HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	18 July 2023 20 July 2023
Title:	2022/23 – End of Year Financial Report
Report From:	Director of Corporate Operations

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Section A: Purpose of this report

1. The purpose of this report is to provide a summary of the 2022/23 final accounts. It sets out the variance against the revenue budget for service directorates and non-service budgets and explains the reasons for the variances. It makes recommendations for the use of one-off budget funding including transfers to earmarked reserves.
2. The report also covers capital expenditure and funding for 2022/23, revisions to the 2023/24 capital programme and reports on treasury management activity for the year ended 31 March 2023.
3. The report also outlines the outcome of a review of reserves and highlights two unavoidable revenue pressures that need to be funded.

Section B: Recommendations

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

4. Notes the progress towards delivering the outstanding Tt2021 savings and delivery of SP2023 savings set out in Sections D and E.
5. Notes the outturn position set out in Section F.
6. Approves the allocation of unspent central budgets of £1.1m to the Budget Bridging Reserve.
7. Approves the increase of service capital programme cash limits for 2023/24 to reflect the carry forward of capital programme schemes totalling £103.723m as set out in Appendix 3.

8. **Recommends that County Council approves:**

a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2.

b) The transfer of unused budget of £4.1m within Corporate Services and Hampshire 2050 to the Budget Bridging Reserve.

c) An additional investment of £7.5m per annum for the next three years for highways reactive maintenance, to be met from reserves.

d) Funding of £5.24m for the switch from analogue to digital to be met from reserves.

e) The review of earmarked reserves resulting in a transfer of £61.26m to the Budget Bridging Reserve.

f) A variation to the 2024/25 Alderwood School (Aldershot) capital scheme of £2.7m resulting in an estimated scheme cost of £12m with the additional funding coming from a mix of developer contributions (£1m) and resources transferred from 2023/24 (£1.7m).

g) The updated capital programme presented in Table 4 of Appendix 3 including changes to the programme since February 2023.

Section C: Executive Summary

9. This report provides a summary of the 2022/23 final accounts. In line with the statutory requirement, the draft statement of accounts was published by 31 May and will be reported to the Audit Committee in September. Regulations set a target date of 30 September for the audited accounts to be published.

10. The remaining Tt2021 savings for all Directorates remain largely on track to deliver in line with their revised baseline targets following the removal of £4.9m Older Adults savings from the programme, as agreed by Cabinet in February 2023. There remains a risk to delivery of £1.3m Older Adults Savings due to continuing operational and budget pressures and £0.8m Children's savings linked to financial contributions from the NHS.

11. Directorates have made strong progress towards delivering their SP2023 targets in 2022/23 having secured £20.8m of savings. The overall programme target has been reduced from £80m to £71.9m following the removal of Older Adults and Home to School Transport savings as approved by Council in February 2023. There remains a risk to delivery of £1.8m savings within the Younger Adults programme and £0.7m Home to School Transport savings, however mitigating measures are in place which are expected to improve this position in 2023/24.

12. Net service expenditure was £3.5m lower than the revised forecast against a cash limited budget of over £1.1bn, excluding spending by schools; a variance of just 0.3%. The position for each of the directorates is summarised in the table below:

	Variance (Under) / Over Budget
	£M
Adults' Health and Care	4.0
Children's Services - Non Schools	1.4
Corporate Services	(3.9)
Hampshire 2050	(0.2)
Universal Services	(4.8)
Total Directorate Expenditure	**(3.5)**

13. The Adults' Health and Care position includes a favourable variance of £1.9m on Public Health which will be transferred to the ring-fenced Public Health Reserve. The net pressure for Adults Services is therefore £5.9m and includes a permanent increase in care costs of £8.8m in excess of budgeted levels of growth, albeit this can be met within available budget contingencies from 2023/24. This position is partially mitigated by favourable variances on staffing, contracts, administration and equipment, and early delivery of SP2023 savings, which together total £6.4m. The Directorate's Cost of Change Reserve has also reduced due to planned investments of £31.6m during 2022/23, primarily due to support provided to the Hampshire Integrated Care Boards in the delivery of hospital discharge services.

14. The outturn position for Children's Services includes £9.4m permanent pressures within Home to School Transport due to rising fuel bills, driver and vehicle shortages and increasing transport costs for children with Special Educational Needs. This currently represents the biggest financial risk to the forecast budget gap to 2025/26. Education Inclusion Services have also reported significant pressures totalling £5m due to increasing SEN numbers. The net budget pressure for the directorate has been significantly reduced by early delivery of SP2023 savings totalling £8.8m, however this is a one-off mitigation in 2022/23, and the considerable challenges remain for the Children's financial position over the medium term.

15. The favourable budget variance for Corporate Services mostly relates to early achievement of SP23 savings and for Hampshire 2050 is primarily due to vacancies and higher than budgeted planning income. Since the combined cost of change reserve for Hampshire 2050 and Corporate Service is sufficient to meet future commitments, it is proposed that the year end variance for both Directorates is transferred to the Budget Bridging Reserve.

16. The favourable net outturn position achieved by Universal Services reflects early achievement of SP23 savings, significant recruitment challenges within the Facilities Management and School Crossing Patrol teams, reduced concessionary fare journeys and thus payments to bus operators and

overachievement of income targets across a range of services. However, the Highways Maintenance Service continues to face significant financial pressure due to unprecedented demand and sharp price rises, and the budget was also impacted considerably by winter weather related issues. The number of gritting runs undertaken was significantly higher than average and the resulting £4.1m pressure has been met corporately (in line with current policy) so has not impacted the outturn position for the Directorate.

17. A total net pressure of £26.1m has been reported against the schools budget, which will be balanced by a charge to the Dedicated Schools Grant Reserve, bringing the cumulative deficit on the DSG reserve to £86m. This reflects sustained increases in numbers of children with Education, Health and Care Plans (EHCPs) leading to increasing numbers of high cost independent school placements. The diagnostic phase of the DfE's Delivering Better Value Programme has now concluded for Hampshire, which validated the Council's existing High Needs programme and identified several areas for further focus to reduce pressure on the High Needs Block, albeit these will not eliminate the ongoing deficit in future years nor address any of the accrued deficit.

18. The net variance on non-cash limited budgets totals £1.1m under budget and takes account of a pressure within the Coroners Service and an increase in the allowance for doubtful debts. The Coroners pressure is linked to increasing numbers and complexity of post mortem requests due to greater levels of scrutiny per referral, following the merging of three previously separate Coroner's jurisdictions in 2020. Favourable variances were largely within the Capital Financing budget and relate to, investment returns on cash balances including the benefit of the pre-payment of employer pension contributions in April 2020. The unused budget will be transferred to the BBR, bringing the total year end transfer to £5.2m.

19. The report contains a section on reserves and balances highlighting a net reduction in reserves available to the County Council of £38m. Of this reduction, £34m relates to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and investment in services.

20. Of the 2022/23 capital programme, schemes totalling £191.7m (52.3%) were started during the year. The report sets out the details of requests to carry forward £103.7m of funding from the 2022/23 and prior year programmes into 2023/24, in addition to £71.2m for which approval has already been granted. Cabinet and County Council are also asked to approve the updated capital programme, as set out in Table 4 of Appendix 3, and the variation in the scheme value of the Alderwood School scheme of £2.7m where consultation with the Environment Agency has resulted in the requirement for a new proposal for the site.

21. Including schemes started in prior years, total capital expenditure of £190.9m was incurred during 2022/23, of which it is proposed £11.1m will be funded through prudential borrowing. This will not result in the County Council taking on new external debt at this point and instead will be funded through 'internal borrowing' in line with the County Council's Treasury Management Strategy and the advice of its treasury management advisors.

22. The report also recommends approval of the annual report on the operation of the treasury management strategy and the County Council's end of year prudential indicators.

Section D: Transformation to 2021 Programme

23. The remaining Tt2021 savings for all Directorates remain largely on track to deliver in line with their revised baseline targets as approved by Cabinet in December 2021. In February 2023 Cabinet approved the removal of £4.9m Older Adults savings from the programme from 2023/24, which were deemed to be undeliverable due to pressure on care budgets. Non-delivery of these savings therefore represents a one-off pressure for Adults Health and Care in 2022/23 and has been met from the directorate cost of change reserve.

24. Of the £43m savings remaining to deliver from April 2022, £23.4m have been delivered in 2022/23. The cumulative savings position is provided in the following table.

	2022/23	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	
Revised Baseline Target	28.3	35.2	40.1	43.0	**43.0**
Actual Savings	23.4	23.4	23.4	23.4	**23.4**
Remaining Forecast Savings	0.0	10.6	16.9	19.6	**19.6**
Total Expected (Actual + Forecast)	**23.4**	**34.0**	**40.3**	**43.0**	**43.0**
Variance	(4.9)	(1.2)	0.2	0.0	**0.0**
% Variance	(17.4%)	(3.4%)	0.4%	0.0%	**0.0%**

25. The overall confidence levels for delivery of the remaining programme, rated as Red, Amber or Green, are as follows:

	RED	**AMBER**	**GREEN**	**DELIVERED**
Current saving status (£m):	2.3	8.5	8.8	23.4
Percentage of target:	5%	20%	21%	54%

26. Within the Adults programme, £1.3m of the remaining £4.8m savings for Older Adults are rated Red. There is an ongoing risk to the delivery of these savings due to continuing operational and budget pressures that could endanger the delivery of or the ability to evidence the delivery of savings against target. Working Differently savings of £0.2m are also Red rated; these relate to a planned restructure of the Hospital Team, alternatives for which are being explored. An interim cost neutral structure has been agreed by the Working Differently Executive Group whilst further work on possible savings options is completed. HCC Care savings of £0.4m linked to the staffing blueprint have slipped from 2022/23 to 2023/24, however the full saving of £1.6m has now been confirmed following Cabinet budget approval and will be declared in 2023/24. All activity required to deliver the T21

Younger Adults savings has now been completed and the cash savings will be declared in 2023/24.

27. Within the Children's programme, £0.8m savings linked to financial contributions from the NHS for Continuing Healthcare and Mental Health Aftercare are rated Red. These are not expected to be achieved until 2024/25 and the shortfalls will be met from the directorate cost of change reserve in the interim. Savings of £2.7m, largely relating to Transforming Social Care and Home to School Transport, were declared as delivered in 2022/23. £0.75m savings were moved from Red to Green rated as savings programmes are on track to achieve savings to cover this slippage in early 2023/24.

28. The outstanding Universal Services T21 savings remain on track, and discussions are being held with Districts to ensure that these are reflected in the future waste disposal arrangements going forward as set out in a separate report on this agenda.

Section E: Savings Programme to 2023

29. Directorates are currently on track to deliver £64.7m of the remaining £71.9m SP23 savings by 2023/24, following the removal of Older Adults (£6.95m) and Home to School Transport (£1.159m) savings from the programme target as approved by Council in February 2023. The overall position for the programme is set out in the following table.

	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	
Revised Baseline Target	7.3	68.6	71.9	71.9	**71.9**
Actual Savings	20.8	20.8	20.8	20.8	**20.8**
Remaining Forecast Savings	0.0	43.9	51.1	51.1	**51.1**
Total Expected (Actual + Forecast)	**20.8**	**64.7**	**71.9**	**71.9**	**71.9**
Variance	13.5	(3.9)	0.0	0.0	**0.0**
% Variance	184%	(6%)	0.0%	0.0%	**0.0%**

30. The overall confidence levels for delivery of outstanding savings, rated as Red, Amber or Green, are as follows:

	RED	AMBER	GREEN	DELIVERED
Current saving status (£m):	2.8	8.4	39.9	20.8
Percentage of target:	4%	12%	55%	29%

31. Within the Adults programme, £3.5m savings have been delivered in 2022/23, largely relating to HCC Care discharge beds. £1.8m Younger Adults savings are Red rated, including:

- NHS Integration (£0.5m) – opportunity and savings are under review. As a contingency, these savings have been reallocated to the Least Restrictive Practice/High Cost Placements project.
- LD 60+ Accommodation (£0.4m) – profile is being reviewed to account for underachievement and to plan contingencies.
- LD and PD Volunteers projects (£0.9m) – delays to starting the pilot due to Covid-19 restrictions and marketing delays have impacted volunteer recruitment. A contingency plan is agreed and in place and the pilot commenced in May 2023.

32. £8.8m of the total £22m savings within the Children's SP2023 programme have been delivered in 2022/23. These relate to additional government funding and a reduction in Children Looked After placement costs funded by the Council following a review of charges to the high needs block of the Dedicated Schools Grant. A significant increase in cash delivery will also be declared in early 2023/24 as many projects successfully completed during 2022/23 take effect from April 2023.

33. Home to School Transport savings (£0.7m) are currently rated Red due to ongoing market and service pressures. This position is expected to improve in early 2023/24 as a result of mitigating actions taken by the project team, however the savings are forecast to be delivered a year later than planned. Additionally, £1.4m of savings related to the Modernising Placements Programme will also be delivered a year later than planned. Whilst robust plans are in place that give confidence that the majority of these savings will be achieved, the programme has reported slippage in the savings profile as a result of late delivery in some of the workstreams.

34. The Universal Services programme continues to be at an advanced stage, with £5m delivered to date and £5.8m of the remaining £7m secured from 1st April 2023. Of the savings yet to be delivered, £1.6m are rated Amber and the remainder are rated Green. The two Amber rated savings; Enhanced Traffic Management and Hampshire Outdoor Centres are under close review and have set aside cost of change funding for 2023/24 to cover any shortfalls.

35. All Hampshire 2050 savings are rated Green and there is no early delivery to report for 2022/23. The Corporate Services SP2023 programme also remains on track to fully deliver all planned savings in 2023/24, with the exception of £0.3m savings linked to the decommissioning of the SWIFT social care system. These savings will be delivered a year later than planned.

Section F: 2022/23 financial outturn

36. The table below summarises the net outturn position for each directorate compared to the final cash limit for the year. The figures exclude schools spending:

	Variance (Under) / Over Budget
	£M
Adults' Health and Care	4.0
Children's Services - Non Schools	1.4
Corporate Services	(3.9)
Hampshire 2050	(0.2)
Universal Services	(4.8)
Total Directorate Expenditure	**(3.5)**

37. Strong financial management has remained a key focus throughout the year with rigorous review and reporting of forecasts against cash limits, and delivery of outstanding savings in line with approved targets. The outturn position takes account of £15m one-off cash flow support to assist directorates in managing delays to the implementation of the Tt2021 savings programme.

38. Therefore, whilst financial performance remains strong, the significant challenges that directorates face in achieving planned savings and managing surging inflationary pressures in addition to increases in demand over the medium term should not be underestimated.

39. Key issues across each of the directorates are highlighted in the paragraphs below.

Adults' Health and Care

40. The Adults' Health and Care position includes a favourable variance of £1.9m on Public Health due to an underspend on the Domestic Abuse Bill support to victims grant, sexual health, children's nursing contract and Health Checks. The latter three areas have still not seen activity return to pre-Covid levels. This will be transferred to the ring-fenced Public Health Reserve.

41. The net pressure for Adults Services is therefore £5.9m and this will be funded from the directorate Cost of Change Reserve. This position includes a permanent increase in care costs of £8.8m in excess of budgeted levels of growth, due to both the increasing volume of clients across all client groups and the average cost of care packages experienced since June 2021. Price increases that providers have passed on can be attributed to many likely factors including shortages in the employment market for staff at suitable rates, additional costs due to cost of living issues and some providers still remaining below occupancy. These issues are expected to continue to impact on the budget in 2023/24, however the additional cost can be met within the available budget contingencies for growth and inflation, based on current forecasts.

42. This position is partially mitigated by a favourable variance of £2.9m on non-care budgets achieved in areas including staffing, contracts, administration, and equipment/telecare. The directorate also delivered early SP2023 savings of £3.5m, including £2.3m linked to the implementation of the Discharge to Assess model within HCC Care. This has seen the Council provide 80 beds for hospital discharges on behalf of the local NHS.

43. In addition to the impact of the outturn pressure, the Directorate's Cost of Change Reserve has also been reduced due to planned investments of £31.6m during 2022/23, primarily due to support provided to the Hampshire Integrated Care Boards in the delivery of hospital discharge services. Other commitments against reserves include an agreed plan to fund essential Health and Safety works at the HCC Care Residential units and an investment in staff resource to secure achievement of outstanding Tt2019 and Tt2021 savings.

Children's Services

44. Children's Services have reported a net outturn pressure of £1.4m against the adjusted cash limit and this will be funded from the Children's Cost of Change Reserve. Substantial permanent pressures were reported within Home to School Transport and Education Inclusion Services, which have been largely offset by early achievement of £8.8m of the Directorate's SP2023 savings target on a one-off basis.

45. The Home to School Transport service recorded a final outturn position of £9.4m in excess of the budget. Analysis was undertaken earlier in the year of estimated inflationary pressures linked to rising fuel costs and a reduction in capacity due to driver and vehicle shortages. Consequently, additional permanent corporate funding of £4.5m was added to the budget as part of the general inflation provision approved by Cabinet in July 2022. The forecast position continued to worsen over the second half of the year due to rising SEN transport costs as a result of increased complexity of pupil needs, shortages of appropriate transport and non-availability of local SEN school places. Further work is being undertaken to understand the increases and the potential impact on the MTFS and at this point Home to School Transport represents the biggest financial risk currently to the forecast gap to 2025/26.

46. Education Inclusion Services have also reported significant pressures totalling £5m due to increasing SEN numbers. Staff from the Educational Psychology Service have been diverted away from income generating work to respond to SEN assessments, and additional agency staff have also been required to meet demand for statutory assessments due to higher than projected numbers of referrals to the service. These pressures were considered during the budget setting process and additional ongoing funding of £3.8m was added to the budget for 2023/24 to address staffing challenges in these areas.

47. The investment in transforming Children's Social Care services over recent years continues to provide financial benefit to the Council as well as improving outcomes for Hampshire's children. Numbers of Children Looked After and average placement costs remain in line with MTFS forecasts which

take account of savings targets totalling in excess of £32m by 2023/24. However, staff recruitment remains challenging and the use of agency staff to cover vacant social worker posts has resulted in a £1m net pressure for Children's Social Care services.

48. The net budget pressure for the directorate has been significantly reduced by early delivery of SP23 savings totalling £8.8m, however this is a one-off mitigation in 2022/23, and the considerable challenges remain for the Children's financial position over the medium term.

Corporate Services and Hampshire 2050

49. Corporate Services have reported a favourable budget variance of £3.9m, which mostly relates to early achievement of SP23 savings. There is a small net budget underspend of £0.2m within the Hampshire 2050 Directorate, primarily due to vacancies and higher than budgeted income within the Spatial Planning service related to planning fees and one-off project work. Since the combined cost of change reserve for Hampshire 2050 and Corporate Service is sufficient to meet future commitments, it is proposed that the year end variances for Corporate Services and Hampshire 2050 are transferred to the BBR.

Universal Services

50. Universal Services have reported a favourable outturn variance of £4.8m against the adjusted cash limit. However, owing to the wide range of services delivered by the Directorate this net position comprises a range of overspends and underspends across the different areas of service delivery.

51. The Highways Maintenance service continues to face significant financial pressure due to unprecedented levels of demand and public contacts, exacerbated by sharp price rises and difficulties securing supplies for construction materials. £7m additional recurring funding was made available to assist with slowing the managed decline of the network, as agreed by Full Council in November 2021, however £4.5m of this extra funding has been required to maintain existing service levels due to inflationary cost increases.

52. The Highways Maintenance budget was also impacted considerably by winter weather related issues. The number of gritting runs undertaken was significantly higher than average due to a very low average road temperature across the year. Winter maintenance costs have therefore exceeded budget by £4.1m and the resulting pressure has been met corporately (in line with policy) so has not impacted the outturn position for Universal Services.

53. A favourable outturn position for transport services primarily relates to reduced payments to bus operators for Concessionary Fares journeys, reflecting reduced patronage on bus services and vacant posts within the School Crossing Patrols team, which have not been possible to fill.

54. The Facilities Management team continues to face considerable difficulty in recruiting staff, which has remained challenging since the pandemic, and Property Services have reported an income surplus beyond targeted levels due to high occupancy rates and strong rental returns. Several other services

within the Directorate have also overachieved against their income targets, including Scientific Services, Trading Standards, Planning and Registrars. The Directorate has reinvested some of the SP2023 savings achieved ahead of their planned implementation date in improving services to the public, including country parks and footpaths, as well as continuing to support the delivery of outstanding savings.

Overall Directorate Position

55. Detailed financial analysis and explanations for the outturn position for all directorate budgets are provided in Appendix 1.

Schools Budget

56. A total net pressure of £26.1m has been reported against the schools budget, of which £30.4m relates to the High Needs Block with offsetting favourable variances in the Early Years, Schools and Central Services Blocks. This will be balanced by a charge to the Dedicated Schools Grant Reserve, as allowed by the Department for Education (DfE), bringing the cumulative deficit on the DSG reserve to £86m.

57. Within the High Needs Block, there has been a continuation of the pressure on the service for discretionary and direct payments. Independent and Non-maintained Special Schools budgets have experienced pressure due to continued significant increases in pupils with an EHCP. Additional high needs places have been created in special schools and resourced provisions and more children with EHCPs are now remaining within their mainstream school, however due to the significant increase in pupils with an EHCP, it has been necessary to place more pupils in independent placements. This pressure continues to be managed through an ongoing strategy to increase in-house capacity to reduce the need for independent placements and improvements to procurement arrangements to reduce unit costs.

58. The diagnostic phase of the DfE's Delivering Better Value Programme has now concluded for Hampshire. The review aimed to identify the highest impact, sustainable changes that the Council could make to best support children with special educational needs. The review validated the Council's existing High Needs programme and identified several areas for further focus. These included improving parental confidence, promoting inclusive practice in schools, increasing awareness and understanding of the support available, and improving local authority engagement in annual reviews of Education Health and Care Plans. It is important to note however, that even with these additional measures it was concluded that Hampshire would not be able to close the ongoing annual deficit in future years, meaning that the cumulative deficit will continue to rise without some sort of Government intervention.

Other Budgets

59. The outturn for other items contained within the County Council's budget is shown in the following table:

	Variance (Under) / Over Budget
	£m
Capital Financing / Interest on Balances	(3.9)
Contingencies	(0.6)
Specific Grants and Levies	0.6
Coroners	0.9
Increase in Provision for Doubtful Debts	1.9
Total Other Budgets	**(1.1)**

60. The main reasons for these variances are set out in the paragraphs below.

61. The favourable outturn position for capital financing largely relates to the pre-payment of three year' employer pension contributions in April 2020, which has provided a greater than expected cash flow benefit in 2022/23. Additionally, the investment returns on cash balances held by the County Council have further exceeded budgeted levels due to increases in interest rates during 2022/23.

62. There was a small balance remaining within the general contingency budget due to the use of prudent estimates and strong financial management throughout the year, however this represents a modest saving against a revised budget of some £97m. The position was also offset by adverse variances on the specific grants and levies budgets, mainly due to repayment of some prior year business rates grants to the government following reconciliation of the actual costs incurred by local authorities.

63. The Coroners Service is reporting a budget pressure of £0.9m due to increasing numbers and complexity of post mortem requests, and increased transport costs and mortuary fees linked to a shortage in mortuary capacity. In 2020, three previously separate Coroner's jurisdictions merged, and a new senior coroner was appointed. This has resulted in more scrutiny and investigation being expected per referral, leading to increased use of mortuaries. The pressures facing the Coroners Service were reported to Cabinet in December 2022 and additional funding of £578k was approved for 2023/24 to address the ongoing impact of these pressures. However, the outturn position for the service has continued to worsen throughout Q4 and further analysis is required to determine whether these pressures will impact the position for 2023/24 and beyond.

64. It is proposed to increase the provision for doubtful debts that the Council holds to mitigate the financial impact of irrecoverable debts by £1.9m. This follows an increase in both the level of debt held during 2022/23 and the assessed risk of non-recovery, taking account of factors such as the impact

of the cost of living crisis. In line with our usual approach, rather than have an annual budget for this risk, the position is reviewed and funded as part of the year end position. The increase to the provision will be funded from the favourable budget variance for capital financing costs.

65. The net impact of the variances on other revenue budgets is a favourable variance of £1.1m and in line with the principle agreed by Cabinet in December, this will be transferred to the Budget Bridging Reserve to contribute to balancing the budget for 2024/25.

Section G: General Balances and Earmarked Reserves

66. The County Council's reserves strategy, which is set out in the MTFS, is well rehearsed and continues to be one of the key factors that underpin our financial resilience and ability to provide funding for the transformation of services and give the time for changes to be properly planned, developed and safely implemented.

67. We have made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of tight financial control by the Government, although it was always recognised that the eventual planned use of the reserves would mean that a tipping point would come and we would expect to see reserves start to decline as they are put to the use in the way intended as part of the wider MTFS. That position has been reached with a net draw from reserves at the end of 2022/23 of £38m.

68. At the end of the 2022/23 financial year the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £845m. Of the £38m net reduction in reserves, £34m relates to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and investment in services.

69. £25.9m was drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023. This draw of £59.9m to support the revenue budget was offset by contributions to other reserves including £5m for future capital payments, £3m revenue grants and £9.8m capital grants received ahead of the planned relevant expenditure. The overall balance also includes reserves held on behalf of individual schools which decreased by £2.6m in 2022/23.

70. The following table summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2021/22. The DSG deficit is shown separately as it is ringfenced under statute until 2025/26 with the carried forward balance being met from future years' DSG funding.

	Balance 31/03/2022 £'000	Balance 31/03/2023 £'000	% of Total %
General Fund Balance	24,098	24,998	3.0
HCC Earmarked Reserves			
Fully Committed to Existing Revenue and Capital Programmes	212,917	221,265	26.2
Directorate / Trading Reserves	186,117	152,039	18.0
Risk Reserves	49,934	53,779	6.4
Corporate Reserves	125,822	101,734	12.0
HCC Earmarked Reserves	574,790	528,816	62.6
Non-HCC Earmarked Reserves	87,645	84,895	10.0
Total Revenue Reserves & Balances	**686,533**	**638,710**	**75.6**
Capital Grants Reserve	**196,447**	**206,292**	**24.2**
Total Reserves and Balances	**882,980**	**845,002**	**100.0**

71. General Balances at the 31 March 2023 stand at £25.0m, following the planned contribution in 2022/23, which is broadly in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement (currently a sum of £22.8m).

72. In addition to the general balance, the County Council maintains earmarked reserves for specific purposes and to a large extent the majority of these are committed either to existing revenue or capital programmes or to mitigate risks that the County Council faces, for example through self-insurance.

73. The majority of the Corporate Reserves balance relates to the Budget Bridging Reserve and is fully committed to meeting future years' budget deficits on an interim basis. Non-HCC reserves include individual schools' balances, over which the County Council has no direct control, and reserves held for the Enterprise M3 Local Enterprise Partnership (EM3 LEP).

74. In addition, a further £206.3m is held within capital reserves and balances, of which around £19m relates to the EM3 LEP which is included in the annual accounts, as the County Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

Section H: Review of Reserves and Commitments

75. The MTFS update reported to County Council in February this year highlighted an expected budget gap of £132m by 2025/26. The impact of growth and inflation on costs also meant that the budget gap for 2023/24 was still £50.8m even after £80m of SP23 savings had been taken into account.

76. Furthermore, in order to be able to follow our usual pattern of making savings over a two year timeframe, there would also be a significant deficit of at least £86m in 2024/25.

77. Even assuming the County Council can balance the budget in 2025/26 (which is unlikely without significant additional Government funding) this leaves a total of £136.8m that would need to be covered by the Budget Bridging Reserve in the interim period. At the end of 2022/23 the BBR stood at £73.1m leaving a shortfall of £63.7m.

78. As part of the budget setting report, it was highlighted that a review of reserves would be undertaken at year end to determine whether there were additional contributions that could be transferred to the BBR in order to provide an element of financial security in the run up to the 2025/26 financial year.

79. Since that time a number of unavoidable commitments have also been identified that require funding and these will also be considered as part of the overall review of reserves. This process has now been carried out and the table below outlines the unearmarked funding that has been identified.

Reserve title	Current balance	Available balance	What does the funding relate to
General Capital Reserve	£172.4m	£39.2m	Part of the locally funded Covid risk contingency set aside early in the pandemic given the significant uncertainty over the financial impact of the Covid-19 crisis and extent of Government support. Not required due to receipt of additional general Covid tranche grant and specific grants, such as the Control Outbreak Management Fund.
		£22.5m	Higher than expected capital receipts in 2022/23 together with some uncommitted receipts from prior years can now be utilised
Organisational Change reserve	£3.0m	£3.0m	Funding originally set aside to meet the enhanced voluntary redundancy (EVR) costs associated with large scale organisational change programmes. In recent years, following changes to the EVR scheme all redundancy costs have been fully met by Directorates and this will continue to be the case for any future change programmes
Corporate Policy Reserve	£9.2m	£7.8m	To support corporate programmes which contribute to delivering the Council's strategic objectives. This includes providing financial support to partner organisations, for example through the Parish and Town Council Investment Fund
Revenue Grants Unapplied Reserve	£9.6m	£2.4m	Unallocated balance of New Homes Bonus Grant received in previous years. Any future grant received in excess of budgeted levels will continue to be allocated on a case by case basis
Invest to Save Reserve	£16.5m	£14.1m	Funding earmarked for major corporate transformation projects, such as the current replacement of the Adults and Children's social care IT systems. £14.1m is currently unallocated but will mean Directorates will need to fund any significant investment associated with future savings programmes.
Total		**£89m**	

80. The table shows that a total of £89m has been identified at this stage that can be re-purposed as required. In addition to the shortfall of £63.7m in the BBR highlighted above, there are two other critical issues that need corporate funding at this point.

Highways Maintenance

81. Cabinet will be fully aware of the impact of severe weather on the highway network and how this has translated into a significant number of pot holes during the early part of this year. To put this in context, we made 133,000 pot

hole and defect repairs in 2022/23 which is over three times the number repaired in 2018/19 and nearly double that for 2021/22.

82. This is now a national crisis and whilst Operation Resilience has been effective in increasing planned maintenance for parts of the network, the significant increase in reactive maintenance requirements means that a new approach is required to ensure our roads are more fit for purpose today, leaving the long term issue as a problem only the Government is in a position to sort with much higher levels of future investment.

83. Appendix 4 sets out a proposed approach to be followed over the next 3 years and has recommended that an annual injection of £7.5m of revenue funding per annum over that period is approved to help ensure that reactive maintenance is prioritised in the short term whilst we lobby Government for more funding. Hampshire together with other South East Counties have already written to the prime minister to seek urgent resolution to the current roads crisis.

84. £22.5m of the available funding highlighted above is therefore being recommended to be added to the highways budget across the next three years.

Analogue to Digital Networks

85. In response to the telecoms industry announcement to retire analogue telephone networks by 2025, work has been undertaken to review existing County Council analogue lines and to identify the most appropriate replacement solution. This has included the opportunity to cease lines wherever possible, however, there are a number of service critical lines that need to migrate to a digital alternative.

86. Appendix 5 sets out the key areas of investment required to fund the switch over from analogue to digital and can be summarised as follows.

	£M
Traffic signals, CCTV lines	0.94
Lift, fire and other alarms	1.5
Telecare service for adults' social care	2.8
Total	**5.24**

87. This report therefore recommends that £5.24m of the identified reserve funding is used to meet the unavoidable cost of switching these lines to a digital alternative.

88. After taking account of the highway and analogue to digital funding requirements, that leaves £61.26m that is available to be transferred to the Budget Bridging Reserve.

89. Whilst this is £2.44m lower than the required amount highlighted above, the forecasts for the 2024/25 gap are only estimates at this stage and County

Council has already agreed that any early achievement of savings proposed to balance the 2025/26 budget will be contributed to the Budget Bridging Reserve and there is therefore a high degree of confidence that the difference can be made up either from this source or from corporate contributions from the budget in 2023/24.

Section I: Treasury Management and Prudential Indicators

90. The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function, details of which are set out in Appendix 2. The report is also scrutinised by the Audit Committee. This approach accords with the current Treasury Management Code of Practice.

91. The Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Capital and Investment Strategy. From 2023/24, this must be done on a quarterly basis. Annex 4 of Appendix 3 summarises the relevant indicators for the 2022/23 outturn which are in accordance with the figures approved by the County Council. Additional detail where relevant is also included within the Treasury Management Outturn Report at Appendix 2.

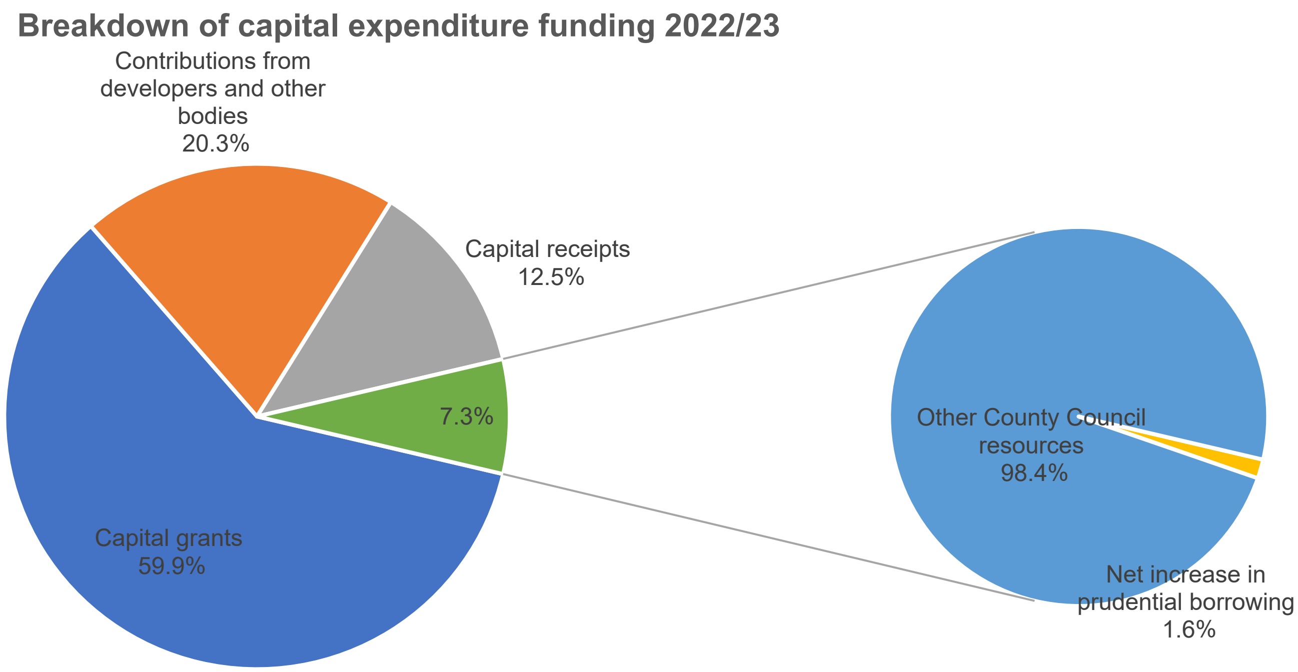
Section J: Capital Spending and Financing

92. Capital expenditure of £190.9m was incurred during 2022/23, all of which can be financed from available resources. This reflects expenditure on schemes within the 2022/22 capital programme as well as the ongoing delivery of schemes committed in previous years. Expenditure was lower than the £241.2m incurred during 2021/22, in part due to additional complexity resulting from the high inflation environment.

93. The County Council's capital expenditure in 2022/23 included:

    - £61.7m for structural maintenance and the improvement of roads and bridges
    - £45.3m of Integrated Transport Plan schemes including major road schemes and active travel schemes including walking and/or cycling improvements
    - £25.1m of investment in new and extended school buildings to provide school places for children in Hampshire
    - £19.4m to address condition-based enhancements to the schools estate
    - £14.3m allocation of Disabled Facilities Grant funding to allow adaptations to people's homes

94. A summary of the funding of this capital expenditure is shown in the chart below with more detailed information in Table 6 of Appendix 3.



95. Prudential borrowing has been used to fund £11.1m of the £190.90m of capital expenditure incurred during 2022/23, in line with previous approvals. Of this amount, £3.8m will be funded through future Minimum Revenue Provision (MRP) charges to the revenue budget and £7.3m will be repaid from capital receipts and other funding sources, including known Developer Contributions. Repayments of prudential borrowing from previous years of £10.8m were made during 2022/23 from such sources. The net increase in prudential borrowing was therefore £0.3m.

96. The agreed capital programme for 2022/23 included schemes to the value of £366.6m. Of this total, £191.7m was committed during 2022/23 leaving £174.9m to be carried forward to 2023/24. Within the amounts to carry forward, the carry forward of £71.2m from the programmes for Children's Services (£32.0m) and Universal Services (£39.2m) into 2023/24 was built into the February 2023 capital programme reports approved by Cabinet and County Council. Cabinet is therefore requested to approve the carry forward of schemes totalling £103.7m.

97. In addition, the updated capital programme shown in the table below includes a net increase of £17.268m across the life of the programme. Most significantly, this relates to additional DfT grant relating to highways structural maintenance (£5.954m), a variation of the Alderwood School (Aldershot) scheme (£2.7m) and an increase in scheme costs for the Hounsome Fields school (Basingstoke) scheme (£1.25m), in addition to a number of other schemes under £1m.

98. The additional expenditure of £17.268m will be funded as follows:

- £16.484m from external sources such as government grants and developer contributions

- £0.211m of revenue contributions to capital schemes within Children's Services covered in the 18 July 2023 Executive Lead Member for Children's Services report
- £0.174m using reserves and capital receipts generated by the River Hamble Harbour Authority as approved by the River Hamble Harbour Board
- £0.172m to fund a range of projects within the Countryside Service from Universal Services cost of change
- £0.160m Market Town Funding covered within the Executive Lead Member for Universal Services report of 10 July 2023
- £0.067m drawn from the Covid Recovery Fund within reserves

99. The variation to the Alderwood School scheme of £2.7m follows consultation with the Environment Agency. The original proposal was deemed unsuitable and a new proposal has therefore been developed. This will see the demolition of an existing block, the building of a new block and the refurbishment of all science laboratories. This will be funded from a combination of developer contributions (£1m) and carried forward resources from the capital programme contingency (£1.7m).

100. The updated capital programme assuming the approval of carry forwards and other changes outlined above is shown in the table below with further detail in Appendix 3.

Updated capital programme

Prior Years £'000		Revised 2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
21,745	Adults' Health & Care	14,705	47,910	14,733	14,733	113,826
16,019	Children's Services	27,792	51,313	107,914	85,954	289,091
0	Hampshire 2050	0	0	0	0	0
252,884	Universal Services	149,165	184,527	138,792	115,858	841,226
290,648	**Total**	**191,662**	**283,750**	**261,466**	**216,545**	**1,244,071**
				761,761		

101. Further details of the outturn position for capital are provided in Appendix 3.

Section K: Assurance Statement

102. The code of Practice on Local Authority Accounting in the UK requires the County Council to publish, together with its Statement of Accounts, an annual governance statement signed by the Leader and Chief Executive. As part of this process, the Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control operating in the County Council as a whole. The Chief Internal Auditor's Annual Report and Opinion is approved by the Audit Committee.

103. The Chief Internal Auditor has concluded that:

"In my opinion, Hampshire County Council's framework of governance, risk management and management control is 'Reasonable'[1.] *And audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

[1.] Reasonable means: There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

104. The separate accounts for the Hampshire Pension Fund are incorporated in the County Council's Statement of Accounts. The accounts for 2022/23 recorded that the value of the fund's assets decreased from £9.6bn to £8.96bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund and has concluded that:

"In my opinion, Hampshire Pension Funds framework of governance, risk management and management control is 'Substantial' [2] *and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."*

[2.] Substantial means: a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

105. For the Local Government Pension Scheme (LGPS) administered by Hampshire County Council, the latest actuarial valuation, as at 31 March 2022, showed it to be 107% funded – an increase from the position three years prior of 99%. This corresponded to a surplus of £637 million (2019 valuation: £637 million) at that time. Similarly to most investment markets, the Pension Fund has more than recovered the losses it sustained in 2020 as a result of the COVID-19 crisis. The next Actuarial valuation will take place at 31 March 2025.

Section L: Statutory Statement of Accounts

106. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit Regulations over recent years due to the impact of Covid-19. Despite these extended deadlines, the proportion of local authorities in England that have published their audited financial statements on time has fallen from more than 95% in 2017 to less than 12% in 2022 (as quoted by the Institute of Chartered Accountants England and Wales).

107. The Department for Levelling Up, Housing and Communities published details of measures to support the improved timeliness of local audit in December 2021. One of the outcomes was to extend the deadline for the sign-off of audited accounts for 2021/22 to the end of November 2022, reverting to 30 September for the subsequent 6 years (as opposed to the 31 July deadline stated when the regulations were first introduced).

108. At the time of writing, the audit of the County Council's Statement of Accounts for the 2021/22 financial year remains incomplete. The delay has been driven by two factors:

    - First, a national issue arose towards the end of the 2021/22 financial year with regards to how local authorities across the country have traditionally accounted for infrastructure assets. After efforts over many months nationally to find a permanent solution, a temporary change to the CIPFA Code of Practice was published in November 2022 alongside the introduction by DLUHC of a statutory instrument in December 2022. The County Council's auditor, EY, has confirmed that the County Council's updated accounts are compliant with the requirements of the Code and the statutory instrument.
    - Secondly, where the sign-off of accounts by auditors has been delayed beyond 31 March 2023, this has created a new issue for local authorities across the country because of the timing of the triennial LGPS pension valuation. The valuation report from the actuary provides updated information relating to the position as at 31 March 2022 requiring the County Council to update its accounts for 2021/22 accordingly. EY need to conduct audit testing of this new information and the actuary has been engaged to provide answers to allow EY to gain the assurance required to close this audit point. At the time of writing this work is ongoing.

109. The Deputy Chief Executive and Director of Corporate Operations, in his role as Chief Financial Officer, provided a position statement on the audit to the Audit Committee on 25 May 2023. A statement was also presented by EY. This provided an update on the points above and highlighted that there were no other significant points outstanding and that every indication was that EY would be able to issue an unqualified audit opinion of the 2021/22 accounts once the audit work was completed.

110. The delayed conclusion of the 2021/22 audit does have a knock-on impact on the 2022/23 accounts process. In line with Regulations, draft accounts were published by 31 May and the period of public inspection began on 1 June. However, the delayed sign-off of the 2021/22 accounts will impact the

timescales for auditing the 2022/23 accounts. The external auditor will provide an update on the position to the Audit Committee in September. At this stage, EY do not expect the 2022/23 audit to be completed to enable publication of the audited accounts by the statutory deadline of 30 September 2023. Therefore, we anticipate the need to publish a statement on 30 September explaining the position and the reasons for it, which are primarily related to staff capacity at EY exacerbated by new auditing requirements as explained above. We will continue to liaise with EY and monitor the position and ensure prompt responses to audit queries when they arise. However, it is important to emphasise that this is a common issue for all audit firms and many other local authorities are in the same position.

111. There are no major changes to the format of the statement of accounts for 2022/23 and they continue to follow the requirements of the Code of Practice for Local Authority Accounting (the Code) as set by the Chartered Institute of Public Finance and Accounting (CIPFA). The narrative report within the Statement of Accounts includes an explanation of how the required accounting presentation relates to the financial performance of the County Council as set out in this report.

Section M: Consultation, Equalities and Climate Change Impact Assessment

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

113. This report deals with the outturn position and accounts for 2021/22, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

114. 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.

115. This report deals with the outturn position for the revenue budget, capital programme and treasury management aspects of the County Council’s business. For the first two items climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. For treasury management, in line with the CIPFA code, the County Council’s treasury management investment balances are invested prioritising security, liquidity and then yield. Investments in pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own

individual responsible investment policies. The County Council’s Treasury Management Advisers, Arlingclose, have advised the County Council on Environmental, Social and Governance (ESG) issues in relation to investments in pooled funds.

116. There are no further climate change impacts as part of this report which is concerned with financial reporting.

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
Revenue Budget & Precept 2023/24 and Capital Programme 2023/24 to 2025/26 https://democracy.hants.gov.uk/mgAi.aspx?ID=58275#mgDocuments	Cabinet – 7 February 2023 and County Council – 23 February 2023
Financial Update and Budget Setting and Provisional Cash Limits 2023/24 https://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=52746&PlanId=0&Opt=3#AI56300	13 December 2022
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	

IMPACT ASSESSMENTS:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely impacted by the proposals in this report.

Adults Health & Care Directorate – Revenue Expenditure 2022/23

Major variations in cash limited expenditure: £4.041m (0.7%) in excess of the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Director	(106)	(6.1)	The variance mainly relates to reduced spend on staffing and compulsory added years budgets partly offset by additional spend on supplies and services.
Headquarters	(1,629)	(6.3)	This favourable variance mainly relates to reduced spend on non-care contracts and staff budgets. The latter has arisen due to both vacancies and additional income, in particular from grants and secondments.
Older Adults	3,091	1.5	Pressures on the budget were seen within homecare where the number of live in care packages are significantly higher than anticipated. There are also pressures within residential budgets where client numbers were higher than budgeted. Furthermore, continued increases in average rates for paid for care, above those budgeted, were experienced due to shortages in the sector of skilled staff and general inflationary increases.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Younger Adults	10,350	5.4	The pressures were predominantly within the supported living budgets due to an increase in demand and client needs. There were also pressures within nursing, residential and homecare due to increases in demand and average weekly costs. The negotiation of fees to care providers has needed to consider the risk of contract hand back which would likely result in higher fees and client disruption.
HCC Care	(867)	(1.7)	The favourable variance mainly relates to staff vacancies and additional income within day care. This has been partially offset by a pressure within the reactive maintenance budget due to essential works and equipment replacement. Additionally, a budget pressure for the Learning Disability residential units was due to additional staffing costs and agency required to meet the needs of a greater than expected volume of higher needs clients.
Governance & Assurance	(209)	(10.7)	The variance mainly relates to reduced spend on non-staff budgets and additional income, offset by a minor pressure on staffing.
Centrally Held	(4,687)	(221.3)	The favourable variance includes £3.9m early delivery of SP23 savings and other general underspends captured centrally.
Public Health	(1,902)	(3.1)	The variance relates to lower than expected activity on sexual health and health check budgets and under delivery on the children and young people 0-19 contract. The unapplied grant is ring-fenced and will be varied forward for Public Health in future years.
Total	**4,041**	**0.7**	

Children's Services Directorate – Revenue Expenditure 2022/23

Major variations in cash limited expenditure: £1,440m (0.1%) in excess of the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Schools Budget			
Early Years Block	(1,677)	(2.0)	There is a favourable variance on the free entitlements for three and four year olds (universal and extended entitlement for eligible working parents) due to lower than expected numbers of children accessing the entitlements across the year due to a reduction in the population of this age band.
Schools Block	(1,789)	(0.3)	Within the Growth Fund budget the position includes reduced need for infant class size funding, temporary classrooms and growing schools, due to fewer schools being eligible for funding than budgeted. In addition, the budget for Central Provision Funded by Maintained Schools incurred an underspend as a result of fewer schools facing immediate financial difficulties.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
High Needs Block	30,420	18.5	The pressure experienced in Hampshire is reflected in many other authorities and relates predominantly to demand led budgets funding pupils with high levels of additional need, where there are increasing numbers of pupils with Education, Health and Care plans (EHCPs). This includes mainstream schools, special schools (including independent and non-maintained), post-16 provisions and resourced provisions. There is also a continuation of the pressure on the service for discretionary and direct payments. Additional high needs places have been created in special schools and resourced provisions and more children with EHCPs are now remaining within their mainstream school, however due to the significant increase in pupils with an EHCP, it has been necessary to place more pupils in independent placements. This pressure continues to be managed through an ongoing strategy to increase in-house capacity to reduce the need for independent placements and improvements to procurement arrangements to reduce unit costs.
Central School Services Block	(827)	(10.2)	A favourable variance is due to being able to identify alternative ongoing funding to replace the DSG contribution toward some of the historical commitments whilst maintaining the same level of service. This is a planned approach in preparation for expected future reductions in funding.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Carry Forward of Dedicated Schools Grant (DSC) Additional Deficit	(26,127)	(2.6)	The total 2022/23 pressure of £26.1m has been offset by a charge to the DSG reserve, as allowed by the Department for Education (DfE). This year, the charge will increase the deficit on the DSG reserve to over £86m which will be funded from future years DSG funding. A DSG Management Plan, produced at the request of the DfE, is continually monitored and updated with progress as Hampshire along with many other authorities are working with the DfE around developing and implementing strategies to reduce pressure on the High Needs block.
Sub-Total Schools Budget	**0**	**0.0**	

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Non-Schools Budget			
Home to school transport	9,438	23.1	The service has seen a significant rise in cost of arranging transport coupled with an increase in both demand for Special Educational Needs (SEN) requests and rising unit costs. Rising costs are attributable to the external transport provider market continuing to endure significant challenges due to inflationary increases and shortages of drivers leading to a reduction in capacity. In addition, further challenges resulting from the increasing number of SEN transport contracts required and increased complexity of pupils needs, shortages of appropriate transport and non-availability of local SEN places which cause an increasing cost pressure on the service.
Inclusion Services (Special Educational Needs, Educational Psychology and Services for young children inclusion)	4,991	76.4	Increasing demand for statutory SEN assessments caused an increase in additional staffing costs including agency staff required to balance the high demand for this service as numbers of referrals received are higher than projected. In addition, as a result, the Educational Psychology (EP) service have endured a significant decrease in income as EP resources continue to be diverted on a risk assessed basis, away from income generating work towards statutory work; responding to SEN assessments.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Children's social care (net pressure)	1,000	0.5	The net pressure mainly results from the use of social work agency staff. Reliance on agency staff is necessary to cover for the short supply of qualified social workers and to balance the experience within frontline teams where new graduate trainees have been recruited. This is a national issue which many other authorities continue to face and has resulted in a recent government consultation on proposals to help address this pressure.
Additional one-off support	(1,991)	(18.0)	Support for the Children's Services contribution to the Homes for Ukraine scheme and additional income through ensuring appropriate contributions are received from Health funded care packages.
Planned one-off investment	(1,541)		Net draw from the Children's Services cost of change reserve for planned investment to support the Tt2021 and SP23 savings programmes as well as contributing toward the replacement of the social care IT system.
Net Early Achievement of SP23 savings	(8,818)		Planned early achievement of savings used to offset the department's other pressures.
Various other (net)	(1,639)	(3.9)	The net effect of various one-off underspends mainly relating to staff budgets due to difficulty in recruiting to vacant posts adding further challenge to continued service delivery. Other items include additional income in relation to partnership working and careful management of spend.
Sub-Total Non-Schools Budget	**(1,440)**	**(0.5)**	

Corporate Services Directorate – Revenue Expenditure 2022/23

Major variations in cash limited expenditure – Under Spend of £3.9m (4.5%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Corporate Operations	(2,721)	4.0%	Corporate Operations have achieved early delivery of SP23 totalling £2.6m. In addition, recruitment challenges to fill staff vacancies across nearly all services together with reduced spend on travel and printing in line with the new ways of working have resulted in net expenditure below budget of just over £0.1m.
People & Organisation	(1,201)	6.5%	People & Organisation have achieved early delivery of SP23 totalling £0.883m. In addition, recruitment challenges to fill staff vacancies across nearly all services together with reduced spend on travel and printing in line with the new ways of working have resulted in net expenditure below budget of just over £0.3m
Total	**(3,921)**	**4.5%**	

Hampshire 2050 Directorate – Revenue Expenditure 2022/23

Major variations in cash limited expenditure – Under Spend of £0.187m (1.2%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Economy and Skills	28	1.7	Low value net pressure within the area of Economic Development following investment in progressing the County Deal which has been offset by favourable variances through vacancies and additional grant income.
Culture and Communities	(113)	(3.2)	Close monitoring of non-pay budgets and lower than anticipated spend on the community grants budgets, together with staffing underspends from vacancies has seen a favourable variance within this area. Increased energy costs impacted the service although this was offset by corporate funding.
Strategic Assets	(5)	(0.1)	Inflationary cost pressure within the area of strategic assets has been offset against additional income
Spatial Planning	(167)	10.8	Higher than budgeted income principally for planning fees and one-off project work.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Integrated Transport H2050	57	1.9	An ambitious programme of work within the feasibility study area has resulted in some projects not being progressed into the capital programme causing a minimal pressure on the revenue budget.
H2050 Directorate	13	17.6	Minor one-off pressure arising from the in-year impact of organisational restructure activity.
Total	**(187)**	**(1.2)**	

Universal Services Directorate – Revenue Expenditure 2022/23

Major variations in cash limited expenditure – Under Spend of £4.836m (2.1%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Highways, Engineering & Transport	(1,545)	(2.2)	The favourable variance primarily relates to £1.119m underspend on the Concessionary Fares budget, which in accordance with the March Lead Executive Member report, will be ringfenced to support local bus services and related infrastructure in Hampshire. Payments to bus operators for Concessionary Fares journeys have continued to be based upon the percentage of pre-COVID bus network an operator provides (rather than the actual much lower journeys), in line with Department for Transport guidance. However, this has again resulted in a lower level of spend than budgeted, reflecting the previous trend of decreasing passenger numbers, although passenger numbers are expected to slowly recover post COVID. The remaining variance largely reflects vacant posts within the School Crossing Patrols, which have not been possible to fill. The winter maintenance / weather emergencies budget incurred a pressure of £4.1m due to numerous weather events throughout the year, however, this pressure was met from corporate contingencies and is therefore not reflected in the net financial position for Universal Services.

			The weather events included continued clear up at the start of the year of tree and associated structural damage from the Storms (Eunice and Franklin) in February 2022; dusting the roads during the extreme heat in the summer to reduce the tackiness of the roads; several periods of yellow weather warnings and strong winds; and two large periods of continuous running conditions due to extreme cold weather, one of which followed a period of extreme wet weather with localised flooding and ground water flooding, leading to a significant increase in salt runs on the roads, the requirement of pumps, sandbags and additional drainage cleansing and high numbers of emergency incidents and potholes. The highways revenue maintenance budget continues to be under pressure with unprecedented levels of demand and public contacts, combined with sharp price rises and difficulties securing supplies for construction materials. Delays in the implementation of new pay and display parking, and irrecoverable costs relating to historic road agreements have caused further pressures, although these pressures have been mitigated to some extent by favourable variances on staffing budgets due to vacancies across the service, albeit this is resulting from a difficult jobs market.
Waste, Environmental Services	(883)	(1.6)	The variance relates to additional income from planning fees, Asbestos and Scientific Services, with the latter generating turnover for the financial year of over £3m for the first time. Successful prosecutions within the Trading Standards area, with many perpetrators pleading guilty, has led to reduced court costs and legal costs. Staff vacancies have been seen across the service contributing further to the favourable outturn position.
Recreation, Information & Business Services	(420)	(6.0)	Investment in improved facilities and the service offer has resulted in the planned positive impact on income across the service areas,

			although this is being largely offset by cost-of-living pressures on utilities, cleaning and priority maintenance costs. Again, increased income has been received from Registration services such as licences, permits, certificates and marriage notices.
Property, Business Development & Transformation	(2,468)	(8.1)	The significant difficulties in recruiting staff to Facilities Management positions which became a particular issue during the COVID pandemic given the customer facing nature of the role, has continued despite a recruitment drive, leading to a favourable variance against the budget. Total Property Services income of £22.45m generated a surplus of nearly £0.5m against the budget, with increased activity beyond targeted levels. High occupancy rates and strong rents has also contributed to a favourable variance in this area of £0.25m. £508,000 of this underspend relates to Climate Change initiatives that are part of the £1.2m two-year programme funded by the realignment of the former CCBS Community Grants Fund, as agreed by Cabinet in February 2021. These projects will now be completed in the 2023/24 financial year.
Planned one-off investment	5,446	100.0	Planned one-off investment utilising in-year savings primarily to support the SP23 and remaining Tt2021 savings programmes, but also investment to improve the services provided to the public including country parks and reinstating of countryside footpaths following damage due to a combination of increased usage and the weather conditions.
Early Achievement of Savings	(4,966)	(100.0)	The Directorate continues to take every opportunity to make savings in ‘business as usual’ work wherever possible. The identification of opportunities for the early delivery of SP23 activity has resulted in savings of £4.966m being achieved.
Total	**(4,836)**	**2.1**	

Appendix 1

Treasury Management Outturn Report 2022/23

Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2021. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2022/23.

Recommendations

2. Cabinet are asked to note the following recommendations:

    - That the outturn review of treasury management activities be noted.

Executive Summary

3. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2022/23.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2023. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's treasury management strategy.

5. Treasury management in the context of this report is defined as: "The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

6. This annual report sets out the performance of the treasury management function during 2022/23, to include the effects of the decisions taken and the transactions executed in the past year.

7. All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2022/23, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

8. The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2023.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2022/23.

Economic commentary

10. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March 2023 period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

11. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

12. Starting the 2022/23 financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October 2022. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February, up from 10.1% in January 2023, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October 2022. In February 2023 RPI measured 13.8%, up from 13.4% in the previous month.

13. Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April 2023.

14. The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December 2022. The most recent information for the period December-February 2023 showed an unemployment rate of 3.7%.

15. The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December 2022 and February 2023 and then 25bps in March 2023, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

Financial markets

16. Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the financial year, fears around the health of the banking system following the collapse of Silicon Valley Bank (SVB) in the US and purchase of Credit Suisse by UBS caused further volatility.

Credit review

17. Credit Default Prices had been rising since the start of the financial year on the back of the invasion of Ukraine, and in the UK rose further in September/October 2022 at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the year as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

18. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

19. As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the County Council's counterparty list recommended by Arlingclose remains under constant review.

Local Context

20. At 31 March 2023, the County Council's underlying need to borrow for capital purposes was £749.66m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,111.73m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/22 Balance £m**	**Movement £m**	**31/03/23 Balance £m**
CFR	780.32	(30.66)	749.66
Less: Other debt liabilities*	(129.06)	7.66	(121.4)
Borrowing CFR	**651.26**	**23.00**	**628.26**
External Borrowing	(295.00)	43.48	(251.53)
Internal Borrowing	**356.26**	**20.48**	**376.74**
Less: Usable Reserves	(882.15)	37.97	(844.19)
Less: Working Capital	(150.19)	(117.35)	(267.54)
Net Investments	**(676.08)**	**(58.91)**	**(734.99)**

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

21. The CFR decreased by £30.66m during 2022/23. Other debt liabilities reduced by £7.66m in accordance with the PFI repayment models while the County Council's borrowing CFR decreased by £23m. External borrowing reduced by £43.48m during 2022/23 as a result of repayment of £49.1m of Treasury Management borrowing, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of 2022/23 the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the Dedicated Schools Grant (DSG) deficit, total £845m; a decrease of £37.97m on the previous year. Of this net reduction, £34m relates to the net draw from directorate reserves used for a number of purposes including cash flow funding for delayed savings, funding to offset inflation and demand pressures and planned investment in services, £25.9m was drawn from the Budget Bridging Reserve in line with the plan to support the budget ahead of the Savings Programme for 2023 and contributions to other reserves including £5m for future capital payments, £3m revenue grants and £9.8m capital grants received ahead of the planned relevant expenditure. The balance also includes reserves held on behalf of individual schools which decreased by £2.6m in 2022/23.

22. The County Council's strategy was to maintain borrowing and investments below

their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position at 31 March 2023 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/22 Balance £m**	**Movement £m**	**31/03/23 Balance £m**	**31/03/23 Rate %**
Long-term borrowing	(241.2)	49.1	(192.1)	4.62
Short-term borrowing	(8.0)	0.0	(8.0)	5.34
Total borrowing	**(249.2)**	**49.1**	**(200.1)**	**4.65**
Long-term investments	220.6	17.9	238.5	3.96
Short-term investments	439.0	(287.2)	151.8	3.66
Cash and cash equivalents	22.4	327.3	349.7	4.03
Total investments	**682.0**	**58.0**	**740.0**	**3.93**
Net investments	**432.8**	**107.1**	**539.9**	

Note: the figures in Table 2 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments. Borrowing figures exclude short term balances held on behalf of others.

23. The increase in net investments of £107.1m shown in Table 2 reflects an increase in investment balances of £58m in conjunction with repayment at maturity of borrowing of £8.1m and early repayment of borrowing of £41m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Strategy and Treasury Investments Activity sections of this report.

Borrowing Update

24. The County Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

25. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

26. Further, the County Council has and may continue to invest in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the County Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the County Council's aim of protecting reserves from high inflation.

27. The County Council is a net investor and as stated in the Treasury Management Strategy 2023/24, the County Council expects a negative liability benchmark across the forecast period, meaning that there is not a requirement to borrow and that the County Council could potentially repay its current external borrowing and still fund the planned capital programme. Given the favourable change in the interest rate environment, after consultation with its advisor – Arlingclose, £41m of external borrowing was repaid early during 2022/23.

Borrowing Strategy

28. At 31 March 2023 the County Council held £200.1m of loans (a decrease of £49.1m from 31 March 2022) as part of its strategy for funding previous years' capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	**31/03/22 Balance £m**	**Net movement £m**	**31/03/23 Balance £m**	**31/03/23 Weighted average rate %**	**31/03/23 Weighted average maturity (years)**
Public Works Loan Board	(208.0)	20.0	(188.0)	4.7	8.8
Banks (LOBO)	(20.0)	16.0	(4.0)	4.8	11.6
Other (fixed term)	(21.2)	13.1	(8.1)	3.9	16.6
Total borrowing	**(249.2)**	**49.1**	**(200.1)**	**4.7**	**9.2**

Note: the figures in Table 3 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

29. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the County Council's long-term plans change is a secondary objective.

30. The County Council has considered it to be more cost effective in the near term to use internal resources than to use additional external borrowing. In line with this strategy, £8m of PWLB loans were allowed to mature without refinancing and a further £0.1m of other borrowing was repaid which related to Salix loans (this is interest-free Government funding to the public sector to improve energy efficiency, reduce carbon emissions and lower energy bills).

31. As a result of the changes to interest rates £41m of loans were repaid early in 2022/23 following consultation with Arlingclose. This consisted of £12m of PWLB loans, £16m of LOBO (Lender's Option Borrower's Option) loans, and £13m of other fixed term loans (former LOBOs).

32. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

33. The County Council continues to hold £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender in the year.

Treasury Investment Activity

34. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

35. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held for specific purposes. During the year, the County Council's investment balances ranged between £670m and £866m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4. As at the 31 March the County Council was holding significant balances in overnight Money Market Funds in order that it could pay three years of employer pension contributions at the start of the new financial year.

Table 4: Treasury investment position	**31/03/2022 Balance £m**	**Net movement £m**	**31/03/2023 Balance £m**	**31/03/23 Income return %**	**31/03/23 Weighted average maturity (years)**
Short term investments					
Banks and Building Societies:					
- Unsecured	83.0	(44.2)	38.8	3.78	0.12
- Secured	93.5	(83.5)	10.0	4.24	0.03
Money Market Funds	21.4	284.6	306.0	4.08	0.00
Government:					
- Local Authorities	203.5	(125.5)	78.0	3.64	0.58
- UK Gilts	12.0	(12.0)	0.0	0.00	0.00
- UK Treasury Bills	28.0	30.7	58.7	3.87	0.16
- Supranational	10.0	(10.0)	0.0	0.00	0.00

Table 4: Treasury investment position	31/03/2022 Balance £m	Net movement £m	31/03/2023 Balance £m	31/03/23 Income return %	31/03/23 Weighted average maturity (years)
Cash Plus funds	10.0	0.0	10.0	1.65	0.01
Total	**461.4**	**40.1**	**501.5**	**3.92**	**0.12**
Long term investments					
Banks and Building Societies:					
- Secured	10.0	17.2	27.2	2.32	2.51
Government:					
- Local Authorities	5.0	(5.0)	0.0	0.00	0.00
Total	**15.0**	**12.2**	**27.2**	**2.32**	**2.51**
Long term investments – higher yielding strategy					
Government:					
- Local Authorities	22.4	0.9	23.3	5.21	10.04
Pooled Funds:					
- Pooled property*	75.0	0.0	75.0	3.51	N/A
- Pooled equity*	50.0	1.0	51.0	5.42	N/A
- Pooled multi-asset*	48.0	0.5	48.5	4.52	N/A
Total	**195.4**	**2.4**	**197.8**	**4.45**	**10.04**
Total investments	**671.8**	**54.7**	**726.55**	**3.93**	**0.54**
Thames Basin Heaths pooled fund investments	10.2	3.3	13.5		
Total	**682.0**	**58.0**	**740.0**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2023 based on the market value of investments at the start of the year.

Note: the figures in Table 4 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

36. The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

37. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The County Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

38. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2023 and at the same date in 2022 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure %	Weighted average maturity (days)	Rate of return %
31.03.2022	AA-	21	302	0.63
31.03.2023	AA-	64	241	4.04
Similar Las	AA-	42	1,894	3.38
All Las	A+	59	12	3.67

Table 5 shows the average credit rating of the portfolio has remained consistent at AA-. Bail-in exposure has increased as a result of holding higher liquid balances. A significant proportion of which were used to pay pension contributions which were due on 1st April 2023, removing some of the risk, and which is further mitigated by the fact that a high percentage of the County Council's liquid balances are invested in money market funds, which are technically exposed to bail-in risk but are diversified products and are considered by Arlingclose to be 'bail-in risk light'. The County Council otherwise compared favourably with the other local authorities included in the benchmarking exercise across all other metrics.

Externally managed pooled funds

39. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2023/24, with a recommendation to increase the allocation further to £320m, if opportunities allowed and total cash balances were sufficiently high.

40. Approximately £211m of this allocation has now been invested, with the

remaining balance earmarked. The total includes £13.5m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.

41. The CIPFA Code requires the County Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the County Council's investments.

42. The negative correlation between bonds and equities, which had featured for some years, turned positive in 2022 as both bonds and equities sold off simultaneously against an outlook of sticky inflation and high interest rates. Simultaneously, tighter financial conditions, higher bond yields and challenges in some segments of commercial real estate (e.g. offices post-COVID, high street shops and shopping centres) saw commercial property values fall during 2022, with a large fall in the final calendar quarter.

Table 6 – Higher yielding investments – market value performance	**Amount invested***	**Market value at 31/03/23**	**Gain/(fall) in capital value**	
			Since purchase	**2022/23**
	£m	**£m**	**£m**	**£m**
Pooled property funds	75.0	72.1	(2.9)	(13.9)
Pooled equity funds	51.0	53.9	2.9	(1.9)
Pooled multi-asset funds	48.5	43.1	(5.4)	(4.1)
Total pooled funds	**174.5**	**169.1**	**(5.4)**	**(20.0)**
Fixed deposits	20.0	20.0	0.0	0.0
Total higher yielding	**194.5**	**189.1**	**(5.4)**	**(20.0)**

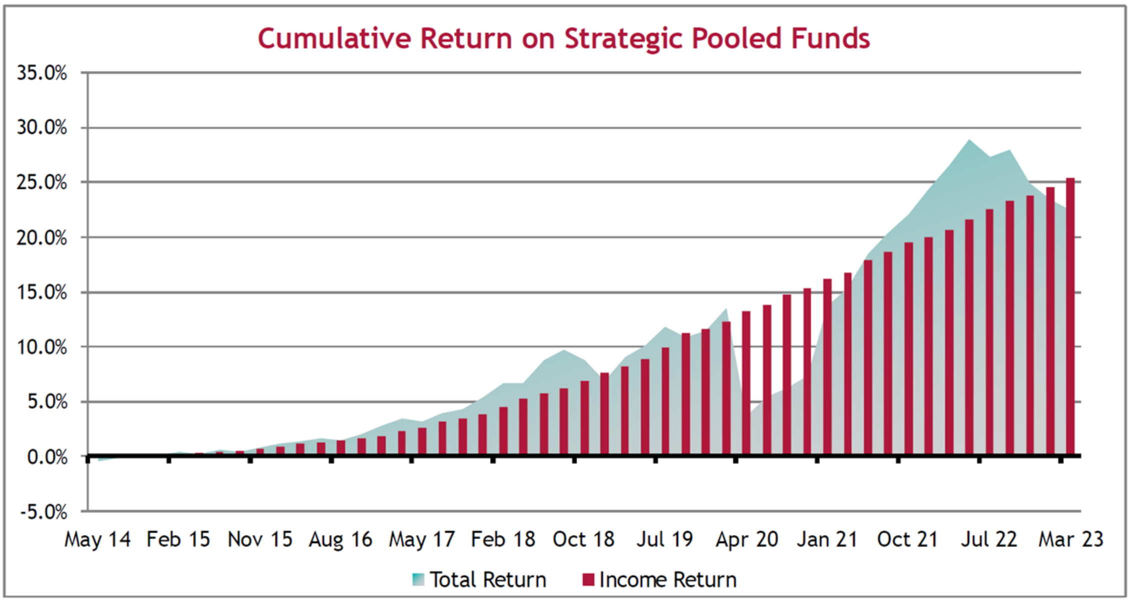
* excludes £13.5m invested on behalf of Thames Basin Heaths JSPB

43. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.15% pa since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 22.9%.

Table 7 – Higher yielding investments – income and total returns since purchase (from 2014)	**Annualised income return**	**Total return since purchase (from 2014)**
	%	**%**
Pooled property funds	3.88	25.1
Pooled equity funds	4.78	38.0
Pooled multi-asset funds	3.93	5.3
Total pooled funds	**4.15**	**22.9**

Note: excludes the performance related to £13.5m invested on behalf of Thames Basin Heaths JSPB

44. The margin between cash and non-cash (pooled fund) investments was negligible by the end of March 2023. The existing allocation of £174.5m to pooled funds has provided good income returns for the County Council (as shown in the return figures above), mostly in contrast to very low interest rates prior to 2022. This allocation will continue to provide protection against a return to lower interest rates but the position remains under review with the assistance of Arlingclose.



Note: the graph above excludes the performance related to £13.5m invested on behalf of Thames Basin Heaths JSPB

45. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. As a result, 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 which

equates to 3.5% of the actual allocation to pooled investments of £174.5m (currently above the aim to hold reserves of 2.5%).

46. The Department for Levelling Up, Housing & Communities (DLUHC) published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

Financial Implications

47. The outturn for debt interest paid in 2022/23 was £11.9m against a budgeted £11.4m on an average debt portfolio of £214.3m.

48. The outturn for investment income received in 2022/23 was £18.3m on an average investment portfolio of £778.6m giving a yield of 2.49%. By comparison, investment income received in 2021/22 was £10.43m on an average portfolio of £708m with a yield of 1.47%.

Non-Treasury Investments

49. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

50. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

51. This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

52. The County Council's existing non-treasury investments are listed in Table 8..

Table 8 – Non-treasury investments	31/03/23 Asset value £m	31/03/23 Rate %
Hampshire County Council:		
Loans to Hampshire based business	4.5	4.00
On behalf of Enterprise M3 LEP:		
Loans to Hampshire based business	12.2	2.33
Total non-treasury investments	**16.7**	**2.78**

Compliance Report

53. The County Council confirms compliance of all treasury management activities undertaken during 2022/23 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

54. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 9.

Table 9 – Debt limits	2022/23 Maximum £m	31/03/23 Actual £m	2022/23 Operational Boundary £m	2022/23 Authorised Limit £m	Complied?
Borrowing	247	200	750	785	✓
PFI and Finance Leases	129	121	145	150	✓
Total debt	**376**	**321**	**795**	**935**	✓

55. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. However this limit was not breached during the financial year.

Treasury Management Indicators

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

Interest rate exposures

57. The following indicator shows the sensitivity of the County Council's current investments and borrowing to a change in interest rates.

Table 10 – Interest rate risk indicator	31/03/23 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£389m	+/- £3.9m
Borrowing	£7m	+/-£0.1m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

58. This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 11 – Refinancing rate risk indicator	31/03/23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	7%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	13%	50%	0%	✓
5 years and within 10 years	29%	75%	0%	✓
10 years and within 20 years	46%	75%	0%	✓
20 years and within 30 years	0%	75%	0%	✓
30 years and above	0%	100%	0%	✓

59. The County Council holds £4m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, this loan has a duration to maturity of just over 11 years.

Principal sums invested for periods longer than a year

60. The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end

were:

Table 12 – Price risk indicator	2022/23	2023/24	2024/25
Actual principal invested beyond year end	£239m	£239m	£231m
Limit on principal invested beyond year end	£330m	£400m	£400m
Complied?	✓	✓	✓

The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Capital Spending and Financing 2022/23

Summary

1. This Appendix reports that:

   - Capital schemes costing £191.7m were started during 2022/23 from the approved capital programme for the year of £366.6m.
   - This leaves £174.9m for projects not started by 31 March 2023 that will be carried forward into 2023/24. Approval has already previously been given for £71.2m of this amount, leaving £103.7m requiring Cabinet approval.
   - Capital payments of £190.9m were incurred during 2022/23 and this can be financed within available resources.
   - As permitted under the Prudential Code (2021) new prudential borrowing of £11.1m is used to fund expenditure in 2022/23 for approved schemes.
   - Lump sum repayments of prudential borrowing from developer contributions and other sources total £10.8m in 2022/23. This prudential borrowing predominantly relates to the timing of developer and other contributions. This is in addition to the regular ongoing prudential borrowing repayments through MRP charges to the revenue budget.
   - £2.1m of expenditure is funded from the capital reserve in 2022/23. This is less than forecast due to increased capital receipts in 2022/23, with planned draws delayed due to slippage in projects planned to be funded from this reserve.
   - Capital receipts of £23.8m were achieved from the sale of assets during 2022/23.

Capital Programme for 2022/23

2. Table 1 shows that £191.7m (52.3%) of the £366.6m capital programme for 2022/23 was started in the year compared with £179.4m (54.4%) in the previous year. A slippage in scheme starts means that a lower value and percentage of the programme was started in 2022/23 than had been forecast.

Table 1 – value and percentage of capital programme committed

	2021/22 £m	2022/23 £m
Committed	179.4	191.7
Carried forward	150.4	174.9
Total programme	**329.8**	**366.6**
Percentage committed	54.4%	52.3%

3. As some elements of the programme are managed on a ‘starts’ basis there can be a timing difference between the year a scheme starts and the financial years over which expenditure is incurred, particularly for large schemes spanning multiple years. Capital expenditure totalled £190.9m in 2022/23 and is covered in detail in the section of this appendix on capital expenditure and financing.

4. Table 2 shows a further breakdown of capital scheme commitments in 2022/23. An analysis by service of these figures is included in Annex 1.

Table 2 – Capital Schemes Committed in 2022/23

	£’000	
Revised capital programme 2022/23 February 2023	281,952	
Amounts previously agreed to carry forward to 2023/24	71,244	
Net changes to the programme since February 2023	13,433	
Approved value of capital programme 2022/23	**366,629**	
Less: schemes committed in 2022/23	191,662	52.3%
Amount to carry forward to 2023/24	**174,967**	**47.7%**

5. The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2023. The total value of such schemes is £103.7m, as shown in Table 3. This is in addition to the £71.2m of schemes where approval to carry forward to 2023/24 has already been given during 2022/23 relating to the Children’s Services (£32m) and Universal Services (£39.2m) programmes. The approval for these amounts was included within the capital programme report to Cabinet and County Council (paragraphs 66-67, 86 and 88 of the February 2023 report).

Table 3 – Proposals to carry forward schemes to 2023/24

	£'000
Schemes within the 2022/23 capital programme	
Total carry forwards for schemes within 2022/23 programme	174,967
Less: amounts already approved for carry forward	(71,244)
Amounts requiring approval to carry forward	**103,723**

6. Individually, most of the schemes and provisions to be carried forward from the 2022/23 capital programme are relatively small amounts. The larger schemes include:

- Adults with Disability (£3.8m) – capital grant programme expected to see increased demand in 2023/24 as the new build programme is complete which included most recently Sonnet Court and Croft House
- Younger Adults extra care (£15.2m) – required to support extension of supported accommodation strategy in 2023/24
- Extra care housing transformation (£13.6m) – funding held for new projects being considered within this programme once existing sites are completed in 2023/24
- Special Educational Needs including SEND (£3.1m) – projects have been approved and are progressing
- Improvements to Schools (£7.3m) and Children's Services contingency provision (£8m) – provisions to cover future projects and pressures on the capital programme
- Structural maintenance of roads and bridges (£13m) – future projects planned to deliver improvement works
- Street lighting LED replacement programme (£3.6m) – project delayed due to contract negotiations with supplier estimated to commence work late 2023/24
- Strategic land purchases (£10m) and Advantageous land (£1.8m) – funding provision available to make advantageous land purchases when they appear on the market
- Investment in Hampshire (£2.5m) provision for grants issued to contribute towards improvement of significant assets, economic recovery and business growth in Hampshire
- School Condition Allocation (£3.8m) – school improvement projects are progressing

- HTM Vehicles (£3.6m) – due to delay in vehicle deliveries as a result of supply chain issues

7. Tables 4 and 5 below shows the impact of the carry forwards and additional project approvals on the capital programme from 2022/23 to 2025/26. This is an update of the programme presented to Cabinet and County Council when setting the budget in February 2023.

Table 4 – updated capital programme

Prior Years £'000		Revised 2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
21,745	Adults' Health & Care	14,705	47,910	14,733	14,733	113,826
16,019	Children's Services	27,792	51,313	107,941	85,954	289,019
0	Hampshire 2050*	0	0	0	0	0
252,884	Universal Services	149,165	184,527	138,792	115,858	841,226
290,648	**Total**	**191,662**	**283,750**	**261,466**	**216,545**	**1,244,071**
				761,761		

Changes to the capital programme since February 2023

299,537	February 2023 capital programme report	281,952	175,003	253,766	216,545	1,226,803
0	Carry forwards	(103,723)	103,723	0	0	0
(8,905)	Other changes	13,433	5,024	7,700	0	17,268
290,648	**Updated programme**	**191,662**	**283,750**	**261,466**	**216,545**	**1,244,071**

* As set out in the capital programme report in February 2023, the Universal Services capital programme for reporting purposes includes elements that relate to Hampshire 2050 however any approval to spend against these schemes will follow the County Council's financial regulation thresholds and be taken through the relevant Executive Member.

Table 5 – forecast timing of capital expenditure for items in Table 4

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Future Years £'000	Total £'000
Capital Expenditure	190,851	337,957	289,186	229,601	196,476	1,244,071

8. Table 4 shows a net increase to the overall capital programme of £17.268m since the programme was agreed by Cabinet and County Council in February 2023, which includes:

    - Structural Maintenance increase in 2023/24 of £5.95m following the Government announcement in March 2023 for Hampshire's allocation from an additional £200m nationwide funding for highways maintenance.
    - Alderwood School 2fe expansion increase in 2024/25 of £2.7m. Following consultation with the Environment Agency a revised plan has been devised which requires the demolition of an existing science block and the building of a new, larger block to cover both requirements. This will be funded by a combination of developer contributions (£1m) and carried forward resources from within the capital programme contingency (£1.7m). County Council approval for this change is requested as this is a variation of above £2m.
    - Hounsome Fields Primary 2fe new build increase in 2024/25 of £1.25m following detailed design works to take into consideration anticipated increased construction costs, with the additional cost to be funded from developer contributions
    - A technical adjustment to the capital programme year for £12.722m of funding in Adults' Health and Care related to Extra Care transformation to reflect the approval to carry forward given by Cabinet in July 2022.
    - A number of other new or updated schemes under £1m. These are all within the Children's Services and Universal Services capital programmes.

9. The additional expenditure of £17.268m will be funded as follows:

    - £16.484m from external sources such as government grants and developer contributions

- £0.211m of revenue contributions to capital schemes within Children's Services covered in the 18 July 2023 Executive Lead Member for Children's Services report
- £0.174m using reserves and capital receipts generated by the River Hamble Harbour Authority as approved by the River Hamble Harbour Board
- £0.172m to fund a range of projects within the Countryside Service from Universal Services cost of change
- £0.160m Market Town Funding covered within the Executive Lead Member for Universal Services report of 10 July 2023
- £0.067m drawn from the Covid Recovery Fund within reserves

Capital expenditure and financing

10. Total expenditure of £190.9m was incurred during 2022/23, relating to a combination of projects in the capital programme for 2022/23 and the continuation of projects started in previous years.

11. The most recent forecast for spend in 2022/23 was £223.3m, which included the amounts presented in the capital programme report in February 2023 (£222.6m) and any projects subsequently approved (£0.7m). The actual spend of £190.9m was 14.6% lower than the revised estimate for 2022/23. The County Council has a significant programme with a large number of schemes planned and in progress, meaning it can be difficult to predict the exact timing of expenditure flows across financial years and it is normal for the timing of spend at the end of the financial to vary from forecasts presented in the February report. This timing difference does not in itself change the amount the County Council plans to spend through the life of the programme, although clearly there may be other changes at an individual scheme or programme level over time.

12. Expenditure in 2022/23 was less than the £241.2m incurred during 2021/22. This was for example due to delays needed for additional contract negotiation as a result of increased project costs caused by higher than anticipated inflation.

13. The County Council's capital expenditure in 2022/23 included:

- £61.7m for structural maintenance and the improvement of roads and bridges

- £45.3m of Integrated Transport Plan schemes including major road schemes and active travel schemes including walking and/or cycling improvements
- £25.1m of investment in new and extended school buildings to provide school places for children in Hampshire
- £19.4m to address condition-based enhancements to the schools estate
- £14.3m allocation of Disabled Facilities Grant funding to allow adaptations to people's homes.

14. Table 6 shows the proposed financing sources for the expenditure incurred. A further breakdown of expenditure by directorate and type of spend is included in Annex 2.

Table 6 – Capital financing 2022/23

Funding	**Planned****	**Actual**	**Variance**
	£'000	**£'000**	**£'000**
Prudential borrowing	24,923	11,052	(13,871)
less: repayments from capital	(6,950)	(10,824)	(3,875)
Capital grants	113,120	114,368	1,248
Contributions from other bodies*	52,152	38,744	(13,408)
Capital receipts	2,866	23,775	20,909
Dec 2022 cash limit guideline	3,669	411	(3,258)
Revenue contributions to capital	14,802	10,904	(3,898)
New resources in the year	**204,582**	**188,430**	**(16,152)**
Use of the capital reserve	17,586	2,117	(15,469)
Use of revenue reserves	1,144	304	(840)
Total funding for payments	**223,312**	**190,851**	**(32,461)**

* including developers

** February 2023 capital programme report plus £0.727m of subsequent adjustments and approvals

15. The revised capital programme assumed just under £17.6m of the capital reserves balance would be used in 2022/23, however a combination of the County Council's approach of applying grants and other contributions before using its own resources, higher than forecast capital receipts, and slower than anticipated expenditure resulting in the carry forward of schemes means usage of the capital reserve of £2.12m in 2022/23, as shown in Table 6.

16. In addition to this spend, the Enterprise M3 Local Enterprise Partnership (LEP) invested £5.63m in capital projects within the M3 corridor during 2022/23. This spend is also included in the annual accounts as the County Council is the accountable body for the LEP.

17. Revenue contributions to capital include the regular annual contribution built into the revenue budget to fund the locally resourced programme in addition to one-off transfers for specific projects of a capital nature. Capital expenditure may also be funded from revenue reserves and reserves will also be used where there is a timing difference between the regular annual contributions being made from the revenue budget and actual capital expenditure being incurred. The capital reserve holds approved local resources until they are required to fund capital payments as schemes progress.

18. In 2022/23 a total of £22.7m was added to the capital payments reserve through contributions from revenue to meet the approved capital guidelines and Revenue Contributions to Capital (RCCOs), net of transfers to Revenue Reserves. This was used to fund £11.6m worth of expenditure on projects in 2022/23, the balance of £11.1m remains within the capital reserve to cover spend on specific projects in future years. This is summarised in Table 7 below:

Table 7 – Revenue Contributions to Capital Programme 2022/23

	Cash Limit Guideline	**RCCOs**	**Revenue Reserves**	**Total**
	£000	**£000**	**£000**	**£000**
Revenue Contribution approved Feb 2023	3,669	4,470	1,077	9,216
Additional RCCOs	0	13,110	684	13,794
Transfers to Revenue		(338)		(338)
Additions to Capital Reserve	**3,669**	**17,242**	**1,761**	**22,672**
Applied to 2022/23 Capital Programme	(411)	(10,904)	(304)	(11,620)
Balance in Capital Reserve	**3,258**	**6,338**	**1,457**	**11,052**

Borrowing

19. Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from Government, provided their actions meet the requirements of the Prudential Code (last updated 2021). This borrowing does not attract any support from Government towards the

repayment and interest costs, which fall solely upon the County Council's own resources.

20. The County Council operates within a framework for the use of prudential borrowing, as updated by Cabinet in February 2006 and as outlined in its Capital and Investment Strategy (an appendix to the February budget setting report to Cabinet).

21. It is proposed that a total of £11.052m is prudentially borrowed in line with this framework for expenditure incurred during 2022/23. This will not result in the County Council taking on new external debt at this point and instead will be funded through 'internal borrowing' in line with the County Council's Treasury Management Strategy and the advice of its treasury management advisors, Arlingclose.

22. Partially offsetting this new prudential borrowing will be the repayment of £10.825m of prudential borrowing from previous years. This predominantly relates to the timing of developer contributions, where prudential borrowing is used to cash flow expenditure and allow projects to progress prior to other funding being received. Prudential borrowing balances that are not repaid from developer contributions, capital receipts or other sources will be repaid over time through Minimum Revenue Provision (MRP) charges to the revenue budget. Of the £11.052m of new prudential borrowing incurred during 2022/23 it is expected that £7.297m will be repaid through future developer contributions and capital receipts and £3.755m will be repaid through MRP charges.

23. The Prudential Code includes a number of indicators to illustrate whether local authorities are acting prudently and that its capital plans are affordable. The County Council sets forward looking prudential indicators as part of its Capital and Investment Strategy. Annex 4 reports the actual position for these indicators for 2022/23 and confirms compliance with the requirements of the Prudential Code. From 2023/24, these must be reported against on a quarterly basis.

Capital receipts

24. Capital receipts from the sale of land and property in 2022/23 were £23.8m in total.

25. Proposed corporate and directorate shares of capital receipts in 2022/23 are summarised in Annex 3. The County Council's current policy on capital receipts is that these will be retained fully to fund corporately agreed priorities

except where an appropriate business case for alternative use is agreed in advance.

26. In line with this policy, directorates will receive £0.562m of the £23.775m received in 2022/23 which has previously been approved by Cabinet. The remaining balance of £23.212m will be retained corporately to fund future corporate priorities.

Analysis of capital programme 2022/23 and requests by services to carry forward capital schemes to 2023/24

	Approved value of programme	Schemes committed in 2022/23	Approval to carry forward requested	Approval to carry forward already given	Total amount to carry forward
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Adults' Health and Care	47,882	14,705	33,177	0	33,177
Children's Services	79,132	27,792	19,329	32,011*	51,340
Hampshire 2050	0	0	0	0	0
Universal Services	239,615	149,165	51,217	39,233**	90,450
Total	**366,629**	**191,662**	**103,723**	**71,244**	**174,967**

* Covered in 12 January 2023 report to Executive Member for Children's Services & Education Decision Day and reflected in paragraphs 66-67 of the February 2023 capital programme report to Cabinet and County Council
** Covered in 23 January 2023 Executive Member for Universal Services & Countryside and Regulatory Services Decision Day and reflected in paragraphs 86 and 88 of the February 2023 capital programme report to Cabinet and County Council

Summary of capital expenditure in 2022/23

Analysis by services

	£'000	%
Adults' Health and Care	16,208	8.5
Children's Services	28,052	14.7
Hampshire 2050	0	0
Universal Services	146,591	76.8
Total	**190,851**	**100**

Analysis by type of expenditure

	£'000	%
Land	1,817	0.1
Construction work	138,774	72.7
Fees and salaries	27,948	14.6
Furniture, equipment and vehicles	6,073	3.2
Grants	16,239	8.5
Other	0	0
Total	**190,851**	**100**

Analysis of capital receipts 2022/23

The table below shows the total capital receipts received during 2022/23 of £23.775m. Of this amount:

- No additional capital receipts above the £0.562m already added to directorate programmes have been retained for specific projects in 2022/23.
- £23.212m will be retained to fund future corporate priorities in line with the new approach to the retention of capital receipts
- No capital receipts received in 2022/23 were used to repay prudential borrowing.

		Allocation of capital receipts		
	Capital receipts received	**Directorate shares already added**	**Directorate shares now available to add**	**Retained for corporate priorities**
	£'000	**£'000**	**£'000**	**£'000**
Adults' Health and Care	0	0	0	0
Children's Services	500	500	0	0
Hampshire 2050	21,582	0	0	21,582
Universal Services	1,693	62	0	1,630
Total	**23,775**	**562**	**0**	**23,212**

Prudential Indicators

The County Council sets forward looking prudential indicators as part of its Capital and Investment Strategy. The Prudential Code requires the County Council to report on its prudential indicators at the end of each financial year, as set out below. This compares the actual figures at 31/3/23 against the most recent forward looking estimates.

Prudential Indicators for prudence	**Estimated £m**	**Actual £m**
Capital expenditure for 2022/23	223	191
Capital financing requirement (CFR) as at 31/3/23	771	750
External debt* as at 31/3/23	346	341

* includes long term liabilities including PFI

Prudential Indicators for affordability	**Estimated**	**Actual**
Financing costs to net revenue stream 2022/23	4.6%	2.75%

The County Council confirms that it has remained within the Authorised Limit for External Debt for 2022/23 set in its Capital and Investment Strategy (£935m). This is a legal requirement. It has also remained within the lower Operational Boundary (£895m), which is a management tool for the in-year monitoring of external debt.

The County Council also continues to comply with the gross debt and the CFR indicator. This is because it does not expect gross debt to exceed the total of the CFR brought forward from the previous year plus the additions to the CFR during 2022/23 and estimated further additions for the next two financial years.

Review of Highways Delivery Strategy

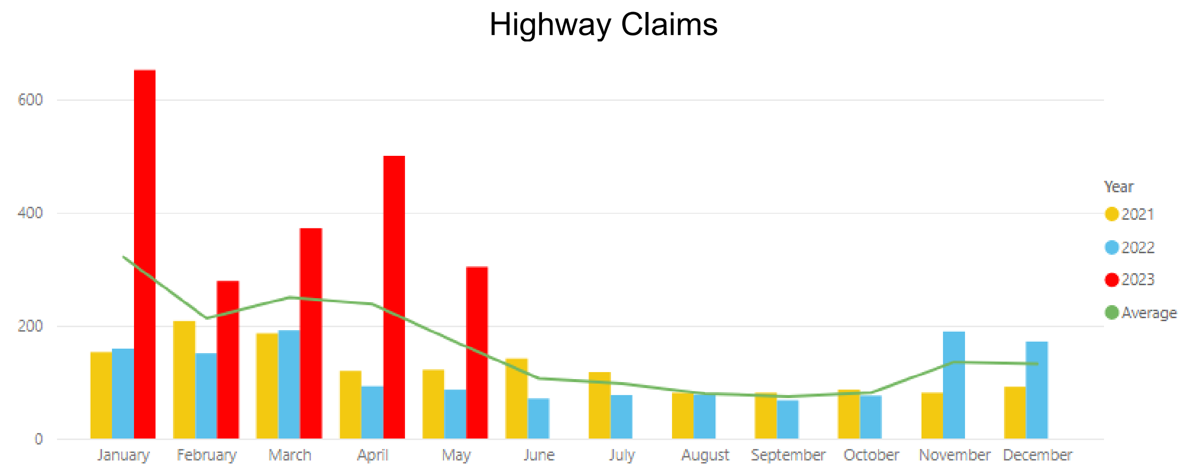
Background

The local road network in Hampshire has deteriorated significantly, and rapidly, over the last 6-9 months following an extremely challenging winter where prolonged heavy rain together with several periods of deep sub-zero temperatures have caused widespread structural damage, largely manifested through the formation of potholes and other road defects. A harsh winter period followed one of the hottest summers the UK has experienced and this also impacted the condition of Hampshire's network with higher than normal incidences of surface cracking, softening roads and clay sub-soil shrinkage etc all of which can accelerate structural degradation.

It is estimated that between September 2022 and April 2023 nearly 81,000 carriageway defects were reported and/or identified and in broad terms it is estimated that this equates to circa £15m worth of accelerated decay across the Hampshire network. This is on top of an existing longstanding maintenance backlog of £377m. The table below illustrates the quantum of potholes etc repaired during 22/23 in comparison to previous years.

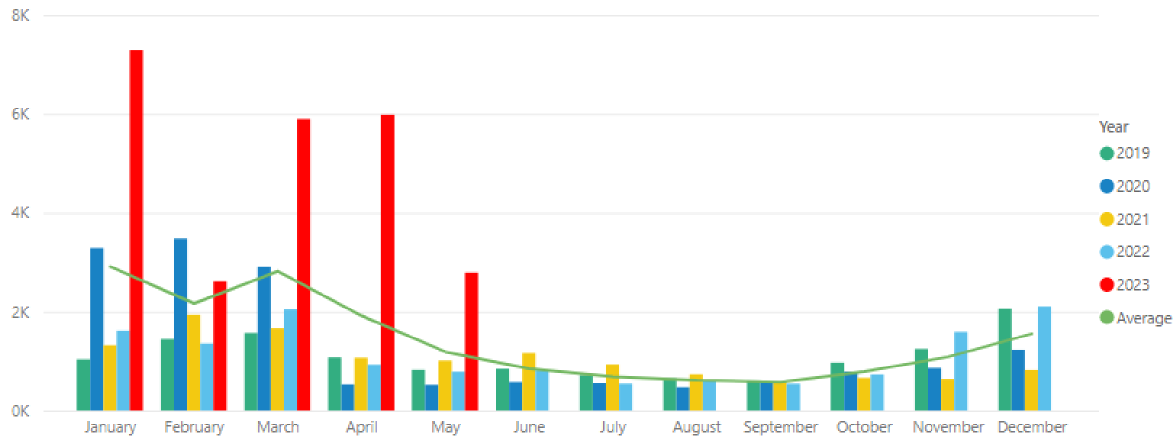
Financial Year	Number of Potholes / Highway Defects Repaired
18/19	41,371
19/20	27,780
20/21	56,852
21/22	72,610
22/23	133,200

The following graph shows the significant increase in highway litigation claims this year in comparison to the previous two years:-



The following graph shows the increase in highway enquiries, and consequently service demand, this year in comparison to the previous four years:-

Enquiries Related to Potholes Per Month



Existing Delivery Strategy

Core highways budgets are effectively split between routine, reactive and planned activity, made up as follows for 2023/24:-

Note that these figures focus on road/footway/verge maintenance **only** and **exclude** other highway-related activities such as Winter Service, Street Lighting, Traffic Signals, Cattle Grids, Bridges and other miscellaneous service/contract costs. Fee costs are also excluded from capital spend figures to emphasise how much is actually spent on the ground.

Programme	£m	Proactive / Reactive
Routine Maintenance (mostly Revenue)	• £14.1m	Proactive and Reactive
Reactive works (Capital and Revenue)	• £13.5m • £5.5m reprioritised from 2023/24 Op Res budget • £5.9m million from DfT pothole grant Spring 2023	Reactive
Planned maintenance (including Operational Resilience) (Capital)	• £23m (lower this year due to reprioritised spend – see above))	Largely Proactive

Routine Maintenance includes gully cleansing, grass cutting, weed spraying, sign cleaning, signs/roadmarkings, and arboriculture. Funding is locally sourced Revenue.

Reactive Works includes pothole infills/repairs, emergency response (24/7), bridge repairs. Funding is part DfT grant and part locally sourced revenue.

Planned works includes surface treatments on carriageways and footways, bridge maintenance, structural drainage, fencing and cattle grids. Funding is largely DfT grant funding with a locally sourced top-up of £10m pa (Operation Resilience).

For 2023/24, and in light of the significant increase in costs due to inflationary pressures, a proportion of the Operation Resilience budget (£5.5m) was held back in reserve to minimise the impact of poor value for money due to high prices - the contractual variation-on-price increase for capital work for 2023/24 is more than 28%. Executive Member approval was secured for this reprioritisation to reactive works in January 2023.

Potholes are prioritised as safety or non-safety defects, with safety defects always taking precedence as these generally present a higher risk to highway users. This prioritisation, which is standard practice across most highway authorities, usually means that only the worst potholes/defects are addressed when a repair team is on site, with service defects often left, and monitored. This can result in multiple visits, inefficiencies, and poor perception of service.

Proposed change in approach

Government announced an extra £200m for pothole repairs in the spring budget and Hampshire secured £5.3m of this which is already being put to good use. This has been supplemented with the release of £5.5m held back from the 2023/24 Operational Resilience programme, and these allocations are on top of money already allocated for frontline reactive maintenance and routine repairs. However, it is still insufficient to meet the ongoing and expected demand, and to enable a full recovery of the most recent impacts before next winter arrives when further deterioration and raised service demand can be expected.

Confidential conversations have started with the County Council's contractor, Milestone, about the availability of additional resources from their wider supply chain for pothole repairs and these have yielded a positive response so far. This is largely due to Hampshire's acknowledged position as a premier Milestone client, a mature contract that is yielding a reasonable commercial return for Milestone and the highly collaborative healthy relationship that exists between the two organisations and, in particular, the frontline operational teams. Whilst there is always a finite capacity available to ensure and sustain effective delivery, taking into account staff resources, likely road-space booking issues (network access), and supply chain availability, it is considered that an additional £7.5m could be delivered each year as routine/reactive type work with a specific focussed objective of addressing the pothole/defect backlog more quickly and effectively, and improving overall public perception of the highways service.

A revised focus on reactive works is proposed along with a significantly scaled back planned maintenance programme for the next two or three years. It is suggested that the Operation Resilience branding is dropped, and a new programme introduced. Some planned maintenance activity would still be needed however, as in some cases roads have deteriorated to a point where reactive repairs would be uneconomic and ineffective, and a more major intervention is the only realistic and sensible fix.

New ways of working will be required that refocuses the way repairs are prioritised and undertaken when they are reported or identified. This will mean a shift toward scheduling and programming repair resources based on the location of defects, rather than solely by severity. This should significantly reduce incidences of fixing pothole A but leaving pothole B, e.g. at sites where both urgent safety and non-urgent routine service defects are present. It is recognised this is a longstanding frustration for both residents and members.

A variety of repair techniques have already been utilised including traditional hot patching, spray injection - dragon-patchers/jet-patchers, and infra-red patching, and other innovations are being explored by the Highways team. Large numbers of temporary infill repairs have been undertaken in order to keep the highway network safe and whilst these have been effective, they are rarely long-lasting, often requiring a follow up repair. They are also unpopular with road users and residents. Additional funding will facilitate more first-time, higher quality permanent fixes.

Benefits

This changed approach will mean that more potholes and other carriageways defects, i.e. those that can often become potholes, can be addressed more quickly and also that the majority of defects, if not all, that are present in a particular location can be repaired in one visit, as opposed to the current situation where multiple visits may be necessary. This will yield benefits to both HCC and the contractor and should significantly increase on-the-ground productivity, reduce overhead costs for labour, fuel etc (as a consequence of less travelling between sites) and give the County Council better value for money. Public and member perception will also be improved. It may also reduce litigation claims but see next section - Risks.

Risks

There is a risk with this proposed approach that some safety-defects could become overdue, i.e. still be present beyond their specified priority for repair. However, if sufficient resource can be secured with extra funding this can hopefully be mitigated. The test in court during litigation would always be being able to demonstrate that the Council has taken reasonable steps to discharge its statutory 'duty to maintain' and with appropriate funding in place it is considered this is achievable.

Winter 2023/24 is an unknown and if similar weather patterns to winter 2022/23 are realised there is likely to be further widespread degradation, compounded by the fact planned maintenance will have been scaled back to focus on reactive work. Sustained focussed action from now is vital to avoid a worsening situation.

It should be noted that these proposals should only be considered as a short-term solution in order to ensure the road network in Hampshire remains serviceable. Without significant Government investment, year-on-year, for local roads structural maintenance the network will continue to decline and a cliff-edge scenario should not be discounted where some roads become unfit for purpose and need to be closed for safety reasons. South East leaders have recently written to Government to express their grave concerns in this regard and set out how important a well-maintained and properly funded highway network is to local connectivity and growth.

Conclusion

The highway network across Hampshire is arguably in the worst condition it has been for a generation. This is not a unique situation to Hampshire as most highway authorities are currently reporting similar impacts following the 2022/23 winter weather. Whilst existing funding has already been repurposed and reprioritised to routine and reactive repairs it is still insufficient to fully recover the network to a prewinter position, or better. Additional funding for at least the next two or three years will enable the County Council to focus more on potholes and structural defects using additional resources and a variety of repair techniques and, combined with new ways of working, there is a high likelihood the overall condition of the network can be improved, along with public perception.

Required investment to switch from analogue to digital networks

Introduction

In response to the telecoms industry announcement to retire analogue telephone networks by 2025, work has continued to review existing County Council analogue lines and to identify the most appropriate replacement solution. This has included the opportunity to cease lines wherever possible. However, there are a number of service critical lines that need to migrate to a digital alternative as set out below.

Replacement of Traffic Signal/CCTV lines (estimated cost – £0.94M)

In response to the challenge of replacing analogue lines connected to traffic signal infrastructure, the Intelligent Traffic Signals team considered the option of not replacing all analogue lines, and only focussing on replacing lines to the highest priority infrastructure. However, it concluded that the best option was to replace connections to all lines; the key factor behind this decision was that remote operation of signals and controllers enables the County Council to be more responsive to fault; and to be able to address issues remotely without the time and expense of deploying engineers. These, in combination, bring significant benefit for keeping traffic moving safely and effectively and there would be an increased risk to the safety of Hampshire’s roads if these benefits were reduced.

Lift, fire, and other alarms (estimated cost – £1.5M)

Lift emergency systems – it is a legal requirement to have two-way emergency communication in a lift for emergency purposes. Whilst this communication could in theory be local in the building, this would require the system to be constantly manned whilst the building is in use which is impractical. Replacement of the communication lines for lifts is therefore a statutory requirement, they need to work in the event of a power failure and so a specialist standalone system is required.

Fire Alarm systems – fire alarm monitoring is for property protection and is a County Council standard recommended by the Fire Review Panel. The monitoring enables the Fire Service to be quickly notified in the event of a fire which will mean that the level of damage to a building is minimised, and the extent of business disruption is minimised. Buildings that are commercially insured generally require the fire alarm system to be monitored. Buildings covered by the County Council’s insurance fund rely on the monitoring to reduce the risk to the fund. These systems are more sensitive and are required to work in the event of a power failure and so a failsafe system is required.

Other alarm systems – this would include intruder alarms, sewage system alarms and similar. These are required for property protection and business continuity and in the case of sewage alarms to prevent an environmental spill. Where possible these alarm systems will be linked to a fire alarm system, however where this isn’t possible or impractical a simple system will be installed.

AHC Telecare (estimated cost – £2.8M)

Telecare Services are used by adult social care clients to support those with an assessed need to remain at home with independence, thereby either preventing or delaying the need for paid for care; or as a more cost efficient alternative to paid for care. The service is currently provided using the analogue phone lines within client homes. As a result of the analogue to digital switchover there is a significant risk that the telecare service, that clients rely on to keep them safe from serious harm, will cease to work. If this allowed to happen it will add additional strain on the care market though the inevitability of finding alternative care provision and increase pressure on care budgets.

In response, a digital bridge has been put in place to enable some analogue TEC to function in the short term. This will provide a temporary solution to reduce the need for all current devices to be replaced with digital compliant devices immediately. AHC have risk assessed the clients in receipt of Telecare to prioritise those clients at the highest risk of equipment failure or who will be the most adversely affect by such failure. Accordingly, it is proposed that there will be a need to immediately transfer an estimated 500 clients to digital compliant equipment. The remaining client group of c. 8,650 will not receive a digital compliant replacement from the outset. However, over time as new clients join the service or pre-existing clients require a replacement, they will be provided with digital compliant equipment. Alongside this, the existing analogue equipment for leavers will be decommissioned, thereby the service will transition from analogue to digital over time.