

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Executive Member for Hampshire 2050 and Corporate Services
<b>Date:</b>	22 January 2024
<b>Title:</b>	2024/25 Revenue Budget & Capital Programme Report for Hampshire 2050
<b>Report From:</b>	Director of Hampshire 2050

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### Section A: Purpose of this Report

1. The purpose of this report is to set out proposals for the 2024/25 revenue and capital budget for Hampshire 2050 in accordance with the Council's Medium Term Financial Strategy (MTFS) approved by the County Council in November 2023. It also proposes a revised budget for Hampshire 2050 for 2023/24.

### Section B: Recommendation(s)

To approve for submission to the Leader and the Cabinet:

2. The revised revenue budget for 2023/24 as set out in Appendix 1.
3. The summary revenue budget for 2024/25 as set out in Appendix 2
4. The summary capital budget for 2023/24 and 2024/25 as set out in Appendix 3.

### Section C: Executive Summary

5. This report provides the summary outputs of the detailed budget planning process undertaken by Hampshire 2050 for 2024/25 and the revised budget for 2023/24. This process has been undertaken against the backdrop of a budget gap of £132m by 2025/26, which the Council is unable to close through savings alone, and escalating cost pressures within key demand led services, including Adult Social Care and School Transport. Over £130m of inflation, pressures and growth has been added to budgets since 2023/24, significantly exceeding increases in the Council's funding. The current high inflationary environment

also continues to present particular challenges in balancing budget certainty for Directorates with levels of affordability for the Council.

6. Disappointingly, the Autumn Statement delivered by the chancellor on 22 November didn't include any additional financial measures to ease the pressures facing local authorities. The announcement of a higher National Living Wage for 2024/25 than had previously been forecast is likely to result in additional financial pressures for the Council, both through increasing costs for our service providers and also impacting future local government pay awards. It was also notable that the tightening of medium-term spending limits set by the government suggests a worrying direction of travel for future funding settlements.
7. The anticipated delay to delivery of some aspects of the remaining Transformation to 2021 (Tt2021) programme and Savings Programme to 2023 (SP2023) have been factored into our financial planning, and one-off Directorate funding will be provided where required to bridge the forecast savings gap in 2024/25. As of September 2023, £10.2m of Tt2021 savings and £11.4m SP2023 savings have yet to be delivered across the Council. Plans are in place to deliver most of the remaining Tt2021 and SP2023 savings by 2024/25, however this presents a considerable challenge for directorates in addition to the £17.1m SP2025 savings due to be delivered next year. All savings relating to the H2050 directorate have been delivered.
8. The report also provides an update on the business-as-usual financial position for the current year as at the end of September and the outturn forecast for the Directorate for 2023/24, is a budget saving of £0.7m. The revised budget for 2023/24 is shown in Appendix 1.
9. The proposed revenue budget for 2024/25 analysed by service is shown in Appendix 2 and the proposed capital programme for 2024/25 is shown in Appendix 3.
10. This report seeks approval for submission to the Leader and Cabinet of the revised budget for 2023/24, the detailed service budgets for 2024/25 and the capital programme for 2024/25 for Hampshire 2050. The report has been prepared in consultation with the Leader and Executive Member and will be reviewed by the Hampshire 2050, Corporate Services and Resources Select Committee. It will be reported to the Leader and Cabinet on 6 February 2024 to make final recommendations to County Council on 22 February 2024.

#### **Section D: Contextual Information**

11. In November 2023, Full Council approved the Medium Term Financial Strategy and Savings Programme to 2025 (SP2025) which set out the scale of the financial challenges which the Council currently faces and the proposed measures which will begin to address the budget gap of £132m to 2025/26. However, for the first time the Council finds itself in the position of being unable to close the budget gap through savings proposals alone, with a substantial

recurring shortfall of £41.6m remaining from 2025/26 after accounting for SP2025 savings.

12. As reported to Cabinet in December, the cost pressures facing the County Council have worsened further since the MTFs was set, most notably within Adult Social Care, Special Educational Needs and School Transport. Where the impact of these pressures is known, additional funding has been included in the provisional cash limits and allocated to services as part of the detailed budget setting process undertaken by directorates.
13. The provisional cash limits for 2024/25 include over £130m of inflation, pressures and growth added to budgets since 2023/24. This represents an average increase in directorate cash limits of over 12% in a single year, which is clearly an unsustainable position when set against a maximum increase in Council tax of 5%. It is therefore not surprising that the Council expects to draw some £86m from reserves to balance the budget for the forthcoming year.
14. Setting a budget in a high inflationary environment presents particular challenges in balancing budget certainty for Directorates with levels of affordability for the Council, given the potential for the position to worsen or improve substantially throughout the year in line with changes in the economic picture. The budget for Hampshire 2050 therefore represents a prudent assessment of the funding level required to deliver services, with additional corporately held risk contingencies playing an important role to mitigate the impact of financial uncertainty on service delivery.
15. The Council's approach to planning and delivering savings over a two year period means that the 2024/25 cash limits do not include any new savings proposals. However, given that the balance of the Budget Bridging Reserve will be fully utilised in 2024/25, all SP2025 savings delivered in the forthcoming year will be transferred to the BBR at the end of the financial year.

### **Autumn Statement**

16. The Government announced the 2023 Autumn Statement on 22 November. Disappointingly, the Statement didn't include any additional financial measures to ease the pressures facing local authorities, despite strong lobbying from the sector in the period leading up to the Statement, which attracted widespread press coverage.
17. Of particular significance for Local Government was the announcement of a 9.8% increase in the National Living Wage for 2024/25 to £11.44 per hour. This significantly exceeds the previous central estimate of £11.16 published by the Low Pay Commission in May on which the current MTFs forecasts are based. This increase is likely to result in additional financial pressures for the Council, both through increasing costs for our service providers and also impacting future local government pay awards.

18. The Economic and Fiscal Outlook published by the Office for Budgetary Responsibility alongside the Statement showed that Local Authority spending has fallen from 7.4% of GDP to just 5% since 2010/11 and the Government's current spending plans suggest that spending outside the NHS will fall further in real terms over the next five years. This sets a worrying backdrop for the medium term outlook for local government finance and suggests that there is unlikely to be sufficient scope to address the funding shortfalls faced by Councils within the government's current spending plans.

### **Operating model changes**

19. The Council transitioned to a new operating model in January 2023 which established new directorates for the delivery of place shaping services and our Hampshire 2050 vision. When the 2023/24 budget was set, it was highlighted that further changes to budgets would be required to ensure budget allocations accurately match the services and roles aligned to each Directorate. The 2023/24 original budget has therefore been restated to reflect the detailed work undertaken on the later phases of the restructure since the budget was set in February 2023.
20. In addition to the early delivery of some SP2025 savings, the Fit for The Future operating model reviews will continue to be progressed and will ensure that the Council's corporate enabling functions, transformation and administrative activity are delivered as efficiently as possible, and that our contact model takes full advantage of new technologies and the changing ways in which residents interact with the Council. It is anticipated that these reviews will identify some further efficiency savings, however these will not be sufficient to bridge the remaining budget gap.
21. Hampshire 2050 has been developing its service plans and budgets for 2024/25 and future years in keeping with the County Council's priorities and the key issues, challenges and priorities for the Directorate are set out below.

### **Section E: Directorate Challenges and Priorities**

22. The Hampshire 2050 Directorate is now well established in the organisation following the organisational redesign and restructure completed in January 2023. The budget set in 2023/24 included the removal of SP23 savings following the integration of budgets and services from previous Departments.
23. The Directorate comprises the organisation's key place shaping functions, aligned to the Hampshire 2050 vision that was revalidated by Cabinet and Full Council in 2023. It works at the centre of the organisation drawing teams and partners together to set the strategic direction for Hampshire as a place, enabling the County Council's operational service delivery and the development the future environment, infrastructure, skills and opportunities for residents and communities for many years to come.

24. The Directorate is comprised of three core areas:

- **Land and Assets** – the strategic one-organisation oversight of the County Council’s land and assets portfolio including schools, the corporate estate and the County Council’s strategic land holdings. Key priorities include unlocking commercial development of land at Manydown located west of Basingstoke, as well as strategic implementation the County Council’s Strategic Asset Management Plan (SAMP) including the core Winchester office estate and the wider portfolio of County Council area offices and buildings.
- **Culture, Communities and Strategic Programmes** – oversight of the County Council’s strategic, cultural and community offer including grants to community and charitable organisations. Key priority programmes include the progression of the Hampshire 2050 vision and partnership following the 2050 Summit held in November 2023, the governance and oversight of the Climate Change Strategy and strategic framework, the on-going relationship with Hampshire Cultural Trust (HCT), as well as developing and articulating the County Council’s role in the digital future for Hampshire which will be reported to Cabinet in February 2024.
- **Skills, Economy and Strategic Planning** – oversight of the County Council’s strategic role and ambition to drive economic growth and prosperity alongside the development of integrated transport strategy, infrastructure and statutory planning responsibilities. Key priorities include the new responsibilities the County Council will have for economic development and growth from April 2024, following the Government decision to integrate Local Economic Partnerships (LEPs) into Upper Tier Councils. This will include new responsibilities for governing and overseeing strategic economic growth, skills, business relationships and the delivery of significant government programmes in the Hampshire County Council geographic footprint from April 2024. Key statutory priorities also include the finalisation and submission of the County Councils Minerals and Waste Plan, the implementation of Local Transport Plan 4 (LTP4) and the new responsibility to develop a Local Nature Recovery Strategy (LNRS) by December 2024.

## **Section F: 2023/24 Revenue Budget**

25. Enhanced financial resilience reporting, which looks not only at the regular financial reporting but also at potential pressures in the system and the achievement of savings being delivered through transformation, has continued through periodic reports to the Corporate Management Team (CMT) and to Cabinet.

26. The anticipated business as usual outturn forecast for 2023/24 is a saving compared to budget of £0.7m.
27. The budget for Hampshire 2050 has been updated throughout the year and the revised budget is shown in Appendix 1. The revised budget shows an increase of £1.45m made up of:
  - £0.2m Local Nature Recovery Strategy grant funding.
  - £1.2m approved funding drawn from the Strategic Land Reserve.

### **Section G: 2024/25 Revenue Budget Pressures and Initiatives**

28. Since the publication of the March 2022 Local Enterprise Partnership (LEP) integration guidance, government has supported the integration of LEP functions into democratic institutions sitting at Level 2 or 3 of the devolution framework. For Hampshire County Council there are two LEPs which will be integrated from the 1st April 2024, namely EM3 and Solent LEPs. The integration of staff, assets and liabilities into the relevant upper tier authority requires a process of dis-aggregation of LEP functions between upper tier authorities, unitaries and borough and district councils. For EM3 the partners for the purpose of staff integration are Hampshire and Surrey County Councils. Due to the limited information from government on funding streams for integrated LEPs there is a potential pressure linked to unfunded payroll costs.

### **Section H: Revenue Savings Proposals**

29. The County Council's financial strategy is continuing with a two-year approach to planning for savings. Consequently, no new savings are proposed for 2024/25 and savings proposals for 2025/26 have been developed through the Savings Programme to 2025 and were approved by Executive Members in September 2023, and by Cabinet and County Council in October and November 2023. In recognition of the size of the financial challenge which the Council faces, directorates were not issued with savings targets as per previous savings programmes but were instead instructed to review what savings might be achievable if we were to move towards a 'legal minimum' provision of services.
30. The total Savings Programme to 2025 is insufficient to meet the forecast budget gap for 2025/26 and taking account of the planned timing of savings delivery, a significant budget gap of £56.9m remains for 2025/26. Given the shortfall within the Budget Bridging Reserve beyond 2024/25, SP2025 savings delivered in 2024/25 will be transferred to the BBR at the end of the financial year.
31. Since transfers to the BBR will reflect actual savings delivered, the 2024/25 cash limits have not been adjusted in line with planned savings. For Hampshire

2050 total savings for 2025/26 are £5m of which £0.6m are currently anticipated to be delivered during 2024/25.

32. Delivery of these savings presents a challenge for the directorate, particularly against a backdrop of continued high inflation. Rigorous monitoring of the implementation of the programme will begin during 2024/25, to ensure that the Directorate is able to deliver its SP2025 savings in line with planned timescales.
33. This early action in developing and implementing the Savings Programme to 2025 means that the County Council is in the best possible position for setting a balanced budget in 2024/25 and that no new savings proposals will be considered as part of the budget setting process for the forthcoming financial year.

### **Section I: Budget Summary 2024/25**

34. The budget update report presented to Cabinet on 12 December 2023 included provisional cash limit guidelines for each Directorate. The cash limit for Hampshire 2050 in that report was £16m, a £0.1m increase on the previous year. The increase comprised:
  - (£0.2m) Adjustment to align with the Cabinet-approved Strategic Land budget for 24-25.
  - £0.3m increase in Business Rates following revaluation
35. Pay increases for FY24/25 are not yet included within the cash limit. These will be updated prior to February Cabinet.
36. Appendix 2 sets out a summary of the proposed budgets for the service activities provided by Hampshire 2050 for 2024/25 and show that these are within the cash limit set out above.
37. In addition to these cash limited items the overall Hampshire 2050 budget includes a £0.2m charge for Chichester Harbour Conservancy which is not counted against the cash limit as shown in the table below. This is a Trust which operates a statutory mandate linked with Chichester Harbour and the surrounding AONB.

	<b>2024/25</b>	
	<b>£'000</b>	<b>£'000</b>
Cash Limited Expenditure	26,533	
Less Income (Other than Government Grants)	(10,549)	
<b>Net Cash Limited Expenditure</b>		<b>15,984</b>
Chichester Harbour Conservancy		203
Less Government Grants:		
N/a		
Total Government Grants		0
<b>Total Net Expenditure</b>		<b>16,187</b>

## **Section J: Capital Programme**

38. The County Council has maintained its capital programme throughout the period of austerity, doing so by making use of external sources to fund a significant proportion of expenditure, supplemented by the use of capital receipts and the County Council's own revenue resources. Approximately 80% of expenditure was externally funded in 2022/23 with the remaining c.20% funded by capital receipts (12.5%) and other local resources (7.3%).
39. Where expenditure is funded from local resources, this impacts the revenue budget in one of three ways:
- A reduction in existing reserves
  - Increased capital financing costs (e.g. interest and MRP) as a result of prudential borrowing
  - The need for direct contributions to schemes from the revenue budget.
40. Any impact on the revenue budget is considered as part of the Medium Term Financial Strategy (MTFS) and alongside the priorities within Serving Hampshire's Residents – Strategic Plan 2021 – 2025. Given the challenging financial position the County Council faces, any revenue contributions to capital schemes must balance recognition of the importance of capital investment with the need to review and challenge all revenue based expenditure as part of the overall MTFS.
41. The current MTFS assumes continuing revenue contributions to capital schemes throughout the forecast period. In order to allow the County Council time to continue to consider the evolving MTFS position, the capital cash limit guidelines approved by Cabinet in December 2023 only allocated the funding

from these revenue-based contributions to directorates for 2024/25, with the amounts for 2025/26 and 2026/27 to be held centrally pending further review.

42. The locally resourced cash limit guideline for Hampshire 2050 is £646,000 and is earmarked for advance and advantageous land purchase. Appendix 3 sets out the 2023/24 revised capital programme including brought forward allocations, and the proposed capital programme for 2024/25. The 2024/25 programme includes a technical accounting re-classification relating to potential loans to the Manydown development programme which were previously covered by the Treasury Management Strategy approved by the County Council and are now to be accounted for as part of the capital programme in accordance with best practice. Further information is provided in Appendix 4.
43. The County Council continues to maintain a significant capital programme, resulting in investment in assets to support and enable the provision of local services and delivering benefits to the local economy.

### **Section K: Climate Change Impact**

44. 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°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
45. This report deals with the revenue budget preparation for 2024/25 for the Hampshire 2050 Directorate. 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 revenue budget preparation for 2024/25 for the H2050 Directorate.

**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**

<b>Links to previous Member decisions:</b>	
<p><u>Title</u> Savings Programme to 2025 – Revenue Savings Proposals (Executive Member for Hampshire 2050) <a href="https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=811&amp;MId=10857&amp;Ver=4">https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=811&amp;MId=10857&amp;Ver=4</a></p>	<p><u>Date</u> 25 September 2023</p>
<p>Medium Term Financial Strategy Update and Savings Programme to 2025 Savings Proposals <a href="https://democracy.hants.gov.uk/mgAi.aspx?ID=63758#mgDocuments">https://democracy.hants.gov.uk/mgAi.aspx?ID=63758#mgDocuments</a></p>	<p>Cabinet – 10 October 2023 / County Council – 9 November 2023</p>
<p>Budget Setting and Provisional Cash Limits 2024/25 <a href="#">Financial Update and Budget Setting and Provisional Cash Limits 2024/25 (hants.gov.uk)</a></p>	<p>Cabinet – 12 December 2023</p>
<b>Direct links to specific legislation or Government Directives</b>	
<u>Title</u>	<u>Date</u>
<p><b>Section 100 D - Local Government Act 1972 - background documents</b></p> <p>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.)</p>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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

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

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

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

### **2. Equalities Impact Assessment:**

The budget setting process for 2024/25 does not contain any proposals for major service changes which may have an equalities impact. Proposals for budget and services changes which are part of the Savings Programme to 2025 Programme were considered in detail as part of the approval process undertaken in September, October and November 2023 and full details of the Equalities Impact Assessments relating to those changes can be found in Appendices 3 to 7 of the October Cabinet report linked below:

<https://democracy.hants.gov.uk/mgAi.aspx?ID=62985#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. The results of these consultations and any changes to equality impacts will be reported to the relevant Executive Member as the savings proposals are further developed and implemented.

## Budget Summary 2023/24 – Hampshire 2050

<b>Service Activity</b>	<b>Original Budget 2023/24 £'000</b>	<b>Revised Budget 2023/24 £'000</b>
Spatial Planning	1,390	1,597
Economic Development	1,047	1,047
Integrated Transport	866	866
Skills & Participation	198	176
<b>Skills, Economy &amp; Planning</b>	<b>3,501</b>	<b>3,686</b>
Arts & Museums	2,795	3,005
CCBS Grants Fund	32	32
Leader's Grants	400	400
Members' Devolved Budgets	624	624
Sport	116	116
Rural Broadband	5	55
Climate Change & Environmental Strategy	689	689
H2050 Policy	68	68
<b>Culture &amp; Communities</b>	<b>4,729</b>	<b>4,989</b>
Disposal of sites	243	243
Property Services	602	602
Strategic Land	1,996	3,204
Premises Mgmt	38	33
Strategic Development Team	121	121
Office Accommodation	4,223	4,240
<b>Strategic Assets</b>	<b>7,223</b>	<b>8,443</b>
<b>H2050 Directorate</b>	<b>438</b>	<b>488</b>
<b>H2050 Cost of Change</b>	<b>0</b>	<b>(264)</b>
<b>Net Cash Limited Expenditure</b>	<b>15,891</b>	<b>17,342</b>

## Budget Summary 2024/25 – Hampshire 2050

<b>Service Activity</b>	<b>Original Budget 2023/24 £'000</b>	<b>Proposed Budget 2024/25 £'000</b>
Spatial Planning	1,390	1,374
Economic Development	1,047	1,046
Integrated Transport	866	873
Skills & Participation	198	208
<b>Skills, Economy &amp; Planning</b>	<b>3,501</b>	<b>3,501</b>
Arts & Museums	2,795	2,795
CCBS Grants Fund	32	32
Leader's Grants	400	400
Members' Devolved Budgets	624	624
Sport	116	116
Rural Broadband	5	55
Climate Change & Environmental Strategy	689	689
H2050 Policy	68	68
<b>Culture &amp; Communities</b>	<b>4,729</b>	<b>4,779</b>
Disposal of sites	243	250
Property Services	602	600
Strategic Land	1,996	1,782
Premises Management	38	29
Strategic Development Team	121	121
Office Accommodation	4,223	4,488
<b>Strategic Assets</b>	<b>7,223</b>	<b>7,270</b>
<b>H2050 Directorate</b>	<b>438</b>	<b>434</b>
<b>Net Cash Limited Expenditure</b>	<b>15,891</b>	<b>15,984</b>

**Capital Programme 2023/24 and 2024/25**

	<b>Revised 2023/24 £'000</b>	<b>2024/25 £'000</b>
<b>Resources:</b>		
Cash limit guideline	646	646
Carry forward from previous years	3,799	12,344
Technical accounting re-classification *	0	50,000
<b>Total resources</b>	<b>4,445</b>	<b>62,990</b>
<b>Planned programme:</b>		
Botley UDI	60	0
Strategic Land	0	10,000
Advanced & Advantageous Land	0	2,990
Investing in Hampshire	2,554	0
Broadband	1,831	0
Manydown Service Loans	0	50,000
<b>Total programme</b>	<b>4,445</b>	<b>62,990</b>

\* The technical accounting re-classification relates to potential loans to the Manydown development programme which were previously covered by the Treasury Management Strategy approved by the County Council and are now to be accounted for as part of the capital programme in accordance with best practice. Further information is provided in Appendix 4.

## **Manydown Loans**

In previous reports to the Executive Member, we have outlined the County Council's involvement in the Manydown Development. In simple terms, the County Council together with Basingstoke and Deane Borough Council (BDBC) each hold an equal leasehold interest in land at Manydown with the option to purchase that land for future development. To undertake this purchase jointly, the Councils set up and operate a separate company called the Manydown Garden Communities. Both Councils entered into a joint venture arrangement with a development company called Urban and Civic (U&C) and it is hoped that a deal with the freeholder, The Manydown Company, for the purchase of the land can be agreed in the near future.

Under the contractual arrangements with BDBC and U&C, the County Council has some financial obligations and has financing opportunities as part of the overall funding for the development. These fall into four main areas:

- Loans to the Manydown Development Company (the joint venture company set up to deliver the Manydown development in a 50:50 partnership between the two Councils and U&C) to provide them with working capital (obligatory).
- Loans to the joint venture company to fund initial feasibility and project work (optional).
- Loans to the joint venture company for the purchase of the land (by way of an equity share funded by U&C) which is part of the overall funding deal.
- Loans to the joint venture company to fund the senior debt requirement for building out the development, which would be secured against the increased value of the developed land (optional).

The council has already made some loans under the first two items totalling £3.7m and has approval within its Treasury Management Strategy (TMS) to loan up to £45m to companies in which it has a significant interest (which at the moment is only Manydown). To date, all of these transactions and approvals have been treated as part of the overall TMS that the County Council approves each year. However, given the heightened scrutiny on local authority investments and companies, our treasury advisers have suggested that all of these items should now be treated as service-based loans to reflect the wider benefits that the County Council and BDBC are aiming to achieve in terms of economic development, regeneration, place shaping and affordable housing.

To facilitate this, the Hampshire 2050 capital programme attached at Appendix 3 includes a total provision of £50m for Manydown service loans, made up of:

- £35m to cover the option for senior debt loans.
- £17.75m representing the County Council's equity share of the land purchase given by way of a loan note from U&C who have funded the land sale in total.

- £2.25m to provide further loans for the working capital and feasibility and project work subject to further business cases being brought forward.

Any senior debt that the council provides will need to be treated as capital expenditure but as this is a service-based loan, the County Council could decide to borrow for this if it chose to do so. The loans for Manydown Garden Communities and joint venture company working capital will be provided for via corporate contingency and any senior debt would be secured against the increase in the value of the land and therefore the only potentially 'at risk' loan is for the feasibility and project funding which is reflected in the high rate of SONIA plus 5% and 9.5% respectively (currently 10.2% and 14.7% respectively) The small amount that has been loaned under this so far (£3.7m) could be covered by the investment risk reserve if needed, so no further mitigation is required. The future repayment of all loans will represent a capital receipt which essentially 'refunds' the capital programme.