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.

f) That 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 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