which projects in the capital programme can be financed:

- Capital grants from Government
- Contributions from other bodies such as developers, the health service, and other local authorities
- Capital receipts from the sale of land, buildings, and other assets
- Contributions from the revenue budget including those held in the capital reserve and departmental reserves
- Prudential borrowing, which will involve borrowing money from external sources and/or the use of internal cash balances.

112. Where prudential borrowing is used, there will be an impact on the revenue budget. This is explained in more detail in the section of this report on prudential borrowing and revenue implications of the programme.

113. Planned sources of funding have been identified for all items within the proposed and prior year capital programmes. However, as most capital schemes are delivered over more than one year, the actual cash flow of capital income and expenditure each year varies from the programme. The forecast sources of funding to match current forecasts for capital payments are set out in Table 13.

Table 13 – Resources to fund capital expenditure

	2022/23 £’000	**2023/24 £’000**	**2024/25 £’000**	**2025/26 £’000**	**Future £’000**
Prudential borrowing	24,923	41,771	49,330	22,582	32,367
less repayments from capital	(6,950)	(12,881)	(21,686)	(11,225)	(53,738)
Capital grants	123,514	132,232	142,032	115,260	103,419
Contributions from other bodies*	51,620	82,087	69,823	71,922	71,863
Capital receipts	2,848	7,523	19,140	11,662	27,554
Dec 22 cash limit guidelines	3,669	3,669	3,669	3,669	0
Other revenue contributions	4,470	4,378	2,672	564	2,385
Use of the capital reserve	17,414	36,126	16,506	15,167	8,952
Use of revenue reserves	1,077	1,750	0	0	0
Total planned use of resources	**222,585**	**296,655**	**281,486**	**229,601**	**192,802**

* including developers

114. Progress will be monitored during the remainder of 2022/23 and throughout 2023/24 and reported to the Leader during the year. Executive Members will also review progress on their capital programmes at regular intervals.

Prudential borrowing

115. Prudential borrowing is one of the ways in which the County Council may fund its capital programme. The use of prudential borrowing is carefully managed in line with the requirements of the Prudential Code for Capital Finance in Local Authorities and in accordance with the County Council's Capital and Investment Strategy (appendix 7 of the revenue budget report on this agenda).

116. Prudential borrowing may be in the form of borrowing from external sources to fund capital schemes. Alternatively, as part of its Treasury Management Strategy, the County Council may instead decide to use internal borrowing. This refers to the use of internal cash balances to finance capital expenditure in place of borrowing money from external sources. Both approaches to funding schemes are referred to as prudential borrowing.

117. Funding schemes through prudential borrowing increases the County Council's Capital Financing Requirement (CFR) and results in ongoing charges to the revenue budget in future years through the Minimum Revenue Provision (MRP). In addition, where external debt is taken on, the County Council will incur interest charges.

118. Table 14 provides details of outstanding and planned prudential borrowing advances under the framework for prudential borrowing agreed by Cabinet in February 2006. For further details, see the Capital and Investment Strategy (Appendix 7 to the revenue budget report)

Table 14 – Summary of outstanding and planned prudential borrowing advances

	£'000
CFR for prudential borrowing at 31/3/22	175,202
Forecast additional prudential borrowing 202/23 to 2025/26	131,656
Outstanding and planned prudential borrowing	**306,858**
<u>To be financed by:</u>	
Minimum Revenue Provision charges to the revenue budget	235,314

Capital receipts, developer contributions and other one-off contributions	71,544

119. MRP charges to the revenue budget will be incurred over time in accordance with the County Council's MRP Statement within its Capital and Investment Strategy.

Capital reserve

120. The capital reserve shown in Table 15 holds approved local resources until they are required to fund capital payments as schemes progress. The County Council's approach is to apply grants and other contributions before using its own resources. Table 15 shows the planned draws identified as the use of the capital reserve in Table 13 plus other planned movements in this reserve.

Table 15 – Capital reserve

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Opening balance	167,414	113,096	81,433	72,112
Application to schemes	(17,414)	(36,126)	(16,506)	(15,167)
Application of capital receipts	(2,838)	(5,457)	(2,815)	(1,862)
Other draws	(58,504)	0	0	0
Additions	25,111	10,000	10,000	10,000
Closing balance	**113,769**	**82,186**	**72,865**	**65,836**

Revenue implications

121. The revenue implications of the new programme are shown in Table 16.

Table 16 – Revenue effects

	Running costs £'000	Capital charges £'000	Total £'000
2023/24 starts	232	5,525	5,757
2024/25 starts	746	6,452	7,198
2025/26 starts	470	5,297	5,767
Total	**1,448**	**17,273**	**18,721**

122. The capital charges represent depreciation over the estimated life of the asset for most schemes and provide an accounting estimate for the cost of

using assets to deliver services. These capital charges will however be reversed out of service budgets to the capital adjustment account (CAA) prior to the calculation of the budget requirement. The CAA is an unusable reserve and statutory requirements mean that depreciation charges cannot be included when calculating council tax.

123. The budget requirement will, however, be increased by the capital financing costs associated with financing the programme through prudential borrowing, predominantly equal to the Minimum Revenue Provision plus any interest payments on external debt (defined in aggregate as financing costs). The estimated financing cost as a proportion of the net revenue stream is a key indicator of the affordability of the County Council's capital programme and is one of the Prudential Indicators detailed within the Capital and Investment Strategy. The net annual increase in MRP as a result of the proposed three-year programme is approximately £6m by 2025/26, of which about £2m relates to HTM vehicles purchases where costs will be recovered through business unit charging. MRP costs are taken into account in the MTFS.

Consultation and Equalities

124. 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 have 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.

125. Equalities impact assessments will be considered when individual project appraisals are developed for the schemes included in the approved capital programme.

Climate Change Impact Assessment

126. 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

127. This report collates the overall capital programme for approval. All relevant developments within the capital programme are subject to individual assessments and climate change impacts will therefore be assessed through project appraisals as part of the approval to spend process for

individual programmes and projects. Where appropriate, capital schemes are planned with adaptation to climate change in mind, such as the inclusion of passive cooling, solar shading, sustainable urban drainage and rainwater harvesting systems in building projects. This will take account of technical feasibility and what is deliverable within budget constraints.

Conclusions

128. Executive Members have proposed capital programmes for the next three years in line with the Corporate Strategy and County Council priorities. The locally resourced guidelines set by Cabinet in December 2022 have been supplemented with contributions from reserves and developers. They have also been adjusted by transfers between programme years. In addition, the programme includes projects funded by Government grants. In total, this gives a programme for the next three years of £645.3m

129. Regular monitoring will take place during the year on the implementation of the programme, including the progress of major projects, the level of capital expenditure and resources in 2023/24, and the progress on obtaining the capital receipts necessary to finance the capital programme.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Financial update and budget setting and provisional cash limits for 2023/24 (Cabinet)	13 December 2022
Children's Services Capital Programme 2023/24 to 2025/26 (Executive Lead Member for Children's Services)	12 January 2023
Adults' Health and Care Capital Programme for 2023/24 to 2025/26 (Executive Member for Adult Services and Public Health)	24 January 2023
Universal Services Capital Programme 2023/24 to 2025/26 (Executive Lead Member for Universal Services)	23 January 2023
Economy, Transport and Environment Capital Programme Quarter 3 2022/2023 (Executive Lead Member for Universal Services)	23 January 2023
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

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 but the County Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account. Equalities impact assessments will be considered when individual project appraisals are developed for the schemes included in the approved capital programme.

Adult Services — **Capital Programme - 2023/24**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2023/24 Schemes											
	Schemes Supported from Local Resources											
1	Maintaining Operational Buildings including Residential and Nursing Care	284	47	150	481	-	22	N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	1
	Schemes supported by the Government											
2	Disabled Facilities Grant	-	-	14,252	14,252	-	-	N/A	1	12	Grant paid to District Councils to fund adaptions to people's homes	2
	Total Programme	284	47	14,402	14,733	-	22					

+ Projects to be partly funded from external contributions.

Adult Services | **Capital Programme - 2024/25**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2024/25 Schemes											
	Schemes Supported from Local Resources											
3	Maintaining Operational Buildings including Residential and Nursing Care	284	47	150	481	-	22	N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	3
	Schemes supported by the Government											
4	Disabled Facilities Grant	-	-	14,252	14,252	-	-	N/A	1	12	Grant paid to District Councils to fund adaptions to people's homes	4
	Total Programme	284	47	14,402	14,733	-	22					
											+ Projects to be partly funded from external contributions.	

Adult Services — **Capital Programme - 2025/26**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*		
	2025/26 Schemes											
	Schemes Supported from Local Resources											
5	Maintaining Operational Buildings including Residential and Nursing Care	284	47	150	481	-	22	N/A	1	12	Continuation of programme for the provision / replacement of furniture and equipment in residential / day care establishments, and to upgrade establishments to contemporary standards.	5
	Schemes supported by the Government											
6	Disabled Facilities Grant	-	-	14,252	14,252	-	-	N/A	1	12	Grant paid to District Councils to fund adaptions to people's homes	6
	Total Programme	284	47	14,402	14,733	-	22					
											+ Projects to be partly funded from external contributions.	

Children's Services — **Capital Programme - 2023/24**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2023/24 Schemes											
	Children's Social Care											
25	Foster Carers	429	71	-	500	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary.	25
26	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	26
27	Early Years/Childcare sufficiency	1,373	227	-	1,600	-	32	N/A	Various	Various	Improvements to Early Years facilities	27
28	Denmead Junior, Waterlooville	648	52	-	700	-	23	Owned	2	3	New nursery provision	28
29	Little Deer's Day Nursery, Burley	648	52	-	700	-	23	Owned	2	3	Improvements to Early Years facilities	29
	Primary School Improvements											
30	Bordon Infant & Junior, Bordon	3,691	609	-	4,300	-	86	Owned	2	9	1fe Expansion	30
31	Liphook Infant & Junior, Liphook	1,116	184	-	1,300	-	26	Owned	2	6	School improvements	31
32	Oakley Infant & Junior, Basingstoke	258	42	-	300	-	6	Owned	2	3	School improvements	32
33	Park View Primary, Basingstoke	687	113		800	-	16	Owned	2	6	School improvements	33
34	Sharps Copse Primary, Havant	1,588	262	-	1,850	-	37	Owned	2	6	School improvements	34
35	Vigo Primary/Norman Gate School, Andover	258	42	-	300	-	6	Owned	2	3	School improvements	35
	Secondary School Improvements											
36	The Romsey School, Romsey	583	-	-	583	-	12	Owned	2	3	School improvements	36
37	Winton Academy, Andover	4,807	793	-	5,600	-	112	Owned	2	12	1fe Expansion	37
38	**Special School Improvements**	858	142	-	1,000	-	20	Owned	Various	Various	Rebuild and refurbishment of special schools.	38
39	Guillemont Junior, Farnborough	807	133	-	940	-	19	Owned	2	6	New ASC resourced provision	39
40	Lakeside School, Chandlers Ford	694	56	-	750	-	25	Owned	2	3	Additional 6 place provision	40

Appendix 1

Children's Services | **Capital Programme - 2023/24**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2023/24 Schemes											
	High Needs Provision Grant											
41	Morelands Primary, Havant	197	33	-	230	-	8	Owned	2	3	New 8 place ASC resourced provision	41
42	St Jude's RC Primary, Fareham	232	38	-	270	-	5	Owned	2	3	New 6 place ASC resourced provision	42
43	**School Suitability Programme**	1,245	205	-	1,450	-	29	Owned	Various	Various	Various projects to meet identified needs.	43
44	Forest Park School, Totton	472	78		550	-	11	Owned	2	6	School improvements	44
45	Purchase of modular classrooms	1,852	148	-	2,000	-	67	Owned	Various	Various	Various projects to be identified.	45
46	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues.	46
47	Schools Devolved Capital	3,354	-	-	3,354	-	67	N/A	Various	Various	Allocations to schools through devolved formula capital.	47
48	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school's builldings to improve accessibility.	48
49	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes.	49
50	Contingency	3,399	561	-	3,960	-	79	N/A	Various	Various		50
	Total Programme Supported by the Government and other bodies	11,523	1,191	250	12,964	-	309					
	Total Programme				12,964	-	309					

Projects controlled on an accrued expenditure basis
+ Projects partly funded from external contributions
* Projects externally funded

Children's Services — **Capital Programme - 2024/25**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2024/25 Schemes											
	Children's Social Care											
51	Foster Carers	215	35	-	250	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary.	51
52	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	52
	New Primary School Provision											
53	AUE 2nd School, Aldershot	9,013	1,487	-	10,500	-	-	Owned	2	12	New 2fe primary school to meet housing demand.	53
54	Berewood Primary, Havant	8,670	1,430	-	10,100	-	-	Owned	2	12	New 1.5fe primary school to meet housing demand.	54
55	Hounsome Fields, Basingstoke	11,416	1,884	-	13,300	-	-	Owned	2	12	New 2fe primary school to meet housing demand.	55
	Secondary School Improvements					-						
56	Alderwood School, Aldershot	7,983	1,317	-	9,300	-	-	Owned	2	12	Expansion to 8fe	56
57	Oakmoor Academy, Bordon	7,940	1,310	-	9,250	-	-	Owned	2	12	Expansion to 8fe	57
58	**Special School Improvements**	858	142	-	1,000		20	Owned	Various	Various	Rebuild and refurbishment of special schools.	58
	New Special School Provision					-						
59	Boorley Gardens, Eastleigh	12,876	2,124	-	15,000	-	-	Owned	2	15	New 90-125 place SEMH/ASD school.	59
60	Lady Betty's Drive, Whiteley	17,734	2,266	-	20,000	-	-	Owned	2	15	New 90-125 place complex needs school.	60
61	**School Suitability Programme**	1,245	205	-	1,450		29	Owned	Various	Various	Various improvements to meet identified needs.	61
62	Baycroft School, Fareham	472	78	-	550	-	11	Owned	2	6	School Improvements	62
63	Purchase of modular classrooms	1,852	148	-	2,000	-	67	Owned	Various	Various	Various projects to be identified.	63
64	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues.	64
65	Schools Devolved Capital	3,354	-	-	3,354	-	67	N/A	Various	Various	Allocations to schools through devolved formula capital.	65
66	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school's buildings to improve accessibility.	66
67	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes.	67
68	Contingency	2,779	458	-	3,237	-	65	N/A	Various	Various		68
	Total Programme Supported by the Government and other bodies	87,179	13,012	500	100,691	-	327					
	Total Programme				100,691	-	327					

Projects controlled on an accrued expenditure basis
\+ Projects partly funded from external contributions
* Projects externally funded

Appendix 1

Children's Services — **Capital Programme - 2025/26**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks	Ref
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months		
	2025/26 Schemes											
	Children's Social Care											
69	Foster Carers	215	35	-	250	-	-	N/A	Various	Various	Improvements to foster carers' homes where necessary.	69
70	Adaptation Equipment	-	-	250	250	-	25	N/A	Various	Various	Access improvement equipment for homes.	70
	New Primary School Provision											
71	Hartland Village, Fleet	8,069	1,331	-	9,400	-	-	Owned	2	12	New 2fe primary school to meet housing demand.	71
72	Manydown Primary, Basingstoke	8,069	1,331	-	9,400	-	-	Owned	2	12	New 2fe primary school to meet housing demand.	72
73	One Horton Heath, Fair Oak	8,069	1,331	-	9,400	-	-	Owned	2	12	New 2fe primary school to meet housing demand.	73
	Welborne Primary, Fareham	8,069	1,331	-	9,400	-	-	Owned	2	12	New 2fe primary school to meet housing demand.	
74	**New Secondary School Provision**											74
75	Whiteley Academy, Whiteley	28,240	4,660	-	32,900	-	-	Owned	2	24	New 6fe secondary school to meet housing demand	75
76	**Special School Improvements**	858	142	-	1,000	-	20	Owned	Various	Various	Rebuild and refurbishment of special schools.	76
	School Suitability Programme	1,717	283	-	2,000	-	40	Owned	Various	Various	Various projects to meet identified needs.	
77	Purchase of modular classrooms	1,852	148	-	2,000	-	67	N/A	Various	Various	Various projects to be identified.	77
78	Health and Safety	343	57	-	400	-	8	Owned	Various	Various	Improvements to address health and safety issues.	78
79	Schools Devolved Capital	3,354	-	-	3,354	-	67	N/A	Various	Various	Allocations to schools through devolved formula capital.	79
80	Access Improvements in Schools #	429	71	-	500	-	10	N/A	Various	Various	Improvements to school buildings to improve accessibility	80
81	Furniture and Equipment #	-	-	250	250	-	25	N/A	Various	Various	Provision of furniture and equipment for capital schemes.	81
82	Contingency	4,678	772	-	5,450	-	109	N/A	Various	Various		82
	Total Programme Supported by the Government and other bodies	73,962	11,492	500	85,954	-	371					
	Total Programme				85,954	-	371					

Projects controlled on an accrued expenditure basis
+ Projects partly funded from external contributions
* Projects externally funded

Appendix 1

Universal Services (ETE) **Capital Programme - 2023/24**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	
	2023/24 Schemes										
	Schemes Supported from Local Resources										
1	Structural Maintenance of Non Principal Roads #	13,431	1,492	-	14,923	-	746	N/A	1	12	Structural maintenance to improve road conditions.
2	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies
	Total Programme Supported by Local Resources	13,519	1,510	-	15,029	-	748				
	Schemes Supported by the Government and Other External Bodies										
3	Fair Oak Village Placemaking*	1,492	498	-	1,990	-	100	N/A	4	9	Pedestrian and cycle improvements
4	Redbridge Causeway Package 4: Ped/Cycle improvements *	1,279	427	-	1,706	-	85	N/A	4	8	Pedestrian and cycle improvements
5	Whitehill & Bordon GGGL – Hogmoor Road Traffic Measures*	750	250	-	1,000	-	50	N/A	4	12	Traffic and Cycle Improvements
6	SCR - Bishopstoke Road, Eastleigh+	3,975	1,325	-	5,300	-	265	N/A	2	7	Bus priority measures
7	Chapel Hill, Basingstoke Active Travel*	262	88	-	350	-	18	N/A	4	9	Pedestrian and cycle improvements
8	North Baddesley: Firgrove Rd to Castle Lane Cycle Track+	387	130	-	517	-	26	N/A	4	5	Provision of missing cycle link
9	Totton Station Access for All *	225	75	-	300	-	15	N/A	4	6	Accessibility improvement to station
10	Manydown to Basingstoke TC Cycle route (initial works)*	352	118	-	470	-	24	N/A	4	3	Cycle Improvements
11	Four Marks Five Lane junction drainage enhancements*	187	63	-	250	-	13	N/A	4	4	Drainage Improvements
12	Romsey Road, Clifton Terrace Winchester Phase 2*	285	95	-	380	-	19	N/A	4	6	Junction improvements
13	Worthy Road Corridor active travel improvements, Winchester*	375	125	-	500	-	25	N/A	4	12	Active travel improvements
14	Schemes Costing Less than £250,000+	1,538	513	-	2,051	-	103	N/A	1	12	Local Improvements sub-programme
15	Safety Schemes and Traffic Management #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty Reduction Programme & Traffic Management
16	Minor Improvements+	225	75	-	300	-	15	N/A	1	12	Improvement schemes costing less than £100,000 each.
17	Structural Maintenance of Roads and Bridges #	30,144	3,349	-	33,493	-	1,675	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.
	Total Programme Supported by the Government and other bodies	42,601	7,506	-	50,107	232	2,508				# Projects controlled on an accrued expenditure basis + Projects partly funded from external contributions * Projects externally funded
	Total Programme				65,136	232	3,256				

Universal Services (ETE) | **Capital Programme - 2024/25**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year Running Costs	Revenue Effect in Full Year Capital Charges	Site Position	Contract Start Date	Contract Start Duration	Remarks
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months	
	2024/25 Scheme										
	Schemes Supported from Local Resources										
18	Structural Maintenance of Non Principal Roads #	13,791	1,532	-	15,323	-	766	N/A	1	12	Structural maintenance to improve road conditions.
19	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies
	Total Programme Supported by Local Resources	13,879	1,550	-	15,429	-	768				
	Schemes Supported by the Government and Other External Bodies										
20	Andover Railway Station Placemaking*	750	250	-	1,000	-	50	N/A	4	7	Pedestrian & cycle improvements, public realm enhancements
21	Manydown to Basingstoke TC Cycle Route*	7,845	2,615	-	10,460	-	523	N/A	4	18	Cycling improvements
22	Petersfield Rd/Park Rd Nth, Havant Active Travel*	2,475	825	-	3,300	-	165	N/A	4	12	Pedestrian and cycle improvements
23	NCN22 Petersfield Rd Havant, Active Travel Phase 2*	2,250	750	-	3,000	-	150	N/A	4	12	Pedestrian and cycle improvements
24	A30 SW Corridor Basingstoke Cycle Route & Bus Priority*	6,150	2,050	-	8,200	-	410	N/A	4	18	Cycling and bus improvements
25	Stockbridge Road Corridor, Winchester: Active Travel *	1,875	625	-	2,500	-	125	N/A	4	12	Active travel improvements
26	Worthy Road Corridor, Winchester Active Travel *	1,500	500	-	2,000	-	100	N/A	4	12	Active travel improvements
27	Twyford Road, Eastleigh Active Travel+	3,825	1,275	-	5,100	-	255	N/A	4	12	Accessibility Improvements
28	Andover Town Centre Placemaking*	1,911	637	-	2,548	-	126	N/A	4	16	Multimodal placemaking improvements
29	Hamble Lane Multimodal+	3,750	1,250	-	5,000	-	250	N/A	4	12	Multimodal improvements
30	Fleet Town Access Plan (priority scheme)+	2,850	950	-	3,800	-	190	N/A	4	12	Active travel improvements
31	West End High Street Placemaking*	187	63	-	250	-	13	N/A	4	6	Placemaking and active travel improvements
32	Basing View to Basingstoke Placemaking*	337	113	-	450	-	23	N/A	4	6	Pedestrian improvements
33	Minley Road Multimodal*	397	133	-	530	-	27	N/A	4	6	Pedestrian and cycle improvements
34	Warsash to A27 Bridge Road Congestion Reduction*	600	200	-	800	-	40	N/A	4	12	Junction improvements
35	Improved Access to Swanwick Station*	450	150	-	600	-	30	N/A	4	12	Pedestrian and cycle improvements
36	Botley Village Placemaking	310	104	-	414	-	21	N/A	4	12	Footway widening, crossing and cycle improvements

Universal Services (ETE) **Capital Programme - 2024/25**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	
	2024/25 Schemes (continued)										
37	Schemes Costing Less than £250,000+	1,125	375	-	1,500	-	75	N/A	1	12	Local Improvements sub-programme
38	Safety Schemes and Traffic Management #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty Reduction Programme & Traffic Management
39	Minor Improvements +	225	75	-	300	-	15	N/A	1	12	Improvement schemes costing less than £100,000 each.
40	Structural Maintenance of Roads and Bridges #	30,144	3,349	-	33,493	-	1,675	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.
	Total Programme Supported by the Government and other bodies	70,081	16,664	-	86,745	746	4,338				
	Total Programme				102,174	746	5,106				

Projects controlled on an accrued expenditure basis
+ Projects partly funded from external contributions
* Projects externally funded

Universal Services (ETE) **Capital Programme - 2025/26**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months	
	2025/26 Schemes										
	Schemes Supported from Local Resources										
41	Structural Maintenance of Non Principal Roads #	10,641	1,182	-	11,823	-	590	N/A	1	12	Structural maintenance to improve road conditions.
42	Flood and Coastal Defence Management	88	18	-	106	-	2	N/A	-	-	Provision for works and strategies for coastal sites and flood defence including match funding for joint funded schemes with external bodies
	Total Programme Supported by Local Resources	10,729	1,200	-	11,929	-	592				
	Schemes Supported by the Government and Other External Bodies										
43	Basingstoke Bus Priority Measures*	5,850	1,950	-	7,800	-	390	N/A	4	18	Bus priority measures
44	Farnborough Gold 1 corridor Bus Priority Measures *	1,500	500	-	2,000	-	100	N/A	3	18	Bus priority on approaches to Gold 1 corridor
45	Tap-on Tap-off card readers on bus (countywide)*	900	300	-	1,200	-	60	N/A	3	6	Bus service improvements
46	Upgrade and further roll out of Real Time Information screens at b at bus stops (countywide)*	900	300	-	1,200	-	60	N/A	4	6	Bus stop improvements
47	Whitehill Bordon - Sleaford Lights Junction - A325/B3004*	750	250	-	1,000	-	50	N/A	4	12	Junction improvements
48	A27 Fareham to Portchester Active Travel *	7,500	2,500	-	10,000	-	500	N/A	4	24	Pedestrian and cycle improvements
49	Gosport Town Centre to Ferry Cycle Route*	5,250	1,750	-	7,000	-	350	N/A	4	12	Cycle improvements
50	Schemes Costing Less than £250,000+	1,125	375	-	1,500	-	75	N/A	1	12	Local Improvements sub-programme
51	Safety Schemes and Traffic Management #	1,125	375	-	1,500	-	75	N/A	1	12	Casualty Reduction Programme & Traffic Management
52	Minor Improvements +	225	75	-	300	-	15	N/A	1	12	Improvement schemes costing less than £100,000 each.
53	Structural Maintenance of Roads and Bridges #	30,144	3,349	-	33,493	-	1,675	N/A	1	12	Structural maintenance to improve road conditions and structural maintenance and strengthening of bridges.
	Total Programme Supported by the Government and other bodies	55,269	11,724	-	66,993	470	3,350				
	Total Programme				78,922	470	3,942				

Projects controlled on an accrued expenditure basis
+ Projects partly funded from external contributions
* Projects externally funded

Universal Services (CCBS) | **Capital Programme - 2023/24**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months	
	2023/24 Schemes										
	Schemes Supported from Local Resources										
1	Vehicles for Hampshire Transport Management	-	-	3,400	3,400	-	340	N/A	-	-	Continuing programme of replacing vehicles
2	Hampshire Transport Management Vehicle Workshop	515	85		600	-	12	Owned	2	6	Refurbishment of Petersfield HTM vehicle workshop
3	County Farms Building Improvements	429	71	-	500	-	10	Owned	1	12	Planned improvements to residential and farm buildings across the County Farms estate to ensure compliance with tenancy and agricultural regulations including energy efficiency measures
4	Corporate Estate	1,633	269	-	1,902	-	38	Owned	1	12	Planned improvements across the Corporate Estate to address backlog of condition based maintenance and ensure safety, compliance and business continuity for essential buildings
5	Fareham Parkway Improvements	2,146	354	-	2,500	-	50	Owned	1	12	Condition related and internal refurbishment works to improve working environment at Fareham Parkway office
6	Office Accommodation Capital Projects	194	32	-	226	-	5	Owned	1	12	Planned improvements to Office Accommodation
7	Facilities Management	245	41	-	286	-	6	Owned	1	12	Planned improvements to Facilities Management
8	Energy Performance Programme	1,245	205	-	1,450	-	29	Owned	1	12	Consolidation of existing energy funding across various workstreams into a single programme as part of the County Council's wider climate change programme. To include further investment in electric vehicle infrastructure and decarbonisation pilot projects
9	Adults' Health & Care Essential Health & Safety Works	1,303	215	-	1,518	-	30	Owned	1	12	Programme of essential health and safety improvement works across Adults' Health and Care buildings
10	Hampshire Outdoor Centres Transformation Programme	1,803	297	-	2,100	-	42	Owned	1	12	Programme includes range of improvements at Argoed Lwyd, Runways End and Tile Barn Outdoor Centres
11	Calshot Futures (Interim Works)	858	142	-	1,000	-	20	Leasehold	1	12	Interim programme of essential condition works, health and safety improvements and minor improvements to contribute to income generation opportunities
12	Country Parks Transformation Programme	367	61	-	428	-	9	Owned	1	12	Sewage treatment plant works at Lepe and Queen Elizabeth Country Parks and other essential improvement works
13	Countryside Bridges & Rights of Way	687	113	-	800	-	40	N/A	1	12	Planned works to address backlog of essential work to the condition of countryside bridges and rights of way
14	Countryside Improvements	582	96	-	678	-	14	Owned	1	12	Works to ensure compliance with health and safety regulations and meet HCC legal obligations as land owner. Planned works include improvements to livestock management, refurbishment of historic buildings at Manor Farm and capital repairs to lake wall at Staunton Country Park
15	Basingstoke Canal Swan Cutting Restoration	858	142	-	1,000	-	-	N/A	1	12	Swan cutting bank stabilisation works at North Warnborough
16	Basingstoke Canal	236	39	-	275	-	-	N/A	1	12	Continued management of canal assets including bank stabilisation, weirs and sluices and towpath
17	Programme Contingency	185	-	-	185	-	3	N/A	-	-	
	Total Programme Supported by Local Resources	13,286	2,162	3,400	18,848	-	647				

Appendix 1

Universal Services (CCBS) **Capital Programme - 2023/24**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year		Site Position	Contract Start		Remarks
						Running Costs	Capital Charges		Date	Duration	
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months	
	2023/24 Schemes (continued)										
	Schemes Supported by the Government										
	Schools Condition Allocation (SCA)										
18	Fleet Infant School, Fleet	644	106	-	750	-	15	Owned	2	9	Roof upgrade
19	Hart Plain Junior School, Waterlooville	1,350	223	-	1,573	-	31	Owned	2	9	SCOLA recladding
20	Hiltingbury Junior School, Eastleigh *	3,271	540	-	3,811	-	76	Owned	2	12	SCOLA recladding
21	Red Barn Primary, Fareham	601	99	-	700	-	14	Owned	2	9	Roof upgrade
22	Springwood Junior School, Waterlooville	1,532	253	-	1,785	-	36	Owned	2	9	Patent glazing upgrade
23	Schools Condition Allocation (schemes costing less than £500,000)	27,969	4,615	-	32,584	-	652	Owned	-	-	Major improvements to school buildings
	Total Schemes Supported by the Government	35,367	5,836	-	41,203	-	824				
	Total Excluding Land				60,051		1,471				
	Advance and Advantageous Land Purchases				646						
	Total Programme				60,697		1,471				

** Includes £200k CCBS Climate Change funding (to be carried forward from 2022/23)*

Universal Services (CCBS) **Capital Programme - 2024/25**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks
		£'000	£'000	£'000	£'000	£'000	£'000		Qtr	Months	
	2024/25 Schemes										
	Schemes Supported from Local Resources										
24	Vehicles for Hampshire Transport Management #	-	-	3,400	3,400	-	340	N/A	-	-	Continuing programme of replacing vehicles
25	County Farms Building Improvements	429	71	-	500	-	10	Owned	1	12	Planned improvements to residential and farm buildings across the County Farms estate to ensure compliance with tenancy and agricultural regulations including energy efficiency measures
26	Corporate Estate Schemes	1,288	212	-	1,500	-	30	Owned	1	12	Planned improvements across the Corporate Estate to address backlog of condition based maintenance and ensure safety, compliance and business continuity for essential buildings
27	CCBS Capital	328	-	-	328	-	7	Owned	1	12	Provision of minor works across the department including Library and Countryside services
28	Countryside Bridges & Rights of Way	687	113	-	800	-	40	N/A	1	12	Planned works to address backlog of essential work to the condition of countryside bridges and rights of way
29	Basingstoke Canal	429	71	-	500	-	-	N/A	1	12	Continued management of canal assets including bank stabilisation, weirs and sluices and towpath
30	Programme Contingency	185	-	-	185	-	3	N/A	-	-	
	Total Programme Supported by Local Resources	3,346	467	3,400	7,213	-	430				
	Schemes Supported by the Government										
	Schools Condition Allocation (SCA)										
31	Crookhorn College, Waterlooville	1,740	287	-	2,027	-	41	Owned	-	-	SCOLA recladding
32	Henry Beaufort, Winchester	1,800	297	-	2,097	-	42	Owned	-	-	SCOLA recladding
33	Marchwood Infant School, Southampton	944	156	-	1,100	-	22	Owned	-	-	Recladding and building upgrade
34	Schools Condition Allocation (schemes costing less than £500,000)	19,815	3,270	-	23,085	-	462	Owned	-	-	Major improvements to school buildings
	Total Schemes Supported by the Government	24,300	4,009	-	28,309	-	567				
	Total Excluding Land				35,522		997				
	Advance and Advantageous Land Purchases				646						
	Total Programme				36,168		997				

Universal Services (CCBS) **Capital Programme - 2025/26**

Ref	Project	Construct-ion Works	Fees	Furniture Equipment Vehicles Grants	Total Cost (excluding sites)	Revenue Effect in Full Year: Running Costs	Revenue Effect in Full Year: Capital Charges	Site Position	Contract Start: Date	Contract Start: Duration	Remarks
		£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*		*Qtr*	*Months*	
	2025/26 Schemes										
	Schemes Supported from Local Resources										
35	Vehicles for Hampshire Transport Management #	-	-	3,400	3,400	-	340	N/A	-	-	Continuing programme of replacing vehicles
36	CCBS Capital	328	-	-	328	-	7	Owned	1	12	Provision of minor works across the department including Library and Countryside services
37	Programme Contingency	185	-	-	185	-	3	N/A	-	-	
	Total Programme Supported by Local Resources	513	-	3,400	3,913	-	350				
	Schemes Supported by the Government										
	Schools Condition Allocation (SCA)										
38	Baycroft School, Fareham	2,146	354	-	2,500	-	50	Owned	-	-	SCOLA recladding and building refurbishment
39	Cranbourne School, Basingstoke	2,160	356	-	2,516	-	50	Owned	-	-	SCOLA recladding
40	Henry Cort Community College, Fareham	2,146	354	-	2,500	-	50	Owned	-	-	SCOLA recladding
41	Schools Condition Allocation (schemes costing less than £500,000)	19,815	3,270	-	23,085	-	462	Owned	-	-	Major improvements to school buildings
	Total Schemes Supported by the Government	26,267	4,334	-	30,601	-	612				
	Total Excluding Land				34,514		962				
	Advance and Advantageous Land Purchases				646						
	Total Programme				35,160		962				

HAMPSHIRE COUNTY COUNCIL

Report

Decision Maker	Cabinet
Date:	7 February 2023
Title:	*Serving Hampshire* – 2022/23 half year performance report
Report From:	Director People and Organisation

Contact name: Stephanie Randall, Deputy Director People and Organisation

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

Purpose of this Report

1. The purpose of this report is to provide Cabinet (in line with the Corporate Performance Management Framework):
    - strategic oversight of the County Council's performance during the first half of 2022/23 against the *Serving Hampshire* Strategic Plan for 2021-2025;
    - an outline of ongoing work and achievements to advance inclusion and diversity; and
    - a report on progress against the Council's Climate Change Strategy and Action Plan 2020-2025.

Recommendation(s)

2. It is recommended that Cabinet:
    - notes the County Council's performance for the first half of 2022/23;
    - notes progress towards delivering the County Council's Climate Change Strategy; and
    - notes progress to advance inclusion and diversity.

Executive Summary

3. This report demonstrates that:

- During the first half of 2022/23, the County Council has continued to deliver against the objectives of the 2021-25 Serving Hampshire Strategic Plan. The majority of corporate performance measures have shown improvement during the year, with more than half meeting challenging targets set at the start of the year. This is despite the current inflationary situation increasing the costs of materials and resources, as well as staffing pressures, made worse by increased workforce demand in the local economy.
- The County Council has continued to advance inclusion and diversity within its workforce, with actions undertaken to deliver on the Council's Equality Objectives and to ensure that all colleagues have equal access to support and new working opportunities.
- The County Council has also continued to make progress towards its commitments for Hampshire to be carbon neutral by 2050, and to improve the County's resilience to manage a 2°C rise in temperature, with the 2021/22 annual report recently published.

Contextual information

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

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

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

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

8. Summaries of the County Council's delivery of its Climate Change Strategy, and progress against the County Council's Inclusion, Diversity and Wellbeing work programme, also form part of the PMF. Progress on these themes is reported separately to Cabinet, the Executive Member for Hampshire 2050, Corporate Services and Resources and the Executive Member for Performance, Human Resources and Inclusion & Diversity. However, for completeness a brief update is included within this half year report.

9. The PMF also incorporates the reporting of progress made against the recommendations set out in the Hampshire 2050 Commission Report. The related 2021/22 Climate Change Annual Report was recently published, with a summary of key activities and outcomes presented in this report.

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

Overall performance

11. At the end of Q2 2022/23 19 of the 21 corporate performance measures (for which data was available) were reported by departments as being at low performance risk[1] and the remaining 2 as being at medium performance risk[2]. No measures were identified as high risk[3]. Where measures were reported as medium performance risk, departments have confirmed that appropriate mitigating actions are being implemented by the relevant services. Progress against these actions is overseen by each of the department's internal performance governance arrangements.

12. Overarching risks mentioned at half year included:
    - pressures on services and the Hampshire economy as a result of the increased costs of materials and resources caused by inflation; and
    - staffing pressures which have intensified with increased workforce demand in the local economy, placing additional burdens on staff budgets as well as increased competition for suitable staff.

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[1] Low performance risk indicates that there is no negative impact on the quality of the service, the public's and service users' confidence in the service, the service cost, or the service's adherence to statutory requirements

[2] Medium performance risk indicates that the level of performance reflects a level of risk to the service, however this is understood and, where necessary, plans are in place to address this

[3] High performance risk would indicate where the level of performance represents a risk to the service, and where there are not currently plans to address this

13. This Performance Report also illustrates how the Council is delivering strong services through internal and external accreditations attained by the County Council's services in Appendix 1.

14. The following sections outline performance against each outcome in the Performance Management Framework. This information is supplemented by a longer list of performance highlights contained in Appendix 2.

Outcome One: Hampshire maintains strong and resilient economic growth and prosperity

15. The measures reporting against this outcome aim to ensure that Hampshire has the right conditions for economic growth to flourish. At half year, all had shown maintained or improved performance against baseline. Although the level of development contributions secured had not yet reached its annual target (as shown below) this is not unusual at half year and is not seen as a performance risk for the County Council.

Measure	Baseline	Target	Most recent data
Level of development contribution secured (total) - Corporate Infrastructure Group measure	£44m (2021/22) £0 (start of 2022/23)	£44m	£9.025m (Q2 2022/23)

16. Performance highlights against Outcome One at half year included:
    - The completion of work on the Stubbington Bypass. This 3.5-mile road opened to traffic in May 2022, with the aim of reducing journey times and supporting regeneration on the Gosport Peninsula.
    - The County Council's £5.5 million replacement of a 114-year-old rail bridge on the A35 at Holmsley, New Forest.
    - Hampshire Futures, which provides career guidance and support to young people, being awarded the Department for Education's Matrix Quality Standard for a third time. The service's delivery of information, advice and guidance was described as 'exemplary,' and the service's objectivity, impartiality, client focus and aspirational nature was also praised.
    - The County Council secured a £13.4 million award from the Department for Transport to complete maintenance of infrastructure along Redbridge Causeway, a transport link between the New Forest Waterside area, the City of Southampton and other local destinations

Outcome Two: People in Hampshire live safe, healthy, and independent lives

17. The measures against this outcome aim to enable all children and young people to have the best possible start in life and fulfil their potential and to help people to stay safe and well and look after their physical and mental health, whilst maintaining their independence.

18. All measures reporting against this outcome at half year had maintained or improved their performance since the start of the year.

19. Only one measure was reported as medium risk. The ‘Percentage of clients who received a Reablement or Interim commissioned service from Adults' Health and Care following Hospital Discharge’, at 76%, has not shown improvement since the start of 2022/23 (79%). Services have seen increasing demand from people needing support as they leave hospital, and service capacity has been strengthened to support this process with the aim of mitigating this ongoing risk.

20. Four measures have not yet delivered on their annual targets, as shown below, with the school placement measures narrowly missing their aspirational targets. All of these were rated as presenting a low performance risk to the County Council and have maintained performance at a similar level to their baselines.

Measure	Baseline	Target	Most recent data
HC3S School Meal Take Up at Primary Schools	52.2% (Q4 2021/22)	53.6%	49.2% (Q2 2022/23)
Proportion of parental preferences (1st, 2nd, or 3rd) for school admissions which have been successful for starting school (reception)	98.43% (2021)	100%	98.30% (Apr 2022)
Proportion of parental preferences (1st, 2nd, or 3rd) for school admissions which have been successful for infant to junior transfer (Year 3)	99.10% (2021)	100%	99.30% (Apr 2022)
Proportion of parental preferences (1st, 2nd, or 3rd) for school admissions which have been successful for transfer to secondary school (Year7)	97.65% (2021)	100%	98.06% (Apr 2022)

21. In the case of the measures relating to school places, the School Admissions Team uses insight available on expected future school admission places to ensure sufficiency during the year R, 3 and 7 admission rounds, whilst recognising the Local Authority's commitment to ensuring that, as far as possible, schools serve their local community. The stretch target is aspirational, helping to provide a focus on ensuring local school availability in the areas where Hampshire children live. Whilst the Admissions Team cannot dictate that parents and carers use their three preferences, name their catchment school or name realistic preferences, the service is consistently able to offer 97% of parents and carers a place at one of their preferred schools, demonstrating effective planning, sufficiency of school places for Hampshire residents, and effective service delivery, even if the aspirational target of 100% is not achieved.

22. Performance highlights against Outcome Two at half year included:
    - Work on 50 Extra Care housing properties commencing in Wooldridge View, located in the Forest Pines area of New Milton.
    - The County Council investing in projects to help people dependent on alcohol and drugs, by increasing the capacity of the Criminal Justice and Substance Misuse Teams, commissioning a new specialist Alcohol Team for community-based treatment, and continuing its support for the harm reduction team.
    - 100 library staff, across 10 Hampshire libraries, receiving 'Safe at Home' training to enable them to provide guidance and conduct sensitive conversations with victims and survivors of domestic abuse. Library stock and IT resources in libraries were also updated to support victims of domestic abuse and direct them to other resources available to assist them. The project was nominated for a Police and Crime Commissioners Victim Services Award.
    - The County Council launching its 'Keep Warm Keep Well' scheme to protect vulnerable people who are struggling with their day-to-day bills. The support available includes guidance on claiming free school meals and getting advice on managing finances, and also links to warm spaces in Hampshire open to residents who may struggle to pay heating bills over the winter.

Outcome Three: People in Hampshire enjoy a rich and diverse environment

23. Outcome Three encompasses measures that aim to sustainably protect, maintain, and enhance Hampshire's natural and built environment. These had all shown improved performance since the start of 2022/23 and were reported as low performance risk. Only one measure, despite being reported as low risk and showing improved performance, had not yet met its target for 2022/23:

Measure	Baseline	Target	Most recent data
Number of visits to cultural venues (Libraries, Archives and the Great Hall) in last 12 months	2,043,017 (2021/22)	2,702,500	2,667,703 (Q2 2022/23)

24. Performance highlights against Outcome Three at half year included:
    - Continued tree planting along the Hampshire highways network which is expected to introduce over 3,000 trees in 2022/23.
    - All five of the County Council's Country Parks being re-awarded Green Flag status for 2022, plus a new Green Flag being awarded to Wellesley Woodland.
    - Completion of the Public Sector Decarbonisation Scheme, delivering solar energy collection, building insulation, and boiler conversions at hundreds of schools, care homes, libraries, outdoor centres, and other publicly owned buildings across Hampshire.
    - Shortlisting of Micheldever's highways materials recycling and reprocessing facility for Carbon Project of the Year in the 2022 Construction News Awards. It was praised for its approach to reducing the carbon cost of highways construction and maintenance.

25. Outcome Three also incorporates work towards securing carbon neutrality for Hampshire by 2050, ensuring a response to climate change is fully embedded in the County Council's work.

26. The 2021/22 Climate Change Annual Report was presented to the Executive Member for Climate Change and Sustainability in November 2022. The report set out the delivery of the County Council's Climate Change Strategy between July 2021 and July 2022, with examples shown listed:
    - Progress on ensuring corporate awareness and accountability on climate change, covering work that has been done on supporting staff within the County Council to use the new mandatory Decision Tools, the work of the Climate Change Board, and the delivery of Climate Change Action Plan.

This includes the Hampshire Solar Together Scheme, which has seen over 800 potential customers engage with the scheme, of which almost 160 have already had solar panels and/or batteries installed, and a further 550 have booked installations in the near future. This would deliver the equivalent of 4,000 tonnes of carbon savings over the 25 years' guaranteed lifetime of the devices. A new round of the scheme opened in August 2022 to build on the success of this project, which is cost neutral to the County Council.

- Activities undertaken as part of the County Council's 2022 Year of Climate Resilience to improve awareness amongst County Council employees, Hampshire, residents, and other stakeholders on the importance of resilience to climate change and the roles they could play. This included the introduction of a climate change adaptation tool for staff to assess the impact of climate change to be included with all decision reports via climate change impact assessments.
- Partnerships to support the Climate Change Strategy, which have continued to develop, with 20 organisations now making up the Expert Forum, which meets quarterly to guide the County Council's actions and to avoid duplication of other groups' activities. Engagement with local partnerships also takes place, including the Hampshire Climate Change Officers Group across Hampshire's district and unitary authorities, and the Public Sector Sustainable Development Group, with the aim of enabling behavioural change, investment in the Hampshire economy, and replicating best practice from the sector.
- Overall, the net county-wide carbon emissions estimates for Hampshire in 2019 were 6,482.93 ktCO2. This includes -377.14 ktCO2 accorded to sequestration through land use and represents a reduction of 40.88% since 2005 and 5.13% since 2017. The climate change team will continue to update the figures and include methane and nitrous oxide emissions in future baselines, using the latest data that is available from the Department for Business, Energy and Industrial Strategy (BEIS).
- Next steps include the development of an energy strategy to support long-term energy supply alongside delivering net-zero carbon emissions, retrofitting Hampshire sites to support carbon neutrality, and developing commercial opportunities available through green activities. 2023 will increase the focus of work to combat climate change on inequality, particularly as costs of living risk impacting the most vulnerable residents in Hampshire.

Outcome Four: People in Hampshire enjoy being part of strong, inclusive, resilient communities

27. Outcome Four promotes social equality, community resilience and development, with measures generally following a positive trajectory at the half year stage. However, the number of school places delivered in 2022/23 to date (273), suggests that the total for the year will be lower than in 2021/22

(1,870). Achievement of this measure is reliant on the completion of school refurbishments or new builds to meet defined need, and as such is not delivered at a consistent pace. The target set for 2022/23 (133 places) has already been achieved.

28. Performance highlights against Outcome Four at half year included:

- The County Council commemorating the Queen's Platinum Jubilee across its services during the summer, by providing family-friendly events in the Council's Country Parks and libraries, planting of a commemorative tree in Queen Elizabeth County Park, and holding a special Citizenship ceremony held in the Great Hall.
- In September, the County Council helping residents of Hampshire to pay their respects to the late Monarch by providing and overseeing public books of condolence at the Great Hall and the Council's Winchester offices. This followed a sensitive communications plan that made the public aware of opportunities to pay their respects to the late Queen, and the publication of a short film outlining relevant activity during the mourning period.
- The co-ordination of the proclamation of King Charles III outside Winchester's Great Hall, as well as live-streaming the event to allow those who could not attend to watch online.
- Providing extra support to Hampshire residents hosting Ukrainian guests as part of the Government's 'Homes for Ukraine' Scheme, with an additional £200 per month for five months beyond the funding already provided by the Government.
- Receiving listed status for Hampshire's Record Office in Winchester. The office was one of six landmark sites across the UK awarded listed status by the Department of Digital, Culture, Media and Sport to commemorate the Platinum Jubilee in 2022.

Delivering effective use of business resources

29. Of the three business-resource measures in the performance framework, two were rated as low performance risk, with one (Tt2019 and Tt2021 savings) rated as medium performance risk. This measure also has shown reduced performance and is not currently expected to be achieved fully during 2022/23.

Measure	Baseline	Target	Most recent data
Tt2019 and Tt2021 savings	£29.9m (2021/22)	£28.3m	£25.6m (Q2 2022/23)

30. Achievement of this measure has been delayed as Tt2021 savings in HCC Care totalling £1.2m are expected to be delivered a year later than forecast as a result of the implementation of a revised staffing structure taking longer than had originally been envisaged. Additionally, Tt2021 savings in the Younger and Older Adults Programmes totalling £1.5m are expected to be delayed due to increasing volumes of demand for domiciliary and residential and nursing care services, and deliberately delayed delivery of some elements of the Younger Adults savings programme. 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.

31. These measures also monitor the proportion of County Council's working hours lost to sickness absence in the previous 12 months. The latest position reported indicates that there has been an improvement on the previous year (a reduction of 0.4%, to 3.6%), but that levels have not yet achieved the aspirational target of 3%. This is not considered a performance risk.

Measure	Baseline	Target	Most recent data
County Council's working hours lost to sickness absence in the previous 12 months	4.0% (2021/22)	3%	3.6% (Q2 2022/23)

32. Progress against the County Council's Equality Objectives is also tracked as part of the PMF. Key actions delivered in the first half of 2022/23 to improve inclusion at the County Council and deliver on these Council's Equality Objectives included:

- an update to the Flexible Working Policy to improve access to flexible working opportunities across the workforce, following feedback in from colleagues;
- the delivery of four Local Transport Authority (LTA) LGBT+ sessions, with feedback at the sessions suggesting that attendees' confidence discussing LGBT+ issues was improved by the events;
- a corporate commitment to the Menopause Workplace Pledge to ensure that employees affected by Menopause are able to access support with good awareness of the issue amongst the workforce;
- celebrating Black History Month in October with a 'Lets Talk About Race' session with an expert speaker on the topic of courageous conversations about Race and the practical approaches everyone can take to address racism, alongside other events to improve awareness of race issues; and
- several additional 'Let's Talk About' sessions which covered a range of LGBT+ and Gender related topics, supported by a podcast produced by the Apprenticeship Team and a "I am who I am" video to highlight lived

experiences amongst colleagues and the value of diversity in the workforce;

- raising awareness of our zero tolerance position on abuse through planned internal and externals campaigns, helping to strengthen people's confidence and understanding of how to report incidents when these occur, working toward our commitment to ensure our diverse workforce is treated with dignity and respect;
- work is also underway to improve awareness of, and confidence to use, quantitative and qualitative Inclusion and Diversity data to inform how we plan for and identify the potential equality impacts of future changes we may make to the services we deliver.

Conclusions

33. This report and its supporting appendices demonstrate that the County Council's services have performed strongly over the first half of 2022/23, with most corporate performance measures showing improved or maintained performance, and no measures being rated as representing a high-performance risk to the County Council.

34. The County Council delivered this performance against a complex backdrop of ongoing and emerging challenges during the year, including the cost of living crisis which is impacting residents and public services through increased costs.

35. Some measures are not on course to meet their targets. Where this is the case, the reasons for this are understood and further work and regular monitoring are, where necessary, in place to help deliver these targets in the future.

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

37. The County Council also continues to deliver against its strong commitment to inclusion, diversity, and wellbeing for its staff, with ongoing delivery of its Equality Objectives and actions undertaken to improve access to support and to new working opportunities.

38. The 2021/22 Climate Change Annual Progress Report demonstrates the work being undertaken to deliver the County Council's Climate Change Strategy,

with new workstreams building a focus on reducing inequality as costs of living rise, to help residents afford sustainable energy.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title Serving Hampshire Strategic Plan 2021-2025 and Corporate Performance Management Framework	Date 13 July 2021
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

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

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

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

2. **Equalities Impact Assessment:**

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

3. **Climate Change Impact Assessment**

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

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

Appendix 1: Sources of internal and external validation

Assessment title	Area	External/internal	Latest judgement
Children's Services			
Inspection of Local Authority Children's Services	Full children's social care inspection	External – Ofsted	Hampshire was judged as *Outstanding* across all areas in June 2019.
Inspection of children's homes	Residential care homes inspection	External – Ofsted	Seven out of the 10 open children's homes have been inspected during the current 2022/23 Ofsted inspection cycle. One home remains temporarily closed. Four out of the seven homes inspected are currently graded Good.
Joint Targeted Area Inspection	Multi-agency response to identification of initial need and risk	External - Ofsted plus CQC and HMICFRS inspectorates	No judgement grade awarded, however the final letter was very positive with headlines being that vulnerable children benefit from highly effective multi-agency safeguarding children's partnerships. Hampshire was inspected in November 2021.
School Inspections	Inspections of schools	External – Ofsted	As of 31 August 2022, 93% of schools were judged to be Good or Outstanding by Ofsted.
Social care self-assessment	Self-evaluation is an integral element of inspection of the local authority children's services (ILACS) framework	Internal and external – shared with Ofsted prior to annual conversation with the Director of Children's Services	The 2021 Social Care Self-Assessment was sent to Ofsted ahead of the annual conversation which took place on 7 March 2022.

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

Economy, Transport and Environment			
UKAS Accreditation	County Highways Laboratory	External – UKAS (UK Accreditation Service)	Accreditation is to ensure compliance with Standard BS ISO/IEC 17025:2017. Audits are undertaken annually – accreditation was maintained following 2022 audit.
Culture, Communities and Business Services			
Operational Authorisation (Replaces the Permission for Commercial Operations)	Drone Service (Asbestos)	External – The Civil Aviation Authority	Permission granted from 16th Sept 2022 until and including 16th Sept 2023.
UKAS Accreditation	Hampshire Scientific and Asbestos Management services following an annual assessment	External – UKAS (UK Accreditation Service)	UKAS provide accreditation that Hampshire's scientific testing and inspection activities are conducted to the standard set out in ISO 17020 and 17025 and comply with the Forensic Regulators Code of Practice. UKAS audit Hampshire Scientific Service annually for compliance and the last assessment was in May 2022 - accreditation was maintained
Adventure Activities Licensing Services (AALS) Inspection	Hampshire Outdoor Centres	External – Adventure Activities Licensing Authority	Calshot Activities Centre: Validation expires July 2023 Argoed Lwyd Outdoor Education Centre: Validation expires 29/6/2023

Learning Outside the Classroom (LOtC)	Hampshire Outdoor Centres	External - Council for Learning Outside the Classroom (CLOtC)	Calshot Activities Centre: Validation expires September 2023 Tile Barn Outdoor Centre: Validation expires Aug 2024 Runway's End Outdoor Centre. Expires Feb 2023
Adventuremark	Hampshire Outdoor Centres	External - Adventure Activity Industry Advisory Committee (AAIAC)	Calshot Activities Centre: Validation expires June 2023 Tile Barn Outdoor Centre: Validation expires Aug 2024 Runway's End Outdoor Centre. Expires Feb 2023
National Indoor Climbing Award Scheme (NICAS)	Hampshire Outdoor Centres	External - ABC Training Trust	Calshot Activities Centre: Validation expires at the end of August 2023
Royal Yachting Association (RYA) Recognised Training Centre	Hampshire Outdoor Centres	External - Royal Yachting Association (RYA)	Calshot Activities Centre – Recognised Training Centre – Validation Expires 31st March 2023
Royal Yachting Association (RYA) Sailability accreditation	Hampshire Outdoor Centres	External - Royal Yachting Association (RYA)	Calshot Activities Centre – Recognised Training Centre – provide accessible shore-based facilities for sensory, physical or other disabilities Validation Expires 31st March 2023
British Canoeing Quality Mark (BC)	Hampshire Outdoor Centres	External - British Canoeing	Calshot Activities Centre – Quality mark – expires December 2022

Green Flag Awards	Outdoor accreditation for a variety of areas	External - Keep Britain Tidy	Annual Awards for 2022 resulted in all 5 Country Parks receiving Green Flag awards and a new Green Flag went to Wellesley Woodland. Royal Victoria Country Park and Staunton Country Park have also been awarded the Green Heritage Award for 2022
Ease of Use Survey	Volunteer survey of the Rights of Way network	External	Audits a minimum of 5% of the network each year (2.5% twice a year, in May and November), based on a set methodology. The Ramblers have been provided with mobile devices and training to undertake 2022 survey in November and we are looking for increased pass rate in 2022 (> 65.5% pass against all criteria).
Sites of Special Scientific Interest (SSSIs)	Countryside sites in Hampshire, as part of UK wide assessment	External – Natural England	Natural England assesses the condition of SSSIs using Common Standards Monitoring (CSM)1. One of the largest grassland sites in southern England owned by HCC and Natural England has recently been reassessed as in Favourable Condition from unfavourable recovering.
Animal and Plant Health Agency (APHA) checks	Inspect animal health and welfare	External - Animal and Plant Health Agency	Spot check countryside sites for animal health and welfare and plant disease
Food Hygiene Ratings	Countryside Country Park cafes	Environmental Health Officer	Current ratings: 5-star ratings at Manor Farm, Staunton Farm, Titchfield Haven, Royal Victoria, Lepe Country Parks and Queen Elizabeth Country Park

General Register Office (GRO) – Stock and Security Audit	Registration – provides assurance to the GRO Compliance and Performance Unit	External - General Register Office	Received positive high rating in 2016, The most recent GRO Stock and Security Audit was carried out on 10th October 2022. Awaiting feedback
General Register Office (GRO) Annual Performance Report	Registration- provides assurance to the GRO on local performance against agreed KPIs and improvement plan	External - General Register Office	Last report – Aug 2022. Positive comments received regarding performance and development of service. Next report is due Aug 23.
Annual allergen audits	HC3S	Internal	Allergen audits are now completed internally. During the academic year, Sept 2021 to Aug 2022, 69 were completed with an average score of 91.2%.
Annual kitchen audits	HC3S internal audit covering various aspects of catering operation i.e. health and safety, training, finance	Internal	Healthy Kitchen Assessments (HKA's) are undertaken throughout the year and records are held of all those completed per academic year, Sept 2021 to Aug 2022. COVID-19 continued to impacted access to schools for 21/22 and 46 HKAs were completed. The average score was 91.1%.
Food Hygiene Rating	HC3S – all catering sites	Environmental Health Officers (EHO)	EHO visits each HC3S run kitchen approximately every 18 months. 105 sites were visited in 2021/22 with (93) 88% achieving the maximum rating of 5.

Institute of Road Transport Engineers (IRTE) Workshop and Technician Accreditation	Hampshire Transport Management	External – Logistics UK	HTM have an external accreditation and audit by Logistics UK every 3 years for the workshop and technicians to be IRTE accredited. All 5 workshops were audited and passed in 2021. This is due again by Easter 2024. The technicians are assessed on a rolling 3-year basis.
Compliance with the Port Marine Safety Code	River Hamble Harbour Authority	External - Maritime and Coastguard Agency	Certification of compliance with the Port Marine Safety Code. Compliance at 3 yearly intervals. Expires March 2024.
Compliance with Merchant Shipping (Oil Pollution Preparedness Response and Co-operation Convention Regulations 1998)	River Hamble Harbour Authority	External - Maritime and Coastguard Agency	Endorsement of Oil Spill Contingency Plan. Compliance with Merchant Shipping (Oil Pollution Preparedness Response and Co-operation Convention Regulations 1998). 5 yearly intervals. Expires August 2023.
Compliance with the Merchant Shipping and Fishing Vessels' (Port Waste Reception Facilities) Regulations 2003	River Hamble Harbour Authority	External - Maritime and Coastguard Agency	Endorsement of Port Waste Management Plan. Compliance with the Merchant Shipping and Fishing Vessels' (Port Waste Reception Facilities) regulations 2003. 3 yearly intervals. Expires September 2023. Inspection conducted 25 March 2022 – Compliant.
Management and retention of HCC paper records managed by the Records Management Services within CCBS	Corporate Records Management Service	Internal – Southern Internal Audit Partnership	Part of the internal Audit Plan for 2021/22. There was a reasonable (green) system of governance, risk management and control in place.
Corporate Services			

Disability Confident Employer	Corporate	External – HM Government Disability Confident scheme	Accreditation valid until October 2024.
2019 National Inclusion Standard	Corporate	External – Inclusive Employers	Participated in the 2019 Standard Assessment and awarded *Bronze* (September 2019) – accreditation remains valid
Accreditation to ISO20000 Service Management and ISO27001 Information Security for IT services	IT services.	External - British Standards Institute (BSI)	Audited on compliance in September 2020, which was awarded with no areas of non-conformity. This award is valid until September 2023.
Public Sector Internal Audit Standards	Audit services	External - Institute of Internal Auditors	Fully compliant – awarded September 2020 (valid 2020-2025)
Shared Services infrastructure and business processes have been independently accredited to ISAE3402	Shared Services	External – audit undertaken by Ernst and Young	ISAE3402 has been successfully achieved for 2022/23 based on the design and operating effectiveness of the control environment. This enables all partner organisations to get independent assurance comfort to an external accredited standard on the overall control environment.
Annual Payment Card Industry (PCI) Data Security Standard	Corporate	Internal audit	Self-assessment against an industry standard, but is subject to Independent Internal Security Assessor. Self-assessment successfully completed and accepted in October 2022.

Lexcel Accreditation for Legal Services	Legal Services	External – Law Society	Awarded by the Law Society to practices that are committed to Legal Excellence. Last assessed in December 2021, with an updated assessment planned for December 2022.

Appendix 2: 2021/22 key performance achievements

***Serving Hampshire* priority**	**Achievement**
Outcome one: Hampshire maintains strong and resilient economic growth and prosperity	Work on the Stubbington Bypass was completed, with the 3.5-mile road opened to traffic in May 2022. The Bypass is intended to reduce journey times and support regeneration on the Gosport Peninsula
	Hampshire Futures, which provides career guidance and support to young people, was awarded the Department for Education's Matrix Quality Standard for a third time, describing the way information, advice and guidance is delivered as 'exemplary,' and praising the service's objectivity, impartiality, client focus and aspirational nature
	The County Council's £5.5 million rail bridge replacement works on the A35 at Holmsley, in the New Forest, involving the demolition and replacement of the 114-year-old bridge on the A35 that runs over the C10, were completed in July 2022
	The County Council secured a £13.4 million award from the Department for Transport to complete maintenance of infrastructure along Redbridge Causeway, a transport link between the New Forest Waterside area, the City of Southampton and other local destinations
Outcome two: People in Hampshire live safe, healthy and independent lives	Work on 50 Extra Care housing properties has begun in Wooldridge View, located in the Forest Pines area of New Milton
	The County Council has launched its 'Keep Warm Keep Well' scheme to protect vulnerable people who are struggling with their day-to-day bills. The web page at https://www.hants.gov.uk/costofliving outlines the support available, with guidance on claiming free school meals and getting advice on managing finances, and also links to warm spaces in Hampshire open to residents who may struggle to pay heating bills over the winter.
	The County Council is investing an extra £802,715 into projects to help people dependent on alcohol and drugs, by increasing the capacity of the Criminal Justice and Substance Misuse Teams, commissioning a new specialist Alcohol Team for community-based treatment, and continuing its support for the harm reduction team.

Serving Hampshire priority	Achievement
	Hampshire County Council has awarded over £1.5million of funding to projects that aim to ensure more families escaping domestic abuse have a safe place to go. The support will enable the County Council to provide more help to victims of domestic abuse, and their children, in safe accommodation.
	100 library staff, across 10 Hampshire libraries, have received 'Safe at Home' training to enable them to provide guidance and conduct sensitive conversations with victims and survivors of domestic abuse. Library stock and IT resources in libraries have also been updated to support victims of domestic abuse and to direct them to other resources available to assist them. The project has been nominated for a Police and Crime Commissioners Victim Services Award
Outcome three: People in Hampshire enjoy a rich and diverse environment	Tree planting along the Hampshire highways network is continuing and is expected to deliver over 3,000 trees in 2022/23
	All five of the County Council's Country Parks have been re-awarded Green Flag status for 2022, and a new Green Flag was awarded to Wellesley Woodland
	Castle Bottom National Nature Reserve has reached 'Favourable' status in its Site of Special Scientific Interest (SSSI) assessment by government regulator Natural England, a level awarded when wildlife habitats are judged to be in excellent condition. The site is located in northeast Hampshire and is home to some of the country's rarest wildlife including Woodlarks, Nightjars, Dartford Warblers, Willow Warblers, Stonechats, Grayling Butterflies, Adders, Early March Orchid, Bog Asphodel, and Sundew.
	The Public Sector Decarbonisation Scheme has been completed, delivering solar energy collection, building insulation, and boiler conversions at hundreds of schools, care homes, libraries, outdoor centres, and other publicly-owned buildings across Hampshire.
	Micheldever's highways materials recycling and reprocessing facility was shortlisted for Carbon Project of the Year in the 2022 Construction News Awards, praised for its approach to reducing the carbon cost of highways construction and maintenance

Serving Hampshire priority	Achievement
	Barton Farm Primary Academy in Winchester has won a Royal Institute of British Architects South 2022 Award for Hampshire County Council's Property Services' team, which recognised the building's eco-credentials
Outcome four: People in Hampshire enjoy being part of strong, inclusive, resilient communities	The County Council commemorated the Queen's Platinum Jubilee across its services, including family-friendly events in the Council's Country Parks and libraries, the planting of a commemorative tree in Queen Elizabeth County Park, and a special Citizenship ceremony held in the Great Hall
	Protocols were followed by the Council, helping residents of Hampshire to pay their respects to the late Monarch through the co-ordination of the proclamation of King Charles III outside Winchester's Great Hall, Providing and overseeing public books of condolence at the Great Hall and the Council's Winchester offices, and following a sensitive communications plan that made the public aware of opportunities to pay their respects to the late Queen, the publication of a short film outlining relevant activity during the mourning period
	Grants totalling £131,509 have been awarded to community and voluntary organisations across Hampshire, to support their work helping vulnerable people to maintain their independence and reduce isolation, in the first half of 2022/23. These funds are part of the Authority's wider adult social care grant programme, designed to support the voluntary and community sector to provide services to enable adults' independence, preventing or delaying the need for formal support, and include support for: • the Healthy Living Project in Rushmoor; • Havant and East Hants Mind; • Neighbourcare in Basingstoke and Deane; • SpeakEasy in Basingstoke and Deane; • Citizens Advice Fareham; and • Zion Projects in Eastleigh
	Hampshire County Council is providing extra support to Hampshire residents hosting Ukrainian guests as part of the Government's Homes for Ukraine Scheme, with an additional £200 per month for five months beyond the funding already provided by the Government

Serving Hampshire priority	Achievement
	Wessex Sinfonietta was appointed the Resident Orchestra at Royal Victoria Chapel in Netley in June. The group will stage a programme of concerts at the site over 2022 and 2023, which started with performances of Mendelssohn and Elgar in July 2022, as part of a programme of events on offer at the Country Park, including exhibitions, outdoor theatre and family-friendly attractions, to boost visitor numbers
	Hampshire's Record Office in Winchester was one of six landmark sites across the UK awarded listed status by the Department of Digital, Culture, Media and Sport on the advice of Historic England to commemorate the Platinum Jubilee in 2022
	The County Council has been engaging with residents and stakeholders for their views on ways to support autistic people and those who care for them, as part of the development of the Hampshire Autism Strategy, to be published by the Hampshire Autism Partnership Board later in 2022/23

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	7 February 2022
Title:	Constitutional Update
Report From:	Director of People and Organisation

Contact name: Barbara Beardwell

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

Purpose of this Report

1. The purpose of this report is to seek Cabinet's endorsement regarding a proposed change to Standing Order 13 to enable Chief Officers to answer technical questions on reports to full Council for decision, on matters which fall within their respective areas of responsibility.

2. This report also sets out proposed changes to the Health and Wellbeing Board Terms of Reference, at Part 1, Chapter 10 of the County Council's Constitution, to take into account new responsibilities for the Board.

Recommendations

3. Cabinet is asked to recommend to the County Council that Standing Order 13 be revised as set out at **Appendix 1** to this report to enable Chief Officers to answer technical questions on reports to full Council for decision or information, on matters which fall within their respective areas of responsibility.

4. That Cabinet recommend to County Council that a section be added to the existing Health and Wellbeing Board Terms of Reference as new paragraphs at 9.12 and 9.13 as below:

   'To receive updates and reports from the Hampshire Health and Social Care Place Board including all matters pertaining to the Better Care Fund, delivery of Better Care Fund savings and governance of the Better Care Fund plan.'

‘That the Health and Wellbeing Board contributes to the Integrated Care Partnership Strategy for both Hampshire and Isle of Wight Integrated Care Board and that of Frimley Integrated Care Board.’

Amendment to Standing Orders

Executive Summary

5. Proceedings governing the conduct of business at meetings of the full Council are set out in Standing Orders, contained at Part 3 Chapter 1 of the Constitution.

6. Full Council approval is required to any amendment to Standing Orders.

Contextual information

7. The procedure regarding the presentation of reports of the Leader, Executive Members and Committees for decision (Part I items), or for information (Part II items) is contained at Standing Order 13, attached at **Appendix 2**. Presently, all questions on reports are required to be answered by the Leader, Executive Member, or Chairman / Vice-Chairman of a Committee (as the case may be). It is however considered sensible in certain cases where a question relates purely to a technical matter that provision be included in Standing Order 13 to enable the relevant Chief Officer to answer the question. Members should be aware that if they have detailed questions for Chief Officers on any section of a Report, these should be asked in advance of the meeting.

8. This would be at the discretion, where appropriate, of the Leader, Executive Member, or Chairman / Vice-Chairman of a Committee (as the case may be), with the agreement of the Chairman of the full Council meeting. Otherwise, the Leader, Executive Member, or Chairman / Vice-Chairman of a Committee (as the case may be) will continue to answer any questions or remaining questions on reports, as per current procedure.

9. Attached at **Appendix 1** is a draft revision of Standing Order 13, reflecting the proposed change referred to above.

Update to Terms of Reference for the Health and Wellbeing Board for Hampshire

Executive Summary

10. The Health and Wellbeing Board brings together key leaders from the local health and care system to improve the health and wellbeing of their population and reduce health inequalities through developing a shared understanding of the health and wellbeing needs in Hampshire. The Board has agreed a Joint Health and Wellbeing Strategy for 2019-24 and a more detailed business plan sits alongside the strategy to support and monitor progress.

11. The Health and Wellbeing Board reviewed the Terms of Reference at their meeting on 15 December 2022 and made the proposals included in the recommendations above for inclusion.

12. Following the establishment of the Hampshire Health and Social Care Place Board, a joint body comprising of County Council and Integrated Care Board representatives, and the reporting of matters pertaining to the Better Care Fund to the Health and Wellbeing Board, it is proposed that new Paragraphs be added into the Terms of Reference as set out in the Constitution as per Paragraph 4 above. As a Committee of the County Council, the approval of full Council is required for amendment to the terms of reference of the Health and Wellbeing Board.

Consultation and Equalities

13. It is considered that this Report will have no adverse impact or cause no disadvantage to groups with protected characteristics.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision for the good governance of the County Council.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
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:**

See guidance at https://hants.sharepoint.com/sites/ID/SitePages/Equality-Impact-Assessments.aspx?web=1

*Insert in full your **Equality Statement** which will either state:*

(a) why you consider that the project/proposal will have a low or no impact on groups with protected characteristics or

(b) will give details of the identified impacts and potential mitigating actions

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Appendix 1 – Constitutional Update report to Cabinet

Standing Order 13 (proposed)

13. Presentation of Reports of the Leader, Executive Members and Committees

Part I items

13.1 The Leader on behalf of Cabinet or as Executive Member for Hampshire 2050 and Corporate Services and any Executive Member or Chairman or Vice-Chairman of a Committee may present a Report to the County Council for decision on any matter that falls within their area of responsibility. The Leader, Executive Member, or Chairman or Vice-Chairman of the relevant Committee (as the case may be), will introduce the Report and move the Recommendations.

13.2 The Chairman shall ask whether there are any questions on the Report. Any Member may ask the Leader, Executive Member, or Chairman or Vice-Chairman of a Committee (as the case may be) presenting the Report, a question on a numbered Paragraph of the report, referring to the Paragraph number in question. In cases where a question relates to a purely technical matter, the Leader, Executive Member or Chairman or Vice-Chairman of a Committee, may with the agreement of the Chairman of the Council meeting, indicate that the question should be answered by the Chief Officer of the relevant service.

13.3 In cases where it is considered appropriate (in accordance with Standing Order 13.2 above) that a Chief Officer answer a technical question, the Chief Officer will answer the question. Otherwise, the Leader, Executive Member, or Chairman or Vice-Chairman of a Committee (as the case may be) will answer any questions or remaining questions on the Report.

13.4 Following questions on the Report, the Chairman will call for debate. During debate, a Member can move an Amendment to a Recommendation in the Report. The normal rules of debate, as contained in Standing Order 17, shall apply.

13.5 After consideration of the Report, and after any questions or debate, the Recommendations of the Executive or the Committee in the Report shall be put to the County Council one at a time, and when all the Recommendations of the Executive or the Committee have been disposed of and any questions dealt with, the Chairman of the County Council shall then move that the Report of the Executive or of the Committee be agreed, or that the Report of the Executive or of the Committee as amended be agreed, as the case may be.

Part II items

13.6 The Leader and any Executive Member or Chairman or Vice-Chairman of a Committee may present a Part II item Report on any matter that falls within their area of responsibility. The Leader, Executive Member or Chairman or Vice-Chairman of the relevant Committee (as the case may be) will introduce the Report.

13.7 Any Member may ask the Leader, Executive Member, or Chairman or Vice-Chairman of a Committee (as the case may be) presenting the Report a question on a numbered Paragraph in the Report.

13.8 In cases where it is considered appropriate (in accordance with Standing Order 13.2 above) that a Chief Officer answer a technical question, the Chief Officer will answer the question. Otherwise, the Leader, Executive Member, or Chairman or Vice-Chairman of a Committee (as the case may be) will answer any questions or remaining questions on the Report.

13.10 When questions on all paragraphs have been answered, the Report shall be open to debate and the Chairman shall invite debate on the Report and the normal rules of debate, as contained in Standing Order 17 shall apply so far as they relate to Part II items, and the Report shall be received after debate.

NB: Reports of the Hampshire and Isle of Wight Fire and Rescue Authority are Part II items.

Appendix 2 – Constitutional Update report to Cabinet

Standing Order 13 (Current)

13. **Presentation of Reports of the Leader, Executive Members and Committees**

Part I items

13.1 The Leader on behalf of Cabinet or as Executive Member for Hampshire 2050 and Corporate Services and any Executive Member or Chairman or Vice-Chairman of a Committee may present a Report to the County Council for decision on any matter that falls within their area of responsibility. The Leader, Executive Member, or Chairman or Vice-Chairman of the relevant Committee (as the case may be), will introduce the Report and move the Recommendations.

13.2 The Chairman shall 'call' each numbered paragraph of the Report. Any Member may ask the Leader, Executive Member, or Chairman or Vice Chairman of a Committee (as the case may be) presenting the Report, a question on the paragraph 'called'. A Member may also rise and say 'debate' (this will indicate the Member wishes to comment on the paragraph or, to move an Amendment to a Recommendation in the Report). A Member who asks a question may, having heard the answer, also say 'debate'. When the word 'debate' has been uttered, the Chairman shall enquire whether there are any further questions on that paragraph. If there are, they shall be put and answered. If there are none, the paragraph shall be open to debate and the Chairman shall invite the Member who first called 'debate' to open that debate and the normal rules of debate, as contained in Standing Order 17, shall apply;

13.3 the procedure in 13.2 above shall be applied to each numbered paragraph in turn, until the last paragraph of the Report is reached;

13.4 After consideration of the Report, and after any questions or debate, the Recommendations of the Executive or the Committee in the Report shall be put to the County Council one at a time, and when all the Recommendations of the Executive or the Committee have been disposed of and any questions dealt with, the Chairman of the County Council shall then move 'that the Report of the Executive or of the Committee be adopted' or 'that the Report of the Executive or of the Committee as amended be adopted', as the case may be.

Part II items

13.5 The Leader and any Executive Member or Chairman or Vice-Chairman of a Committee may present a Part II item Report on any matter that falls within their area of responsibility. The Leader, Executive Member or Chairman or Vice-Chairman of the relevant Committee (as the case may be) will introduce the Report.

13.6 The Chairman shall “call” each numbered paragraph of the Report. Any Member may ask the Leader, Executive Member, or Chairman or Vice-Chairman of a Committee (as the case may be) presenting the Report a question on the paragraph called.

13.7 The procedure in 13.6 shall be applied to each numbered paragraph in turn until the last paragraph of the Report is reached.

13.8 When questions on all paragraphs have been answered, the Report shall be open to debate and the Chairman shall invite debate on the Report paragraph by paragraph and the normal rules of debate, as contained in Standing Order 17 shall apply so far as they relate to Part II items, and the Report shall be received after debate.

NB: Reports of the Hampshire and Isle of Wight Fire and Rescue Authority are Part II items.