HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	13 December 2022
Title:	Financial Update and Budget Setting and Provisional Cash Limits 2023/24
Report From:	Chief Finance Officer and Director of Corporate Operations

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Section A: Purpose of this Report

The purpose of this report is to:

1. Provide an update to Cabinet and County Council on the in-year financial position as at the end of September, including the transformation programmes (Transformation to 2019 and to 2021) and Savings Programme to 2023.

2. Set out the process and framework for setting the 2023/24 budget.

3. Consider the financial impact of the Autumn Statement, announced by the Government on 17 November, and to consider the Council's overall financial prospects.

4. Present the inflationary and other unavoidable pressures that have been identified to date as part of the preparatory work for the 2023/24 budget.

Section B: Recommendations

It is recommended that Cabinet:

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

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

7. Approves the principle of adding any corporate contingency underspend in 2022/23 to the Budget Bridging Reserve (BBR) to enable a balanced budget to be set for 2023/24.

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

9. Notes the current spend on the Government funded Homes for Ukraine scheme, approves the latest initiatives to support guests and hosts as outlined in paras 41 and 42 and delegates authority to the Director of Corporate Operations in consultation with the Leader and Chief Executive to approve other spend to be met from the current or any future grant funding allocated by the Government.

10. Approves the provisional revenue cash limits for 2023/24 set out in Appendix 2, including the specific additions highlighted in paragraph 51.

11. Delegates to the Director of Corporate Operations the decision for early payment of employer and employee pension contributions if considered financially advantageous.

12. Delegates authority to the Director of Corporate Operations to allocate additional permanent revenue funding for inflationary pressures in 2023/24 up to a value of £10m, to be funded from contingencies as required.

13. Approves the capital guideline amounts for the next three years set out in paragraph 106.

14. Approves the transfer of the remaining balance from the previously approved capital inflation funding to a new Capital Inflation Risk Reserve.

15. Approves, subject to the relevant Executive Member decisions, the addition to the capital programme for 2022/23 of Phase 1 of the Titchfield Haven National Nature Reserve scheme at a cost of £0.775m to be funded from capital receipts from the disposal of assets at the site, subject to the receipt by the County Council of the open market value at the site.

Section C: Executive Summary

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

17. This is not the case this year as we are dealing with a wide range of different issues that must be factored into the budget setting for next year, together with understanding the consequences of an Autumn Statement that seeks to address the economic turmoil and hyper inflationary position. It is therefore difficult to provide an executive summary that covers all of the detail in this report.

18. In headline terms therefore, the key issues to draw to Cabinet's attention are:

- Pay and price inflation are well above the levels that had been allowed for in previous forecasts and have impacted in both the current and future financial years.
- We continue to see significant growth and pressures across a range of services that need to be taken into account, most notably Younger Adults, Children's Social Worker Capacity and Home to School Transport.
- We are reviewing Red rated savings across the Transformation to 2021 (Tt2021) and Savings Programme 2023 (SP23) to determine whether there are any undeliverable savings that need to be factored into the longer term forecasts.
- The Autumn Statement provided additional funding for social care and the ability to increase council tax up to 5% which have had a helpful impact on the 2023/24 budget setting position.
- Increases in business rate income and investment income as a result of high inflation and interest rates has also provided additional resources for next financial year.
- The gross budget deficit in 2023/24 is £98.8m even after allowing for the full £80m SP23 savings but there are potential net funding improvements of £47.6m reducing the overall gap next year to £51.2m.
- We cannot provide an updated forecast for 2025/26 until we receive the provisional local government finance settlement and the aim is to bring all of the different strands of work together as part of the budget setting process in February.

19. Alongside the budget information, this report also provides an update on the Homes for Ukraine scheme and spend and puts forward proposals for capital expenditure associated with the Titchfield Haven Nature Reserve.

Section D: Contextual Information

20. In July 2022, Cabinet received a report updating on the development of the next Medium Term Financial Strategy against a potential budget gap of £180m to £200m to 2025/26. At this point, there were several unknowns which impacted not only the medium term position, but also the budget setting for 2023/24:

- Corporate Management Team (CMT) were undertaking a high level assessment of the extent to which the County Council could close a gap of that value through its own actions.
- Further assessments of the longer term impact of inflationary pressures being felt in the current year.

- Prospects for the provisional local government finance settlement, which in July were relatively positive around a potential new two year settlement and changes to the funding system.

21. This clearly pre-dates the financial crisis that has hit the country, with a deep and extended recession being expected, no Fair Funding Review, no new two year deal for local government and new taxation measures being announced in the Autumn Statement.

22. Since that time, the County Council's future financial prospects have also worsened with additional pressures arising in children's social worker capacity, Home to School Transport, Younger Adults and the longer term impacts of inflationary increases.

23. The impact of the fiscal plan is discussed in more detail in the next section and work continues to be undertaken by CMT to examine the extent to which the County Council can close the budget deficit through its own actions. We await the provisional local government finance settlement in December, which is unlikely to be announced at the point these papers are published.

24. Significant lobbying activity has taken place with Government to highlight the financial position we face, most notably some work with Kent County Council which saw a joint letter from the respective Leaders being submitted to the Prime Minister, the Chancellor and the Secretary of State for the Department of Levelling Up, Housing and Communities (DLUHC) ahead of the Autumn Statement.

25. The plan at this stage therefore is to report to Cabinet and County Council in February on budget setting for 2023/24 and to provide a full update at that time on the medium term financial position and outline what the strategy is going forward.

Section E: Autumn Statement

26. The Government announced the 2022 Autumn Statement on 17 November. Prior to the announcement, with inflation running at a 41 year high of 11.1%, and the Bank of England Base Rate (3%) also at its highest since 2008, the budget deficit was estimated to be approximately £55bn. The Chancellor had indicated that £20bn would be met through tax rises and the remaining £35bn through spending cuts.

27. Prior to the Autumn Statement, the Leader of the Council sent a joint letter with the Leader of Kent County Council, highlighting the challenges facing the sector as a whole and calling for fundamental changes to the way in which local Government, and in particular social care services, are funded.

28. Whilst there was some mis-reporting in the press, the letter received significant national attention and has helped highlight the pressures in the sector and may have had an influence in the final detail of the Autumn statement, which

targeted resources to Adult Social Care, despite the difficult national financial outlook and the potential for public spending reductions.

29. Against this backdrop, Local Government funding fared better than expected, due largely to the additional spending commitments on social care and increased Council Tax flexibilities. The Statement provides an additional £2.8bn in 2023/24 and £4.7bn in 2024/25 for social care, however this assumes that local authorities will increase Council Tax by the maximum permitted level of 2.99% plus a further 2% for the social care precept. The extended Council Tax flexibilities will remain in place until 2027/28 and could generate an additional £14m - £15m per year for the Council, or around £45m by 2025/26.

30. The Statement also included grant funding for social care in 2023/24 and 2024/25, comprising ringfenced support for hospital discharges, and further un-ringfenced funding to meet the costs of both adults and children's care packages. Of the funding announced for 2023/24, £600m will be distributed through the Better Care Fund and £400m through extending the existing Adult Social Care Discharge Fund, both of which are shared between local authorities and the NHS.

31. £1.3bn will be distributed through the general Social Care Grant and is repurposed funding previously earmarked for the implementation of the Adult Social Care charging reforms, which have been delayed until October 2025. The Council welcomes the additional general funding for social care; however, it is currently not clear how the Government intends to replace the redirected funding to enable Councils to deliver the charging reforms as planned in future years. Whilst the delays give the Government and the Sector more time to fully assess and address the implications of the reforms, it does mean that many families facing financial hardship due to care costs will need to wait longer for a solution.

32. The Local Government Finance Settlement, expected to be announced on 21 December, will confirm the local authority allocations of the additional social care funding, although a 'policy paper' has also been promised in early December which may give greater certainty over the allocation methodology. However, if the grant is distributed on the same basis as the existing Social Care Grant, Hampshire County Council would receive around £20m in 2023/24, but it is possible that the distribution is changed again to favour those with lower tax bases, so a prudent figure of £15m is included in the forecasts in this report for now.

33. Government has confirmed that funding provided to Councils through the 2022/23 settlement to meet the cost of increased employer national insurance contributions will be removed from the 2023/24 settlement following the reversal of the policy. This is expected to reduce Hampshire's allocation of the Services Grant by around £2m on an ongoing basis. The remaining funding provided through the Services Grant in 2022/23 is expected to remain within the 2023/24 settlement, however it is not currently known how this funding will be allocated and therefore whether the Council will continue to receive a share of the funding. This report assumes that all Services Grant will be lost.

34. The Statement announced a £13.6 billion business rates support package, including freezing the Business Rates multipliers for 2023/24, a more generous Retail, Hospitality and Leisure relief, and capping bill increases for businesses as a result of the upcoming revaluation. From 1 April 2023, the revaluation will update rateable values for non-domestic properties in England and the multiplier in line with evidence from April 2021. Local authorities will be fully compensated for any loss of income as a result of these business rates measures.

35. An increase in the National Living Wage (NLW) was announced from £9.50 per hour in 2022/23, to £10.42 per hour from April 2023 in line with the Government's plan for the NLW to reach two thirds of median earnings by 2024. This represents a pay increase of 9.7% for those on the lowest incomes. The local government pay award takes account of movements in the NLW and it should be noted that further increases on this scale could result in a significant additional pressure for the 2023/24 pay award. The local government pay award for 2024/25 is unlikely to be agreed prior to the increase in the NLW implemented in April 2024. Therefore, in order to ensure that Councils are paying at least the minimum wage in April 2024, the 2023/24 pay award must take account of the expected increase in the NLW for 2024.

36. The future outlook for local government funding beyond the current Spending Review period to 2024/25 remains challenging. As part of the package of fiscal consolidation measures, the Government announced that departmental resource spending will grow at just 1% per year in real terms from 2025/26. This is significantly lower than the 9.4% per year real terms increase provided for local government through the 2021 Spending Review, albeit the value has since been reduced in real terms due to higher inflation. It is therefore likely that demand and inflationary-related increases in the cost of providing services will continue to outstrip the additional funding available to the Council over the medium term, despite the announced increases to the Council Tax referendum threshold.

Section F: Homes for Ukraine

37. Following Russia's invasion of the Ukraine, the Government acted quickly to put a resettlement programme in place and to allocate £10,500 of funding per person to Upper Tier councils to enable them, along with District Council partners, to put a range of support in place for the Ukrainian refugees (guests), together with separate monthly funding to compensate those people that are hosting families in their homes or in vacant accommodation.

38. Given the need to put arrangements in place quickly and to respond to needs and requests as they have arisen, much of the early expenditure was approved under urgent decision making powers or relates to requirements specified by the Government. Early spend in accordance with requirements of the scheme includes:

- Pre-arrival and initial arrival activity (host checks, DBS checks, accommodation inspections etc.)

- The Government agreed £200 per guest welcome payment.
- Setting up the administrative and payment arrangements for the Government determined £350 per month for hosts.
- Creating a project team and officer network to support guests in the early months after their arrival and develop community integration plans (County and Districts).
- Practical considerations such as bus passes, holiday activities, translation and driver familiarisation training.

39. Hampshire has been very successful in ensuring payments are made quickly to hosts and is one of the best in the country for making these payments at scale. After the Summer in response to the growing cost of living crisis, an urgent decision was made to grant additional funding of £200 per month over the winter period to hosts to cope with additional energy costs that they are facing.

40. More recently, a number of queries have been received from Councillors asking if additional payments for the Christmas period will be made. In order to ensure that these payments can be expedited in good time for Christmas a further urgent decision was taken in line with financial regulations to make payments of £200 per guest and £250 per host. Funding has also been allocated to carry out the six month checks required by Government, although some of these are being undertaken by District Council's as highlighted below.

41. The County Council holds regular meetings with District Council officers to review what future needs the guests may have and approval is sought in this report to agree an allocation of grant funding to District Councils to implement the following :

- **Private landlord scheme** – funding is to support the scheme with regards to rental deposits, advance rent, incentives and other costs to incentivise landlords to house Ukrainian families. As approximately 20% of families have moved on to date, the proposal is to provide an allocation per district based on £5,000 per family for 20% of families but this will be paid based on actual usage.
- **Community Integration (£1,000 per guest)** – further funding for continued community integration including transport costs, Christmas respite, events, translation & general support.
- **6 month visits** – Following input from districts who have carried out their own 6 month visits we are proposing an allocation of £400 per visit to cover their associated costs.

42. For the County Council, we have been considering what wider long term support needs to be put in place and approval is sought in this report to agree short term funding for the remainder of this year to facilitate:

- **Ethnic Minority and Traveller Achievement Service** – Additional support including extra Bilingual Assistants & interpreters - £285,000 (this covers the 2023/24 financial year)
- **IT Equipment** - Provide funding for schools to purchase laptops for children - £200 per child.
- **Libraries** – provide additional community integration & support through the Library Service - £123,000
- **Local Children's Partnerships** (LCP) – To provide funding to the Partnerships to support families (£15,000 per LCP – total of £165,000)
- **Children's Social Care Services -** Supporting unaccompanied minors, potential transfers to foster carers, increased capacity in Family Support Services and the Children's Enquiry Team and additional posts in the Independent Reviewing Service to meet the additional activity (£485,000 in the current year to be reviewed in February based on actual activity).
- **Learning Interventions –** To provide a range of learning interventions for children and adults including support to FE colleges, Outdoor Learning activities, language and employment support. A total sum of £509,000 will be provided for these activities.

43. Other services which are required due to our statutory responsibilities include providing home to school transport for Ukrainian children who meet the statutory criteria, providing 2, 3 and 4 year old funding, statutory assessments and provision of social care for children & adults where they meet the criteria. These will be approved through the usual service mechanisms but the costs will be recorded against the Government Grant.

44. The allocation of funding under the grant is more complex than previous grant streams (e.g. Covid) as some is allocated as a lump sum, some of it is per host or per family and a large proportion is allocated per guest. Furthermore, many of the figures highlighted above are calculated using projected guests (which is currently 3,706) but payments will only be made based on the actual number of guests (currently standing at 2,567).

45. Detailed monitoring of the current and projected spend is being undertaken by Finance Officers in conjunction with Children's Services and the spend detailed above is well within the projected grant allocations we will receive even after allowing for a significant contingency for future requirements. The Government is set to make an announcement on future years funding for the Homes for Ukraine Scheme, but this is yet to be confirmed.

46. In order to be able to respond in good time to future requests for funding, this report requests delegated authority for the Director of Corporate Operations to agree spend from the current (or future) grant allocations in consultation with the Leader and the Chief Executive. Where it is practical and timely to make decisions through Cabinet this will be the preferred route, but in any event all expenditure will be reported to Cabinet in due course.

Section G: 2022/23 Business as Usual Financial Monitoring

47. In overall terms, despite the financial challenges across many services, most Departments are reporting a balanced position in-year due to early achievement of SP23 savings and draws on corporate contingency funding, which have offset significant growth and inflationary pressures. The exception to this is in Adults' Health and Care, which is explained in more detail later in this section. These pressures reflect the impact of inflation and increased activity across both our own services, and those delivered by our partners and providers (transport and care providers in particular). This is resulting in numerous requests for additional funding for existing services.

Inflation Impact

48. Many of the ongoing pressures are detailed elsewhere in this report and therefore this section concentrates on the calls that have been made against the inflation underwrite that was put in place at County Council in September.

49. Whilst the expectation was that many of these increases could be temporary, the reality is that most of them are being baked into future costs that need to be taken into account in our projections. Temporary approvals that have been made under the delegated powers are:

- Increased mileage rate for parents who take their children to school as an alternative to more expensive home to school transport provision (£75k).
- Increased rates for some domiciliary care providers following a re-tender exercise (£625k).

50. In some service areas, such as individual home to school transport contracts or care for younger and older adults, the service arrangements are much more bespoke and therefore individual negotiations take place all the time as part of business as usual activity and have therefore not been considered under the previous delegation. In some cases, providers look to hand back uneconomic contracts and it is in the County Council's interest to renegotiate these directly with the provider rather than go out to tender in what is an inflationary market and given that the timing delay causes disruption to service provision.

51. For the most part it is anticipated that these increases are likely to be baked into future service costs and the impact in key service areas has been:

- Home to school transport – The service is expected to overspend by £7m this financial year and inflation funding of £4.5m has been agreed to help offset this. A total of £6.9m has been added to the budget for next year representing the continuation of the 2022/23 spend, normal inflationary and growth pressures for next year and the need to increase the senior resources in the Home to School Transport Team which will see a net increase of 6 FTE at a cost of £375,000.
- Younger Adults – whilst providers are experiencing general inflationary pressure for energy and food, the major cost pressure is driven by staff pay and the sector wide shortage of care workers meaning that providers are

having to use higher cost agency staff. A total of up to £1.4m to be allocated over three tranches has been agreed, which will have a significant full year impact as highlighted below.

- Waste contract – The Council's Waste PFI contract includes an annual indexed uplift based on October RPI. An inflationary uplift of 6% was forecast during the 2022/23 budget preparation process, however October RPI has been confirmed as 14.2%. The part year impact of the increase required for the current year, which takes effect in January, is around £1m and the ongoing impact has been provided for within the departmental cash limit for 2023/24.

52. Given the on-going impact of these inflationary pressures that essentially have re-set the base cost for these services, the financial impact will be considered as part of future budget setting. To support that approach in the short term, it is proposed to transfer any balance of the inflation underwrite allocation to the BBR.

Adults' Social Care

53. The Adult Social Care financial position, with respect to purchased care packages for 2022/23 has continued to be challenging. Demand led services at the scale of both Younger and Older Adults are always volatile which makes it difficult to forecast with any certainty, and the impact when there is movement can be considerable, particularly in the next full financial year. For 2022/23 it was forecast that the department would experience a pressure on care packages of £35m, rising to £45m in 2023/24.

54. The position has been monitored throughout the year and up to month 6 had broadly been in line with those forecast assumptions overall, albeit with the Older Adults pressure being less than forecast and the Younger Adults pressure being greater. From month 6 onwards, the Older Adults forecast pressure has continued to increase up to the level previously assumed and marginally beyond, largely caused by a greater than expected increase in client numbers and a persistent increase in the average rate paid for care purchased, due to cost of living changes, as well as a significant increase in the use of Live In Care as an alternative to Residential care. Younger Adults in the same timeframe has also increased, giving rise to the current position where this original pressure of £35m is being exceeded by around £7m.

55. Most recently there has been an additional pressure in Younger Adults due to the need to renegotiate uplifts for specific packages of care for vulnerable clients with those providers that are feeling the effect of the current economic climate. This has increased the forecast by £1.4m in year and will have the full year effect in 2023/24 of £2.6m.

56. Excluding these uplifts, there has been a further worsening of the position in Younger Adults by £3.2m. The underlying reason for this cost increase has been both an increase in the average cost for new packages and a steady

surge in clients that had not previously been known about. Invariably these have also been high cost placements, costing in excess of £4,000 - £5,000 a week. Since June the number of Learning Disability clients in receipt of a care package costing over £3,000 per week has risen by over 10. Furthermore, the resurgence of Day Care for younger Adults has led to an increase in forecast spend since the half year mark, however where providers are still experiencing some vacant sessions, this is also leading to the individual prices needing to remain higher than pre-covid levels. The £3.2m is likely to increase to £5-6m full year effect in 2023/24.

57. In addition to the above, in any year there is always a slight time lag between packages of care being agreed and them being entered onto the system. During the current year there have been further complications with the discharge arrangements with Health, completing the Fair Cost of Care exercise and the constant renegotiation as a result of inflationary pressures. As part of the detailed budget preparation work, total levels and trends of care packages are analysed and this has identified a higher number of packages in this year than previously forecast. This has further exacerbated the situation in year and will also feed into a full year impact for 2023/24.

58. As part of budget preparation, an assessment is also made of clients that are in transition and who will become the responsibility of the department within 2023/24. In line with both the ever increasing number of clients and increasing complexity, the growth funding available for this cohort in 2023/24 will be exceeded. The planned growth funding was not set to accommodate the current and increasing rate of new clients, nor the average cost as it is now, due to the increased cost of living. This pressure is currently being assessed but could be as high as an additional £5m in 2023/24.

59. The overall impact of the pressures highlighted for Younger Adults could be £13m - 16m for 2023/24, but this will be confirmed when reported to Cabinet in February.

Other factors

60. The 2022/23 budget for interest income on cash balances held by the Council was based on a forecast average return of around 1.6%. Actual cash balances are currently higher than expected following strong financial performance in 2021/22, and average interest rates for the year are forecast at around 2.2% and are expected to increase further in 2023/24. Additional interest income and other savings in borrowing costs total nearly £15m in-year, and it is proposed that this is transferred to the BBR. Forward projections for additional interest income will be factored into the revised MTFS position, however it should be noted that these carry a degree of risk and interest income will not provide a permanent contribution to the budget gap as interest rates stabilise and eventually fall back in future years.

Section H: Transformation to 2019 and 2021

61. It is now anticipated that all remaining Tt2019 savings will be delivered by the end of this financial year and therefore reporting on this programme can cease at that time. This is a very positive position given the complexity and delays caused by the pandemic.

62. For Tt2021, as part of the financial planning for the update of the MTFS in February next year, CMT have been asked to look closely at any current Red rated savings to determine whether these are truly deliverable in the future or whether they ought to be included as an additional pressure for the medium term forecast to 2025/26. There are currently £9.4m of savings that are rated as Red and all of these relate to Adults or Children's social care proposals.

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

Section I: Savings Programme to 2023

64. Early achievement of SP23 totals £21m and departments are currently on track to deliver £71m of the planned £80m savings by 2023/24, with the balance planned to be delivered by 2024/25. A similar exercise to the one highlighted for Tt2021 has also been put in place for this programme.

65. A Red risk rating has been flagged for savings totalling £10.2m, of which £6.9m relates to the Older Adults Programme. Although work is ongoing to achieve the savings as forecasted, led by the Financial Improvement and Transformation Board which has reprioritised efforts on the highest impact activity, there remain significant potential pressures that could put at risk the delivery of savings or the ability to evidence delivery of savings against current targets.

66. Robust plans are in place to deliver the majority of remaining savings for Children's Services, however, there remain concerns over £1.9m of Home to School Transport savings, given the significant fuel and wage inflation in this sector which is already creating a significant overspend as outlined below.

Section J: Unavoidable Pressures and Future Investment Priorities

67. As part of the December financial report it is normal to consider any unavoidable pressures that need to be built into base budgets, typically these will have already been taken into account in determining the future budget

gaps, together with any potential investment priorities, which may be entirely discretionary or have an element of choice around them.

68. The following paragraphs set out the key issues which will need to be considered as part of the Budget Setting for 2023/24 and beyond and some of the unavoidable pressures have already been built into the provisional cash limits outlined in this report.

Unavoidable Pressures

69. **Children's Social Workers** – Through its transforming social care programme, the County Council has been very successful in keeping the number of children in care relatively stable over recent years, which is against the national trend. Despite this, the number of referrals coming to the Council continues to rise and the combined caseload of children looked after, children in need and children with child protection plans has increased by 66% in the last 12 years.

70. Around 5 years ago, the County Council invested in additional social worker capacity to ensure that individual caseloads averaged no more than 20 per social worker in line with the maximum recommended by Ofsted. During and following the pandemic, in order to cope with the additional throughput of referrals and caseload, resources of around £10m per annum were added to the budget funded from Covid grant.

71. Even with this additional funding, average caseloads are currently standing at around 23 per social worker and when the temporary funding ends, the loss of social worker capacity would mean this would increase to 28 per social worker. This is clearly not a position that the County Council can sustain and would significantly increase the risk in the system. Therefore, in order to achieve an average caseload of 20, it is proposed that additional funding of £9.7m is added to the budget in 2023/24 rising to an anticipated £13.6m by 2025/26 which has been taken into account in the medium term forecasting and will be reviewed in light of actual experience. Given the scale of this additional investment, a separate paper outlining the importance of addressing pressure in this service area is attached at Appendix 1.

72. **Home to School Transport (HtST)** – Costs within HtST have continued to rise within Hampshire, driven mainly by increasing numbers of children with Special Educational Needs that require transport, but also due to difficulties in the market with a shortage of providers / drivers, particularly since Covid. Significant work has been undertaken as part of successive transformation and savings programmes, which has helped to manage costs, but as outlined above, current market conditions around fuel and workforce costs mean that producing new savings is highly unlikely.

73. Furthermore, many providers are handing back contracts as they cannot continue to provide services at the prices agreed. Forecasts for future growth in numbers of children needing transport together with predicted price increases,

mean that future funding requirements are well above what had previously been allowed for in the MTFS.

74. As outlined above, additional funding has been added to the budget this year and next to cope with the initial pressures in this area including additional senior staffing for the HtST team, but beyond this separate additional funding will need to be retained in contingencies for next year and built into the MTFS that will be reported in February. At this stage it is difficult to predict accurately what future additional costs may be, but for planning purposes a further sum of £7.6m has been allowed by 2025/26.

75. **Miscellaneous IT Pressures** – Members will be aware of the annual growth and price pressures that we face in a range of services most notably social care, waste disposal and highways. Information Technology is a particularly complex area as it is constantly changing, new technologies (and threats) emerge, certain technologies get cheaper and some can be decommissioned altogether.

76. Reductions in the cost of technology over the past 10 years have been used to meet significant savings targets for the Department and have therefore not been available to offset the cost of new pressures or requirements. The approach has therefore been adopted to review these items on a periodic basis and to make incremental increases to the budget as required.

77. This report seeks further funding of £760,000 from 2023/24 onwards (any part year impacts are being met from early delivery of savings) and will support the following key areas:

- **Cyber Security** – By far one of the biggest threats that the County Council faces with new tactics constantly being employed by cyber criminals and high profile cases of ransomware crippling large organisations for months at a time. The County Council invested heavily in this area last year, but further enhancements are required to 'stay ahead of the curve' and increase our resilience where appropriate. New investment includes:
    - Replacing the security monitoring service for our data centres and expanding the scope of the service to more areas.
    - Increasing the number of filtering and security layers in the new Hampshire Public Services Network (HPSN3).
    - Replacing the current geo-blocking protection (limiting access from outside the European Economic Area) with an enhanced 'Bot Protection' service.
    - Additional licensing for 'Spear Phishing' protection for Councillors, senior officers and key staff considered to be at risk of being targeted.
- Increasing the number of sites having access to HPSN3 and upgrading the quality of some network lines to deal with increased activity post Covid.

- Microsoft Licensing Costs – There is the potential for a 10% to 15% increase in this area for which some additional provision needs to be made.

78. Where costs are already known, these will be added to cash limits for next year, with other funding remaining in contingencies until it is drawn down once accurate costings are known.

79. **Local Government Pay Award** – A flat rate pay award of £1,925 was put forward by employers and has now been accepted by two out of the three unions, which means it will be implemented from the December pay date, backdated to April 2022. Whilst the weighting towards lower paid staff is welcomed, given the current cost of living crisis, the flat rate award is equivalent to an overall increase of 6.4% (higher if trading units are included) which is well above the 2.5% allowed for in our forecasts. This adds an additional £12m to our ongoing costs from this year and this has been reflected in the 2023/24 cash limits in this report.

80. **Energy Costs** – Whilst additional provision for energy costs was provided for in the 2022/23 budget, this was on the basis that this would be a temporary issue and market prices would start to stabilise. This has clearly not been the case and whilst the County Council has been successful in forward buying energy at competitive rates compared to the current market, this is still some £4m above what is built into base budgets. Due to the continued volatility of energy prices, a one-off inflationary provision of £4m will be included within central contingencies and the requirement for a permanent increase will be reassessed during the 2024/25 budget setting process.

81. **Impact of legislative changes on contract costs** – As reported to Cabinet in December 2021, legislation restricting the use of rebated (red) Diesel was introduced in April 2022, increasing costs for the Council's suppliers. The council has sought to work with providers to manage pressures as far as possible within existing provisions for inflationary uplifts. However, the Council's Highways contractor is reporting an additional ongoing pressure of £455k, which will be added to the highway maintenance budget to maintain existing levels of service provision. A provision was set aside for this purpose as part of the 2022/23 MTFS and will be added to the 2023/24 provisional cash limit for Universal Services.

82. **Coroner's Service** – Since 2019, post mortem requests to the Coroners Service have increased by 23% and the number of complex or uncertified referrals has also grown, resulting in an increase in inquests opened of almost 50%. In 2020, three previously separate Coroner's jurisdictions merged, and a new senior coroner was appointed. This has resulted in more scrutiny and investigation being expected per referral, leading to increased use of mortuaries. This has led to shortages in mortuary capacity, resulting in multiple transportations of individuals by contracted funeral directors, also leading to increased costs. The total ongoing impact of these changes is expected to be £578k and this will be reflected in the 2023/24 provisional cash limit for Universal Services.

83. **Inflation Underwrite –** 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. Price increases on this scale, if realised, would significantly exceed the funding envelope set aside for inflationary pressures and add further to the budget gap. Due to the volatility of inflation forecasts and variable impacts across non-pay budgets, a minimum level of inflation has been allocated to departments to provide a realistic baseline for budget setting, whilst keeping funding to affordable levels. It is therefore prudent to earmark an additional sum within corporate contingencies, as per the current year, to meet any significant unfunded departmental pressures on an exceptions basis. Delegated authority is sought in this report for additional inflation allocations to be granted to services on a case by case basis up to a value of £10m.

Future Investment Priorities

84. Given the County Council's current financial projections, no recurring funding can be added to the budget unless it is considered to be absolutely unavoidable. There are therefore no specific investment priorities to report, but there are a number of emerging unavoidable pressures in Children's Services which are not yet built into forward forecasts as they may be impacted by future legislative change following the two reviews into children's social care carried out by the Government earlier in 2022.

85. At this time, one off funding is being utilised to meet these pressures but a longer term solution is required pending the actions taken as a result of the reviews and the proposed changes to special educational needs system stemming from the governments SEN green paper.

Section K: Overall Budget 2023/24 and Medium Term Financial Position

86. It is not possible at this stage to fully update the Medium Term Forecast as we do not have details of the provisional local government finance settlement and allocations for 2025/26 and beyond have not been released, given that they fall into the next Government Spending Review period. Furthermore, as mentioned above we are reviewing the outstanding savings programmes to consider whether any of these are undeliverable in the longer term and could therefore impact on the forecast to 2025/26. A full update will be provided in February but at this stage, given the potential for higher increases in council tax and additional social care grant, it is anticipated that the position will be better than previously reported.

87. However, we are able to update the position for 2023/24 based on the announcements in the Autumn Statement and these are detailed below:

- **Council Tax** - The approved Medium Term Financial Strategy (MTFS) assumes that the Council will increase Council Tax by the maximum permissible, which until recently was 2.99% in each year to 2025/26. This included a 1.99% increase in the core Council tax precept and a 1%

increase for the Adult Social Care (ASC) Precept. The Council is now able to levy an ASC Precept of up to 2% and a core Council tax increase of up to 2.99%. The Council's approved strategy is to increase Council tax in line with the revised thresholds, and the table below sets out the impact of these changes on the Council Tax for a Band D property. If County Council agrees the 4.99% increase this would yield an extra £14.8m in income and the figures in this report assume this level of increase.

	2023/24	2024/25	2025/26
Opening Band D Council Tax	£1,390.86	£1,460.25	£1,533.15
Increase in Band D Council Tax per MTFS (2.99%)	£41.58	£43.65	£45.90
Additional increase in Band D Council Tax to new threshold (4.99%)	£27.81	£29.25	£30.60
Total Band D Council Tax	£1,460.25	£1,533.15	£1,609.65

The total weekly increase for a Band D property in 2023/24 would be £1.33, however it should be highlighted that 52% of all properties in Hampshire are in Bands A to C and will pay a lesser increase. It should also be noted that Hampshire currently has the lowest Band D Council Tax of any County Council.

- **Business Rates** - Local authorities receive indexed linked increases to business rates income in line with RPI as set out in the Local Government Finance Act. The September 2022 RPI was 12.6% and if this was applied to our retained business rates and top up grant from the Government this would yield an extra £16m next year after allowing for the downturn in the economy.

  Decisions taken by the government to freeze the business rates multiplier or provide additional mandatory business rates reliefs are fully funded through Section 31 grants and the Government has confirmed this will be the case for the additional reliefs granted next year and the freezing of the uniform business rate announced in the Autumn Statement.

- **Social Care Funding** – Detailed grant allocations and the distribution methodology have yet to be announced but based on previous grant allocations, the County Council could expect to see receive an additional £15- £20m next year, depending on the distribution methodology. Whilst this funding and the extra social care precept are welcomed, they still do not offset all of the growth and inflationary pressures across Adults' Social Care, particularly after taking into account the additional growth identified as part of the budget preparation process.

88. In addition to these announcements the County Council has also been taking account of other changes in central budgets, in particular the impact of higher

interest rates on investment income for this year and next. It is anticipated that we will receive an additional £10m this year (which will go into the BBR) and £10m next year, which will help to balance the budget but will not necessarily be available for the medium term position to 2025/26 depending on economic conditions.

89. Taking all of this into account, together with the growth pressures and inflation highlighted earlier in the report, the forecast deficit for 2023/24 now stands at £51.2m, although this may be impacted by the provisional settlement expected to be released on 21 December.

	2023/24 (£m)
February 2022 Council Budget Gap	**48.4**
Additional pressures	
Home to School Transport	7.9
Children's Social Workers	9.7
Younger Adults pressures (including inflation)	16.0
Permanent inflation underwrite	10.0
Energy inflation	4.0
Other inflation and pressures	2.8
New Gross Budget Gap	**98.8**
Financing	
Business rates and Top up indexation	(16.0)
Reduction in Services Grant (worst case)	8.2
Additional Social Care Grant (mid-case)	(15.0)
Additional Council tax @ 4.99%	(14.8)
Interest on cash balances	(10.0)
New Net Budget Gap	**51.2**

90. The table shows that before funding issues are taken into account, the County Council was facing a deficit of nearly £100m next year **after** taking account of £80m of SP23 savings, highlighting the significant inflationary and growth pressures that have arisen even since February of this year.

91. The Budget Bridging Reserve is expected to contain at least £65m by the end of this year, including the contributions outlined in this report, and therefore provides sufficient headroom to balance the budget next year. However, this will leave little funding to contribute to bridging the gap in 2024/25, so the County Council will need to consider options for using other reserves to close the gap, if it is to continue its normal two year cycle for closing budget deficits.

92. As mentioned above, it is not possible at this stage to provide an accurate forecast for the 2025/26 position until the provisional local government settlement is released. Even at that point, we will not have any information about what might happen in 2025/26 as that is the beginning of a new Spending Review period. An update on the forecast will therefore be provided

in February together with the proposed plan on how to address the gap, but in the meantime, we will continue to lobby Government and our MPs on the financial situation that the sector faces and press for fundamental changes in the way in which local government is funded going forward.

Section L: Provisional Cash Limits 2023/24

93. Provisional cash limits are set to enable departments to prepare their detailed budgets for the next financial year. For 2023/24, following the restructure of Departments into 5 Directorates, Finance staff have been working to realign budgets to fit with this new structure. The cash limits in this report reflect those changes, albeit further work will be undertaken to refine these figures prior to the start of the next financial year.

94. These cash limits take account of changes in the base budget, for example as a result of grant changes or transfers between departments, approved growth and inflation for the year. For 2023/24 they also include the reduction of £80m approved as part of the SP2023 Programme.

95. Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation and the impact of the 2022/23 pay award. An allowance for the 2023/24 pay award will be held in corporate contingencies and allocated to Directorate budgets when the agreed pay award is known.

96. The calculation of the provisional cash limits is shown in detail in Appendix 2 and demonstrates all too clearly the pressures we face next year with over £203m of base changes, inflation, pressures and growth added since 2022/23. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2023/24 position has been updated taking into account forecast changes, such as increases in respect of the pupil premium and other grant related changes.

97. Funding previously approved to meet growth in demand-driven services has also been allocated and is reflected in the provisional cash limits, with the exception of inflation on energy budgets, the general inflation underwrite (to be allocated on an exceptions basis), the provision for the 2023/24 pay award, and funding for children’s agency staffing, as this pressure can vary across the year.

98. The cash limits include additional funding to cover the full impact of inflation at forecast levels where the Council is contractually committed to increase payments to suppliers in line with general inflation. However, for adults and children’s social care budgets and other non-pay spend, a base level of inflation has been included within the cash limit which reflects the limit of affordability within the current MTFS, and a corporate inflation underwrite will be held to meet the cost of any additional increases that may be required. The

base inflation allocation on non-pay expenditure is some £12.8m higher than the inflation allocated for 2022/23. The additional underwrite of £10m is factored into the Council’s budget gap, so will only be called upon in exceptional circumstances where there are significant implications for service delivery.

99. Additionally, the 2023/24 cash limits include £5.7m of income inflation which increases departmental targets for income generation through increasing existing fees and charges in line with cost increases where it is possible to do so. A general increase of 3% has been assumed for budgeting purposes, however fees and charges will be reviewed on a case by case basis and in some areas could increase by a higher level to allow the council to continue to provide discretionary services on a cost neutral basis. The Revenue Budget Reports to Executive Members and Select Committees in January will include a full list of the Council’s proposed fees and charges for each portfolio area for 2023/24.

100. Chief Officers, with Executive Members will be developing their detailed budgets within these provisional guidelines, subject to their approval, so that the Leader and Cabinet can make the final budget recommendations for 2023/24 at the meeting in February 2023.

Section M: Capital Investment

101. 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.

102. 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 other bodies, including developers. These sources accounted for about 79% of capital expenditure in 2021/22. 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 of course only be sold once. Capital receipts accounted for about 5% of the capital programme funding in 2021/22.

103. The remaining expenditure (about 16% in 2021/22) 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. Despite these pressures, the revenue funded capital guidelines have remained

broadly unchanged over recent years at around £13m to £16m per annum. These guidelines have not been increased to allow for inflation over this period.

104. The July 2022 report to Cabinet on developing a Medium-Term Financial Strategy noted that the approved capital programme only includes the very highest priority schemes funded from local resources in addition to those attracting external funding. The report explained that the Corporate Management Team had recently reviewed capital investment priorities and identified three key themes and recommended actions. The actions agreed by Cabinet (and County Council where appropriate) are as set out below:

Theme	**Agreed action**
The significant inflationary pressure on capital allocations and especially on approved projects currently out to tender and in progress	Creation of inflation contingency of £15m to underwrite the cost of inflation on individual schemes where it cannot be met from approved budgets
The need for a realistic assessment of the annual cost of managing the condition of our highway network, associated infrastructure and built estate, including health and safety and regulatory compliance and life cycle replacement costs	Increase in capital guidelines of £6.75m and £6.8m respectively for 2023/24 and 2024/25 to be funded by prudential borrowing, with detailed proposals to be reported through Executive Members and included in the capital programme presented to Cabinet and County Council in February 2023
Some significant stand alone capital investment priorities	Further consideration of these priorities delayed until further work concluded on the overall MTFS

105. Calls against the inflation contingency are outlined in more detail later in this report and the current position of the stand alone investment priorities is largely unchanged given the on-going uncertainty of the MTFS. However, work is progressing to review the options to ensure appropriate suitability and condition of the County Council's in house residential and nursing provision for older adults. Given the increasing pressures of demand, complexity of need and price pressures in the market, a revised business case is being developed covering a range of investment options over a phased timescale and the resulting proposals, if considered affordable within the MTFS will be reported in due course.

Cash limit guidelines

106. The amounts set out above to meet health and safety and regulatory compliance and life cycle replacement costs have been added to the brought

forward capital guidelines for 2023/24 and 2024/25. There are no other proposed changes to the baseline guidelines brought forward from 2022/23. This results in provisional locally resourced capital cash limit guidelines for each directorate as shown below:

	2023/24 £'000	2024/25 £'000	2025/26 £'000
Adults' Health and Care	481	481	481
Children's Services	100	100	100
Universal Services	23,238	23,288	16,488
Total	**23,819**	**23,869**	**17,069**
Funded by			
Direct revenue contributions	13,669	13,669	13,669
Prudential borrowing	10,150	10,200	3,400
Total	**23,819**	**23,869**	**17,069**

107. The prudential borrowing figures included above include the annual allocation of £3.4m for vehicles to be purchased by Hampshire Transport Management where costs are recovered through charges to the revenue budget plus the additional allocations for health and safety and regulatory compliance and life cycle replacement costs set out above.

108. It should be noted that elements within the capital guidelines may need to be moved between directorates depending upon the finalisation of the organisational restructure, however the bottom-line total allocation will not change. For the purposes of preparing and approving a capital programme, any capital allocations relating to directorates without separate capital programme reports will be included within Universal Services, however the approval to spend in line with the County Council's financial regulation thresholds will be taken through the relevant Executive Members. This will predominantly affect the advantageous land programme (Hampshire 2050) and potentially any major IT capital investment (Corporate Operations).

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

Inflation contingency

110. During periods of low inflation, the impact of inflation can be absorbed within project scope and design. However, with more significant inflationary pressure being faced within the construction sector as a result of economic conditions and supply chain constraints, this is less likely to be the case. An inflation contingency of £15m to underwrite the cost of inflation on individual schemes where it cannot be met from approved budgets was therefore agreed by Cabinet and County Council. Calls on this contingency will be considered on a scheme-by-scheme basis.

111. To date, capital project managers have been successful in managing inflationary pressures through a combination of actions including seeking additional external funding, re-prioritising and/or delaying projects, reducing scope and/or changing the specification of projects. However, this has proved to be extremely difficult in cases where a formal funding agreement has been signed for a scheme but where contracts had not been let, or contain provision for additional cost recovery by the contractors, and the funding bodies are unwilling to agree to additional costs or reduced works. Currently, there has been one call against the inflation underwrite funding approved by the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council.

112. The A326 (South) project is part of the ETE capital programme and provides improvements to the operation of a number of junctions along the main A326 corridor, supporting the new development at Fawley Waterside by early delivery of junction improvements and additional capacity, as well as additional benefits for walking and cycling. Delaying the scheme has been considered but would impact full benefit realisation given the scheme is running alongside the wider development taking place in the area. Delaying the scheme could also result in lost funding and/or further cost increases. Just over half of the approximately £2m inflationary pressure has been mitigated through other means, however it has been agreed there is no viable alternative to using £0.95m of the inflation contingency to support this scheme.

113. For some schemes negotiations continue to take place with contractors to look at options for re-engineering the designs in order to remain within existing approved estimates, but this is not always possible, funding bodies may not agree to reduced works with more limited outcomes, or may not be able to consider additional funding for particular projects within their wider programmes, and there could be future impacts (e.g. maintenance liabilities or loss of 'in-combination' benefits on other schemes) as a consequence of changing schemes without full re-appraisals which are not yet known.

114. In addition, there are a number of schemes in the Programme that are part funded by Government grant, Homes England or LEP funding and as part of the funding agreements that the County Council as scheme sponsor is required to sign, we have to agree to meet any cost overruns on the project. All of these agreements were signed during a stable period of inflation, but the current economic volatility increases the risk that we will have cost overruns on these schemes as was the case with the A326 outlined above.

115. Therefore, whilst there has been limited draw down on the contingency funding to date, officers have undertaken a review of approved capital schemes and have identified a number of projects which are subject to funding agreements, and where costs are known to have increased as a result of inflation. Therefore, while more work is needed to clarify the detailed costs, and to identify those which are a result of inflation rather than other factors, we believe that across the Environment and Transport and the Property Capital Programmes, we could face further cost over runs of up to £10m over the next few years. It is therefore recommended that until further unavoidable

inflationary pressures are identified, that the remaining funding is transferred to a new Capital Inflation Risk Reserve, which can also provide mitigation against any future schemes that the County Council may wish to bid for and which would be subject to formal scheme funding agreements and therefore carry liabilities for cost overruns, as this still represents good value for money if external funding can be secured to meet infrastructure challenges and support economic growth and environmental benefit realisation across the county.

Revisions to the 2022/23 programme

116. The figures in paragraph 106 above represent the ‘locally resourced’ allocations to the Capital Programme, which supplement other capital resources that fund the overall programme, such as developers’ contributions, capital receipts and Government grant as well as prudential borrowing for specific schemes.

117. A revised capital programme for the current financial year will be presented to Cabinet in February alongside the forward capital programme. However there is one scheme to be considered by the Executive Member for Policy and Resources and Economic Development on 8 December 2022 for which a a change to the approved programme is requested as part of this report. Further detail is set out below.

118. The County Council has undertaken a period of public engagement and staff consultation on proposals to safeguard the future of Titchfield Haven National Nature Reserve. The proposals identify the potential disposal of two assets, covering Haven Cottage, which has already been declared as surplus to service requirements and listed on the market, and Haven House, currently the main visitor centre for the nature reserve. It is proposed that capital receipts from these disposals will be retained for re-investment in the nature reserve to enhance how visitors access the special habitats and wildlife and ensure the County Council meets its statutory obligations in managing this internationally important site.

119. Phase 1 of the implementation programme will include the improvement of the current yard, a new staff and volunteer welfare building and accessible toilet facilities for customers alongside urgent works to a bridge and the most dilapidated hides that are currently closed to the public. Haven House is currently the work base for the Titchfield Haven team, therefore new quarters will need to be available when the building is sold. Given this dependency, subject to the relevant Executive Member decisions, Cabinet is requested to approve adding Phase 1 of the scheme to the capital programme for 2022/23 at a value of £0.775m to be funded by capital receipts. Any revenue costs associated with the change proposals cannot be funded from the capital receipt and will be funded from within existing directorate revenue resources.

Section N – Consultation, Equalities and Climate Change Impact

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

121. This report deals with the provisional revenue and capital budget guidelines for services to enable detailed budget preparation to progress for 2023/24. This is the interim year of the two year financial planning cycle when no new savings proposals are being considered. Therefore, no consultation or Equality Impact Assessments are required.

122. 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.

123. This report deals with the provisional revenue and capital budget guidelines for services to enable detailed budget preparation to progress for 2023/24. Climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. There are no further climate change impacts as part of this report which is concerned with setting the process and framework for budget preparation.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Medium Term Financial Strategy Update and Savings Programme to 2023 Savings Proposals https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=163&MId=7737	Cabinet – 12 October 2021 County Council – 4 November 2021
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

124. **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.

125. **Equalities Impact Assessment:**

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

Appendix 1

Children's Social Worker Capacity

Introduction and Context

1 It is well evidenced that manageable social worker caseloads afford better opportunities for undertaking more effective assessments and the delivery of more meaningful interventions. Social worker caseloads, particularly in front line teams within Hampshire Children's Services, are higher than those of many other local authorities. Ofsted is clear in its view that higher caseloads can compromise the quality of activity undertaken with children, young people and their families and lead to poor outcomes and increased re-referrals. Ofsted also provides a steer that caseloads should average no more than 20 children.

2 The recent Independent Review of Children's Social Care has restated this position and is clear that social workers need to spend more time with the children and families they support. Currently, our average caseload is 23, this is with the additional workers and teams funded through the Covid investment. It is also important to note that the caseloads of some individuals are considerably higher, due to the mix of experience in teams. For example, some experienced social workers will have much higher individual caseloads as Graduate Trainees (GT) in the team cannot hold Child Protection and require protected caseloads. Should the additional staff from Covid investment not be in place the average caseload would increase to 28.4 in the Child Assessment and Safeguarding Teams (CAST) and 28 in the Children in Care Teams (CIC).

3 Due to the anticipated increase in demand because of the pandemic there was an investment of c£10m Covid funding for additional social workers during this period which ends March 2023. As with many societal crises, including high-profile child deaths, an increase in demand is evidenced and a reduction thereafter not forthcoming. The demand at the front door of our service and then progressing into the CAST teams is unprecedented and not waning. Whilst we will evidence an increase in demand over the past, since 31 March 2020 contacts have increased 18% and total referrals to the Multi Agency Safeguarding Hub (MASH) by over 30%.

4 Should the Covid funding cease at the end of March 2023 the service would not be able to continue to function safely, caseloads would increase by at least 11%, and our ability to maintain a safe and responsive service for our children and families would be compromised.

5 This paper acknowledges that prior to the Covid investment in 2020 there was a previous investment in Social Workers, and this did for a period have a positive impact on caseloads. The transformation in children's social care has also had a significant positive impact on numbers of children in care and child protection numbers, and despite the significant rise in demand these levels have largely been maintained, due to the embedment of new ways of working with children on a longer-term basis. However, despite the previous additional investment of £6.5m in 2017, we are back in the same high position

in terms of caseloads, due to the increase in demand. As the table below shows, contacts have increased by over 50% since that investment and referrals, which require a social work assessment of some sort, by 69% over the same time period.

Contact and Referrals	2017-18	2018-19	2019-20	2020-21	2021-22
Number of initial contacts	106,010	117,188	125,413	126,153	153,033
Number of referrals	35,953	40,014	44,434	48,826	60,761

6 This paper also acknowledges the national recruitment and retention challenge of qualified children's social workers. Our Graduate Trainee (GT) programme has seen significant previous success, but this is predicated upon having the right balance of staff and experience who are able to manage the increase in demand and hold cases appropriate to their level of experience. This paper recognises the need to consider alternative methods of training and recruitment through the apprenticeship scheme. Additional management capacity is required to support apprenticeships safely and appropriately in the workforce with the aim that those individuals, as with the GT scheme, will become our future workforce.

7 In addition, the paper recognises the ongoing need to try to keep children safely at home through friends and family care. We have developed a new Family Connections Service which was launched in September 2021, although it remains understaffed. The Independent Review of Children's Social Care strongly endorses that friends and family care (also known as Kinship Care), offers the opportunity to focus more flexibly in this area. Therefore, we have evidenced how the team is currently spending money on independent social workers and agency workers to meet the demand in this service, which is less cost effective than base budget establishment. This indicates that an increase in the establishment is required to achieve our ongoing aim to keep more children safely at home, while significantly lowering cost.

8 This paper recommends that the additional social worker capacity that was created due to the pandemic is a continued permanent requirement. It will acknowledge that the Independent Review of Children's Social Care does give us future opportunities to consider more cost-effective operating models, with staff who are not qualified social workers to be a greater part of the workforce, and we will maximise these opportunities when they arise.

Social Worker Investment

Context

9 Children’s social workers, particularly those on the front line, deal with some of the most disadvantaged, at risk and vulnerable children and families in our society. Social workers intervene with families to help them create the change needed to reduce risks to children and ensure that they receive the support and intervention they require, thus building resilience within individuals and families, thereby not requiring high-cost specialist social work services. As such, there is a need to ensure that caseloads are manageable so that social workers have the time to deliver quality interventions.

10 We have seen a significant further rise in demand across social work services. Since 31 March 2020 contacts have increased 18% and total referrals to MASH by in excess of 30%. This is increasing the caseloads of our social workers and they are now at the point where they are higher than Ofsted would consider manageable.

11 Ofsted describe what they consider to be manageable caseloads as between 15 and 20 and consider there is a direct correlation between the average caseload of a social worker and the quality of social work practice offered. The current average caseload for social workers is 23, this average includes staff who are only able to take a much reduced caseload such as newly qualified social workers and those on our GT programme.

Rationale

12 The rationale for an investment in social workers is based on the following imperatives.

13 **The practice imperative** – Ofsted has argued that higher caseloads can directly impact on the ability of social workers to form meaningful relationships with children and families and can negatively impact upon achieving good outcomes for them. In the main, lower, and more manageable caseloads will support staff to develop better relationships with the children and families with whom they work. They will have more time to complete robust, timely assessments and deliver an enhanced quality of social work support and intervention. Social workers will be able to plan better, rather than dealing with a disproportionate number of crises/reactive situations, some of which might have been avoided if they had more time to do their job well.

14 **The financial imperative** – The cost of agency social workers is a significant burden on the Council. Social work agency expenditure has increased from £4.4million (£5.0 million for all of the Children & Families branch) in 2017/18 to £14.3million including additional Covid related agency forecast for 2022/23 (£17.7million for all of the Children & Families branch), although these costs

are partially offset against social worker vacancy underspends. High cost in this context does not always equate to high quality as the quality of agency social workers can be variable.

15 In March 2018 Hampshire had 1,484 looked after children and young people with a further 109 UASC. This has risen to 1,605 by June 2022, plus 132 Unaccompanied Asylum Seeking Children (UASC). The costs of looked after child placements are met by Hampshire Children's Services. On average, these placement costs have increased from £42,700 in 2017/18 to a forecast £55,800 for 2022/23. The 2017/18 spend for looked after children was £63million compared with £116million forecast for 2022/23 including additional Covid pressures. Other associated costs such as adoption allowances and care leavers cost an additional £11million in 2017/18 and are forecast at £21million for 2022/23.

16 Whilst it is the case that Hampshire Children's Services will always support any child or young person who needs to be looked after, it is essential both for their wellbeing and for our budget, that we only bring into care those who really need such an intervention and that they stay as looked after children only for as long as is absolutely necessary. When caseloads are higher than manageable, social workers often do not have the time to explore alternative options for children and young people. Thus, some children and young people who do not need such an intervention can become looked after by Children's Services.

17 Furthermore, when caseloads are higher than manageable, social workers sometimes do not have the time to regularly review whether a looked after child should be reunified with their parents/wider family or community. It is important that costs associated with looked after children are appropriately driven downwards, based on sound assessment and rigorous planning and intervention. A large proportion (59%) of Children's Services £36million T19 and T21 savings (circa £21million), have been delivered or are on track to be delivered by reducing the rise of children in care. It is essential that social workers have the capacity to effect long lasting and meaningful change in order to keep children at home or to assist them in exiting the care system more quickly. This continues to require social work time and capacity.

18 **The staffing imperative** – In January 2020, Social Work England commissioned YouGov to conduct a quantitative and qualitative research study on perceptions of social work in England. The survey found:

- Two-fifths (39%) of social workers expect to leave the profession within the next 5 years, with children and family social workers the most likely to plan to leave.

- The most common reason for people to leave social work is the high workload (39%), followed by poor health (32%) and poor work life balance (29%).

- Some social workers leave the profession to go to in alternative third sector roles or go freelance in social / health care.

- Within the survey social workers also commented on stress levels

"Workload expectations are a problem… That means doing less deep work and doing more superficial work – temporary solutions that work on that day rather than time sensitive intervention." (Experienced social worker)"

"Hard to get work life balance. There is a pressure to do a number of visits, it is not focused on quality… You cannot get work done in set hours and it is hard to use toil." (Newly qualified social worker)"

These views are also reflected in comments expressed in exit interviews undertaken in HCC between April 2021 and January 2022:

"Time pressures, workload expectations – to keep up with demands you have to sacrifice your own wellbeing by working overtime, this causes immense amount of stress no matter how supportive your team are. I feel like something has to change as I am not the only one who feels like this." (HCC social worker)

"Managing anxiety and stress levels." (HCC Social Worker)

"Feeling undervalued and overworked." (HCC Social Worker)

"The amount of work that has to be covered by a TM. My diary is full of supervisions and meetings. This does not take into account any emails, HR, IBC, staff issues, case discussions etc. Even with the support of the peripatetic TM, I cannot be the manager I would love to be." (HCC Team Manager)

19 As caseloads are such a key factor known to affect work/life balance, if Hampshire Children's Services is to recruit and then retain a good cohort of permanent social work employees, we need to ensure that caseloads are manageable.

Appendix 1

The reputational imperative - Hampshire Children's Services was previously judged good for many years, culminating in an outstanding Ofsted rating in 2019, and has an excellent national reputation as a result. Hampshire was one of the original seven authorities chosen by the DfE to be a 'Partner in Practice' (PiP) in 2016, with the aim of piloting new and transformative ways of working in order to improve children's social work across the country. Following this, Hampshire is now a Sector Led Improvement Partner (SLIP) with the DfE, and as such is responsible for supporting children's social care improvement regionally, nationally, and internationally. If caseloads are not addressed at this stage, Hampshire's Ofsted rating could well be adversely impacted and our status as a national leader in improvement support would be compromised.

Investment

20 The proposals to increase Children and Families staff, and achieve an average caseload of 20, are estimated at £244,000 part year costs in 2022/23 for Family Connections and Apprenticeships, with all teams in scope estimated to cost £9.699million in 2023/24. Three-year growth forecasts increase to an estimated £13.574million in 2025/2026. The costing of in scope teams includes pay costs (salaries, on costs, assumed £1,925 annual 2022/23 pay increase, allowances and the 2021/2022 uplifted market supplements, where appropriate), staff travel and IT. Administrative support for social workers is included.

21 The costing assumes £900 for IT per additional FTE. This is a standard costing for a hybrid laptop and a mobile device (one off and on-going charges) and any additional software charges.

Appendix 2

PROVISIONAL CASH LIMITS – 2023/24

Directorate	2022/23 Cash Limit £'000	Base Changes £'000	Inflation, Growth & Pressures £'000	SP2023 Savings £'000	2023/24 Cash Limit £'000
Adults' Health and Care	445,112	19,320	83,669	(40,556)	507,545
Children's – Schools	1,007,261	(5,431)	0	0	1,001,830
Children's – Non Schools	256,488	30,591	47,637	(21,473)	313,243
Corporate Operations	41,217	(1,709)	2,647	(3,585)	38,570
People & Organisation	12,893	3,642	902	(1,003)	16,434
Universal Services	144,658	3,222	16,823	(12,941)	151,762
Hampshire 2050	9,531	(489)	2,341	(442)	10,941
Total	**1,917,160**	**49,146**	**154,019**	**(80,000)**	**2,040,325**

Notes:

Base Changes

- 2022/23 Social Care Grant contribution to Adult's and Children's SP2023 savings targets (£14m)
- Extension of the Household Support Fund Grant announced in the Autumn Statement (£14.2m)
- Additional grant funding for Unaccompanied Asylum Seeking Young Children (£9.0m)
- 2021/22 local government pay award (£6.3m)

Inflation, Growth & Pressures

- 2023/24 non-pay inflation (£34.3m)
- Children's Services pressures, including growth and inflation funding for Home to School Transport (£4.5m), growth in Children Looked After (£20m) and Children's Social Workers (£9.7m)
- Adult Social Care growth funding at current MTFS level (£58.5m)
- 2022/23 local government pay award (£20.6m)