

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	10 October 2023 9 November 2023
Title:	Medium Term Financial Strategy Update and Savings Programme to 2025 Revenue Savings Proposals
Report From:	Chief Finance Officer and Director of Corporate Operations

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Section A: Purpose of this Report

1. The purpose of this report is to consider the overall financial strategy for dealing with the budget gap to 2025/26 in light of the various options available to the County Council and to present the high level outcomes from the public consultation exercise on balancing the budget.
2. As part of that overall consideration, this report details savings proposals that have been submitted by Executive Members as part of the Savings Programme to 2025 (SP2025).
3. The report examines the medium term financial prospects for the County Council to 2025/26 and takes the opportunity to update Cabinet on the financial monitoring position for 2023/24.

Section B: Recommendation(s)

It is recommended that Cabinet:

4. Confirms the current planning assumption that council tax and the social care precept will increase by the maximum permissible without a referendum, in line with government policy, will continue.
5. Approves for submission to County Council and subject to further consultation and executive decision making where necessary, the savings proposals in Appendix 2; after taking due regard of the consultation feedback and Equality Impact Assessments.

6. Approves further service specific consultations, where necessary, on the savings proposals set out in Appendix 2, prior to final decisions being made by Executive Members.
7. Restates and reinforces the requirement that should any savings proposal be rejected that alternative options to the same value will need to be developed by the appropriate directorate.
8. Notes the updated Reserves Strategy at Appendix 10 which shows that reserves have dropped by £38m since 2021/22
9. Notes the latest position in respect of the financial resilience monitoring for the current financial year.
10. **Recommends that County Council:**
 - a) Approves the Q1 report on treasury management activity at Appendix 1.
 - b) Approves the savings proposals in Appendix 2, subject to further consultation and executive decision making where necessary.
 - c) Provides delegated authority for the Director of Corporate Operations in consultation with the Leader and Chief Executive to allocate up to £5m from the Invest to Save Reserve to support Directorates in implementing their SP25 proposals.

RECOMMENDATIONS TO COUNCIL

Council is recommended to approve:

- d) The Q1 report on treasury management activity at Appendix 1.
- e) The savings proposals in Appendix 2, subject to further consultation and executive decision making where necessary.
- a) Delegated authority for the Director of Corporate Operations in consultation with the Leader and Chief Executive to allocate up to £5m from the Invest to Save Reserve to support Directorates in implementing their SP25 proposals.

Section C: Executive Summary

11. In recent years it has become customary to present the Medium Term Financial Strategy (MTFS) for approval in the autumn alongside the strategic plan to deliver the savings required for the following two year cycle. The main focus of this report is therefore the plan up to 2025/26 and approval of the detailed savings proposals that will be pursued as part of the Savings Programme to 2025 (SP2025) and to outline the results of the public consultation process.

12. Further information in respect of the budget setting process for 2024/25 will be provided in December, which will support the setting of the precept in February 2024.
13. The report also provides an update on the financial position for the current financial year, which shows significant pressures in School Transport which could lead to an additional pressure of around £18m by 2025/26. There are also emerging concerns in Adults' Services and the SEN service that will need to be closely monitored during the year to determine whether they will impact on the medium term forecast to 2025/26.
14. Financial sustainability of councils is a national concern at this time and the report includes an update on the County Council's financial resilience and sustainability, which still shows that 2025/26 represents a tipping point for the County Council as it is unable to balance the budget on a sustainable basis through the implementation of savings.

Structure of the MTFS

15. The MTFS update contains a number of complex and linked issues and a table of contents has been provided below to aid navigation through the report:

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Section D: Contextual Information

16. The Council began developing its Medium Term Financial Strategy (MTFS) to 2025/26 in Spring 2022, and an early update on progress was provided to Cabinet in July 2022 which set out the scale of the task facing the Council and a revised approach to savings development, which aimed to explore all possible options to tackle the predicted deficit.
17. At that stage, it was not clear whether the gap could be bridged through the actions of the County Council alone. Although the financial picture improved across the year due to a welcome boost in government funding and the ability to raise additional Council Tax income, the budget report to Cabinet and Council in February 2023 indicated that substantial reserves contributions would be required to bridge the 2024/25 gap and contribute to the gap in 2025/26 of £132m, in addition to any further savings that could be achieved. Council was therefore asked to agree that any early delivery of savings approved as part of the MTFS would be contributed to the Budget Bridging Reserve rather than Directorate Cost of Change Reserves.
18. As part of the financial outturn reporting process for 2022/23, a review of the Council’s reserves and commitments was undertaken. Through reprioritising earmarked funding, including monies set aside to fund future capital programmes and corporate policy objectives, £61.3m was redirected to the Budget Bridging Reserve to contribute to meeting the 2024/25 budget gap on a temporary basis. However, the budget gap to 2025/26 remained unaddressed.
19. The Council is not alone in facing a cliff edge deficit to 2025/26; a spate of recent articles reported in the national press have highlighted the scale of budget shortfalls which local authorities face. A recent survey of 190 Councils found that the average deficit would be some 60% higher by 2025/26 than it was two years ago. For Hampshire, the figure is 65%.
20. Although the government has provided some policy detail around the funding available to local government in 2024/25, the County Council is still in the position of having no visibility of its financial prospects to 2025/26. The government set Departmental Expenditure Limits to 2024/25 in the 2021 Spending Review published in October 2021, when inflation was running at around 4%. The government has since announced several extra packages of

funding for social care, most recently an additional £570m to be distributed through the Market Sustainability and Improvement Fund, from which Hampshire will receive a share of £7.2m.

21. Although the extra funding is welcome, the unpredictable nature of the funding announcements, in response to pressures in the sector reaching critical levels, clearly makes any accurate financial planning difficult to achieve. Despite the lack of any certainty from government, the MTFS assumes that all grant funding streams will continue at current levels, or proposed 2024/25 levels where these are higher, from 2025/26 onwards.
22. Whilst there are some signs that the key messages on funding requirements are getting through, local government as a sector will continue to push the Government for a complete overhaul of the funding system as promised in the Fair Funding Review back in 2016 (but never delivered) which needs to include a programme of multi-year rolling settlements that avoid the inevitable cliff edge that we face at the end of every Spending Review period.

Section E: Savings Programme to 2025

23. The County Council's planned and measured approach to setting a balanced budget over a two year period has served it well for many years, providing the time and capacity to properly deliver major savings programmes. Despite the considerable financial challenges which the Council currently faces, with a forecast budget shortfall of £86m next year, it is critical that the Council maintains a forward looking, proactive approach to support its future financial sustainability.
24. In recognition of the size of the financial challenge, directorates were not issued with 'straight line' savings targets as per previous savings programmes but were instead instructed to review what savings might be achievable if we were to move towards a 'bare minimum' provision of services. It is very difficult to define what a 'bare minimum' of services looks like in the context of the wide range of varied and complex services that we provide. It is however possible to define some principles against which to work, which include:
 - Resources will be focussed on statutory and critical services.
 - Discretionary preventative services will only be provided where there is a clear and demonstrable longer term value for money business case.
 - Resident services to be online by default, with appropriate alternatives available where required.
 - Enabling functions to be provided as efficiently and effectively as possible from the centre of the organisation at a level sufficient to provide an adequate level of corporate governance and informed decision making.

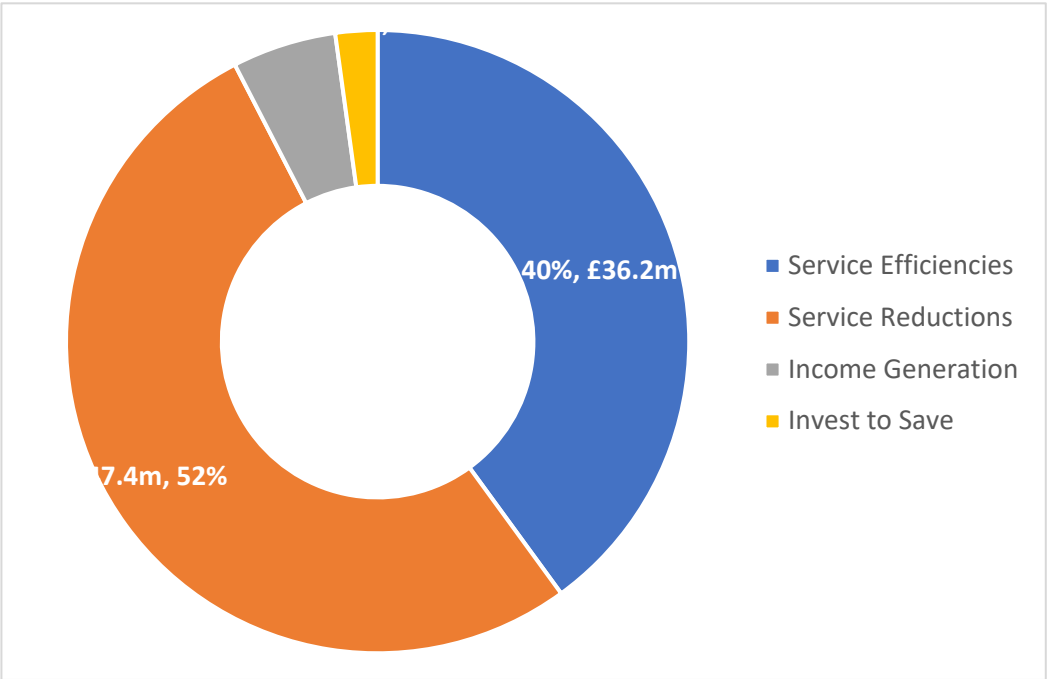
- Discretionary service areas must have a strong rationale for being delivered and need to be cost neutral. Fees and charges to be increased if this allows a discretionary service to continue.
25. By moving towards a 'bare minimum' level of service the County Council aims to maximise the potential for savings across the organisation whilst ensuring that the Council can continue to target resources on the most vulnerable adults and children and deliver other vital core services.
26. Had directorates been issued with straight line savings targets based on the approved 2023/24 cash limits, around 80% of the total savings would have fallen on the social care directorates, or around £105m of the £132m budget shortfall for 2025/26. Considering the scale of this ask given the £640m savings already removed from budgets up to 2023/24, it was determined that this would not be a realistic or achievable approach.
27. Instead, directorates were tasked with undertaking a detailed review of each budget line to understand where:
- Further efficiencies could be achieved, for example due to changes to working practices following the pandemic or through changes to service management arrangements following the Fit for The Future organisational structure review.
 - Investment in new equipment or IT technology could enable us to deliver services differently.
 - Income generation could be increased through expanding the scope of existing sales, fees and charges or introducing new charges for some services.
 - Non-statutory or discretionary services could be scaled back or ceased or moved to a cost neutral position.
28. Following this initial scoping exercise undertaken at directorate level, the savings options were subject to a detailed and robust scrutiny process, consisting of peer reviews within the Corporate Management Team and scrutiny by Executive Members, the Leader and Deputy Leader. The review process aimed to ensure that:
- The available savings opportunities for each key service line have been maximised and directorates have considered how the implementation of savings can be accelerated where possible to maximise early delivery.
 - There is a shared understanding across directorates of any risks or dependencies linked to savings in other areas to eliminate any unintended consequences of savings delivery, for example possible cost and/or demand increases for other services.
 - The cumulative impacts of savings across all directorates on specific service user groups have been assessed and minimised as far as possible.

29. This detailed work has identified a total of £90.4m savings across all directorates of which £75.1m are expected to be delivered by 2025/26, leaving an unmet budget gap of £56.9m. It is not surprising that this position has been reached given the £640m savings already removed from the budget since 2010. In the absence of any further government funding to 2025/26, the Council will be reliant on reserves to temporarily bridge the budget gap pending fundamental reform to the funding system and legislative framework for local government. Additionally, the budget shortfall for 2024/25 will also need to be met from reserves.
30. A review of the Council's reserve balances was undertaken at the end of the 2022/23 financial year and the results were reported to Cabinet and Full Council in July. The review identified most of the additional funding required to bridge the gap for 2024/25, albeit a small deficit of £2.4m still remains in addition to the significant shortfall of £56.9m in 2025/26. It is therefore not possible to continue with the Council's usual financial approach of allowing directorates to retain any early achievement of savings for reinvestment in service change. All early savings delivered in 2023/24 and 2024/25 will instead be transferred to the budget bridging reserve to meet the small remaining deficit in 2024/25 and to help balance the budget in 2025/26.
31. As part of the Council's Fit for The Future Programme, a series of detailed reviews of key functions which are common across all directorates will be undertaken with the aim of maximising consistency, efficiency and effectiveness in the following areas:
- how the Council engages with its customers when they contact the County Council directly
 - how transformation and business support activity is defined and delivered
 - how senior management structures, roles and responsibilities align between directorates
 - how the Council provides core enabling services such as Finance, IT and HR; ensuring these are delivered from the centre of the organisation
32. As well as delivering operational benefits for the Council, these reviews are expected to help reduce costs through removing duplication, enabling more effective prioritisation of resources and improving retention of specialist skillsets. Some of these changes will help to deliver the savings already contained in Appendix 2 but others are expected to supplement the savings identified by individual directorates, however, it is clear that they will not be sufficient to meet the remaining budget gap to 2025/26.
33. Whilst SP2025 represents an immense challenge, the County Council does have significant capacity, capability and experience to tackle the task, highlighted by its track record to date. As tough as the forward agenda is, we know that the County Council is as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector and crucially to make the necessary investment required.

- 34. In past savings programmes, Directorates have used their cost of change reserves alongside corporate investment in order to meet the cost of implementing savings or to support enabling IT infrastructure or changes to systems. However, for SP2025 the County Council agreed a change in policy, such that any early delivery of savings will contribute to the Budget Bridging Reserve rather than cost of change reserves. This is to ensure that sufficient reserves exist to take us through to the 2025/26 financial year and in recognition of the fact that reserves are likely to be needed to balance the budget in that year as well.
- 35. With this in mind, it is recommended in this report to earmark up to £5m of invest to save reserve funding to support Directorates in implementing their SP25 proposals and delegated authority is sought for the Director of Corporate Operations in consultation with the Leader and Chief Executive to allocate this funding to Directorates on a case by case basis.

Section F: Summary of Savings Proposals

- 36. The savings proposals that have been put forward by directorates as part of the SP2025 Programme and have been recommended for submission to Cabinet and County Council by Executive Members are contained in Appendix 2 and reflect the feedback from the consultation and content of the EIAs where applicable.
- 37. Analysis of the savings options by type shows that there is a mixture of proposals across directorates which breaks down as follows:



38. The chart shows that only around half of the £90.4m savings identified involve reductions to services due to continued efforts to maximise all opportunities to drive out further efficiencies and generate income. The potential to achieve further transformational savings has, of course, reduced significantly in recent years given the level of savings already delivered by the Council. However, the detailed reviews undertaken by directorates have identified some further opportunities in areas including:

- Digital automation and use of technology, for example in care settings.
- Increased integration of services with the NHS.
- Reducing future demand for social care services through provision of early help for families and support for individuals to maximise their independence.
- Re-procurement of contracted services to achieve best value.
- Rationalising functions across different areas of the Council to achieve savings on staffing.

39. The total SP2025 savings that are expected to be delivered (in cash terms) by each directorate and the percentages of the 2023/24 cash limited budgets that these savings represent, are as follows:

	2024/25	2025/26	Full Year	% of 2023/24 budget	Estimated staffing Impact (FTE)
	£'000	£'000	£'000		
Adults' Health & Care	7,683	34,650	47,900	9.1%	42.0
Children's – Non-Schools	2,390	11,095	11,095	3.5%	3.0
Universal Services	1,160	19,279	19,279	13.1%	139.0
Hampshire 2050	632	2,968	5,037	32.8%	32.0
Corporate Operations	4,509	5,116	5,116	13.7%	34.0
People and Organisation	731	2,007	2,007	12.3%	28.5
Total	17,105	75,115	90,434	8.6%	278.5

40. Given that savings targets were not issued to directorates for SP2025, the savings proposed represent varying proportions of the cash limited budget for each directorate. The large percentage reduction for Hampshire 2050 is attributable to savings in centrally held office accommodation budgets and the relatively high proportion of grant-related expenditure within the budget. The comparatively low percentage reduction for Children's Services reflects the high proportion of statutory services delivered by the directorate and the reduced potential to deliver further efficiencies given the ongoing pressures in this area and the £152m savings already removed from the Children's budget by 2023/24. The previous straight line savings targets protected spending on non-social care services relative to the reductions made by other local authorities in these areas. It is therefore not surprising that the savings

identified within non-social care services are proportionally larger following the change in approach for SP2025.

41. Delivery of the savings will also impact the County Council's workforce, and where applicable the proposals in Appendix 2 indicate the estimated number of staff who may be affected by the change in service, expressed as Full Time Equivalents (FTE).
42. In total, this would mean that the SP2025 Programme could impact around 279 FTE roles across the County Council. Whilst this is a significant number it needs to be considered against the total savings programme of £90.4m, which even at an average salary plus on-costs of £45,000 would require the loss of over 2,000 jobs to meet the full target, and in the context of a total workforce of more than 10,000 FTE (excluding schools).
43. The County Council also has an excellent track record for handling reductions in staffing numbers in a sensitive and planned way (a further benefit of our two year approach), keeping the number of compulsory redundancies to a minimum through our voluntary redundancy schemes (which have helped maintain staff morale) and natural turnover (which for Hampshire averages in the region of 15% per annum) and this will continue as part of the SP2025 Programme. The County Council has also been successful in looking at options for re-deployment of staff as it grows its businesses in other areas and increases in the workforce are required.
44. In the past, any voluntary redundancy costs have been met by directorates, up to the value of compulsory redundancy costs, with any enhancement being met corporately. However, due to the requirement to corporately fund the £86m budget shortfall for 2024/25 the balance of the former Organisational Change Reserve earmarked for this purpose was transferred to the budget bridging reserve, as approved by Full Council in July. Any redundancy costs associated with the SP2025 programme will therefore need to be fully funded by directorates.
45. Cabinet is requested to consider and approve the savings proposals detailed in Appendix 2 for submission to the County Council, having given due regard to the consultation feedback and the EIAs.

Section G: 'Making the most of your money' Consultation – Feedback

46. The County Council undertook an open public consultation called *Serving Hampshire – Balancing the Budget* which ran for six weeks from 12 June to the 23 July 2023. An outline of the approach and analysis of the consultation responses is provided in Appendix 8. What is pleasing to note is that 60% of respondents agree with the County Council's financial strategy, which has served it well for many years.
47. The following paragraphs discuss the County Council's approach to the options consulted upon and set out how directorates have taken headline findings into

account when putting proposals forward for savings. It is also essential to remember that the County Council is legally bound to deliver a balanced budget and while fuller consideration must be given to the findings, that financial imperative remains.

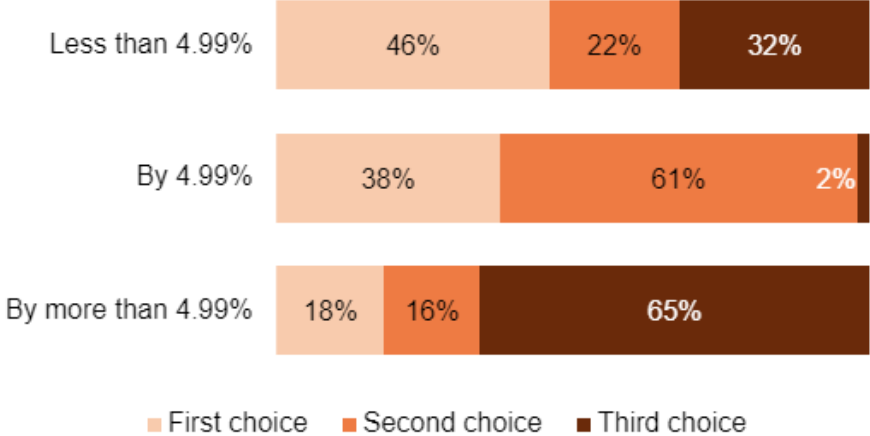
48. **Lobbying central government for legislative change** – In the 2017 budget consultation, this option was ranked 4th out of all of the options with a score of 44%. For the 2023 consultation it is ranked the highest option with 76% of respondents putting it as their first choice.
49. The County Council has been clear for many years that it cannot continue to meet the cost of growth in social care through reductions in other services. More recently this position has been exacerbated by high inflation and further pressures in School Transport and Highways Maintenance. 2025/26 represents the crunch point for the County Council's budget, either the Government steps in with additional funding or legislates to reduce the range of statutory responsibilities that we are required to undertake. It is helpful therefore that stakeholders recognise that these are not problems we can fix on our own and that the Government must intervene if we and the whole of the local government sector are to avoid financial meltdown.
50. The County Council is already actively pursuing this option, most notably with the joint letter sent to Government with Kent County Council. Since this time, we have continued to lobby the Government and our MPs and have been consistent in what we have been asking for in addressing our key pressure areas which are social care services, Special Educational Needs (and the knock on impact on school transport) and funding for highways maintenance.
51. In addition to addressing these pressures the consultation outlined a range of other options for changes to central government funding and the regulatory framework around the way certain services must be provided. Most of these were supported by the majority of stakeholders with only council tax setting freedoms and charging for visiting Household Waste Recycling Centres receiving less than 50% support from respondents.
52. Whilst the County Council firmly believes that it cannot sustainably balance the 2025/26 budget without some form of government intervention, we clearly cannot rely on this at this stage since it is unlikely that we will find out anything about funding arrangements for that year at least until autumn 2024 when a new Spending Review is expected. For now, therefore it does not provide a solution to balancing the budget.
53. **Generating additional income** – This has always been an option favoured by residents for helping to balance the budget and the County Council has always explored income generating opportunities as an alternative to reducing or changing services. However, this does introduce further risk into the budget on an ongoing basis as Directorates must not only generate new income they also need to retain the income levels already built into their budgets.

54. The directorate savings proposals set out in Appendix 2 include options for generating additional income, which generally relate to services provided to other local authorities or providing specialist services such as scientific services to sectors of the market. For professional and back-office services (such as Strategic Procurement, Pension Services and Legal Services) new business has already been secured or is actively being pursued to increase income to meet the savings levels that have been set.
55. Across Universal Services there are range of income generating proposals within the various professional services, such as highways, engineering and transport and asbestos and scientific services, but most of these represent expansion of existing service levels and as mentioned above represent a potential risk in the budget unless long term commercial arrangements can be put in place.
56. Opportunities for generating additional income (including fees and charges below) already represent around 5% of the savings proposals being put forward by Directorates to meet the budget gap and are not therefore an alternative to the savings proposals but rather an integral part of them.
57. **Changing local government arrangements in Hampshire** – In 2016, following devolution discussions across the county, the County Council commissioned an independent piece of work to look at the potential options for unitary local government across the whole of Hampshire and the Isle of Wight. This would in effect remove the district and county tiers of local government and replace them with a single unitary authority, or multiple unitary authorities, (like Southampton and Portsmouth) responsible for all local government services across Hampshire.
58. Following the review, the County Council asked residents for their views on options for possible local government reorganisation in Hampshire. Responses to the consultation indicated that views were divided on the principle of replacing the current council structure in Hampshire with a model of unitary government. In view of this feedback the County Council decided not to actively pursue local government reorganisation at the time, making a clear policy statement in favour of the status quo of two tier county government.
59. As part of the consultation, the County Council stated that its preferred position was to continue to avoid re-organisation, if possible. However, recognising that the County Council could be subject to external factors, and that restructuring local government remains a means of saving money in the longer term, residents were asked their views on this option as part of the consultation. More than half of those who responded (62%) agreed that the County Council should explore this option further – although it was ranked the third most preferred option overall, which is consistent with previous consultations.
60. In view of this feedback the County Council could still pursue this option. However, it currently remains the policy of Hampshire County Council to support the existing two tier arrangements, if possible. In addition, the scale of

the changes required to implement such a reorganisation means that it would be very unlikely that any significant savings would be generated by 2025/26.

61. The County Council had hoped to work with local authority partners to secure a County Deal for the Pan-Hampshire area under the Levelling Up agenda. Whilst an offer for a deal was made by the Government, the unitary authorities of Southampton, Portsmouth and the Isle of Wight did not support the deal. This would not have directly impacted on our revenue budget position but would have opened up opportunities for economic growth which would have benefitted business rate and council tax income over the medium term, which would have helped balance the budget in future years.
62. **Introducing and increasing charges for some services** – The range of services that County Councils are able to charge for are, in the main, governed by legislation. However, in most cases there is local discretion as to how those charges are applied and the level of charges set.
63. Whilst the County Council could look to introduce and increase charges for some services, it has to take into account the potential impact on service users and the fact that the majority of users already pay for many council services through their council tax. The savings proposals already include some recommendations for new charges or increasing existing charges, but in order to extend charging to some of the new areas identified by directorates, legislative change would be needed.
64. This is part of the strategy of working towards a ‘bare minimum’ level of service as outlined above, one of the principles of which is that discretionary services need to be cost neutral if they are to continue to be provided.
65. The County Council continues to lobby the Government to allow greater freedoms and flexibilities to levy charges in certain areas which were consulted upon. There was general support for most of the options except charging a fee for visiting a household waste recycling centre, and the proposals for charging for concessionary travel journeys and issuing of passes was only marginally above 50%.
66. The additional income that could be generated from being able to charge in these areas is potentially significant, but this is not currently possible without changes in legislation. While the County Council will continue to pursue these options, at this stage, other than those proposals already contained in Appendix 2, this option does not provide an alternative solution for closing the budget gap.
67. **Increasing council tax** – Whilst lobbying central government has increased in popularity, resident’s views on using council tax to help balance the budget has decreased significantly since 2017 when it was the 2nd most favoured option. For the 2023 consultation it is ranked 6th and additionally, only 48% of people support the County Council having greater council tax freedoms.

68. In terms of percentage increases, the graphic below shows that more people favoured a below 4.99% increase as their first choice, but a large proportion of people opted for 4.99% as their second choice. What is also clear is there is very little support for rises above 4.99% which is understandable given the current cost of living crisis.



69. Whilst resident’s views on council tax increases are important it is worth highlighting that the Government makes the presumption that councils will put up their council tax by the maximum allowed each year. Furthermore, the County Council would be failing in its financial responsibilities if it were not to maximise council tax income in the face of a £132m gap. In fact, the £132m is based on council tax increases at the maximum permissible in line with current County Council policy and any decision to decrease below this amount would increase the budget gap that we face. Finally, it is a difficult message to give to the Government that we need further funding to balance our budget if we have not taken the opportunity to maximise income from council tax now and in the future.

70. Whilst higher council tax increases were not supported by the consultation results, they were ranked higher by respondents than reductions to services, which was the least favoured option. The County Council could therefore propose a budget that requires a council tax in excess of the permissible increase (currently 4.99%), which would enable the budget to be fully balanced and provide the opportunity to withdraw a number of the more challenging service reductions.

71. Setting council tax above 4.99% would trigger the need for a referendum which would require all billing authorities to organise a poll of electors on the first Thursday in May following the budget setting meeting (the County Council would need to pay for the costs to billing authorities). The result of the referendum would be binding and if the proposed increase in council tax were to be rejected by voters, revised council tax bills would need to be issued based on the maximum permissible increase and refunds offered or offset against future payments of council tax. More significantly, alternative strategies to balance the budget would need to be put in place with less than 11 months

remaining to achieve the required budget saving for that year. Thus, there are costs and risks associated with this approach, but these must be balanced against the costs and risks associated with large scale service reductions.

72. Decisions on council tax increases are made by full County Council in February each year but at this stage, given the points set out above, it is recommended that the County Council works on the assumption that the planned approach for council tax increases (partially supported by the consultation results) will continue in 2024/25 and 2025/26 with the County Council increasing council tax by the maximum permissible without a referendum in line with government policy.
73. This position will be reviewed in light of any further national or regulatory changes, before the formal council tax setting process in the new year. However, the current position and associated timescales, mean that predicating delivering a balanced budget for 2024/25 and 2025/26 on further council tax increases above those currently planned is not currently being progressed.
74. **Using the County Council's reserves** – Almost half of respondents (45%) agreed that the County Council should not use reserves to plug the budget gap. However, 42% of residents disagreed with this highlighting that there is no clear view on the use of reserves. Respondents ranked this as their 5th favoured option, which is consistent with past consultations.
75. The County Council's financial strategy is built on the sensible use of reserves to manage cashflows and deficits while it puts recurring savings in place to balance the budget in future years. Trying to balance the budget indefinitely through the use of reserves would not be sustainable as recurring savings are required to bridge the budget gap over the long term.
76. **Changing services** – In past consultations changing and reducing services have been included as a single option but for 2023 these were split out to provide greater insight into people's views. Changing services ranked 7th out of 8 options with only 24% supporting this option. However, this is well above the support for reducing services which was only supported by 7% of respondents.
77. As the other options for saving money at this level, outlined above, do not provide viable options that would enable the County Council to plan with certainty to meet the projected deficit, the SP2025 Savings Programme must inevitably include proposals which will lead to changes to services, but these will be targeted wherever possible at service efficiencies or alternative ways of providing services rather than service reductions. Changes to services, even where they save money, can often be beneficial to service users through, for example, improvements in technology, new ways of accessing services and more efficient processes or systems which mean that more can be done but for less money.
78. **Reductions in Services** – As highlighted above, not unsurprisingly, this was the least favoured option for balancing the budget, consistent with past consultations. This is almost universally the view across local government

services more generally, as people rely on and are supportive of the local services they receive and never wish to see those services reduced or stopped altogether.

79. However, in the face of increasing pressures, a high level of unavoidable statutory duties, limitations on funding and limited alternative options for being able to balance the budget (as outlined above) it is inevitable that some reductions in services will need to be considered to help balance the budget for 2025/26, this is because local services represent the totality of spend within the County Council. Appendix 2 does contain some proposals for service reductions, reflecting the acute financial position we are facing, but even then, the total savings which we feel it is safe to make at this stage, do not close the budget gap by some £56.9m.
80. Reductions in services are a last resort and, wherever possible, the County Council seeks to limit the impact of any reductions on service users, although in some areas this can be difficult to achieve. Any significant reductions in services will be subject to more detailed stage 2 consultations that will seek the public and other stakeholders views on the options being proposed.

Summary

81. As discussed above it is therefore recommended that the County Council's strategy for dealing with the £132m deficit should be to:
- **Continue with its financial strategy**, which includes:
 - **targeting resources** on the most vulnerable adults and children
 - **using reserves carefully** to help meet one-off demand and cashflow pressures.
 - **Continue to lobby central government** for fundamental changes to the way local government is funded, as well as a number of other ways to help address the funding gap including increasing funding for growth in social care services and for highways maintenance, and allowing new charges to be levied for some services.
 - **help to minimise reductions and changes to local services** by raising council tax by 4.99% in line with the maximum level permitted by government without a public referendum.
 - **generate additional income** to help sustain services.
 - **introduce and increase charges** for some services.
 - Consider further the opportunities for **changing local government arrangements** in Hampshire.
82. The savings proposals put forward by directorates are therefore submitted for consideration by Cabinet who are asked to make final recommendations to full County Council on these and the overall MTFs outlined in this report. These have been influenced by the consultation and notable changes that have been

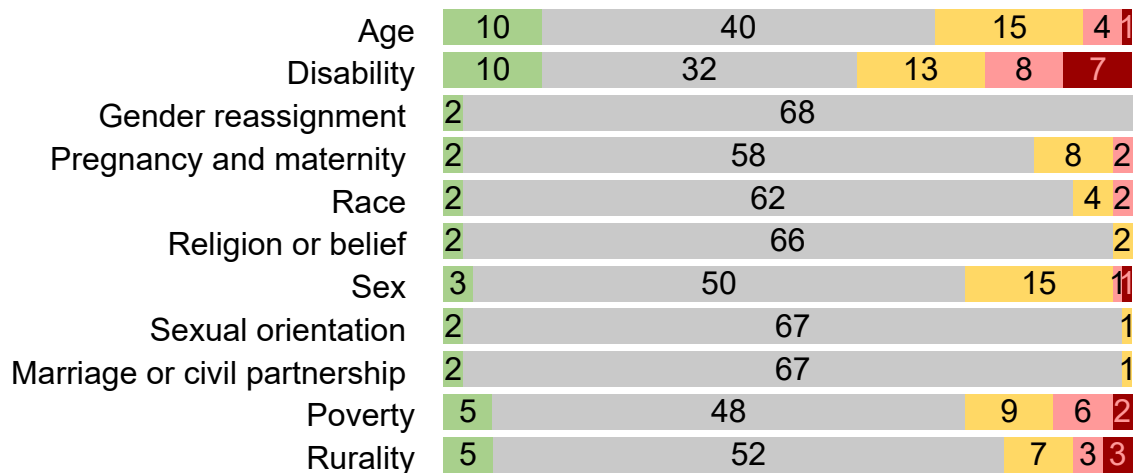
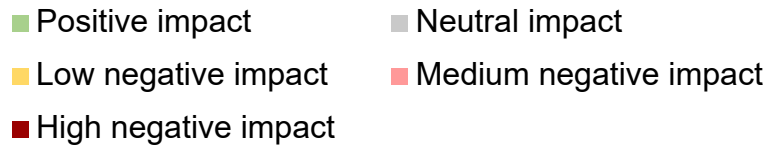
made as a result are included in the Executive Member decision reports presented during September.

83. The County Council is also required to undertake any Stage 2 consultations where necessary prior to final decisions being made by Executive Members on these proposals.

Section H: Impact Assessments

84. In addition to the consultation process outlined above, a separate key part of the SP2025 Programme is ensuring that the County Council understands and gives due regard to the impact of the SP2025 savings proposals on people with protected characteristics.
85. The County Council has produced Equality Impact Assessments (EIAs) on all proposals for change that it is considering implementing, which are taken into account as part of the decision making process. The EIAs for all of the savings proposals were published as part of the Executive Member reports and are also repeated in this report for completeness. Due to the number of pages involved these have been added in separate appendices as follows:
 - Appendix 3 – Adults’ Health and Care
 - Appendix 4 – Children’s Services
 - Appendix 5 – Universal Services
 - Appendix 6 – Hampshire 2050
 - Appendix 7 – Corporate Services
86. By the very nature of the services that the County Council provides, there are inevitably changes that impact those people with protected characteristics. Whilst this does not mean that a proposal cannot be implemented, it does mean that the County Council needs to have an understanding, both individually and collectively, of the impact on those groups of people and looks at ways of mitigating that impact.
87. For proposals where a Stage 2 consultation is required the EIAs are preliminary and will be updated and developed following this further consultation, when the impact of the proposals can be better understood. Due regard will be given to the equality impacts identified as part of the further Executive Member decision making process to decide whether or not to implement the detailed proposals.
88. An analysis of the current impacts contained within the individual EIAs is shown in the following chart:

Level and type of impact per protected characteristic



89. The chart shows that the key characteristics most likely to be negatively impacted are disability, age, sex and poverty. The high proportion of negative impacts relating to disability and age reflect that more than half the EIAs were in relation to proposed changes to services in Adults’ Health and Care and Children’s Services, which account for over 75% of expenditure, with services that most frequently support young, older, and disabled people. Further work will be undertaken to understand the nature of these impacts and the possible mitigations, following specific Stage 2 consultations in these areas.

Climate Change Impact Assessment

90. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council’s climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
91. Given that this report deals with financial strategy it is difficult to assess any specific climate change impacts at this stage, but assessments will be undertaken for individual proposals, if appropriate as part of the implementation process.

Cumulative Equality Impact Assessment

92. Whilst the Public Sector Equality Duty (Equality Act 2010) requires public authorities to have due regard to equality considerations, councils are not mandated to conduct EIAs. Nevertheless, EIAs have become a common tool to facilitate and evidence compliance with the Equality Duty.
93. In keeping with good practice, the County Council has completed EIAs for all proposed service changes linked to its SP2025 Programme as highlighted above. This information has been used to complete a cumulative assessment. This considers the potential impacts of savings proposals holistically and, in so doing, seek to identify groups likely to experience multiple disadvantages as a result of policy / service changes.
94. The cumulative EIA is set out in Appendix 9 and is based on the 70 EIAs completed in August 2023. As these EIAs continue to be reviewed or updated, the cumulative EIA may be further revised.
95. As Appendix 9 details, the headline results from the cumulative EIA are as follows:
 - 60% highlighted proposals with at least one possible negative impact.
 - 30% indicated that proposals could have a neutral impact on people from key characteristic groups.
 - 10% suggested changes could have a solely positive impact.
 - Age and disability, age and sex, and poverty and rurality were the most common groupings where savings proposals had negative impacts on more than one characteristic.
 - Proposals tended to impact children, young people and older people more than the core adult demographic; females more than males; and communities more than deprived individuals. A range of disability cohorts were likely to be impacted.
96. The cumulative assessment needs to be considered in the context of Hampshire and the nature of the services that the County Council provides. Hampshire is:
 - one of the ten largest counties by land area (approximately 1,400 square miles) comprising both large rural areas and several dense conurbations.
 - 85% rural, with over a third of the county within National Parks or Areas of Outstanding Natural Beauty.
 - the 16th least deprived upper tier council in the country – yet 40 neighbourhoods are in the 20% most multiple deprived areas in England.
 - expected to grow to more than 1.5m people by 2026 (currently 1.4m).

- experiencing an ageing population – with people aged 70+ forecast to increase by 15% between 2019 and 2026, to 262,560 people.
- predominantly white British – 91.8% of residents compared to 79.8% nationally.
- home to 1,662 children in need of care (1,593 in March 2018).

The County Council spends around £2.6bn a year on serving Hampshire's population. Excluding spend on schools, the County Council's annual net budget by service is as follows:

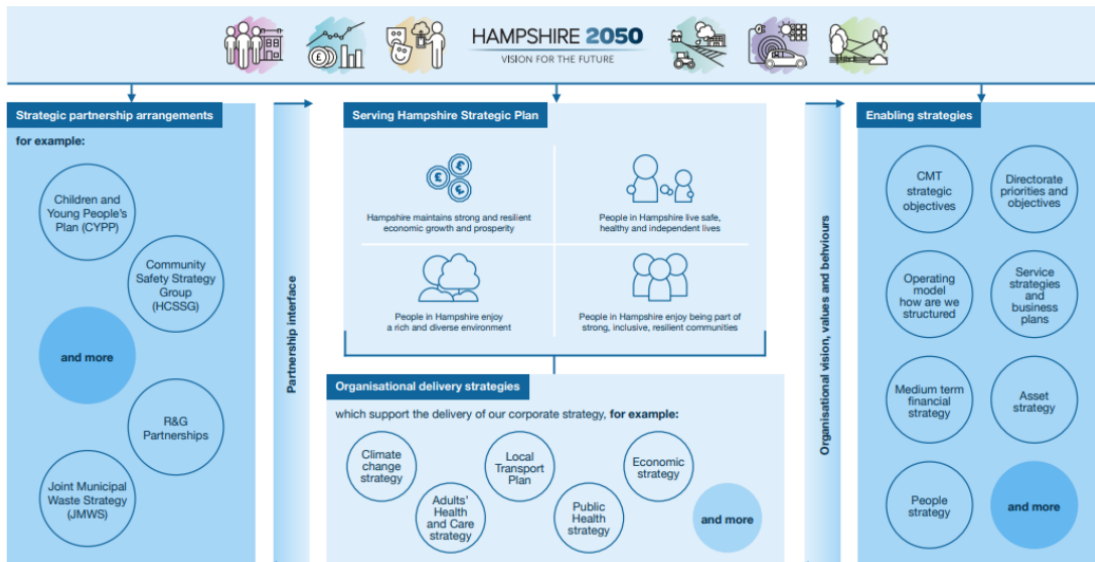
	£m	%
Adults' Services	474	44.8%
Public Health	54	5.1%
Children's Services	313	29.6%
Highways, Engineering and Transport	63	6.0%
Waste Disposal	54	5.1%
Corporate Services	54	5.1%
All Other Services	46	4.3%
	<u>1,058</u>	<u>100%</u>

97. As the table above illustrates, almost 80% of the total annual budget is spent on Adults' Services, Public Health and Children's Services. It is also from these services that the majority of the £90.4m savings are proposed to be achieved (£59.0m). However, given the larger proportion of statutory services in these areas and the extent of the savings they have delivered since 2010, the SP2025 savings for the social care directorates represent a smaller proportion of their net budgets (7% on average) than for the non-social care directorates (14.5% on average).
98. Adults' Services, Public Health and Children's Services are, by their very nature, targeted at Hampshire's older population, vulnerable children and adults, and those who may need support due to living in deprived communities. Therefore, it is expected that changes to these services will, to some extent and in various ways, impact certain protected groups.
99. Where areas of multiple disadvantage have been identified, mitigation actions are in place and work is ongoing to understand the extent to which these are likely to reduce or remove negative impacts on specific cohorts.

Section I: Strategic approach to budget setting

Serving Hampshire Strategic Plan 2021 – 2025

100. In September, County Council approved the mid-term review of the Serving Hampshire and Strategic Plan alongside the work undertaken to revalidate the Hampshire 2050 Vision. Together, these provide the strategic landscape and framework encompassing the organisational delivery strategies and enabling strategies as depicted below.



101. The Medium Term Financial Strategy, as a key enabling strategy, is developed alongside the other enabling and organisational delivery strategies and the most significant elements are explained further below.

Capital and Investment Strategy

102. The County Council's Capital and Investment Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It also includes more detailed forecasts of capital expenditure and financing and the associated prudential indicators relating to financial sustainability. These elements are updated annually as part of the budget setting in February each year. The current Strategy was included as [Appendix 7](#) to the Revenue Budget and Precept 2023/24 report.
103. The Prudential Code requires the Chief Financial Officer to establish procedures to monitor and report performance against the prudential indicators, and from 2023/24 this reporting must be on a quarterly basis. An update on the Council's position against the prudential indicators as at Q1 is included in Annex 1 to the Treasury Management Q1 Monitoring Report in Appendix 1.
104. The Capital and Investment Strategy takes account of the current Strategic Asset Management Plan (SAMP) that was presented to Cabinet last

December. The SAMP is a key enabler of the County Council's corporate strategy to ensure that its large and diverse estate continues to meet corporate priorities and objectives, providing a strategic framework for decision making based on a clear set of principles and mechanisms through which the future use of land and property assets will be considered, together with a high-level action plan to enable the effective management and re-shaping of the estate.

105. The SAMP sets out the vision to achieve the optimal financial return and commercial opportunities from the rationalisation and disposal of surplus land and buildings. The plan includes the objective to rationalise the operational estate, achieving reduction through co-location, new ways of working and maintenance optimisation, with an action plan to invest, maintain, operate and dispose of assets. The disposal plan has three main elements:
 - Promote appropriate land assets as strategic development sites.
 - Identify and dispose of strategic sites where multiple benefits can be achieved.
 - Rationalise and reduce the overall size of the County Council's built estate, starting with office accommodation.

106. The Strategic Land programme, created in 2008/09, was designed to bring forward significant 'strategic' areas of Hampshire County Council land where opportunities for development arose as a result of Local Planning Authority calls for sites. The Programme has been managed to support the delivery of a long-term programme of capital receipts and the approach to the promotion in the Local Plan, achievement of planning and the disposal strategy for individual sites has been tailored to local circumstances. A detailed review of the Strategic Land programme was undertaken in 2022 and reports on the status of the projects in terms of site promotion, planning and disposal approvals are considered by the Leader and Executive Member for Hampshire 2050 and Corporate Services.

107. Overall, the programme is forecast to realise a net capital receipt of circa £157m including £55.1m that is currently committed to existing capital schemes. There are considerable revenue costs required to undertake this work. These increase as the process works through planning, and potentially into a Master Developer role. The associated potential capital receipt also increases through this process as land value is steadily enhanced. The Medium Term Financial Strategy currently includes a revenue requirement of £8.893m for the period up to 2032 and the requirement each year will be reviewed as part of the detailed budget setting. This funding will support a dedicated team within Hampshire 2050 and the procurement of specialist advice or consultancy depending on the nature of the site and its complexity:

	£'000
2023/24	1,996
2024/25	1,782
2025 - 2032	5,115
Total	<u>8,893</u>

108. Funding to take forward the SLP is a considerable investment for the County Council but makes sound financial sense and is a key strand of the authority's Commercial Strategy.
109. In addition to its strategic land holding, the County Council owns a substantial and varied property estate primarily for the delivery of frontline public services, including schools, day centres, libraries, children's homes, residential and nursing care homes, waste recycling facilities, country parks, rural landholdings and operational farms. It also owns and occupies offices, workshops, depots and storage accommodation. An element of the SAMP vision is that the size of the estate is reduced to fit what we need and includes the principle to ensure that to meet service objectives and community needs, we have the right assets in the right location, in good condition and efficiently managed. The action plan to rationalise and reduce the built estate is starting with office accommodation.
110. Following the workstyle programme between 2008 and 2013 which created a corporate office portfolio with the remodelled EII Court HQ, area office hubs together with some co-location in District offices, the office accommodation estate has been kept under review with further consolidation of occupation and release or letting of surplus capacity as part of the transformation to 2019 programme. The Covid pandemic provided a further catalyst to maximise the use of technology enabling new ways of working which has provided the opportunity to review the Winchester office portfolio and subsequently the area office portfolio and the front line service delivery estate with the aim of realising a financial return from the disposal of surplus assets and recurring revenue cost savings. This is included within the savings proposals in Appendix 2.

Commercial Strategy

111. The County Council's approach to commercialisation takes account of the need to manage and mitigate risk. This is achieved through the pursuit of a range of initiatives targeting increased income generation but without overexposing the Council to excessive risk or considering radical changes that take the County Council into areas that are not its core business, or indeed pursuing more niche

opportunities that simply do not offer with any confidence anything like the scale of income to merit the effort and upfront investment. In the light of difficulties experienced by other authorities regarding commercial investments, notably in Thurrock, Slough, Croydon and Woking Borough Councils, the County Council's approach has been proven to appropriately manage risk whilst contributing to the financial strategy.

112. Delivery of the commercial strategy focuses on three core components:

- Business Activity – Selling, trading or receiving income for operational delivery of goods and services.
- Investment Activity – externally investing money and or using strategic assets to generate financial returns as part of our place shaping activity, for example the strategic land programme referenced above.
- Commercial Operating Model – developing our future Operating Model under key principles to be “more business like” in how we behave and operate.

113. A good example of this approach operating in practice is the proposed future direction of the Older Adults' service portfolio and supporting capital investment strategy approved by Cabinet in July 2023. In the light of concerns about the rate at which market prices are increasing (close to 10% per annum for the past few years and expected to increase further in the near term), increases in service demand and acuity, and future forecasts regarding the number of Older Adults with advanced dementia, maintaining the strongest market presence possible was agreed as this would enable consistently improved occupancy, strong value for money, and far greater assurance regarding the delivery of financial savings/efficiencies. Furthermore, the business case for the associated investment programme (estimated at £173m over 5 – 6 years comprising enhancement and extension of existing homes and some new build) shows an annual net saving of £1.3m compared to the current budgeted provision for equivalent care. However, given the volatility of the adults' care market, a cost neutral position within this current MTFS is assumed.

Reserves Strategy

114. The County Council's Reserves Strategy, which is set out in Appendix 10, is well rehearsed and continues to be one of the key factors that underpin our ability not only to provide funding for the transformation of services but also to give the time for changes to be properly planned, developed and safely implemented.

115. Reserves are available to support:

- Funding of the Capital Programme.
- Investment in transformation.
- Directorate budgets in the face of pressures and timing delays in the release of resources.
- The overall revenue budget through the Budget Bridging Reserve.

116. The County Council has 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 has always been 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.

117. This tipping point arrived in 2022/23 when the overall balance of earmarked reserves fell by £38m, and the net use of reserves is expected to accelerate over the coming years in the face of ever increasing budget deficits. This has also triggered a change to the policy of allowing directorates to retain savings delivered in the interim year of two year savings programmes, as corporate reserves are no longer sufficient to bridge the shortfall in the interim year.

118. In addition, both Adults' and Children's Services are currently forecasting use of all remaining cost of change funding within 2023/24; a total of £27m. Whilst these are early forecasts and include a number of assumptions around the timing of service investments and transformation spending, it is expected that the Adults' and Children's cost of change reserves will be largely depleted within the current year, and therefore not sufficient to support the required investment in SP2025.

119. Approval for an allocation of £5m from the Invest to Save reserve is sought to support the delivery of major change initiatives, as set out in Section E. However, given the limited corporate funding available, it is expected that a successor arrangement will be required with appropriate governance to support prioritisation of the remaining resources between directorates.

Budget Bridging Reserve

120. Use of the BBR provides the Council with the time and capacity to properly deliver major savings programmes every two years. With deficits expected in each year of the current MTFS period, building the provision within the BBR is vital to supporting the revenue position in future years.

121. The following table summarises the forecast position for the BBR taking into account the requirement to balance the budget in each of the three years to 2025/26:

	BBR
	£'000
Balance at 31/03/2023	73,111
Draw to balance the 2023/24 budget	(50,786)
Reserve transfers approved July 2023	61,260
Forecast Balance at 31/03/2024	83,585
Draw to balance the 2024/25 budget	(86,000)
2024/25 Shortfall	(2,415)

122. After accounting for the reserve transfers approved by Full Council in July 2023 as part of the 2022/23 outturn report, a small deficit of £2.4m still remains for 2024/25 in addition to the significant shortfall of £56.9m in 2025/26. It is therefore critical that the Council continues to direct any spare one-off funding into the reserve during the period to 2025/26.

Section J: Unavoidable Pressures

School Transport

123. The cost of providing School Transport has been rising rapidly for a sustained period due to increased complexity of pupil needs, shortages of appropriate transport and the lack of locally available, suitable Special Educational Needs places. This has prompted a detailed review of the existing forecasting model for the service.
124. The outturn position for 2022/23 reported to Cabinet and Council in July 2023 included a £9.4m overspend on School Transport and it was highlighted that building pressure in this area presented the biggest financial risk to the Council's financial position to 2025/26. The subsequent review of the forecast for School Transport projects that the cost of delivering the service will almost double between 2022/23 and 2026/27. A pressure of £17.8m is forecast by 2025/26, after taking account of £18.8m additional funding planned to be added to the budget over this period. The extent to which this impacts on our forecasts to 2025/26 is discussed in more detail in the next section, but in the meantime, the pressure will be managed this year and next by utilising additional one off investment income arising from higher interest rates.
125. The majority of this pressure relates to the SEN cohort due to the increasing number of children with Education Health and Care Plans and shortages of dedicated SEN school places. Since 2014, the number of special school places has risen by 34%. The number of children with an EHCP has risen by 155% over the same period. Therefore, when a school place is found for a child, it is likely to be further away, which increases the cost of transport.

126. Market based factors also contribute significantly to the pressure; there is a lack of capacity in the transport provider market, specifically there is a shortage of operators overall and a severe shortage of drivers. With under-supply in the market this drives up prices due to lack of competition. This is exacerbated by increasing complexity of pupil needs, which means that children are more likely to require adapted vehicles or Passenger Assistants, for example, which are in short supply. These factors result in a forecast increase in average unit costs for transport of over 60% by 2025/26.
127. This is a national issue and is the subject of intense government lobbying both by the County Council and other local authorities. The Leader wrote to MPs and the Government on this topic earlier in the year.
128. A range of actions have been taken through savings and transformation programmes to mitigate the increases in costs. These include:
- Reducing to a statutory minimum service.
 - Ensuring robust commissioning of contracts, including aggregating of routes and operators to drive down cost wherever possible.
 - Utilising route planning technology to optimise route networks and use of vehicles.
 - Providing minibuses to schools for their own use through the Spend to Save Minibus Scheme, which enables schools to use the vehicles for their own purposes, provided they transport children to and from school using their own staff as drivers.
 - Offering parents a mileage allowance to support them in taking their own children to school.
129. The Council will continue to explore further initiatives that may change the shape of the market, such as operating our own vehicles and looking at alternative commissioning and delivery models for smaller vehicles.

Section K: Medium Term Forecast

130. The County Council has faced a continually worsening budget position since the £80m Savings Programme to 2023 was approved in November 2021 due to a combination of factors, including unprecedented growth in demand for Adult Social Care, School Transport and other services impacted by SEN growth, and high inflation increasing the costs of all Council services as well as levels of staff pay. For the first time since 2010, the two year Savings Programme to 2023 proved insufficient to balance the 2023/24 budget, and this is a position that the Council now expects to face year on year.

Financial Year	Budget gap after SP23 savings	SP25 savings	Required use of reserves
2023/24	£50.8m	-	£50.8m
2024/25	£86.0m	£17.1m	£68.9m
2025/26	£132.0m	£75.1m	£56.9m

131. The Council expects to use £58.9m of reserves per year on average to balance the budget over the three years to 2025/26. This is clearly an unsustainable position and highlights the critical requirement to deliver SP2025 savings in line with planned timescales. However, delivery of a savings programme of this scale carries considerable risk, particularly as demand growth continues to accelerate for a range of Council services, limiting the potential to achieve further permanent cost reductions through early intervention, demand management and prevention approaches.

132. The anticipated financial outlook means we must continue to assume that we will face a budget deficit of at least £50m per annum from 2026/27, after a 4.99% council tax rise. Accounting for the full year impact of the £90.4m SP2025 savings, a reserves contribution of some £90m would still be required to balance the budget in 2026/27. This is likely to exceed the resources available, requiring the Council to seek exceptional financial support from government unless there is a substantial increase in resources provided through the 2025/26 Spending Review.

Key assumptions

133. The Council's budget requirement and funding position are dependent upon a number of external factors over which the Council has limited or no direct control. The Council's budget is predicated on estimates of the impact of these factors on the Council's finances. The key assumptions are set out in the table below.

Variable	Budgeting assumption	Sensitivity (± 1%)
Non-pay Inflation	6% average for 2024/25, contract inflation in line with agreed increases, all other budgets at 3%, including sales, fees and charges. Centrally held contingency of £10m in 2024/25.	£6.6m, of which 90% within social care directorates
Pay inflation	3% in 2024/25 and 2% from 2025/26	£3.7m
Interest rates	Weighted average investment rates 4.52% in 2024/25 and 3.28% in 2025/26	£6.0m
Adult's growth	Budget assumes an increase of £17.7m in 2024/25 and a further £16.9m in 2025/26; a total of £34.6m over two years to cover cost increases arising from	1% increase in clients = £3.8m

Variable	Budgeting assumption	Sensitivity (± 1%)
	escalating demand, complexity of need and steep increases in forecast average rates paid for care.	1% increase in prices (residential and nursing care) = £2.7m
Children's growth	Children Looked After (CLA): growth funding of £14.9m in 2024/25 and £15.6m in 2025/26. School Transport: growth funding of £2.7m per year	CLA: 1% increase in activity = £1.2m 1% increase in prices = £1.7m School Transport: 1% increase in activity/prices = £0.6m
Council tax	4.99% in each year of the MTFs, comprised of 2.99% general precept and 2% adult social care precept	£7.8m
Business rates	£8m increase in 2024/25, equivalent to 5.3% (linked to inflation assumptions) and then flat from 2025/26	£1.5m
Unringfenced grants	£10.4m (14.5%) increase assumed in line with government policy paper, flat settlement assumed from 2025/26	£0.7m

134. Given the limited corporate funding available to meet inflationary pressures in the current high inflation environment, inflationary allocations have been limited to a reasonable best case scenario, particularly where levels of uncertainty are high. Any significant shortfalls in funding for inflation will be addressed in-year through allocations from a centrally held inflation contingency budget.
135. General inflation is expected to fall further over the coming months, as cheaper energy feeds into household bills and lower production costs for businesses. However, average wage growth remains at a record high, in part due to increases in the National Minimum Wage which is set to reach two thirds of median earnings by April 2024. This impacts the prices of the Council's social care contracts, which comprise the vast majority of non-pay expenditure.
136. Pay inflation is expected to reduce considerably from 2024/25; the current year's pay offer takes account of the anticipated increase in the National Minimum Wage from April 2024, requiring a significant pay boost for lower grades. It is anticipated that the pay award for 2024/25 will be closer to pre-2021/22 levels, on the assumption that general inflation begins to fall back.
137. In the past, interest rates had little impact on the County Council's overall budget given the low levels and high stability over the past 10 years. Because of the low levels, the County Council targeted a proportion of reserves to higher yielding investments seeking a 4% return on a range of diversified products.

Now with interest rates at 5.25% the County Council is making significant additional returns on all of its available reserves. The further increase in rates above what was expected when the budget was set in February will provide additional one off investment income in the current and next financial year. However, as interest rates regularise back to more normal levels, this is not something that can be relied upon to close the budget gap from 2025/26 onwards. As outlined above the one off gain from this income source will be used to offset the pressures in School Transport in this year and next.

138. Within Adults' Social Care, the Older Adults purchased care budget has the highest level of volatility due to the volumes of clients, the rate of turnover and the provider market in which the directorate operates. There has been a steady acceleration in the growth of numbers of clients within Older Adults Residential and Nursing Care since the pandemic following the recovery of the care market an increasing number of hospital discharges resulting in long stay care. Although increased budget allocations have been provided to the service in recent years, continued acceleration of growth remains a key area of risk.
139. Within Children's Social Care, placement numbers have remained relatively stable in recent years due to the success of social work interventions which have enabled more children to remain safely at home with support. The key area of risk is therefore considered to be the cost of placements particularly specialist Post 16 and Secure Welfare placements. These placements can cost the Council in excess of £5,000 per week so any increase in numbers has a significant financial impact.
140. The increasing cost of School Transport is currently the most significant area of financial risk which the Council faces, as detailed in Section J. This is largely attributable to an acute shortage of SEN school places and lack of competition for specialist transport arrangements within the provider market. This is currently resulting in price pressure of around 13% per year.
141. The 2024/25 budget assumes an increase of around £11m in the Social Care Grant, based on a finance policy statement released by the government in December 2022. This means that over the three years from 2022/23 to 2024/25, the council will have received at least £11m per year in additional social care funding. A prudent flat cash position has been assumed in the remaining years of the MTFs since no details of the longer term social care funding position are currently available. The Council has always maintained that speculative estimates of additional government support cannot be relied upon to set a balanced budget. However, while any further increase in grant in 2025/26 is not expected to contribute significantly to bridging the budget gap unless accompanied by a substantial change in government funding policy, it could make an important contribution to balancing some of the risk of adverse movements in the areas set out above.
142. There are several key areas of anticipated legislative change which could potentially have significant impacts on the costs of service delivery, these include:

- Children's Social Care reforms: In February 2023 the government consulted on a set of national rules for the engagement of agency social workers, including setting price caps on what local authorities may pay for an agency worker. Social work agency expenditure has increased from £4.4m in 2017/18 to £8m forecast for 2023/24.
 - Dedicated Schools Grant Statutory Override: the override which keeps the DSG deficit separate on the Council's balance sheet is due to end in 2026/27. The DSG deficit is projected to reach almost £250m by the end of 2025/26, and even if the override is extended for a third time, the deficit will have significant implications for the Council's cashflow position. This also impacts the revenue budget by limiting the cash available to the Council for investment. Any suggestion that ongoing in year deficits or the cumulative deficit must be made good by the local authority will put the Council in the position of issuing a Section 114 notice and starting discussions with Government.
 - Adult Social Care reforms: the government's adult social care charging reforms and cap on care costs have been delayed until October 2025. Whilst the delay has allowed the committed resources to be refocused on other areas of adult social care, fundamental reform is required to secure the ongoing sustainability of the social care system with inevitable implications for the costs and administrative burdens faced by Councils. No allowance is made for the re-introduction of these proposals within the MTFS.
 - Waste management reforms: the reforms set out in the Environment Act 2021 have been delayed, impacting the associated financial support for Local Authorities. The government also plans to prevent local authorities levying charges for disposal of DIY waste at Household Waste Recycling Centres, reducing the income that the waste service can generate.
143. In recognition of the levels of uncertainty inherent in budgeting assumptions, the Council maintains a centrally held contingency budget, which is set at an appropriate level to cover service demand, inflation and other pressures, such as those arising as a result of legislative change. This provides the flexibility to allocate additional funding across directorates in response to emerging pressures, balancing risk across the Council's budget.
144. Based on the sensitivity data set out above, it is reasonable to assume that the Council's budget position to 2025/26 could improve or worsen by up to £20m in the event that a combination of these risk factors is realised. In some areas, the risk of changes to the forecast assumption is considered to be relatively low, such as the available Council Tax precept, and in other areas relatively high, such as the level of non-pay inflation. Even in a reasonable best case scenario based on current knowledge, it is not considered likely that the Council could achieve a balanced budget in 2025/26 without further, substantial, use of its reserve balances.

145. However, given that the Council's funding assumptions around business rates and unringfenced grants remain very prudent and that the benefit which the Council expects to receive from the prepayment of its employer pension contributions in April 2023 was not included in the forecast position to 2025/26, it is anticipated at this stage that contingency budgets could be increased off the back of these items. Furthermore, assuming there are no other major financial shocks over the next two years it may be possible to release existing recurring contingency funding. These two factors combined should be able to fund the pressure on School Transport budgets on a recurring basis by 2025/26 without further increasing the £132m budget gap.
146. This assumption is not without significant risks given the volatility of inflation and demand growth since the pandemic and the County Council has always been prudent in its assumptions which has been a bedrock of its financial planning over many years. However, the alternative position would be to increase the gap to £150m without any further savings proposals being available to offset it, which is also not a sustainable position.
147. One of the County Council's strengths is that it plans well in advance, making savings decisions some 18 months before the financial year to which they come into force. This means that the County Council still has time to react once more is known about the national picture following the next Spending Review due to take place in Autumn 2024, it can also take into account the financial performance in 2023/24 and any trends in spending over the period. At this point, the County Council will have a much clearer picture of its prospects for 2025/26 and beyond and it will be very clear at this point whether or not the Council will be financially sustainable as discussed further in the next section.

Section L: Financial Resilience and Sustainability

148. Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, restricted funding and an increasingly complex and unpredictable financial environment. Following the challenges created by the Covid pandemic, we are now dealing with an economic and cost of living crisis that has seen more people coming to local government for help at a time when inflation is impacting adversely on the cost of goods and services that we buy to provide services.
149. It is widely recognised that the system for funding local government is broken and has been due for overhaul since 2016, but this once again has been delayed and nothing is expected to happen until at least the next Spending Review due in Autumn 2024. Since 2018 the County Council has (publicly and consistently) said that without fundamental changes to the way in which local government is funded, it will not be financially sustainable.

150. This position is becoming a reality as we head towards 2025/26 and beyond and the County Council is already in the position of being unable to bridge the budget deficit through savings proposals for the first time since austerity began. Despite this, it continues to manage its finances in a sensible, transparent and responsible way which is highlighted in the assessment shown in the following paragraphs.
151. The following table sets out the key ‘symptoms’ of financial stress identified by CIPFA in its report entitled “Building Financial Resilience” and assesses the current position of the County Council against each indicator.

<i>Symptom of Financial Stress</i>	<i>HCC Position</i>
Running down reserves / a rapid decline in reserves	The Council has maintained a reserves balance of at least £0.5bn over the past 5 years and is still over £0.8bn as at March 2023, however reserve balances fell by £38m in 2022/23 and a further net reduction is expected in 2023/24, showing that we have reached a tipping point and reserves will continue to decline from this point.
A failure to plan and deliver savings in service provision to ensure the council lives within its resources	The Council has successfully delivered £640m in savings over the past 13 years and has consistently recorded modest annual underspends on service delivery, demonstrating that these have been sustainable. Whilst £13.7m of savings were written off as undeliverable in 2022/23 this was entirely due to building pressure in Adult Social Care and School Transport services rather than a failure to deliver on planned savings actions.
Shortening medium term financial planning horizons, perhaps from three or four years to two or even one	The Council maintains a four year planning horizon and delivers savings programmes over a two year horizon to ensure changes are implemented in a planned way. The scale of the forecast budget shortfall for 2025/26 and the lack of any government information beyond 2024/25 has required an increased focus on financial planning for this specific period and our government lobbying activity has focussed specifically on this timeframe to try to enact change in the funding regime from 2025/26 onwards.

<i>Symptom of Financial Stress</i>	<i>HCC Position</i>
A lack of firm objectives for savings - greater 'still to be found' gaps in saving plans	The SP2025 programme includes detailed plans for specific savings proposals that have been worked up by directorates over the past 12 months and subject to public consultation. Although the plans do not include any 'still to be found' amounts, there remains an unmet budget gap to 2025/26.
A growing tendency for directorates to have unplanned overspends and / or carry forward undelivered saving into the following year	Late delivery of Tt2021 savings due to Covid was anticipated and accounted for in the MTFS and resources were identified to cash flow these savings until the acute impacts of the pandemic had subsided. Current forecasts indicate that just £4.9m of the remaining £73.3m SP2023 savings are expected to be delivered a year behind schedule, with the majority being delivered in line with planned timescales. All Directorates have lived within their cash limits for many years or have had the benefit of planned support from their own reserves or central contingencies, which were budgeted for in advance. Legitimate pressures are taken account of in our financial planning rather than set Directorates unrealistic budgets that they could not hope to meet.

152. In summary, whilst the Council's financial resilience remains strong, there are indications of growing financial stress which will reduce the Council's ability to respond to further financial shocks over the period of the MTFS. Given the financial position in which the Council finds itself this is not unexpected, however the Council has been, and will continue to be, open and honest about the scale of the challenge which it faces. This is reflected in areas such as savings reporting, where the Council has taken prompt action to identify and address deliverability challenges, allowing focus to be redirected to developing alternative proposals through the SP2025 programme.
153. As difficult as the next phase of activity is likely to be it is still worth reminding ourselves that the County Council remains in a relatively strong financial position, especially in comparison to other upper tier authorities, delivering on its change programmes, keeping within cash limits and having the financial capacity to invest in the transformation of continually high performing services.

Section M: 2023/24 Financial Monitoring and Treasury Management Update

154. The County Council's budget is large and complex, detailed Directorate budgets are influenced by savings programmes, draws from and contributions to various reserves and the need to manage in year variations across different service areas. Past reporting on financial monitoring has therefore also presented a complex picture and therefore for 2023/24 we are providing a more focussed view of the position, specifically concentrating on significant concerns and variations in the current year and considering what (if any) impact these might have on our existing forecasts to 2025/26.

155. The key service pressures flagged so far this year are:

- School Transport – As highlighted earlier in the report, this is by far the biggest pressure at this stage, this service is seeing increasing demand, particularly due to Special Educational Needs together with very high inflation within the market. The pressure (based on a new forecasting model) is expected to be £6.7m above budget plus contingencies in the current year rising to nearly £18m extra by 2025/26. This remains the biggest threat to our 2025/26 forecast at this stage, which is addressed in the MTFs section of this report.
- Administration of EHCPs – Despite additional funding for Educational Psychologists and the SEN Service in 2023/24 there is a predicted pressure of £3.6m in the current year, rising to £4.9m by 2025/26. Further work has been requested from Children's Services to understand this pressure more and any potential mitigating actions before assessing whether it impacts on our future forecasts.
- Older and Younger Adults – The first quarter shows a small uptick in costs relative to budget, leading to a forecast pressure of £5.7m. This is attributable to higher than anticipated increases in the average rates paid for packages as well as increasing demand for residential care. Given the overall size of the Adults' Health and Care budget, this does not represent a significant variance at this stage, and we will therefore continue to monitor the budget during the year to determine whether future years forecasts need to be adjusted based on longer term trends.

156. In addition to service spend, it is also important to understand the position in relation to central items within the budget, particularly what has been set aside for contingencies and our position against those as this influences the level of capacity within the budget that we have to meet any unexpected pressures. There are three items worthy of note:

- Pay Award – The current pay award offer is affordable within the allowance plus contingencies provided, but this remains subject to union agreement. Looking forward, inflation is not reducing at the speed expected and may lead to further pay pressure in 2024/25 compared to the provision set aside for that year.

- Inflation Pressures – Whilst the pressure on energy costs is reducing, we are still seeing requests for high in year increases to contract prices, particularly within Younger Adults. We are dealing with these on a case by case basis, but the expectation is that we will continue to get requests from the majority of the providers. Current forecasts are that this will remain within the allowance we provided for, although this does not include the pressure in School Transport.
- Interest On Balances – When the budget was set for 2023/24, the expectation was that interest rates would peak early in 2023/24 and then start to reduce as inflation began to decline. Some additional income was built into 2023/24 and 2024/25 based on this forecast, but in the longer term interest rates were expected to regularise and only provide a modest increase in investment income particularly as our reserves began to reduce. In reality, interest rates have gone higher than expected and it will take longer for them to regularise meaning that we will have significant additional one off investment income in this and the next financial year. As outlined above, this will be used to offset the School Transport pressure over the next two years as we look to deal with the longer term impact as part of the 2025/26 budget setting process.

Treasury Management Update

157. In line with the requirements of CIPFA's Treasury Management in the Public Services: Code of Practice, annual and semi-annual reports on treasury management activity are presented to Cabinet for recommendation to County Council for approval. The latest update report is attached at Appendix 1 and concludes that all treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2023/24, and all relevant statute, guidance and accounting standards.

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:	
<u>Title</u>	<u>Date</u>
Savings Programme to 2025 – Revenue Savings Proposals Executive Member for Universal Services	18 September 2023
Savings Programme to 2025 – Revenue Savings Proposals Executive Member for Adult Services and Public Health	19 September 2023
Savings Programme to 2025 – Revenue Savings Proposals Executive Member for Children's Services	22 September 2023
Savings Programme to 2025 – Revenue Savings Proposals Executive Member for Hampshire 2050 and Corporate Services (Hampshire 2050 Proposals)	25 September 2023
Savings Programme to 2025 – Revenue Savings Proposals Executive Member for Hampshire 2050 and Corporate Services (Corporate Services Proposals)	25 September 2023
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>
Section 100 D - Local Government Act 1972 - background documents	
<p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

158. Equality Duty

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

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

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

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

159. Equalities Impact Assessment:

Given that this report deals with a large number of options and proposals for savings as part of the Savings Programme to 2023, the individual EIAs have been appended to this report to aid the decision making process, along with a cumulative impact assessment provided at Appendix 9.