HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	8 February 2022 17 February 2022
Title:	Revenue Budget and Precept 2022/23
Report From:	Director of Corporate Operations

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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 2022/23. It also provides an update on the financial position for 2021/22, 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 departments for 2022/23 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 2022/23.

b) The Revised Budget for 2021/22 set out in Appendix 1 be approved.

c) The Revenue Budget for 2022/23 (as set out in Appendix 3 and Appendix 4) be approved.

d) Revenue funding of £3.783m in 2022/23 to progress the Strategic Land Programme is approved together with the ongoing commitment in future years as set out in paragraph 60.

e) Revenue funding of £0.5m in 2022/23 to develop highways schemes for grant bidding purposes is approved, to be met from savings in contingencies in 2021/22.

f) Recurring revenue funding of £388,000 per annum be approved to cover the cost of unavoidable SharePoint licence costs

g) The **council tax requirement** for the County Council for the year beginning 1 April 2022, be £738,072,349.

h) The County Council's band D council tax for the year beginning 1 April 2022 be £1,390.86, an increase of 2.99%, of which 1% is specifically for adults' social care.

i) The County Council's council tax for the year beginning 1 April 2022 for properties in each tax band be:

	£
Band A	927.24
Band B	1,081.78
Band C	1,236.32
Band D	1,390.86
Band E	1,699.94
Band F	2,009.02
Band G	2,318.10
Band H	2,781.72

j) Precepts be issued totalling £738,072,349 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:

	Tax base
Basingstoke and Deane	67,823.40
East Hampshire	51,908.73
Eastleigh	48,373.35
Fareham	44,002.60
Gosport	27,154.20
Hart	41,815.86
Havant	41,771.36
New Forest	72,122.10
Rushmoor	32,795.29
Test Valley	51,338.00
Winchester	51,554.09

k) The Capital & Investment Strategy for 2022/23 (and the remainder of 2021/22) as set out in Appendix 7 be approved.

l) The Treasury Management Strategy for 2022/23 (and the remainder of 2021/22) as set out in Appendix 8 be approved.

m) 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 2022/23.

b) The Revised Budget for 2021/22 set out in Appendix 1.

c) The Revenue Budget for 2022/23 (as set out in Appendix 3 and Appendix 4).

d) Revenue funding of £3.783m in 2022/23 to progress the Strategic Land Programme together with the on-going commitment in future years as set out in paragraph 60.

e) Revenue funding of £0.5m in 2022/23 to develop highways schemes for grant bidding purposes, to be met from to be met from savings in contingencies in 2021/22.

f) Recurring revenue funding of £388,000 per annum to cover the cost of unavoidable SharePoint licence costs

g) That the council **tax requirement** for the County Council for the year beginning 1 April 2022, be £738,072,349.

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k) The Capital & Investment Strategy for 2022/23 (and the remainder of 2021/22) as set out in Appendix 7.

l) The Treasury Management Strategy for 2022/23 (and the remainder of 2021/22) as set out in Appendix 8.

m) 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. This report sets out the proposed budget and council tax for 2022/23, representing the 'interim year' as part of the County Council's tried and tested two year cycle for delivering savings.

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 last year. Any early achievement of resources from proposals during 2022/23 as part of the SP2023 Programme will be retained by departments to use for cost of change purposes, to cash flow the delivery of savings or to offset service pressures.

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 17 February 2022.

9. Financial performance in the current year remains positive. Indications are that all departments will be able to manage the large-scale investment required to deliver their planned transformation and savings activity and meet service pressures through the use of cost of change and other reserves, along with appropriate corporate funding, both to address service pressures and to deal with the ongoing impact of the pandemic. Overall corporate funds of £19.5m can be released in 2021/22 to provide funding for highway scheme development and contribute to the Budget Bridging Reserve (BBR) to build up the necessary reserves to cover increased deficits for the next two years.

10. In October last year a 3 year Comprehensive Spending Review was announced by the Government, but this only translated into a one year settlement for 2022/23 and disappointingly reduced the adult social care precept to only 1% per annum for the next 3 years. Whilst the settlement provided an additional £22.9m of general resources to the County Council next

year, it is not enough to close the budget gap and much of this funding is already accounted for from 2023/24 onwards as part of the SP2023 proposals.

11. In line with the MTFS and Government presumption, this report recommends that council tax is increased by 2.99% in 2022/23, of which 1% is specifically for adults' social care.

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. At this stage the draw required from the Budget Bridging Reserve (BBR) is £61.7m, which reflects the approved use of funding to balance the budget in the interim year, which is £21.5m above that originally predicted due to additional service pressures, mainly in adults' social care.

14. In addition, this report includes both the County Councils Capital and Investment Strategy and the Treasury Management Strategy (TMS) for 2022/23 (and the remainder of 2021/22), set out in Appendix 7 and Appendix 8 respectively.

15. Longer term, the County Council is still in the position of having no real visibility of its financial prospects beyond the 2022/23 year, which clearly makes any accurate financial planning difficult to achieve. However, the CSR did provide national figures for three years which were flat over the period. If we therefore assume that we will receive the same funding in future years as we did for 2022/23 and build in known pressures relating to post pandemic growth in adults' and children's social services, together with council tax increases of 2.99% per annum, we can forecast the position over the medium term.

16. Given the significant rise in the cost of adults' social care outlined in Appendix 9, this gives rise to a cumulative deficit by 2025/26 of some £157m after we have delivered £80m of savings by 2023/24. This is nearly double the two year target we have been working to since 2019/20 and represents the most significant challenge yet to the County Council's financial sustainability.

17. The strategy at this stage is to fund the additional deficits in 2022/23 and 2023/24 from the BBR in order to give sufficient time to consider our response to this position, but what is clear is that we cannot simply continue to follow our usual process to address the gap, coming as it does on top of the £640m we will have already saved to 2023/24.

18. We have repeatedly said to Government that without a long term sustainable funding solution to the growth in social care costs, the County Council is not financially sustainable in the longer term and this has never been truer for our current outlook. We will look to the Government to address this serious position with us over the coming year.

19. 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 2022/23, is set out in Appendix 6 and also considers the future financial resilience of the County Council in this context.

Section D: Contextual Information

20. The current financial strategy which the County Council operates works on the basis of a two year cycle of delivering departmental 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 departments to use for cost of change purposes or to cash flow delivery and offset service pressures. The model has served the authority well.

21. The County Council’s strategy has placed it in a stable position to produce a ‘steady state’ budget for 2022/23 and safely implement the next phase of changes through the Savings Programme 2023 (SP2023) to deliver further savings totalling £80m.

22. However, the forecasts that led to an £80m estimated deficit were produced in a pre-pandemic environment and without any knowledge of the Government’s plans for local government during the period in question. The financial landscape is now very different with significant ‘post-pandemic’ pressures impacting on the budget position at the same time as restrictions on the adult social care precept were announced in the Comprehensive Spending Review last year.

23. The provisional Local Government Finance Settlement was announced on 16 December 2021 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 particularly within adults’ social services. This means that a significantly greater draw from reserves will be required to balance the budget in 2022/23.

24. Prior to the announcement of the Finance Settlement the Council joined with over twenty of the most poorly funded local authorities in lobbying the Secretary of State for a more equitable funding approach for 2022/23. Whilst the government committed to a review of the funding formula for future years, the settlement proved insufficient to meet the growing pressures in social care over the next year.

25. The final grant settlement for 2022/23 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 2021.

26. In December 2021 Cabinet received a budget update report that set provisional cash limit guidelines for departments, taking into account inflation, savings and

base changes. This report confirms the cash limits that will be applied to departments 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: 2021/22 Financial Monitoring

27. As at the end of November all Departments are currently forecasting balanced positions in-year. The consolidated position for all departments for 2021/22 requires funding of £48.2m to meet additional costs in-year, including £27.1m in corporate cashflow support and £21.1m from Cost of Change and other departmental reserves. Forecast reserve draws have increased by £5.3m as compared to the position reported to Cabinet in December, reflecting increased pressures and reduced business as usual (BAU) savings which are discussed in further detail below.

28. The medium term position has worsened considerably since the previous report to Cabinet in December and cumulative budget pressures are now expected to significantly exceed departmental resources over the period to 2025/26, as discussed in further detail in section P. This is primarily due to the re-baselining of inflation and demand trajectories for adults' care budgets based on the trends seen during the first half of the year. Current market prices for care placements are now between 16-18% higher than the Council's existing provision and client numbers have increased over the 17 month period to December 2021 at a rate over 2.5 times higher than the pre-pandemic average.

29. In-year BAU pressures have increased by £2.5m since September, of which £1.7m is attributable to Home to School Transport costs. The service has seen significant price increases as a result of factors including increasing fuel costs and a shortage of drivers. Additionally, a backlog of Special Educational Needs (SEN) Assessments due to the pandemic has resulted in some SEN pupils being placed late and therefore requiring more expensive solo transport arrangements.

30. Forecast in-year BAU savings for Adult's Health and Care have reduced by £3.5m due to the escalation in underlying levels of activity on care packages which were supressed during 2020/21 due to the pandemic. However, increases in BAU savings and SP2023 early delivery in other areas of around £1.2m have helped to offset this reduction.

31. The medium term outlook to 2025/26 is dominated by the worsening Adult's position and assumes that an additional £19m corporate support will be required in 2022/23. The position reported is heavily reliant on projections of future volume and price levels that are notoriously volatile and therefore difficult to predict. For the current year and 2022/23 these pressures can be accommodated from one off funds available and planned for corporately,

however there remains a significant recurring gap in subsequent years, which is discussed later in the report.

32. The indirect consequences on the budget from Covid-19 are long lasting and highly likely to be substantial. Whilst care volumes in Residential and Nursing Care remain lower than the March 2020 levels, they are increasing at an accelerated rate. Correspondingly domiciliary care has also continued to increase since March 2020. Additionally, the average price paid for this care has increased faster than seen previously. These issues combined with a more gradual but persistent increase in volumes within the Younger Adults care group has led to the longer term position set out later in the report.

33. Price increases that providers have passed on to the Council can be attributed to many likely factors including shortages in the employment market for staff at suitable rates, additional costs to meet infection control and testing requirements and providers remaining below full occupancy.

34. There remains a risk that prices continue to increase, possibly even at a faster rate than that currently assumed, especially in light of the likely cessation of various government grants by 2022/23, received by providers to help mitigate the cost of additional infection control measures they need to have in place.

35. In the current year, many of the various Covid-19 funding sources available have helped the Department to manage the recent and persistent in-year growth and if necessary corporate resources are available in 2022/23 to offset the forecast pressure. However, from 2023/24 the full year impact of this growth, the potential in year continuation thereof and potential cessation of many of the funding streams that have mitigated the situation will make the future incredibly challenging alongside the volume of savings already required to balance the budget by 2023/24.

36. Within the schools budget there continues to be pressure in the high needs block with a further deficit of £25.8m expected this year which will bring the cumulative deficit to £61.2m. A statutory override provided by the DfE (which currently ends in 2023/24) has strengthened the ringfence on the DSG deficit by allowing local authorities to charge negative DSG balances to a separate account rather than off-setting 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.

Section F: Revised Budget 2021/22

37. 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.

38. Appendix 1 provides a summary of the original budget that was set for 2021/22 together with adjustments that have been made during the year. The proposed Revised Budget for 2021/22 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.

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

Adjusted Budget 2021/22

40. **Departmental Spending** – Budgeted departmental spending has increased by around £133.5m and the reasons for this are highlighted in the following table:

	£m
Net increase in specific grants	84.1
Tt2021 and Tt2019 Corporate Cashflow Support	19.5
Use of cost of change and other departmental earmarked reserves	15.1
In Year Children's Services draw from central contingency	5.0
In Year ETE draw from central contingency for Waste Disposal, Highway Maintenance and Streetlighting Energy	3.2
IT Growth Funding from central contingency	2.1
Changes to Revenue Contributions to Capital Outlay (RCCO)	1.4
Other Net Changes	3.1
Total	**133.5**

41. The increases in budgeted departmental spending are mainly because of increased government grants, the majority of which are one-off Covid-related grants, the allocation of approved funding (for example from contingencies) or the one off use of cost of change reserves. 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 Economy, Transport and

Environment from contingencies, but this reflects a transfer rather than new unanticipated spend.

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

43. **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 2021/22.

44. **Contingencies** – The increase in contingencies is mainly the result of one-off funding allocations approved by the Council in previous years which have been rolled forward as part of the 2021/22 budget but have not yet been draw down by departments.

45. **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 Covid-related grants including amounts allocated in 2020/21 for infection control and outbreak management measures which were carried forward to 2021/22.

46. **Business Units (Net Trading Position)** – An improvement in the net trading position for the School Improvement Service is expected.

47. All 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 2021/22

48. The fourth column of figures shown in Appendix 1 outlines the proposals for the revised revenue budget for the County Council for 2021/22. The revised budgets for departments include further draws of £5.3m from cost of change and other departmental reserves and an increase in specific grants allocated to Children’s Services of £0.8m.

49. It is anticipated that there will be early delivery of SP2023 savings in the majority of departmental budgets by the end of the year. However, in line with current policy this can be transferred to departmental 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.

50. All departments are forecasting break even positions against the revised cash limits reflecting this policy and the fact that departments are managing their

bottom line positions to contain spending pressures and are using cost of change in the year as required.

51. **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. As detailed in the Treasury Management Strategy (Appendix 8) cash balances have risen significantly over the last 12 months due to a combination of factors linked to the pandemic, reducing the need for the Council to take out new borrowing to fund capital investment. As a result, it is expected that a saving on capital financing costs will be achieved in-year, however we are continuing to take a prudent approach and will wait for year end to understand the overall position on these items. Any budget saving achieved will be used to contribute to the BBR in order to reduce the net draw required to balance the budget in 2022/23.

52. **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 pressures resulting from the Covid-19 pandemic.

53. 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 P. At this stage of the year, it is considered prudent to release contingency items in respect of some specific inflationary and growth provisions together with other sums set aside for income risk and the general risk contingency. In total, these items amount to £19.5m which can be declared as savings against the adjusted budget.

54. Given the position outlined for the social care departments in the current year, all of the specific sums held for social care have been allocated. However, sufficient funding will be retained to cover potential adverse movement in the final quarter of the year given the recognised volatility of these areas.

55. It is proposed that £0.5m of the total of £19.5m is allocated to fund Highways project development as set out in section G and the remaining £19.0m is transferred to the Budget Bridging Reserve to offset the additional draw of £21.5m required in 2022/23 to balance the budget.

Section G - Revenue Investment Priorities

Strategic Land Development

56. The Medium Term Financial Strategy approved by County Council in November 2021 made reference to the work that was in progress to produce a longer term financial plan for the Strategic Land Programme that will commit resources against the full cost of bringing a site to the market alongside the

financial benefits that this will create. The outcome of this work, including confidential information regarding land values, was reported in detail to the Executive Member for Policy and Resources in January 2022. A summary of the strategy and approach and associated revenue funding requirement is set out below.

57. The creation of a Strategic Land programme in 2008/09 was designed to bring forward significant 'strategic' areas of Hampshire County Council land where opportunities for development arose as a result of Local Planning Authority calls for sites. The Programme has been managed to support the delivery of a long-term programme of capital receipts and the approach to the promotion in the Local Plan, achievement of planning and the disposal strategy for individual sites has been tailored to local circumstances. There are considerable revenue costs required to undertake this work. These increase as the process works through planning, and potentially into a Master Developer role. The associated potential capital receipt also increases through this process as land value is steadily enhanced.

58. The approach taken for any one site generally involves the following stages:

- **Stage 1: Local Plan site promotion and advocacy** – approval to make land 'available' and to promote the site through the Local Plan process to secure an allocation for future development. This is often in response to a "call" for sites from the relevant local planning authority. It is typically associated with a range of technical work to evidence the suitability of the site for development.

- **Stage 2: Planning Strategy** - approval for how the site is to be brought forward to secure an outline planning permission. It may be appropriate to consider disposal of some sites prior to this stage but for most, the achievement of outline planning permission will secure best value and support decisions around the subsequent disposal or delivery strategy. The planning system provides the County Council with a means to effect 'control' or influence over a range of different aspects including design quality, place-making and the response to climate change.

- **Stage 3: Development and Disposal strategy** - approval of a disposal or delivery strategy. Consideration is given to either a traditional option agreement or sale of the whole or part with outline planning or the County Council undertaking provision of enabling servicing works. The latter approach takes longer and is more costly in revenue terms, but has the potential to yield higher capital returns overall, particularly on the larger sites. This stage involves approval to the selection of a preferred purchaser/development partner following a formal marketing and/or procurement exercise through to a completed sale.

59. Once accepted for development within a Local Plan, subject to the scale of the site and the planning and disposal strategy selected, it then usually takes a further 3-5 years before the receipt value is realised, often on a phased basis. To maintain and sustain a pipeline of receipts from the programme there is

therefore a need for an ongoing revenue budget commitment to support the programme.

60. To establish the probable revenue requirements for the next five years, a detailed review of the Strategic Land programme has been undertaken and the current status of the projects in terms of site promotion, planning and disposal approvals has been considered and reported to the Executive Member for Policy and Resources. Overall, the programme is forecast to realise a net capital receipt of circa £157m including £55.1m that is currently committed to existing capital schemes. To support the work to achieve these future capital receipts, the projected revenue requirement is set out in the table below. This funding will support a dedicated team within Property Services and the procurement of specialist advice or consultancy depending on the nature of the site and its complexity:

	£'000
2022/23	3,783
2023/24	1,996
2024/25	1,782
2025 - 2032	5,115
Total	12,676

61. Funding to take forward the SLP is a considerable investment for the County Council but makes sound financial sense and is a key strand of the authority's Commercial Strategy. The required revenue funding can be met from within the budget held for revenue contributions to capital outlay (RCCO) without impacting the overall resources available to fund the capital programme as explained in paragraph 88.

Highway Scheme Development

62. In recent years one-off revenue budget has been provided for feasibility funding for highways schemes in particular so that detailed planning and design can be carried out for priority schemes that are then 'oven ready' to be submitted should there be a call for bids by the Government or Local Enterprise Partnerships (LEPs). This approach has been successful in bringing in over £174m of major investment in the County since 2018/19.

63. The expectation that future Government funding support may be aligned to the emerging Levelling Up agenda or to delivery of different types of schemes (for example schemes to mitigate Climate Change impacts or build climate resilience) is likely to result in stronger competition for funding. It will therefore

be potentially more important that a pipeline of priority schemes continues to be developed if the County Council is to be able to maximise the benefits for Hampshire of new funding streams. For 2022/23 it is proposed to allocate a sum of £0.5m and this will be met from underspends in corporate contingencies in 2021/22.

64. Longer term this funding will be treated in a similar way to the Strategic Land Programme allocations and will form part of an annual requirement agreed from the revenue budget. Funding for the remainder of this financial year will be considered in light of the capital priorities review that is currently going on, once we know the outcome of the LEP review and once we know the outturn position for 2021/22.

Unavoidable revenue pressures

Microsoft licence costs for SharePoint

65. The County Council uses SharePoint as its information store which hosts the intranet, shared files and records. Microsoft has recently made changes to the functionality of labels and moved label driven record management to a new licencing model (E5). As a result of this change by Microsoft, remaining on the SharePoint legacy system (E3) increases the risk of non-compliance with data protection regulations and compromises the County Council's records management policy, so action is now required. This relates primarily to the confidential personal details held in Adult's and Children's record management systems.

66. The new licencing model (E5) offering fully enhanced functionality costs in the region of £1.3m p.a. However, Microsoft are also offering an information and compliance 'bolt on' licence at a cost of £388,000 p.a. With appropriate supporting business processes in place, this bolt on licence will meet the County Council's requirements, will benefit from ongoing Microsoft support and ensure compliance with data protection legislation. It is therefore recommended that £388,000 is added to the IT licence budget on a recurring basis from 2022/23.

Section H: Local Government Finance Settlement

67. The Provisional Local Government Finance Settlement sets out the key funding allocations that the Council will receive from Government for the coming financial year. This year's settlement covers 2022/23 only as the allocations of funding from 2023/24 will be the subject of a review of the local government funding regime and further consultation, to be carried out in Spring 2022.

68. 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 needed to meet new departmental costs:

Funding Source	2021/22 allocation (£m)	2022/23 allocation (£m)	Change (£m)
Social Care Grant	26.2	37.2	+11.0
2022-23 Services Grant	-	8.3	+8.3
Business rates grant	6.3	9.9	+3.6
Total 'general' resources	**32.5**	**55.4**	**+22.9**

Funding Source	2021/22 allocation (£m)	2022/23 allocation (£m)	Change (£m)
Market Sustainability and Fair Cost of Care Fund	-	3.2	+3.2
Improved Better Care Fund	30.4	31.3	+0.9
New Homes Bonus	3.9	3.4	-0.5
Total 'specific' resources	**34.3**	**37.9**	**+3.6**

69. The key features of the settlement are:

- A 6.3% increase in Core Spending Power, of which 3% is attributable to the grant allocations set out above and 3.3% is attributable to council tax increases (including 1% for ASC) and tax base growth. This compares with an average 7.5% increase for Shire Counties.
- The 2022/23 Services Grant will be distributed based on the 2013/14 local government funding formula for 2022/23 only. The distribution will be re-evaluated for future years in light of the proposed review of local government funding.
- The Market Sustainability and Fair Cost of Care Fund is part of the government's package to support the recently announced social care reforms, providing funding for local authorities to prepare their care markets for reform and move towards paying providers a fair cost of care. There are a number of conditions associated with the funding which will require new consultation and market intervention activity and therefore it will not contribute towards meeting the budget deficit in 2022/23.
- 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.

70. The final Local Government Finance Settlement for 2022/23 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

71. 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. This was expected to be an increase of 3.99% in each year of the MTFS following referendum limits of 3.99% and 4.99% in 2020/21 and 2021/22 respectively. However, the Autumn Spending Review set a lower referendum limit of 2.99% in each year of the current parliament, of which 1% will contribute towards the increased costs of adults' social care. This has increased the Council's budget gap by £7m in 2022/23, rising to £28m by 2025/26.

72. Given the long term financial outlook, it is recommended in this report that Council tax is increased in line with the referendum limit of 2.99%. This proposed increase will see the council tax for a Band D property increase by £40.41 per annum (approximately 78p per week) to £1,390.86.

73. This will generate around £21m of additional income, however forecast inflationary and growth pressures are expected to exceed £100m in 2022/23, equivalent to a 15% increase in Council tax. Even after accounting for the proposed 2.99% increase it is anticipated that Hampshire will have the second lowest council tax of any county across the country in 2022/23 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 2021/22 was just over £1,443, more than £93 higher than Hampshire's level in that year. If the County Council set its council tax at this average amount, it would receive around £49m a year more income than current levels.

74. Total income from council tax in 2022/23 is expected to be around £743m and represents 83.0% of the total funding of the County Council's net budget as compared to 73.6% in 2011/12. This includes a forecast surplus on the collection fund for 2021/22 of £4.9m.

Section I: Service Cash Limits 2022/23

75. In December Cabinet considered a budget update report which set provisional cash limit guidelines for departments for 2022/23.

76. 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 £73.9m. This is principally due to an increase in DSG however there are additional minor changes for some departments which reflect updated capital financing assumptions and growth expectations which are discussed in further detail in Appendix 2.

77. At this stage the 2021/22 pay award has yet to be agreed however the current pay offer from the National Employers is a 1.75% increase for all staff other

than those on the lowest pay points who would receive a 2.75% uplift. The budget originally contained a 2% allowance for the April 2021 pay award which is expected to be sufficient to meet the additional cost however the position will be kept under review.

78. In consideration of the rising rate of inflation which will impact the cost of living in 2022/23 and beyond and the announcement at the Spending Review that the public sector pay freeze implemented for 2021/22 will be lifted next year, an increased budget provision of 2.5% has been set aside for the 2022/23 pay award with the allowance returning to 2% from 2023/24. These amounts will be held in corporate contingencies until any pay awards are agreed.

79. At the point at which general inflationary uplifts to the 2022/23 budget were modelled, the Consumer Price Index was running at around 2%. As of December 2021 this figure had reached 5.4%, a 10-year high. It is therefore possible that the inflationary uplifts built into departmental cash limits may not be sufficient to meet the general increase in prices expected in 2022/23, though of course this will vary depending on the nature of the goods or services purchased. A further ongoing contingency provision of £3m has therefore been set aside to cover price increases to be allocated to departments in-year as and where required.

80. A key driver of the increase in general inflation is the unprecedented increase in energy prices, which has received significant coverage nationally. A combination of factors including a lack of gas storage capacity, delays to supply infrastructure projects and geopolitical tensions have seen electricity and gas prices double compared to 2021 levels.

81. The Council has sought to secure best value through a progressive buying approach for 2022/23 and beyond, 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 £7m on energy bills in 2022/23. Prices are expected to reduce in 2023/24 reflecting the short-term impact of some of the key price drivers, however they could remain around 50% higher than in 2021.

82. An additional one-off inflationary provision of £7m has therefore been included within central contingencies to meet the forecast energy cost increase in 2022/23 which will be allocated to departments in-year as required. Given current levels of market volatility and uncertainty as to how long supply issues might persist, it is difficult to determine the extent of any permanent budget uplift that may be required and this will therefore be reassessed during the 2023/24 budget setting process.

Section J: Service Budgets 2022/23

83. As explained in Section I, departments have been set cash limit guidelines for 2022/23 which include allowances for inflation, pressures and other agreed changes.

84. Appendix 3 provides a summary for each department of the main services under their control and shows the original budget for 2021/22, the revised budget for 2021/22 and the proposed budget for 2022/23. All departments are proposing budgets that are within their cash limits, albeit the additional pressures in adults' social care are being dealt with corporately.

85. It is worth reiterating that departments 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 departmental cash limits which has allowed the Council to protect spending in non-social care departments 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 departments. The cash limits for Adult's Health and Care and Children's Services are over 40% higher in cash terms than in 2011/12 whilst the combined cash limits for other departments have increased by just 2% since 2011/12, as shown in the table below.

	2011/12	**2022/23**	**Change**	**Change**
	£'000	**£'000**	**£'000**	**%**
Adults' Health and Care	313,064	443,239	+130,175	+41.6%
Children's Services – Non Schools	173,528	246,675	+73,147	+42.2%
Economy, Transport & Environment	111,056	118,767	+7,711	+6.9%
Policy & Resources and Culture, Community and Business Services	102,340	99,203	-3,137	-3.1%
	699,988	**907,884**	**+207,896**	**+29.7%**

Section K: 2022/23 Overall Budget Proposals

86. 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.

87. 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 2021/22 budget.

88. **Revenue Contributions to Capital Outlay (RCCO)** – Each year, revenue contributions are made to help fund the Capital Programme. Over recent years, some programmes of work that were previously accounted for as capital

have been transferred to the revenue budget and there has also been greater opportunity to use contributions from developers and outside agencies to fund capital expenditure rather than use revenue contributions. A combination of these factors together with a review of the contingency funding contained within the budget for RCCO means that funding is available for the on-going revenue costs associated with the Strategic Land Programme as set out in Section G, without impacting the overall resources needed to support the capital programme.

89. **Contingencies** – The budget for contingencies has increased by more than £8.5m compared to the 2021/22 original budget, after accounting for the early allocation of contingency amounts held for social care and inflation. The contingency budget for 2021/22 includes £40m of one-off Covid grants which will be utilised in-year and are therefore not included in the 2022/23 budget. However, this reduction is offset by the significant increases in post-pandemic growth pressures in both Adults' and Children's Social Care as detailed in Section P and the inflationary pressures set out in Section I, resulting in a net increase in contingencies.

90. Existing contingency provisions in respect of key risk items, notably inflationary pressures (including the 2021/22 pay award which has yet to be agreed), further cash flow funding for the Tt2019 and Tt2021 Programmes and post-pandemic social care growth allocations, 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.

91. **DSG** –The increase in the DSG reflects the increase in funding announced by the Government in the SR2021, the detail of which was clarified in the subsequent schools' revenue funding settlement in December 2021.

92. **Specific Grants** – This income budget has been updated following grant notifications for 2022/23 and the increase is largely due to the additional funding announced in the SR2021 which was subsequently allocated through the Provisional Local Government Finance Settlement and a supplementary grant for universal infant free school meals. This has offset a reduction due to the removal of one-off Covid grants provided for 2021/22 resulting in a net increase in specific grant funding of £5.5m.

93. **Pension Costs** – Following the previous triennial revaluation, 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.

94. At this stage it is assumed that the Pension Fund will 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 as set out in paragraph 136. However, there remains a small risk of declining Fund performance over the MTFS period in which case extra recurring revenue money would need to be sought to bridge the deficit.

95. **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.

96. **Earmarked Reserves** – Changes to earmarked reserves mainly reflect changes to other budgets elsewhere in the revenue account. However, there is a significant draw from earmarked reserves in 2022/23 due to the planned use of the BBR to balance the budget in 2022/23 as outlined elsewhere in the report.

97. **Use of General Balances** – The 2021/22 original budget assumed a net contribution to general balances of £0.9m and this prudent annual amount has been continued for 2022/23 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 L: Budget and Council Tax Requirement 2022/23

98. The report recommends that council tax is increased by 2.99% in 2022/23, 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.

99. 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 Districts which take into account expected growth and any adjustments for the impact of their Council Tax Reduction Schemes result in additional income of £9.2m in 2022/23. An assumed increase in income of £7m was allocated to Highways Maintenance as part of the MTFS approved by Council in November 2021. The additional £2.2m over and above that assumed previously will be taken towards balancing the budget for 2022/23.

100. 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 2022/23. 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.

101. For 2021/22 a net council tax collection fund surplus of £4.9m is anticipated, which includes an in-year surplus of £7.1m and a share of the 2020/21 deficit due to Covid-19, which Local Authorities were permitted to spread over a three-year period, of £2.2m. The 2021/22 surplus has mainly arisen due to general increases in the council tax base during the year.

102. The current prediction for business rate collection funds is a deficit of more than £5.7m across all Districts, with deficits reported by all Districts for 2021/22. However, this deficit is largely attributable to Covid-related reliefs mandated by government and as such is expected to be met from business rates compensation grants, though the allocations will not be confirmed until 2022/23.

103. Similarly, Districts have provided estimates of what business rate income they expect to receive for 2022/23 based on their experience during the current financial year. These estimates have yet to be finalised and, given continuing experience about the risk and volatility surrounding this income, at this stage although they have been built into the budget position, it is likely they will change. We will await confirmation of final figures and any adjustment will be reported at County Council.

104. Taking account of all the budget changes outlined in this and previous sections of this report, the County Council can set a balanced 2022/23 budget as follows:

	£m
Original Forecast Gap	**40.2**
Loss of 1% Adult Social Care Precept	7.0
Adults Services Growth in excess of budgeted levels	35.3
Children’s social care – agency costs	5.4
Additional NI costs for Council employees	2.3
Inflationary pressures	7.2
New gross budget gap	**97.4**
Additional ‘general’ resources in settlement	-22.9
One-off Covid Funding	-12.8
Planned used of Budget Bridging Reserve	-40.2
Additional Net Budget Gap	**21.5**
2021/22 remaining contingency released	-19.0
Reduction in budgeted allowance for general risk	-2.5
Balanced Budget	**0**

105. 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 £738,072,349.

Section M: Capital and Investment Strategy

106. 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.

107. 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.

108. 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.

109. 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.
- Investments for service purposes, linked to the County Council's Commercial 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

110. 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.

111. 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.

112. 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 2022/23.

Section N: Treasury Management Strategy for 2022/23

113. 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.

114. The County Council's TMS (including the Annual Investment Strategy) for 2022/23; and the remainder of 2021/22 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

115. 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.

116. 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.

117. 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.

118. When the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £6.25m. This equates to 2.5% of the total earmark of £250m agreed by the County Council in 2021.

119. 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 for the next two years. However, given the greater future risk in this area it is proposed to maintain the Investment Risk Reserve at 2.5% of the total amount invested (in line with the recommendation of 2.5% for the general fund balance).

120. 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 31/12/2021**	**Gain/(fall) in capital value**	
			Since purchase	**One year**
	£m	**£m**	**£m**	**£m**
Fixed deposits	22.1	22.1	-	-
Pooled property funds	75.0	83.1	8.1	9.4
Pooled equity funds	50.0	53.9	3.9	7.0
Pooled multi-asset funds	48.0	49.1	1.1	0.6
Total*	**195.1**	**208.2**	**13.1**	**16.9**

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

121. Capital values have shown a strong recovery since the lows experienced in March 2020 as a result of the coronavirus pandemic and now all pooled funds are showing capital above the amount originally invested, and with the

dividends earned, the total return is significantly positive. The total return for pooled funds since purchase was 28% at 31 December 2021.

122. 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 2021.

123. The County Council's investments in pooled funds bring significant benefits to the revenue budget, with over £25m of dividends earned since it first made these investments. The approach set out in the TMS is still considered to be appropriate and prudent and continues to deliver good returns.

Section O: Consultation, Equalities and Climate Change Impact

124. 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.

125. The County Council undertook an open public consultation called *Serving Hampshire – Balancing the Budget* which ran for six weeks from 7 June to the 18 July 2021. The public consultation sought residents' and stakeholders' views on options for managing the anticipated budget shortfall. The options necessarily extended beyond cost reduction and income raising possibilities to areas such as council tax increases, possible legislative changes and the organisation (structure) of local government in Hampshire.

126. Agreement that the County Council should continue with its financial strategy now stands at 45%, with the data suggesting that respondents are concerned about the implications of further service changes and charges. Respondents increasingly felt that the solution lies with central government, with 87% agreeing that the council should lobby for additional funding to deliver social care services. Generating additional income remains the most preferred approach to meeting the budget shortfall, with 70% of respondents ranking this option among their top three.

127. The findings from the Consultation were provided to Executive Members and Directors during September 2021, to inform departmental savings proposals, in order for recommendations to be made to Cabinet and the full County Council in October and November 2021 on the MTFS and SP2023 Savings Proposals. The results were also reported to Cabinet and County Council as part of the final decision making process.

128. Following the '*Serving Hampshire – Balancing the Budget*' Consultation any specific changes to services will be subject to further, more detailed consultation. It is intended that the outcome of this second round of

consultation will help to inform further detailed Executive Member decisions in the coming months.

129. The budget for 2022/23 is the interim year of the two year financial planning cycle when no new savings proposals are being considered. Therefore, no new consultation or Equality Impact Assessments are required at this stage.

130. 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.

131. This report deals with the revenue budget preparation for 2022/23 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.

Section P - Medium Term Financial Position

132. The County Council has been working on the basis of single year settlements since 2019/20, which has made financial planning very challenging. The Comprehensive Spending Review announced last year provided high level resource commitments for local government funding for the next three years, but disappointingly this did not translate into a multi-year settlement for local authorities.

133. Part of the reason for this is that the Government intends to undertake a further review of local government funding this year which will feed through into a revised distribution methodology from 2023/24 onwards. Whilst this builds in further uncertainty at this stage it seems a reasonable assumption that the County Council should receive at least the same amount of funding as it will in 2022/23, equating to the £22.9m outlined in Section G. However, as part of the SP2023 Programme, we had already made assumptions about increased grants to reach the £80m savings target and therefore from 2023/24 onwards £14.1m of this funding does not help to further close the gap.

134. We also know what the referendum principles are for the next three years and can build this into our forecasting. The other major factor to consider is the growth in social care services, which has been particularly difficult to predict post-pandemic, but the adults' social care price increases in the market has had a major impact on our forecasts going forward and more detail is provided in Appendix 9 that sets out the drivers and rationale behind the increases we are expecting over the next 4 years.

135. Members may also recall that as part of the Pension Fund valuation in 2019, the deficit contribution that the County Council had been paying was eradicated, leading to an annual saving of £15m. Since it was not known at this time whether this would be available on a long term basis, it was decided to use this funding to contribute to reserves over the next three financial years ending in 2022/23.

136. Latest estimates of the Pension Fund valuation indicate that we are well above 100% funded against our liabilities and therefore it is unlikely that any future deficits will arise that will need to be recovered from employers. This means that we can now release this funding into the budget on a recurring basis and helps to offset the reduction in the adults' social care precept, at least for two financial years.

137. Taking all of these factors into account together with forecasts for inflation over the period gives the following high level forecast from 2023/24:

	2023/24	2024/25	2025/26
Additional funding available:	**£m**	**£m**	**£m**
Additional Council tax @ 2.99%	50.8	74.4	99.1
LGFS additional grant	22.9	22.9	22.9
less grant required to meet SP23	-14.1	-14.1	-14.1
Pension deficit contribution	15.0	15.0	15.0
Total additional funding available	**74.6**	**98.2**	**122.9**
Additional budget pressures:			
Pay and price inflation	76.6	112.1	151.3
Adults Social Care pre-pandemic growth	27.0	40.5	54.0
Adults Social Care **post**-pandemic growth	45.0	49.2	52.6
Children's Social Care pre-pandemic growth	36.0	55.8	75.6
Children's Social Care **post**-pandemic growth	10.4	10.4	10.4
Other demand-led	8.0	12.0	16.0
Total additional budget pressures	**203.0**	**280.0**	**359.9**
Predicted gap	**128.4**	**181.8**	**237.0**
SP23 savings	-80.0	-80.0	-80.0
Unmet budget gap	**48.4**	**101.8**	**157.0**

138. What is concerning to note is that the additional funding over the three year period is not enough to cover normal pay and price inflation. Of greater concern is the fact that growth in social care costs alone is predicted to be nearly £193m by 2025/26, some £70m more than the total funding that we have available.

139. After deducting the £80m SP2023 savings we are left with a cumulative deficit of £157m which is made up of the additional deficit we face in 2023/24 together with the further shortfalls in 2024/25 and 2025/26. It is worth noting that these forecasts do not take any account of the potential adverse impact of the social care reforms due to be introduced in 2023. These have the potential to increase our costs beyond any funding the Government may allocate for the reforms and further increase the prices that we pay in the market as self funders look to us to arrange their care for them.

140. In past years this overall financial position would have given us a Savings Programme to 2025 of £157m, double the normal amount we have been experiencing since 2019/20. However, what is clear is that we cannot rely on the same approach to try to bridge this gap, not least because we will not have the cash flow funding to fund an interim year in 2024/25 of over £100m, but importantly because it represents the biggest deficit we have faced since 2010 coming at a time when we are still implementing 3 concurrent savings programmes to achieve cumulative savings of £640m.

141. We have repeatedly stated that without a solution to funding social care growth, it is not possible to continuously make savings in some services to fund growth in others and therefore faced with this forecast, without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26.

142. At this stage therefore the strategy is to fund the additional deficits that occur in 2022/23 and 2023/24, which can be achieved by bringing forward the funding we had set aside to the 2024/25 interim year and by directing spare resources to the Budget Bridging Reserve. Officers have looked at the overall position on Covid Funding and other amounts within reserves and contingencies and feel that this is possible, assuming we do not need to respond to any further financial shocks.

143. This will buy some time to consider what the best approach to addressing the gap will be and for discussions and lobbying to take place with Government on the very serious financial position that we find ourselves in.

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 2021/22
2. Final Cash Limit Calculation 2022/23
3. Proposed Departmental Service Budgets 2022/23
4. Proposed General Fund Revenue Budget 2022/23
5. Reserves Strategy
6. Section 25 Report from Chief Financial Officer
7. Capital and Investment Strategy 2022/23
8. Treasury Management Strategy Statement 2022/23
9. Adults' Social Care Pressures