HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Cabinet
Date:	8 July 2024
Title:	End of year financial report 2023/24
Report From:	Rob Carr, Deputy Chief Executive and Director of Corporate Operations

Contact name: Rob Carr

Email: Rob.carr@hants.gov.uk

Section A: Purpose of this Report

1. The purpose of this report is to provide a summary of the 2023/24 financial outturn for the County Council. 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 and transfers to/from earmarked reserves.

2. The report also covers capital expenditure and funding for 2023/24 and revisions to the 2024/25 capital programme. In addition, the appendices include an updated Capital and Investment Strategy for approval following the recent DLUHC consultation on Minimum Revenue Provision and the annual treasury management outturn report.

Section B: Recommendation(s)

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

3. Notes the progress towards delivering the outstanding Tt2021 savings and delivery of SP2023 and SP2025 savings set out in Section D, E and F.

4. Notes the net outturn position set out in Section G which will be funded through an additional £5.6m draw on the Budget Bridging Reserve

5. Approves the increase of service capital programme cash limits for 2024/25 to reflect the carry forward of capital programme schemes totalling £136.172m as set out in Appendix 3.

6. Approves the increase in scheme value of £3.153m for the Uplands Development Infrastructure scheme within the Hampshire 2050 capital programme, to be funded from the capital payments reserve (£2.973m) and a reduction in the scheme value of the related Woodhouse Lane South scheme within the Universal Services capital programme (£0.180m).

7. Approves the addition to the capital programme of the Southern Gateway scheme within the Universal Services capital programme for £2.5m funded equally from structural maintenance and Integrated Transport Block funding.

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

   a) The report on the County Council's treasury management activities and indicators set out in Appendix 2 and prudential indicators set out in Appendix 3 Annex 4.
   b) The updated Capital and Investment Strategy, including the updated MRP Statement, set out in Appendix 4.
   c) The updated capital programme presented in Table 4 of Appendix 3 including changes to the programme since February 2024.
   d) A reduction in the Fawley Waterside scheme value of £5.6m from £11.4m to £5.8m.
   e) That £7.5m is brought forward from 2025/26 to 2024/25 in the Universal Services capital programme to deliver earlier additional improvements to highways under the Stronger Roads Today campaign
   f) An increase of £16.488m to the Botley Bypass scheme within the Universal Services capital programme funded from the capital payments reserve.
   g) A reduction of £25m to the Manydown scheme within the Hampshire 2050 capital programme, releasing this earmarked funding within the capital payments reserve.

Section C: Executive Summary

9. This report provides a summary of the end of year financial position for 2023/24 covering both the revenue budget and the capital programme, consistent with the draft Statement of Accounts published on 31 May.

10. It also provides an update on progress with the County Council's transformation and savings programmes and its balance of usable reserves. In addition, the report presents the end of year prudential indicators and treasury management report for approval and an update to the Capital and Investment Strategy.

11. Further revenue pressures in the latter part of the year have required a draw from the Budget Bridging Reserve (BBR) of £5.6m at year end and this has fed into an overall reduction in revenue reserves of £38.46m, which continues the expected trend highlighted in the Medium Term Financial Strategy.

12. Savings programmes remain on track and this report highlights the closure of the Transformation to 2021 Programme with the exception of the savings associated with the Waste service which are linked in part to national changes in waste collection and disposal arrangements.

Section D: Transformation to 2021 Programme

13. Most of the remaining elements of the Tt2021 programme have been delivered in 2023/24, with the remaining £10.6m savings achieved by Adults' and Children's Services. Both the Adults' Health and Care and Children's Services Tt2021 programme are now complete.

14. The only outstanding savings are within the Waste Service where savings of just under £8m continue to be delayed due to uncertainty surrounding the introduction of the government's Extended Producer Responsibility (EPR) scheme, impacting the timing of the associated income and contractual considerations with the Council's partners. However, the remaining target will be partially achieved in 2024/25 through the retention of income for recyclable materials and the receipt of a contractual share of energy income from the Council's Energy Recovery Facilities. The remaining element of the saving is expected to be delivered the following year following the planned implementation of the EPR scheme in 2025/26 and following recent clarity around the implementation of Simpler Recycling.

15. Given this position it is proposed to now formally close the Tt2021 Programme, albeit we will continue to report on the progress of the Waste savings as a separate item.

Section E: Saving Programme 2023

16. The remaining SP23 savings remain largely on track to deliver in line with their revised baseline targets as approved by Cabinet in December 2021. £67.9m of the £73.3m target has been achieved with the majority of the remaining £5.4m savings expected to be delivered in 2024/25. 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):	-	2.6	2.8	67.9
Percentage of target:	-	4%	4%	92%

17. There are £2.6m of savings rated as Amber with key risk areas as follows:

Universal Services - £0.899m:

- **Parking (£0.75m)** - The Parking workstream under Enhanced Traffic has ongoing delays to installation of infrastructure and a six-month period before fines can be issued. This means that the saving will not be fully achieved until 2025/26 with £0.45m expected to be delivered in 2024/25 and the remaining £0.3m in 2025/26.
- **Countryside & Outdoor Services (£0.149m)** - The remainder of this saving is linked to key investments in the Hampshire Outdoors Service which are currently under review.

Adults, Health & Care - £1.635m:

- **Younger Adults (£1.435m)** - The majority of the remaining SP23 savings within Adults' relate to Younger Adults and have been rated as Amber due to the uncertain outcomes of care package reviews.
- **Governance and Assurance (£0.2m)** - The remaining £0.2m Amber savings for SP23 relate to efficiencies in this area. Details on how this saving will be achieved will not be known until the review of the Governance & Assurance function's operating model has been completed as part of SP25 planning.

Corporate Services - £0.105m:

- **Citrix Licensing (£0.105m)** - There are still £0.105m of Amber savings relating to Citrix licensing associated with the de-commissioning of Swift. Whilst this work is complete, contract negotiations have been complex and have led to some additional pressures created by Citrix changing their licensing models. It now seems likely that this saving will not be made and this will be reflected in the next update and included as part of the IT pressures list for 2025/26.

Section F: Savings Programme 2025

18. The cumulative savings position for the SP25 programme is set out in the table below with no changes to the overall expected savings, albeit £17.5m of the total is still subject to further decision making which has now been postponed until October.

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Revised Baseline Target	17.1	75.1	89.3	90.4
Actual Savings	3.7	3.7	3.7	3.7
Remaining Forecast Savings	13.4	71.4	85.6	86.8
Total Expected (Actual + Forecast)	**17.1**	**75.1**	**89.3**	**90.4**
Variance to target	-	-	-	-

19. The overall confidence levels for delivery of the programme, are as follows:

	RED	AMBER	GREEN	DELIVERED	TOTAL
Current saving status (£m):	3.1	74.5	9.1	3.7	90.4
Percentage of target:	3%	82%	10%	4%	

20. The majority of savings within the programme are currently rated as Amber. This reflects both the early stage of implementation of the programme which impacts current levels of certainty around delivery, and the £17.5m of proposals which remain subject to the outcome of Member decisions following the stage 2 consultation process.

21. A small number of proposals within the programme have been RAG rated Red, primarily within Older Adults. This reflects the increased level of risk around the current delivery plans given the recent service demand pressures. Mitigating actions are being progressed, however considerable uncertainty remains at this early stage of the programme.

22. Savings of £3.7m have been delivered in 2023/24, primarily within Corporate Services. These savings are included in the directorate outturn positions set out in Section G and have contributed to mitigating the significant budget pressures reported within Adults' and Children's Services.

Section G: 2023/24 financial outturn

23. Strong financial management has remained a key focus throughout the year. This is important at any time but is even more important at present given the County Council's challenging financial position. The County Council's financial management has continued to incorporate the regular review of in-year financial forecasts by accountable budget managers alongside monitoring the delivery of existing savings programmes and the organisation's overall financial resilience linked to the MTFS. This relies on the use of accurate and timely information and well-informed assumptions, albeit

uncertainty in the external environment continues to make forecasting more challenging.

24. Directorates are facing growing financial pressures, as has been regularly set out in the County Council's financial reporting, and this is reflected in the outturn position for 2023/24. Whereas in 2022/23 there was a small aggregate saving against directorate budgets (£3.5m), this year directorate expenditure in aggregate has been £21.8m greater than budget.

25. The table below summarises the net outturn position for Directorates and centrally held budgets compared with the final cash limit for the year before and after draws from Cost of Change (CoC) and corporate contingencies (some of which was specifically set aside for potential pressures across Adults' Health and Care and Children's Services). The figures exclude schools spending:

	Budget Variance	**Draws on CoC**	**Outturn Position**	**Use of corporate contingency**	**Remaining variance**
	£m	**£m**	**£m**	**£m**	**£m**
Adults' Health and Care	10.7	(3.7)	7.0	(7.0)	-
Children's Services – Non Schools	27.4	(7.9)	19.5	(9.2)	10.3
Corporate Services	(3.9)	-	(3.9)	-	(3.9)
Hampshire 2050	(0.8)	-	(0.8)	-	(0.8)
Universal Services	1.7	(1.7)	-	-	-
Directorate Total	**35.1**	**(13.3)**	**21.8**	**(16.2)**	**5.6**
Coroners	0.8	-	0.8	(0.8)	-
Doubtful debt provision	10.3	-	10.3	(10.3)	-
Other central items	1.6	-	1.6	(1.6)	-
Centrally Held Total	**12.7**	**-**	**12.7**	**(12.7)**	**-**
Grand Total	**47.8**	**(13.3)**	**34.5**	**(28.9)**	**5.6**
To be Funded by a draw from the BBR					**(5.6)**

26. It should be noted that during the year, a contribution of £17.5m was made to the BBR; therefore, after allowing for this year end draw of £5.6m, the net contribution to the BBR in 2023/24 is £11.9m. Effectively had we not transferred £17.5m to the BBR mid year, this £11.9m would have been reported as the net budget saving position.

27. After taking account of the planned draw of £74.1m to balance the 2024/25 budget, the balance on the BBR will be £21.3m. Summary narrative for each of the Directorates is provided below.

Adults' Health and Care

28. The summary position for Adults' Health and Care is shown in the following table:

Area	**Outturn variance (£m)**
Older Adults	7.8
Younger Adults	5.1
Other Adults budgets	(2.2)
Cost of Change	(3.7)
Directorate total	**7.0**

29. The directorate is reporting a £7m budget pressure after fully utilising remaining cost of change reserves, which will be met from corporate contingencies.

30. The position on care budgets has worsened since Q2 as set out above, however this increase has been offset by additional income from the NHS for hospital discharge services, draws on remaining legacy COVID grant funding and lower than budgeted staffing costs.

31. **Older Adults** - we have seen around 200 more Residential clients than budgeted levels, which is the primary reason for the pressure within Older Adults. Growth in Nursing Clients remains below MTFS levels; however, this has been more than offset by higher than expected average package costs.

32. **Younger Adults** - client growth has exceeded MTFS levels across all client groups with the most significant pressures seen within Learning Disability supported living and Physical Disability residential and home care.

33. Initial forecasts of the impact of in year client growth on the budget position for 2024/25 suggest an opening pressure of around £5m, the majority of which is within Younger Adults due to the average length of placements.

Children's Services

34. The summary position for Children's Services is shown in the following table:

Area	**Outturn variance (£m)**
School Transport	16.8
Special Educational Needs	3.7
Children's Social Care	8.4
Other Non-Care Budgets	(1.5)
Cost of Change	(7.9)
Directorate total	**19.5**

35. The directorate is reporting a £19.5m budget pressure after fully utilising remaining cost of change reserves. The Childrens position has worsened substantially over the latter half of the year, with additional pressures realised in the key risk areas highlighted at Q2, School Transport and Children's Social Care.

36. **School Transport Service** - an increased year end pressure is reported due to a decline in mainstream school provision which continues to increase unit costs, and a dramatic increase in pupils with Special Educational Needs and Post 16 pupil numbers, exacerbated by significant cost increases across the market. Of the total £16.8m year end variance, around £9.2m relates to SEN, £3.4m relates to mainstream secondary transport and £2.4m for post 16 education.

37. Additional corporate funding was added to the transport budget for 2024/25 to fully fund the pressure forecast in Q1. However, since the budget was set, the additional pressure emerging in year is expected to result in an opening pressure of £8.1m for 2024/25, rising to at least £9.5m by 2025/26. This is despite significant action that has been taken by the service over many to control costs and provide innovative solutions to the complex school transport landscape. However, this has had a minimal impact in the face of a difficult and limited market and inflationary pressures on fuel and the cost of drivers who are in short supply.

38. **Special Educational Needs** – is reporting a staffing pressure for Educational Psychologists and the SEN service due to commensurate growth in number

of Education Health and Care Plans which is in line with the previous forecast position.

Children's Social Care

39. **Children with Disabilities (£5.4m)** – the position has worsened by £3.1m due to increasing costs for homecare caused by reducing availability of market resources to meet the pre-existing unmet assessed needs of children. The service is urgently reviewing spend and activity for this with the support of Finance to understand the cost drivers, potential mitigations and to implement an improved forecasting approach for 2024/25.

40. **Children Looked After (£1.5m)** - finished the year with an outturn pressure due to the commencement of 13 additional placements over the 5 months from November, which were not reflected in the revised budget position. The future year impact of the pressures across Childrens Social Care is currently under review.

41. **Children in Need (£2.2m)** - the reported outturn pressure is partly due to a single high cost placement required during the year. The service is launching a review of spend and activity with the intention of increasing guidance and control in this area which will run alongside the SP25 portfolio of programmed work.

42. **Other Social Care Budgets (-£0.7m)** – budget savings were reported for the remaining areas of Children's Social Care, principally within Early Help and in-house children's units.

Schools budget

43. A total net pressure of £37.8m has been reported against the schools budget, of which £41.4m 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 over £123m.

44. The pressure on the high needs block is attributable to continuing increases in the numbers of pupils with Education, Health and Care plans (EHCPs) across mainstream schools, special schools, post-16 provisions and resourced provisions. Due to the significant rise in EHCPs and increasing complexity of need, it has not possible to accommodate all pupils with an EHCP in a maintained school placement despite new places being created in year which has increased the use of Independent and Non-maintained Special Schools.

45. 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.

46. It is important to note 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 Government intervention. We have previously reported that the statutory override allowing us to carry forward the deficit ends on 31 March 2026 and at this stage there is no national solution to this problem. 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.

Universal Services

47. The Universal Services directorate has reported aggregate expenditure in excess of budget of £1.699m (1.1%) across the range of services delivered by the directorate. Within this position are a number of variances both above and below budget, the most noteworthy of which are discussed below, as well as the cost of one-off investment.

Area	**Outturn variance (£m)**
Highways & Engineering	(3.5)
Waste & Environmental Services	(0.9)
Property, Business Development and Transformation	(2.0)
All other services	0.1
One off investment	8.0
Directorate total	**1.7**

- **Highways, Engineering and Transport (£3.5m)** – the position includes a budget saving of £1.1m for Concessionary Fares due to patronage remaining below pre-pandemic levels, which will be ringfenced to support local bus services and related infrastructure. In addition, staffing costs were lower than budgeted due to vacancies, including within Safer Roads, where recruitment continues following the transfer of on-street parking from districts, and within School Crossing Patrols, where it has not been possible to fill vacancies. The

County Council continues to face challenges relating to winter maintenance, weather emergencies, and highways revenue maintenance activity.

- **Waste and Environmental Services (£0.9m)** – budget savings relate to staff vacancies, reduced court costs due to successful prosecutions within Trading Standards and additional income from Environmental Services Asbestos and Scientific Services.

- **Property, Business Development and Transformation (£2.0m)** - budget savings were reported within Facilities Management due to challenges in staff recruitment, and within Property Services due to additional income generated through increased activity levels, high occupancy rates and strong rents.

- **One off Investment £8m** – the directorate position also includes £8.0m of planned one-off investment to support the SP23 and remaining Tt2021 programmes as well as investment in services including country parks and countryside footpaths.

Corporate Services

48. Corporate directorates are reporting a budget saving of £3.9m, of which £3.1m relates to early delivery of SP25 savings. The majority of the remaining budget saving relates to recruitment challenges to fill staff vacancies.

Hampshire 2050

49. The directorate is reporting a budget saving of £0.8m which mainly relates to increased planning fee income and early achievement of SP25 savings, as well as savings related to holding staff vacancies across the directorate.

Central Items

50. The County Council holds a number of budgets outside of the directorate cash limited budgets. The overall position on central items at year end remains within the funding available. The summary outturn position for central items is as follows:

51. **Coroners (£0.8m)** – This pressure has been highlighted during the year and is the combination of a number of factors. The number of postmortems and inquiries continues to increase with numbers well above pre pandemic levels. This causes increased activity for the coroners service and also feeds through to higher funeral director and mortuary fees. The budget for the service has been increased by £1m for 2024/25 to fully fund the anticipated ongoing pressure.

52. **Doubtful debt provision (£10.3m)** – It is proposed to increase the provision for doubtful debts by £10.3m due to a reappraisal of the level of collectable debt and a significant increase in debt balances compared to the prior year and the decision to include increasingly prudent allowances to reflect the potential recoverability of aged debt. A debt review is underway in the current year.

53. **Other items (£1.6m)** – Includes a planned £2.2m top-up of the Investment Risk Reserve to 2% of current total investment as approved by Cabinet in February 2024. Also includes some minor variances on government grants and levies compared to budgeted levels.

Section H: General balances and earmarked reserves

54. The level and use of local authority reserves has been a regular media topic over a number of years. Whilst reserves can assist local authorities with mitigating the impact of financial pressures in the short term, as demonstrated by the County Council's use of its Budget Bridging Reserve, in the medium term however, one-off reserve funding does not provide a sustainable solution to an on-going budget deficit.

55. The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long term recurring savings through the use of reserves only serves to use up those reserves very quickly (meaning that they are not available for any other purposes), and merely delays the point at which the recurring savings are required with even less time to seek and implement any further savings that can be found.

56. The County Council's approach to reserves and the delivery of transformation and savings has been applauded in the past by the Government and external audit as a sensible, prudent approach as part of the wider MTFS. However, the Council has now reached a financial tipping point beyond which it is unable to balance its budget through savings alone and is reliant on annual reserve draws to bridge the remaining shortfalls. This position has been reached following more than a decade of challenging financial circumstances including continued reductions in funding of local services and surging demand and inflationary pressures.

57. This financial tipping point was first reflected in a draw from reserves of £37.98m in 2022/23, on top of which a further net draw of £11.66m is required in 2023/24.

58. It is, however, worth noting that within this net position for 2023/24 is a reduction in County Council revenue reserves of £38.46m, offset by increases in reserves held on behalf of schools and the EM3 LEP and the balance of capital grants from government held in advance of expenditure on capital schemes.

59. Moreover, a number of favourable capital receipts in 2023/24 removed the need to use planned revenue contributions to capital in-year. Without these capital receipts, the reduction in revenue reserves would have been even more significant.

	31/03/2022	**Movement**	**31/03/2023**	**Movement**	**31/03/2024**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
General Fund	24,098	900	24,998	900	25,898
Fully committed	212,917	8,348	221,265	(17,728)	203,537
Directorate/trading reserves	186,117	(34,078)	152,039	(18,804)	133,235
Risk reserves	49,934	3,845	53,779	1	53,780
Corporate reserves	125,822	(24,088)	101,734	(2,828)	98,906
County Council revenue reserves	**598,888**	**(45,073)**	**553,815**	**(38,459)**	**515,356**
EM3 LEP reserve	3,741	(169)	3,572	269	3,841
Schools reserve	83,903	(2,580)	81,323	5,494	86,817
Capital grants unapplied	196,447	9,845	206,292	21,037	227,329
Total reserves	**882,979**	**(37,977)**	**845,002**	**(11,659)**	**833,343**

60. It is also worth noting that the table excludes the DSG deficit as temporary regulations introduced in April 2020 require this to be kept separate from the County Council's general fund and is therefore presented within unusable reserves. The DSG deficit was £123.9m at 31 March 2024.

61. The General Fund Balance of £25.9m is the only reserve that is in effect not earmarked for a specific purpose. The balance is broadly in line with the current policy of carrying a general balance of approximately 2.5% of the

County Council's budget requirement. This would be £25.3m based on the 2023/24 budget, increasing to £26.9m for 2024/25 reflecting the increased cost and demand pressures being faced by the County Council.

62. In addition to the general fund balance, the County Council maintains earmarked reserves for specific purposes. This includes balances already committed to existing spend programmes, such as schemes in the capital programme, and balances restricted for specific purposes (such as balances held relating to Public Health). The County Council also holds reserves to mitigate specific risks (insurance and investment) and corporate reserves, which now almost entirely consists solely of the Budget Bridging Reserve.

63. As noted above, the County Council's reserves also include balances held on behalf of schools and the EM3 LEP and capital grants received prior to scheme expenditure being incurred. Following the changes to LEPs from 1 April these funds will revert to Hampshire and Surrey County Councils.

Section I: Review of reserves and commitments

64. As part of the Legal Minimum Service Level (LMSL) exercise a further review of reserves will be undertaken along with a review of commitments within the capital programme that are funded by revenue reserves.

65. Opportunities for contributing further to the BBR will be explored as part of these exercises and it is likely that separate cost of change reserves for Directorates will be removed given that both Adult's Health and Care and Children's Services have now exhausted their remaining Cost of Change reserves and reflecting a 'one organisation' approach to corporate financial management as we move towards 2025/26 and the challenges this brings.

Section J: Treasury management

66. The County Council prepares an annual report on its treasury management activity. This report is presented to Cabinet and County Council for approval and is also scrutinised by the Audit Committee. This follows on from the Treasury Management Strategy, which is set prior to the start of the financial year, and periodic monitoring reports throughout the year. The County Council's approach complies with the requirements of the CIPFA Treasury Management Code (2021).

67. The annual report (Appendix 2) sets out the performance of the treasury management function during 2023/24 and confirms that all treasury

management activity has complied with the County Council's Treasury Management Strategy and all relevant statute, guidance and accounting standards.

Section K: Capital and Investment Strategy including Prudential Indicators

Capital Strategy

68. The County Council prepares an annual Capital Strategy, as required by the CIPFA Prudential Code (2021). The strategy gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. The reporting against required prudential indicators is included in Annex 4 to Appendix 3.

69. The Prudential Code was developed by CIPFA to support local authorities in their capital investment decisions. The objectives of the Prudential Code include ensuring that a local authority's "*capital expenditure plans and investment plans are affordable and proportionate"*, with all external borrowing *"within prudent and sustainable levels*". The Code also sets an expectation that the capital programme *"must be driven by the desire to provide high quality, value for money public services."* The Prudential Code considers legitimate examples of prudent borrowing to include (amongst other things) *"the financing of capital expenditure primarily related to the delivery of a local authority's functions".*

70. The County Council's Capital Strategy and the included prudential indicators help ensure that the capital programme meets these objectives. Included within the Capital Strategy is the framework for the use of prudential borrowing under which the County Council operates, setting out four scenarios where the County Council will consider the use of prudential borrowing. This includes:

    - Borrowing for which loan charges are financed by virement from the Executive Member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income.
    - 'Bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in years that such costs are incurred.

- Capital investment by business units, to be funded by business unit reserves.
- Temporary borrowing to accommodate shortfalls in general capital resources.

71. This framework was originally agreed by Cabinet in 2006 and has served the County Council well, enabling it to use prudential borrowing where appropriate but only where there has been a clear financial case to do so.

72. It is more important than ever given the financial challenges facing the County Council that any decisions around additional borrowing are closely controlled and that these decisions are consistent with Legal Minimum Service Level considerations.

73. To ensure that the County Council can make the best decisions around maximising the use of its scarce resources in delivering services to the people of Hampshire, it is recommended that the framework for prudential borrowing is updated to explicitly include taking forward critical schemes funded by borrowing as long as the scheme is consistent with the principles of Legal Minimum Service Levels. Section A of the Capital and Investment Strategy in Appendix 4 has been updated on this basis.

Minimum Revenue Provision Statement

74. The document also includes the County Council's Minimum Revenue Provision (MRP) Statement, which is required by the government's statutory guidance on MRP.

75. The government has recently published the outcome of its consultation on changes to regulations and guidance related to MRP. The new regulations and guidance will come into force from April 2025 except for a change related to capital loans financed by debt, which became applicable on 7 May 2024.

76. The County Council has reviewed the consultation outcome and made minor amendments to its MRP Statement, primarily to state that MRP will not start being charged until assets become operational. This was already allowed within the current guidance (version 4) and is specifically set out within the updated regulations. It ensures that MRP is charged over the period over which the capital expenditure provides benefits, as required by the regulations.

77. The MRP Statement states that MRP for unsupported borrowing will be calculated using the asset life method. The County Council has reviewed the asset lives used to calculate MRP and identified that for land and buildings the previously used average of 25 years was not an accurate representation the period over which the capital expenditure provides benefits. The calculation of future MRP charges will be updated to better reflect the

expected asset life of each asset, which for land and buildings is likely to be 50 years in most cases. The effect will be to spread over the remaining useful life of each asset when recalculating the MRP charge on the residual Capital Financing Requirement (CFR); as a consequential byproduct the council's forecast MRP payments will reduce, which will lead to a revenue savings for 2024/25 onwards.

Investment Strategy

78. There are no changes to the non-treasury Investment Strategy. The strategy focuses on investments that are not made for treasury management purposes and supports the transparent reporting and democratic accountability for any such investments. The County Council's property valuers have reclassified a number of assets previously held as investment properties. Following a review of the purpose of holding these assets, they have been reclassified as surplus assets, as they are not held solely for capital appreciation and/or rental income. This will impact future reporting of the investment indicators included within the Investment Strategy.

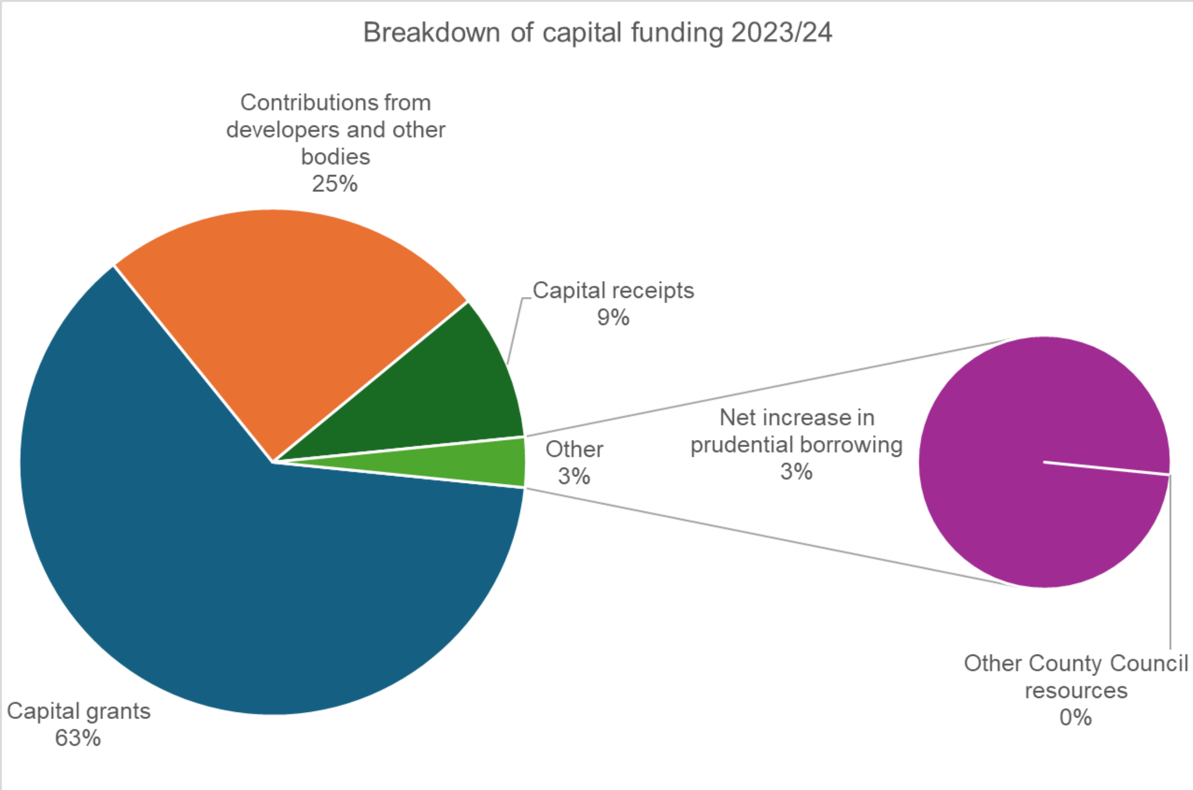
Section L: Capital spending and financing

79. **Capital expenditure and funding:** The County Council incurred £195.8m of capital expenditure during 2023/24. This reflects expenditure on schemes within the 2023/24 capital programme as well as the ongoing delivery of schemes from previous years, as capital schemes can often span multiple years.

80. The County Council's capital expenditure in 2023/24 included:

- £66.2m for the **structural maintenance and improvement of roads and bridges**
- £49.8m of **Integrated Transport Plan** schemes including major road schemes and active travel schemes including walking and/or cycling improvements
- £24.4m of investment in **new and extended school buildings** to provide school places in Hampshire County Council
- £19.1m to address **condition based enhancements to the schools estate**
- £15.5m allocation of **Disabled Facilities Grant funding** to allow adaptations to people's homes

81. A summary of the funding sources used for this capital expenditure is shown in the chart below with more detailed information in Table 6 of Annex 3,



82. **Prudential borrowing:** Prudential borrowing has been used to fund £13.529m of the capital expenditure incurred, in line with previous approvals. Of this amount, £7.957m will be funded through future MRP charges to the revenue budget and £5.572m will be repaid from capital receipts and other funding sources, including developer contributions. Repayments of prudential borrowing of £7.265m were made during 2023/24 from other sources. The net change in prudential borrowing was therefore £6.264m.

83. **Carry forwards:** The agreed capital programme for 2023/24 included schemes to the value of £329.817m. Of this total, £182.460m was committed during 2023/24 leaving £147.357m to be carried forward to 2024/25. Within this amount, the carry forward of £18.764m from the Children's Services (£2.1m), Hampshire 2050 (£12.4m) and Universal Services (£4.3m) programmes was built into the February 2024 capital programme reports approved by Cabinet and County Council. The approval to carry forward the remaining £128.593m is therefore requested. In addition, approval is also requested to carry forward £8.511m of funding relating to Extra Care housing starts from schemes in previous financial years where unspent balances have now been released. Further details on proposed carry forwards are provided within Appendix 3.

84. **Updated capital programme:** These carry forwards are reflected in the updated capital programme shown in the table below, along with a number of other changes to the programme, which are set out in more detail beneath the table. Cabinet and County Council are asked to approve the updated capital programme.

Table 4 – updated capital programme

Prior Years £'000		**Revised 2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**	**Total £'000**
12,274	Adults' Health & Care	15,783	229,040	14,252	14,252	285,601
15,343	Children's Services	26,863	138,285	85,338	41,208	307,037
3,788	Hampshire 2050	1,169	44,369	100	1,776	51,202
262,892	Universal Services	138,645	217,214	99,657	84,041	802,449
0	Centrally Held	0	0	13,669	13,669	27,338
294,297	**Total**	**182,460**	**628,908**	**213,016**	**154,946**	**1,473,627**
			996,870			

Changes to the capital programme since February 2024

289,376	February 2024	307,998	509,326	215,942	155,372	1,478,014
(8,511)	Carry forwards	(128,593)	132,104	5,000	0	0
13,432	Other changes	3,055	(12,522)	(7,926)	(426)	(4,387)
294,297	**Total**	**182,460**	**628,908**	**213,016**	**154,946**	**1,473,627**

85. The following changes to the Universal Services and Hampshire 2050 capital programmes require the approval of Cabinet and County Council.

86. The final phase of the Botley Bypass scheme within the Universal Services capital programme creates a new road from Winchester Street (eastwards), crossing the River Hamble to a new roundabout at the A334/A3051 junction.

Completing the bypass is a longstanding commitment by the County Council with high local expectations. The County Council has worked closely with Milestone Infrastructure on Stage 1 of a contract to deliver and develop the project. An updated cost forecast has been produced reflecting current market conditions and the completion of a refined design that addresses previously unknown and unforeseen ground condition issues at the river crossing. Whilst the costs have increased, the benefits to Botley Village and the surrounding area remain strong and the overall strategic business case remains positive. It is recommended that the scheme value is increased by £16.488m (from £31.026m to £47.514m) to be funded from the capital payments reserve to account for these additional costs and allow an appropriate contingency.

87. It is also recommended that the scheme value for the associated Uplands Development Infrastructure (UDI) scheme is increased due to cost pressures and fees for the defects period. The increase required for the scheme within the Hampshire 2050 capital programme is £3.153m and the recommendation is that this is largely funded by a draw from the capital payments reserve (£2.973m) with the remaining balance transferred from the Universal Services capital programme (£0.180m). This funding relates to a small underspend against the Woodhouse Lane South scheme, part of UDI delivered by Universal Services.

88. Plans for the Southern Gateway will be amended to focus on existing surface issues and links to the UDI scheme, resulting in a lower scheme cost. It will now be possible to deliver this scheme through the Universal Services highways maintenance programme and Integrated Transport Block funding (ITB) at an estimated cost of £2.5m. It is recommended that this scheme is added to the Universal Services capital programme (2024/25) funded by the structural maintenance of roads and bridges allocation (£1.25m) and the allocation of ITB funding (£1.25m).

89. It is also recommended that the scheme value for the Manydown investments within the Hampshire 2050 capital programme is reduced by £25m, releasing this earmarked funding within the capital payments reserve. The change to this scheme is based on the final cost and funding position between Hampshire and Basingstoke and Dean Councils, The Manydown Company Limited (who own the land) and Urban and Civic who are the master developer within the joint venture company.

90. The reduction does not represent a reduction in the scheme itself it is a change to the way it is financed that impacts on the capital programme due to the technicalities of local government capital financing rules. The County Council had originally made provision (at its own discretion) for loan funding to the development company to help fund the initial infrastructure for the site. Since this was classified as a ‘service loan’ rather than a treasury management loan, the Council is required to fund it as if it was capital

expenditure and resources were found in the Capital Payment Reserve to facilitate this.

91. Based on the final cost and funding position the loan funding will not be provided by Hampshire and it is therefore possible to reduce the value of the scheme and to release the funding for other purposes.

92. Phase 1 of the A326 Fawley Waterside (junction improvement) has been delivered by Hampshire County Council primarily funded by the Solent LEP, now known as the Solent Partners. Phase II proposes further junction improvements along the corridor, however, the requirement for Phase II improvements is predicated upon future development. There is no funding agreement currently in place for Hampshire County Council to deliver this phase of the project. Approval to reduce the scheme value for the A326 Fawley Waterside scheme by £5.6m from £11.4m to £5.8m in the capital programme is requested.

93. Cabinet and County Council are also asked to approve bringing forward £7.5m of funding from 2025/26 to 2024/25 as part of the Universal Services capital programme to deliver earlier additional improvements to highways under the ‘Stronger Roads Today’ campaign.

94. The updated capital programme also includes the following changes, with further details included in Appendix 3.

- the addition to the 2024/25 capital programme of the A27 Segensworth Link scheme (£1.878m) funded by DfT Active Travel grant funding delivering cycling routes;
- an addition to the A326 North Waterside Improvement scheme (£1.2m) funded from Freeport capital (£0.6m) and DfT’s Large Local Majors programme (£0.6m);
- changes to the capital programme to reflect the reduced allocation from DfE of Schools Condition Allocation (SCA) funding, resulting in an £0.426m reduction to the Universal Services capital programme in each of the next 3 years;
- a number of other new or updated schemes under £1m all within the Children’s Services and Universal Services programmes.

95. Further details on the outturn position for capital are provided in Appendix 3.

Section M: Assurance statement

96. The Accounts and Audit Regulations require the County Council to publish an Annual Governance Statement (AGS) alongside its Statement of Accounts.

Approval of the AGS is delegated to the Audit Committee, with the AGS due to be taken to the meeting in July 2024.

97. 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 presented to the Audit Committee, anticipated to be at the July 2024 meeting, but current indications are that a 'reasonable' assurance opinion will be given for 2023/24.

98. In the Chief Internal Auditor's most recent annual report, received by the Audit Committee in September 2023, the Chief Internal Auditor concluded that for 2022/23:

> *"I am satisfied that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment.*
>
> *In my opinion frameworks of governance, risk management and management control are reasonable 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."*

99. The separate accounts for the Hampshire Pension Fund are incorporated into the County Council's Statement of Accounts. The accounts for 2023/24 recorded that the fund's assets had increased from £8.96bn to £10bn during the year. The Chief Internal Auditor provides a separate assurance opinion for the Pension Fund, which is reported to the Pension Fund Panel and Board for approval. This has concluded that:

> *"In my opinion frameworks of governance, risk management and management control are substantial and audit testing has demonstrated controls to be working in practice."*

Section N: Statutory Statement of Accounts

100. The Audit Committee has received regular updates from the Chief Financial Officer and the external auditor (EY) on the national audit backlog, the measures being proposed to address this backlog and the impact on the County Council's statutory statement of accounts.

101. The County Council has always published its draft accounts on time to meet the statutory requirements set out within the Accounts and Audit

Regulations. This was achieved again this year, with the draft accounts published on 31 May 2024 to allow the period of public inspection to begin on the first working day of June. The outturn position presented in this report is consistent with the information presented in the Statement of Accounts.

102. A cross-system statement was issued in July 2023 on proposals to clear the national audit backlog and embed timely audits. This was followed by a period of engagement, with consultations on proposals issued by DLUHC, CIPFA and the National Audit Office (NAO) in February and March 2024 following a further joint statement. At the time of writing the outcomes of these consultations have not been published. Given the need to publish a set of draft accounts by 31 May the County Council and EY are working on the basis that the measures put forward in the consultations are agreed as this is the best available information.

103. The external auditor presented an interim update on the audit of the 2022/23 accounts to the Audit Committee in March 2024 alongside an audit plan for 2023/24. This explained that the external auditor did not plan to complete a full 2022/23 audit and would instead focus on starting the 2023/24 audit promptly, with the aim of 'resetting' audit timelines to allow the audit to conclude by September 2024. This would result in a disclaimed opinion being issued on the 2022/23 and 2023/24 accounts because the 2022/23 accounts had not been fully audited (meaning there would not be audited opening balances for 2023/24). The audit opinion will need to clearly state that the disclaimed opinion is not because of any identified issues with the quality or accuracy of the published statement of accounts but is due to the national audit backlog and the approach being taken to address this.

104. Section H of this report discusses useable reserves. These reserves are an important part of the County Council's Balance Sheet, which is presented once a year as part of the Statement of Accounts. The Balance Sheet represents the County Council's assets, liabilities, and reserves at the end of the financial year and the CIPFA Financial Management Code recommends the ongoing monitoring of elements of the balance sheet which pose a significant risk to financial sustainability. This monitoring is conducted by the Chief Financial Officer and reflected in financial planning and the Medium Term Financial Strategy, Treasury Management Strategy, Capital and Investment Strategy, and Reserves Strategy.

105. Given the County Council's challenging financial outlook, key Balance Sheet items relate to useable reserves; cash and investment balances; the level of external borrowing; and the management of working capital, and these are regularly reviewed. Furthermore, it is also important that provisions and contingent liabilities are appropriately identified, valued and monitored. The DSG deficit is classified as an unusable reserve due to a temporary statutory requirement to keep it separate from the general fund,

however this is also a significant balance sheet item.

Section O: Consultation and Equalities

106. Consultation on the budget is undertaken when the County Council considers savings to help balance the budget. All savings proposals put forward by the County Council have Equality Impact Assessments (EIA) 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.

107. 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 EIAs are required.

Section P: Climate Change Impact Assessment

Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts 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, however, since this is purely a financial report there are no climate change impacts to report.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	Yes
People in Hampshire live safe, healthy and independent lives:	Yes
People in Hampshire enjoy a rich and diverse environment:	yes
People in Hampshire enjoy being part of strong, inclusive communities:	Yes

Other Significant Links

Links to previous Member decisions:	
Title	Date
Revenue Budget & Precept 2024/25 and Capital Programme 2024/25 to 2026/27 lhttps://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=59831&PlanId=0&Opt=3#AI66090	Cabinet – 6 February 2024 and County Council – 22 February 2024
Financial Update and Budget Setting and Provisional Cash Limits 2024/25 https://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=59339&PlanId=0&Opt=3#AI64756	12 December 2023

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

Appendix 1 – directorate summaries

Adults' Health & Care Directorate - Revenue Expenditure 2023/24

Major variations in cash limited expenditure – £7.017m (£1.2%) in excess of the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Director	(49)	(3.0)	The savings mainly relate to reduced spend on compulsory added years pension costs and DBS checks
Headquarters	(1,612)	(6.0)	The year end reported savings mainly relate to reduced spend on non-care contracts and staff budgets, due to both vacant posts and additional income from secondments
Older Adults	7,828	3.3	Pressures were seen within residential, live in care and direct payments where client numbers were higher than budgeted. Furthermore, continued increases in average rates paid for care above those budgeted within residential and nursing were experienced due to shortages in the sector of skilled staff and general inflationary increases.

Younger Adults	5,131	2.3	The pressures were predominately within the supported living budgets due to an increase in demand and client needs. There were also pressures within homecare due to increases in demand and average weekly costs.
HCC Care	128	0.2	The pressure is due to agency staff being used to cover staff vacancies and absence, and pressures on supplies and services budgets such as catering, equipment and laundry. There was also a pressure on the reactive maintenance budget due to essential works and one-off equipment. These pressures have been partially offset by additional income for the discharge to assess beds and Specialist Pathway clients.
Governance & Assurance	(124)	(6.6)	The year end reported savings mainly relate to vacant posts
Centrally Held	(4,305)	14.6	The savings mainly relate to general budget savings captured centrally and additional income from Health in respect of reablement services.
Public Health	20	0.0	The small additional spend of £20k on Public Health is the net result of lower than expected activity on sexual health, health check and tobacco budgets which has been used to fund the Investing in Public Health programme.
Total	**7,017**	**1.2**	

Children's Services Directorate - Revenue Expenditure 2023/24

Major variations in cash limited expenditure – £19.5m (£1.4%) in excess of the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Schools Budget			
Early Years Block	(1,584)	(1.7)	There is a budget saving on the free entitlements for both two year olds as well as three and four year old's funding, due to lower than expected numbers of children accessing the entitlements across the year from a reduction in the population of this age band.
Schools Block	(1,801)	(0.3)	Within the Growth Fund budget the position includes a budget saving on 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 reported a saving as a result of fewer than budgeted redundancy cases.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
High Needs Block	41,412	22.4	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, post-16 provisions and resourced provisions. There is also a continuation of the pressure on the service for discretionary 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.
Central School Services Block	(257)	(3.2)	The reported saving relates to fees to independent schools for pupils without SEN. There were a significantly smaller number of placements funded than had been assumed in the budget.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Carry Forward of Dedicated Schools Grant (DSC) Additional Deficit	(37,770)	(3.6)	The total 2023/24 pressure of £37.8m 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 £123m 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		Reason for Variation
	£'000	**%**	
Non-Schools Budget			
School transport	16,791	32.7	The service continues to experience significant rising costs for arranging transport in conjunction with increased demand for Special Educational Needs (SEN) requests. Rising costs are due to challenging market conditions, particularly for transport to mainstream schools where there is a shortage in the supply of large buses leading to increased unit costs. In addition further challenges arise from the continued increase in the number of SEN transport contracts required to meet the complex needs of a growing number of children with Education, Health and Care Plans (ECHPs).
Inclusion Services (Special Educational Needs)	3,723	58.0	Significant demand for statutory SEN assessments has caused pressure on the staffing budgets in this service by needing to incur additional staff costs, including agency staff, to meet the high demand for this service as numbers of referrals received continue to rise.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Children's social care (net pressure)	8,374	3.3	There is significant pressure across budgets for the provision of care for Children Looked After despite contributions from Health for packages they have a funding responsibility for, particularly for those in residential provisions and from increased costs associated with the government reform to regulation of supported accommodation providers. Expenditure on homecare for Children with Disabilities has increased notably due to recent increased availability of market resources to meet the pre-existing unmet assessed needs of children. There continues to be pressure from the use of social work agency staff with reliance on agency staff necessary to mitigate the short supply of qualified social workers. This continues to be a national issue which many other authorities continue to face.
Planned one-off investment	6,262		Net draw from the Children's Services cost of change reserve for planned investment to support savings programmes as well as contributing toward the replacement of the social care IT system.
Net Early Achievement of SP25 savings	(101)		Planned early achievement of savings used to offset the directorate's other pressures.
Various other (net)	(1,397)	(3.3)	The net effect of various one-off budget savings mainly relating to staff budgets due to difficulty in recruiting to vacant posts adding further challenge to continued service delivery underpinned by careful management of spend.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Draw from Cost of Change reserve	(14,154)		Residual balance on the Cost of Change reserve has been used to offset the directorate pressure reported
Sub-Total Non-Schools Budget	**19,498**	**5.4**	
Total Children's Services Budget	**19,498**	**1.4**	

H2050 Directorate - Revenue Expenditure 2023/24

Major variations in cash limited expenditure – Saving of £0.776m (4.3%) against the adjusted cash limit.

Main variations

Service Area	**Variance (Under) / Over Budget £'000**	**%**	**Reason for Variation**
Culture & Communities	(179)	(7.6)	Mainly relating to the careful management of spend relating to non-pay expenditure and lower than anticipated spend on the community grants budgets. Increased energy costs impacted this area however corporate support negated the pressure being seen on the service.
Skills, Economy & Planning	(593)	(8.3)	Increased Planning fee income as well as savings relating to holding staff vacancies across the service alongside additional grant funding.
H2050 Directorate	(15)	(2.9)	IT pressures offset by part year vacancy.
Strategic Assets	(204)	(2.5)	Increased business rates impacted this area however corporate support negated the pressure being seen on the service. Savings relating to staff vacancies across the service.
Planned one-off investment	614	100	
Early Achievement of Savings	(400)	(100)	
Total	**(776)**	**(4.3)**	

Universal Services Directorate - Revenue Expenditure 2023/24

Major variations in cash limited expenditure –£1.699m (1.1%) in excess of the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Highways, Engineering & Transport	(3,543)	(2.3)	The position includes a budget saving of £1.078m for Concessionary Fares, which in accordance with the 13 March 2023 Executive Lead 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 (DfT). However, for 2024/25 new DfT guidance has been issued and it is anticipated that the budget savings seen in the past two years will cease. The remaining savings largely reflect staff vacancies within Safer Roads as recruitment continues following the transfer of on-street parking from the districts back to the county council, and vacancies within School Crossing Patrols, which have not been possible to fill.

			The winter maintenance / weather emergencies budget incurred a budget pressure of £0.401m due to continued unpredictable weather this year, with even more named storms than last year. The resulting high ground water levels caused significant issues with flooded roads and road closures, along with the costs of ensuring drainage is sufficient to minimise flood impact. However, this pressure was met from the winter maintenance / weather emergencies contingency reserve and is therefore not reflected in the net financial position for Universal Services. The highways revenue maintenance budget continues to see high activity across its services with unprecedented levels of demand and public contacts. Pothole repairs and rectifying safety defects have been prioritised, utilising internal funding allocated under the Safer Roads Today initiative. Arboriculture have seen a pressure emerging this year with the actual costs of dealing with Ash die-back exceeding the available corporate funding.
Waste, Environmental Services	(862)	(0.6)	The savings relate to additional income from Environmental Services Asbestos and Scientific Services, with the latter maintaining turnover for the financial year of over £3m for the second year in a row. However, planning fees were lower than budgeted this year, reflecting the volatile nature of applications across financial years. Successful prosecutions within the Trading Standards area, with many perpetrators pleading guilty rather than opting for a

			longer trial, has led to reduced court costs and therefore a saving against budgeted legal costs. Staff vacancies have been seen across the service contributing further to the savings.
Recreation, Information & Business Services	99	0.1	Despite the cost-of-living crisis, the “choose to use” services within this branch have remained attractive to users which has resulted in a positive impact on income across the service areas. However, this continues to be more than offset by cost-of-living pressures on utilities, cleaning and priority maintenance costs. Increased income has also been received from Registration services such as licences, permits, certificates and marriage notices.
Property, Business Development & Transformation	(1,987)	(1.3)	Difficulties in recruiting staff to Facilities Management positions continues to be an issue, with a successful, well-managed recruitment drive only partially mitigating this, resulting in a saving against the budget. Total Property Services income of £25.5m generated net savings of nearly £0.9m against the budget, with increased activity beyond targeted levels. High occupancy rates and strong rents has also contributed to a surplus above the targeted forecast in this area of £0.278m. £0.163m of the budget saving relates to Climate Change initiatives that are part of the £1.2m two-year programme funded by the realignment of the former Community Grants

			Fund, as agreed by Cabinet in February 2021. These in-flight projects are now expected to be completed in 2024/25.
Planned one-off investment	7,992	5.1	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. The Directorate continues to take every opportunity to make savings in 'business as usual' work wherever possible.
Total	**1,699**	**1.1**	

Corporate Services Directorate - Revenue Expenditure 2023/24

Major variations in cash limited expenditure – Saving of £3.9m (5.5%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Corporate Services	(3,869)	5.5	Corporate Services have achieved early delivery of SP25 totalling £3.1m. The majority of the remaining budget saving relates to recruitment challenges to fill staff vacancies.
Total	**(3,869)**	**5.5**	

Treasury Management Outturn Report 2023/24

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 Treasury Management Code), last updated in 2021. The CIPFA Treasury Management 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 2023/24.

Executive Summary

2. The County Council has adopted the CIPFA Treasury Management Code which requires the County Council to approve, as a minimum, treasury management semi-annual and annual outturn reports. This report includes the requirement in the CIPFA Treasury Management Code 2021, mandatory from April 2023, of reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the County Council's normal End of Year Financial Report.

3. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2024. 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.

4. 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."

5. This annual report sets out the performance of the treasury management function during 2023/24, to include the effects of the decisions taken and the transactions executed in the past year.

6. 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. In addition, support in

undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

7. In complying with its duties to determine affordable borrowing limit, local authorities must have regard to CIPFA's Prudential Code of Capital Finance in Local Authorities (the Prudential Code) which 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 2024.

External Context

8. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2023/24.

Economic background

9. UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February 2024, but was still above the Bank of England's (BoE) 2% target at the end of the period.

10. The UK economy entered a technical recession in the second half of 2023. Over the 2023 calendar year GDP (gross domestic product) growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Quarter 1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

11. Having begun the financial year at 4.25%, the BoE's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. This rate was maintained to March 2024.

12. In the February 2024 Monetary Policy Report the BoE's expectations for the UK economy were positive for the first half of 2024, with a recovery from the mild recession in the second half of 2023 being gradual. Headline CPI was forecast to dip below the 2% target quicker than previously thought due to declining energy prices; these effects would hold inflation slightly above target for much of the forecast horizon.

13. Following this MPC meeting, the County Council's treasury adviser, Arlingclose, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Financial markets

14. Sentiment in financial markets remained uncertain and bond yields continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to rising inflation. From October 2023 they started declining again before falling sharply in December 2023 as falling inflation and central bank attitudes caused financial markets to expect cuts in interest rates in 2024. When it emerged in January 2024 that inflation was stickier than expected and the BoE and the Federal Reserve were data dependent and not inclined to cut rates soon, yields rose once again, ending the period some 0.5%+ higher than when it started.

Credit review

15. In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

16. Credit default swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023.

17. Heightened market volatility is expected to remain a feature, at least in the near term and, CDS levels will be monitored for signs of ongoing credit stress. As ever, the institutions and durations on the County Council's counterparty list recommended by Arlingclose remain under constant review.

Local Context

18. The County Council's Balance Sheet is presented once a year as part of the annual Statement of Accounts. The Balance Sheet represents the County Council's assets, liabilities, and reserves at the end of the financial year. Table 1 summarises the Balance Sheet for Treasury Management purposes.

19. The Capital Financing Requirement (CFR) is the underlying need to borrow for capital purposes. It is the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. The table shows a mixture of internal and external borrowing has been utilised, which is explained in more detail later in this report.

20. Although the County Council has borrowed to fund elements of its capital programme, it also holds investment balances. These arise due to the timing difference between income and expenditure and the County Council's reserves. The County Council held usable reserves of £833m at 31 March 2024, however the net investment balance is lower, predominantly because of the use of internal borrowing and the difference between accounting for income/expenditure and the associated cash movements, such as debtors and creditors.

Table 1: Balance sheet summary	**31/03/23 Actual £m**	**Movement £m**	**31/03/24 Actual £m**
Total CFR	749.7	(25.7)	724.0
Less: Other debt liabilities**	(121.4)	8.2	(113.2)
Borrowing CFR	**628.3**	**(17.5)**	**610.8**
External borrowing***	(251.5)	23.3	(228.3)
Internal borrowing	**376.7**	**5.8**	**382.5**
Less: Balance Sheet resources	(1,077.7)	263.1	(814.6)
Net investments*	**(701.0)**	**268.9**	**(432.1)**

* Excluding pooled property funds classified as capital expenditure
** PFI and other liabilities that form part of the County Council's total debt.
*** shows only loans to which the County Council is committed and excludes optional refinancing.

21. Table 1 shows that during 2023/24 the County Council's Borrowing CFR reduced by £17.5m as a result of the total CFR decreasing by £25.7m and other debt liabilities reducing by £8.2m in accordance with the PFI repayment models. The Borrowing CFR is financed by external and internal borrowing. External borrowing is made up of external loans for example loans secured via the market or Public Works Loan Board (PWLB), whilst internal borrowing is where the County Council borrows from its own cash balances. During 2023/24 the County Council's external borrowing reduced by £23.3m due to the repayment of £28.1m 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. These changes to the external borrowing balance in combination with the reduction in Borrowing CFR led to internal borrowing increasing by £5.8m in 2023/24.

22. During the year Other Balance Sheet resources have reduced by £265m. This is partly the result of a reduction in usable reserves of £11.7m, which is discussed in more detail in the end of year financial report. The County Council reached a financial tipping point in 2022/23 with net draws from reserves required and this has continued as expected into 2023/24. Given the financial challenges being faced by the County Council (and the local government sector more widely) usable reserves are expected to continue to fall. There are a number of other reasons for the reduction in Balance Sheet resources, the most significant of which are the three-year prepayment of employer's LGPS pension contributions (creating a debtor of c.£175m) and the increase in Dedicated Schools Grant (DSG) deficit of c.£38m. The DSG deficit is expected to continue to grow significantly in future years which will further reduce balance sheet resources.

23. 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. This has meant that internal funds have been utilised in lieu of taking on external borrowing debt. The treasury management position at 31 March 2024 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/23 Balance £m**	**Movement £m**	**31/03/24 Balance £m**	**31/03/24 Rate %**
Long-term borrowing	(192.1)	30.1	(162.0)	4.58
Short-term borrowing	(8.0)	(2.0)	(10.0)	5.45
Total borrowing	**(200.1)**	**28.1**	**(172.0)**	**4.63**
Long-term investments	238.5	(9.0)	229.5	5.21
Short-term investments	151.8	0.7	152.5	5.34
Cash and cash equivalents	349.7	(253.8)	96.0	5.21
Total investments	**740.0**	**(262.1)**	**477.9**	**5.25**
Net investments	**539.9**	**(234.0)**	**305.9**	

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. The figures in Table 1 and Table 2 are not therefore directly comparable.

24. The reduction in net investments of £234.0m shown in Table 2 reflects a reduction in investment balances of £262.1m in conjunction with repayment at maturity of borrowing of £8.1m and early repayment of borrowing of £20m, in line with the County Council's policy on internal borrowing. No new loans were secured in 2023/24. The main driver of the reduction in investment balances was the payment of £264.9m representing three years' worth of pension

contributions on 1 April 2023. Further details are provided in the Borrowing Strategy and Activity and Treasury Investments Activity sections of this report.

Borrowing Update

25. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

26. The County Council has not invested in assets primarily for financial return or that are not primarily related to the functions of the County Council. It has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

27. 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.

28. The County Council is currently a net investor as stated in the Treasury Management Strategy 2024/25, meaning that there is not a requirement to borrow at this stage and that the County Council could potentially repay its current external borrowing and still fund the planned capital programme. Given the favourable interest rate environment, after consultation with its advisor, Arlingclose, £20m of external borrowing was repaid early during 2023/24.

Borrowing Strategy and Activity

29. As outlined in the treasury strategy, the County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective. The County Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

30. Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, by December 2023 they had returned to the lows previously see in April earlier that year before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

31. The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates fell back to more normal market levels in April 2024.

32. At 31 March 2024 the County Council held £172.0m of loans (a decrease of £28.1m from 31 March 2023) 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	**31/03/23 Balance £m**	**Net movement £m**	**31/03/24 Balance £m**	**31/03/24 Weighted average rate %**	**31/03/24 Weighted average maturity (years)**
Public Works Loan Board	(188.0)	28.0	(160.0)	4.66	7.5
Banks (LOBO)	(4.0)	0.0	(4.0)	4.75	10.5
Other (fixed term)	(8.1)	0.1	(8.0)	3.91	15.7
Total borrowing	**(200.1)**	**28.1**	**(172.0)**	**4.63**	**7.9**

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.

33. 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).

34. As a result of the favourable interest rate environment £20m of PWLB loans were repaid early in 2023/24 following advice from Arlingclose. 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.

35. The County Council continues to hold a £4m LOBO (Lender's Option

Borrower's Option) loan 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.

36. The LOBO loan will have call dates within the next 12 months. If the option is exercised and an increased rate proposed, the County Council plans to repay the loan at no additional cost as accepting the revised terms would mean the County Council would still have refinancing risk in later years. If required, the County Council will repay the LOBO loan with available cash or by borrowing from other local authorities or the PWLB.

Treasury Investment Activity

37. The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority'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.

38. 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 £424m and £632m 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 31 March 2023 the County Council held significant balances in overnight Money Market Funds in order that it could pay three years' worth of pension contributions (£264.9m) at the beginning of April 2023.

Table 4: Treasury investment position	**31/03/23 Balance £m**	**Net movement £m**	**31/03/24 Balance £m**	**31/03/24 Income return %**	**31/03/24 Weighted average maturity (days)**
Short term investments					
Banks and building societies:					
- Unsecured	38.8	(25.9)	12.9	5.02	42
- Secured	10.0	7.2	17.2	5.08	296
- High quality	0.0	9.3	9.3	5.03	256
Money Market Funds	306.0	(212.9)	93.1	5.24	2
Government:					
- Local Authorities	78.0	28.0	106.0	5.55	128

Table 4: Treasury investment position	31/03/23 Balance £m	Net movement £m	31/03/24 Balance £m	31/03/24 Income return %	31/03/24 Weighted average maturity (days)
- UK Treasury Bills	58.7	(58.7)	0.0	N/A	N/A
Cash Plus funds	10.0	0.0	10.0	4.09	4
	501.5	**(253.0)**	**248.5**	**5.29**	**88**
Long term investments					
Banks and building societies:					
- Secured	7.2	(1.5)	5.7	4.88	701
- High quality	10.0	28.9	38.9	5.72	643
Government:					
- Local Authorities	23.3	(3.3)	20.0	3.96	3,637
- Supranational	10.0	35.0	45.0	4.82	1,023
Registered providers*	0.0	0.0	0.0	N/A	N/A
Pooled Funds:					
- Pooled property**	75.0	0.0	75.0	4.79	N/A
- Pooled equity**	51.0	(21.0)	30.0	7.06	N/A
- Pooled multi-asset**	48.5	(48.5)	0.0	N/A	N/A
	225.0	**(10.4)**	**214.6**	**5.21**	**1,348**
Total investments	**726.6**	**(263.4)**	**463.1**	**5.25**	**474**
Thames Basin Heaths pooled fund investments	13.5	1.3	14.8		
Total	**740.0**	**(262.1)**	**477.9**		

* Revolving credit facilities totalling £70m are in place with registered providers, currently not drawn. These agreements provide the Council with an average non-utilisation fee of 0.26% per annum by reference to the undrawn amounts of the facilities.

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2024 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.

39. As stated in the Treasury Management Strategy, reserves and balances are due to reduce significantly over the next three years due to the anticipated funding of the Capital Programme and use of the Budget Bridging Reserve to balance the budget pending savings to be planned and delivered, whilst the Dedicated Schools Grant deficit unusable reserve is forecast to continue to grow. These factors are culminating in reducing treasury investment balances with a forecast requirement to borrow in 2026/27 if reserves and capital expenditure are fully delivered as planned, which would have further financial implications for the Council's revenue budget.

40. The CIPFA Treasury Management 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.

41. As demonstrated by the liability benchmark in this report, the County Council expects to be a net investor until 2026/27 when it is expected to move to a net long-term borrowing position. From that point new treasury investments will primarily be made to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

42. Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end of March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Money Market Rates also rose and were between 4.5% and 5.3% by the end of March 2024.

43. £214.6m that is currently available for longer-term investments is invested in covered bonds, local authorities and pooled property and equity funds. During the financial year the County Council has decreased amounts invested in these instruments due to the forecast reducing treasury investment balance.

44. 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.

45. 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 Money Market Funds. 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 2024 and at the same date in 2023 for comparison.

Table 5: Investment benchmarking (excluding pooled funds)	Credit rating	Bail-in exposure % 	Weighted average maturity (days)	Rate of return %
31.03.2023	AA-	64	241	4.04
31.03.2024	AA-	31	527	5.28
Similar LAs	A+	53	2,708	4.64
All LAs	A+	61	9	5.17

46. Table 5 shows that the County Council's benchmarking metrics have improved over the last 12 months and compared favourably with the other local authorities included in the benchmarking exercise across all metrics, earning 11 basis points more than the average of other authorities but with lower exposure to risk. The average credit rating of the portfolio has remained consistent at AA-, and the bail-in exposure has reduced as a result of holding lower liquid balances following the payment of three years' worth of pension contributions in April 2023.

Externally managed pooled funds

47. £105m of the County Council's investments is invested in externally managed strategic pooled equity and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. In 2023/24 these funds generated an average total return of 1.7%, comprising a 4.9% income return which is used to support services in year, and 1.9% of unrealised capital loss. Over the holding period (just below 10 years), the County Council's investments in pooled funds have contributed 4.17% income per year on average, which compares favourably in a period where base rates have generally been low.

48. During 2023/24 after an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities, with stocks trading at attractive valuations relative to their global peers. The FTSE All-Share was one of the top performing stock markets in September and December 2023. The total return on the FTSE All Share index for the 12 months ending March 2024 was 8.2%.

49. The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from

hybrid working practices.

50. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the County Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three to five-year period total returns should exceed cash interest rates.

51. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. 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 £10.15m which equates to 9.7% of the actual allocation to pooled investments of £105m.

52. In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31 March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The County Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Financial Implications

53. The outturn for debt interest paid in 2023/24 was £10.0m against a budgeted £9.5m on an average debt portfolio of £180.6m.

54. The outturn for investment income received in 2023/24 was £21.8m on an average investment portfolio of £551.4m giving a yield of 4.0%. By comparison, investment income received in 2022/23 was £18.3m on an average portfolio of £778.6m with a yield of 2.49%.

Non-Treasury Investments

55. 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).

56. 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.

57. 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.

58. The County Council's existing non-treasury investments are listed in Table 6.

Table 6 – Non-treasury investments	**31/03/24 Asset value £m**	**31/03/24 Rate %**
Hampshire County Council:		
Loans to Hampshire based business	4.6	4.0
Loans to companies part owned by the County Council	4.8	14.1
On behalf of Enterprise M3 LEP:		
Loans to Hampshire based business	10.1	2.8
Total non-treasury investments	**19.5**	**5.9**

Consultations

59. Following three rounds of consultation, the Department for Levelling Up, Housing and Communities (DLUHC) has published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). The statutory guidance also incorporates an informal commentary. There are three main changes:

• Local authorities cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.
• Capital receipts cannot be used to directly replace, in whole or part, the

prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.

• For capital loans given on or after 7 May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.

60. Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the current 2024/25 year.

Compliance

61. The Deputy Chief Executive and Director of Corporate Operations confirms compliance of all treasury management activities undertaken during 2023/24 with the CIPFA Treasury Management Code and the County Council's approved Treasury Management Strategy.

62. Compliance with the authorised limit and operational boundary for external treasury management debt, is demonstrated in Table 7.

Table 7 – Debt limits	**2023/24 Maximum £m**	**31/03/24 Actual £m**	**2023/24 Operational Boundary £m**	**2023/24 Authorised Limit £m**	**Complied?**
Borrowing	216	191	700	780	✓
PFI and Finance Leases	121	113	120	150	✓
Total debt	**337**	**304**	**820**	**930**	✓

63. 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

64. As required by the 2021 CIPFA Treasury Management Code, the County Council monitors and measures the following treasury management prudential indicators.

Liability Benchmark

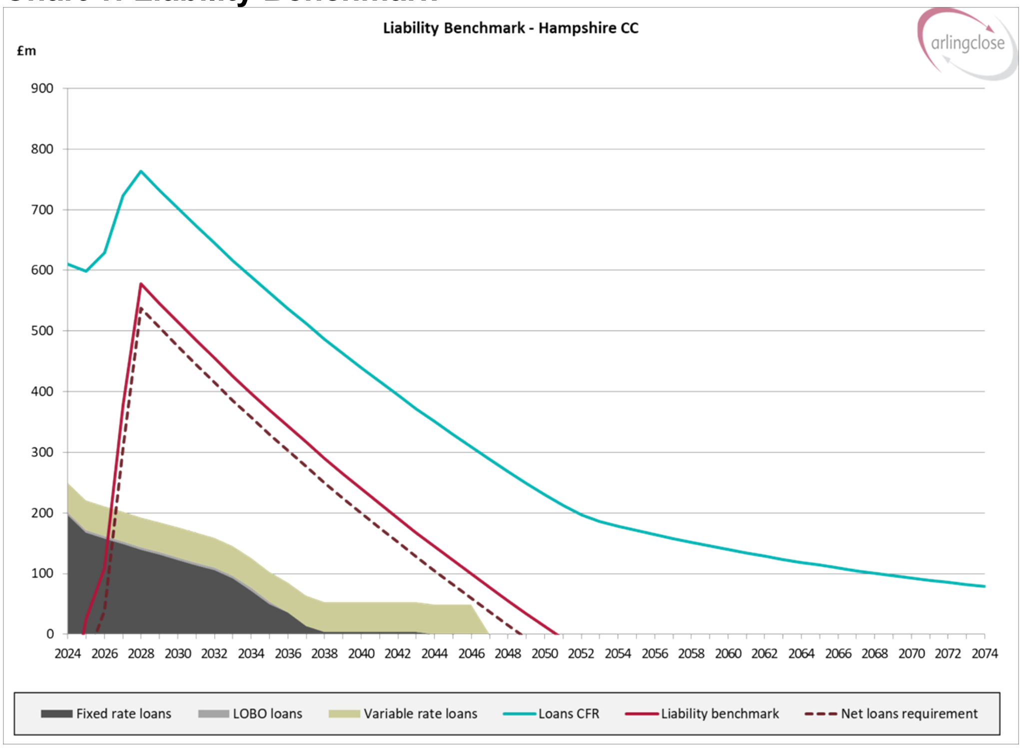
65. This new indicator compares the County Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the County Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the County Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £70m required to manage day-to-day cash flow.

Table 8 – Liability Benchmark	**31/03/23 Actual**	**31/03/24 Actual**	**31/03/25 Forecast**	**31/03/26 Forecast**
Loans CFR	628	611	599	629
Less: Balance sheet resources	(1,078)	(815)	(644)	(589)
Net loans requirement	(449)	(204)	(45)	40
Plus: Liquidity allowance	70	70	70	70
Liability benchmark	(379)	(134)	25	110
Existing borrowing	(252)	(228)	(212)	(203)

66. At 31 March 2023, the County Council had a Loans CFR of £628m, external borrowing of £252m, balance sheet resources of £1,078m and a liability benchmark of -£439m. The difference of £376m between the CFR and external borrowing was internal borrowing which is where the County Council has used its own resources to fund its borrowing requirement. Over the last 12 months balance sheet resources have reduced by £263m, which in combination with a lower Loans CFR of £611m, has resulted in the negative position shown by the liability benchmark at 31 March 2023 more than halving by 31 March 2024.

67. This is shown in Chart 1 together with the maturity profile of the County Council's existing borrowing.

Chart 1: Liability Benchmark



68. The liability benchmark is the lowest level of debt the County Council could hold if it used all of its balances, reserves and cash flow surpluses to fund its CFR. The liability benchmark graph is created based on five years of data, which explains why the Loans CFR line reduces past the initial five year period – the diagram assumes that no new capital projects will begin after 2027/28, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

69. The County Council expects a negative liability benchmark at the beginning of the forecast period (which cannot be seen on Graph 1) which then moves to a positive liability benchmark during 2025/26, reflecting the forecast balance sheet resources position mapped out in Table 8. A positive liability benchmark that extends above the loans lines shows a need to take additional borrowing as the balance sheet resources and current external borrowing combined are not sufficient to meet the CFR. Therefore Graph 1 illustrates that from 2026/27 the Council's existing borrowing is forecast to no longer be sufficient to meet the liability benchmark and the Council will need to source external borrowing if it is to meet the full delivery of its capital programme. The Council will keep the position under review and continue to take advice from Arlingclose on the most appropriate time to borrow when it is required.

Maturity structure of borrowing

70. 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 9 – Maturity structure of borrowing	31/03/24 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	9%	50%	0%	✓
12 months and within 24 months	5%	50%	0%	✓
24 months and within 5 years	15%	50%	0%	✓
5 years and within 10 years	42%	75%	0%	✓
10 years and within 20 years	29%	75%	0%	✓
20 years and within 30 years	0%	75%	0%	✓
30 years and above	0%	100%	0%	✓

71. 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.

Long-term Treasury Management Investments

72. 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 prudential limits on the long-term treasury management limits are:

Table 10 – Long-term Treasury Management Investments	2023/24	2024/25	2025/26
Actual principal invested beyond year end	£229m	£160m	£160m
Limit on principal invested beyond year end	£400m	£400m	£350m
Complied?	✓	✓	✓

73. Long-term investments with no fixed maturity date can include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Interest rate exposures

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

Table 11 – Interest rate risk indicator	31/03/24 Actual	Impact of +/-1% interest rate change
Sums subject to variable interest rates		
Investment	£181m	+/- £1.8m
Borrowing	£6m	+/-£0.1m

75. 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.

Consultation, Equalities and Climate Change Impact Assessment

76. This report deals with the treasury management outturn position for 2023/24, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

77. 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.

78. This report deals with the outturn position for the treasury management aspect of the County Council's business. In line with the CIPFA Treasury Management Code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. The County Council's investments in pooled funds, which include investments in equities and bonds issued by a number of companies with exposures to a variety of issues, including those associated with Climate Change. All of the County Council's 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 the suitability and selection of its pooled funds, including the investment managers' management of Environmental, Social and Governance (ESG) issues including the impact of Climate Change.

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

Appendix 2

Capital Spending and Financing 2023/24

Summary

1. This Appendix reports that:

    - Capital schemes costing £182.460m were started during 2023/24 from the approved capital programme for the year of £329.817m.
    - This leaves £147.357m for projects not started by 31 March 2024 that will be carried forward into 2024/25. Approval has already previously been given for £18.764m of this amount, leaving £128.593m requiring Cabinet approval.
    - In addition, unspent balances from starts within the capital programmes from prior years of £8.5m can now be released and added to the amounts to carry forward to 2024/25, subject to Cabinet approval
    - Capital payments of £195.8m were incurred during 2023/24 and this can be financed within available resources.
    - As permitted under the Prudential Code (2021) new prudential borrowing of £13.5m is used to fund expenditure in 2023/24 for approved schemes
    - Lump sum repayments of prudential borrowing from developer contributions and other sources total £7.3m in 2023/24. This 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.
    - Capital receipts of £25.3m were achieved from the sale of assets during 2023/24. Given the value of receipts received, no draw was made against the capital reserve this year given the County Council's policy of applying capital receipts before revenue based sources of funding to maintain future flexibility.

Capital Programme for 2023/24

2. Table 1 shows that £182.5m (55.3%) of the £329.8m capital programme for 2023/24 was started in the year compared with £191.7m (52.3%) in the previous year. A slippage in scheme starts means that a lower value and percentage of the programme was started in 2023/24 than had been forecast. This is not an unusual position to be in as it can be difficult to predict with certainty the exact timing of expenditure on schemes.

Table 1 – value and percentage of capital programme committed

	2022/23 £m	2023/24 £m
Committed	191.7	182.5
Carried forward	174.9	147.3
Total programme	**366.6**	**329.8**
Percentage committed	52.3%	55.5%

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 £195.8m in 2023/24 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 2023/24. An analysis by service of these figures is included in Annex 1.

Table 2 – Capital Schemes Committed in 2023/24

	£'000	
Revised capital programme 2023/24 February 2024	307,998	
Amounts previously agreed to carry forward to 2024/25	18,764	
Net changes to the programme since February 2024	3,055	
Approved value of capital programme 2023/24	**329,817**	
Less: schemes committed in 2023/24	182,460	55.3%
Amount to carry forward to 2024/25	**147,357**	**44.7%**

5. The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2024. The total value of such schemes is £128.6m, as shown in Table 3. This is in addition to the £18.8m of schemes where approval to carry forward to 2024/25 or future years has already been given during 2023/24 relating to the Children's Services (£2.1m), Hampshire 2050 (12.4m) and Universal Services (£4.3m) programmes. The approval for these amounts was included within the capital programme report to Cabinet and County Council (paragraphs 45-46 of the February 2024 report).

6. Table 3 also highlights additional requests to carry forward funding relating to starts from schemes in previous financial years where unspent balances have been released.

Table 3 – Proposals to carry forward schemes to 2024/25

	£'000
Schemes within the 2023/24 capital programme	
Total carry forwards for schemes within 2023/24 programme	147,357
Less: amounts already approved for carry forward	(18,764)
Amounts requiring approval to carry forward	**128,593**
Schemes from capital programmes prior to 2023/24	
Additional carry forwards relating to starts prior to 2023/24	8,511
Total approvals required for carry forwards to 2024/25	**137,104**

7. Individually, most of the schemes and provisions to be carried forward from the 2023/24 capital programme are relatively small amounts. The larger schemes include:

- Adults with Disability (£3.2m) – capital programme expected to grant funding to external care providers in 2024/25
- Younger Adults extra care (£15.2m) – required to support extension of supported accommodation strategy in 2024/25
- Extra care housing transformation (£13.6m) – funding held for new projects being considered within this programme once existing sites are completed in 2024/25
- Special Educational Needs including SEND (£2.9m) – projects have been approved and are progressing
- Improvements to Schools (£10.2m) and Children's Services contingency provision (£7.1m) – provisions to cover future projects and pressures on the capital programme
- Structural maintenance of roads and bridges (£22.9m) – future projects planned to deliver improvement works
- Street Lighting LED replacement programme (£3.6m) – project delayed due to contract negotiations with supplier which is due to be completed July 2024 allowing work to commence in 2024/25
- HTM Vehicles (£3.9m) – due to delay in vehicle deliveries as a result of supply chain issues

- Corporate Estate building improvement projects (£6.7m) – includes health & safety improvements, energy performance and office accommodation projects where work will commence in 2024/25
- School Condition Allocation (£24.9m) – school improvement projects are progressing
- Investment in Hampshire (£2.5m) provision for grants issued to contribute towards improvement of significant assets, economic recovery and business growth in Hampshire

8. In addition to the carry forwards against schemes in the 2023/24 capital programme, unspent balances from starts within the capital programmes from prior years can now be released and be added to the amounts to carry forward as additions to the 2024/25 capital programme, subject to Cabinet approval:

   - Extra care housing transformation within Adult's Health and Care (£8.5m) – release of previously committed funding due to reduced costs of projects within this programme. This will enable additional projects to be completed against the funding for the programme of £45m that was agreed by County Council in February 2012, to be funded from prudential borrowing.

9. Tables 4 and 5 below shows the impact of the carry forwards and additional project approvals on the capital programme from 2023/24 to 2026/27. This is an update of the programme presented to Cabinet and County Council when setting the budget in February 2024:

Table 4 – updated capital programme

Prior Years £'000		**Revised 2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**2026/27 £'000**	**Total £'000**
12,274	Adults' Health & Care	15,783	229,040	14,252	14,252	285,601
15,343	Children's Services	26,863	138,285	85,338	41,208	307,037
3,788	Hampshire 2050	1,169	44,369	100	1,776	51,202
262,892	Universal Services	138,645	217,214	99,657	84,041	802,449
0	Centrally Held	0	0	13,669	13,669	27,338
294,297	**Total**	**182,460**	**628,908**	**213,016**	**154,946**	**1,473,627**

996,870

Changes to the capital programme since February 2024

289,376	February 2024	307,998	509,326	215,942	155,372	1,478,014
(8,511)	Carry forwards	(128,593)	132,104	5,000	0	0
13,432	Other changes	3,055	(12,522)	(7,926)	(426)	(4,387)
294,297	**Total**	**182,460**	**628,908**	**213,016**	**154,946**	**1,473,627**

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

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	Future Years £'000	Total £'000
Capital Expenditure	195,771	382,267	316,123	349,498	229,968	1,473,627

10. Table 4 shows a net reduction in the overall capital programme of £4.387m since the programme was agreed by Cabinet and County Council in February 2024, which includes:

- Manydown reduction in scheme value of £25m within the Hampshire 2050 capital programme from £50m to £25m within the Hampshire 2050 capital programme due to a change in the final financing position agreed with partners and the Manydown Company Limited.

- Botley Bypass increase in scheme value of £16.488m within the Universal Services 2020/21 capital programme (from £31.026m to £47.514m) to account for additional costs and allow an appropriate contingency.

- Uplands Development Infrastructure (UDI) increase in scheme value of £2.971m within the Hampshire 2050 capital programme due to cost pressures and fees for the defects period.

- Southern Gateway addition to the Universal Services capital programme of £2.5m to address existing surface issues.

- A326 Fawley Waterside scheme reduction of £5.6m from the Universal Services 2020/21 capital programme from £11.4m to £5.8m, removing Phase II improvements from the capital programme as there is currently no funding agreement in place for Hampshire County Council to deliver this phase of the project.

- Universal Services approval by Executive Lead Member for the addition to the 2024/25 capital programme of the A27 Segensworth Link scheme at a value of £1.878m delivering cycle routes funded by Department for Transport Active Travel fund grant.

- A326 North Waterside Improvement scheme being delivered Universal Services increase to 2022/23 capital programme year by £1.2m following further scheme design and survey works. Additional funding from £0.6m freeport capital and £0.6m DfT's Large Local Majors (LLM) programme, part of the Major Road Network (MRN) funding stream.

- Schools Condition Allocation reduction of £1.278m over the next 3-years from 2024/25, following DfE confirmation of the annual allocation for 2024/25 at £22.737m resulting in a reduction in capital programme per year of £0.426m.

- A number of other new or updated schemes under £1m. These are all within the Children’s Services and Universal Services capital programmes.

- With no impact on the overall capital programme, approval is required to bring forward from 2025/26 to 2024/25 £7.5m in Universal Services to delivering earlier additional improvement to highways under the ‘Stronger Roads Today’ campaign.

11. The net reduction in planned expenditure of £4.387m comprises:

- (£5.539m) of draws from the capital payments reserve as a result of the reduction on the Manydown scheme value partially offset by increases to the Botley Bypass and UDI schemes.

- £0.482m from external sources such as government grants and developer contributions

- £0.640m of revenue contributions to capital schemes within Children's Services covered in the 26 June 2024 Executive Lead Member for Children's Services report

- £0.122m using reserves and capital receipts generated by the River Hamble Harbour Authority as approved by the River Hamble Harbour Board

- £0.381m to fund a range of projects within the Countryside Service from Universal Services cost of change

- £(0.218)m reduction in planned revenue contribution from HTM Reserve due to work completing under budget for Petersfield workshop building improvement project

- £(0.165)m to return revenue contributions to fund spend on Adults Health Care H&S and Extra care projects delivering revenue elements during 2023/24

- £(0.050)m transfer of Investing in Hampshire funding to deliver Solent Freeport project

- £0.030m revenue contribution from schools towards school condition improvement projects

Capital expenditure and financing

12. Total expenditure of £195.8m was incurred during 2023/24, relating to a combination of projects in the capital programme for 2023/24 and the continuation of projects started in previous years.

13. The most recent forecast for spend in 2023/24 was £249.8m, which included the amounts presented in the capital programme report in February 2024 (£247.7m) and any projects subsequently approved (£2.1m). The actual spend of £195.8m was 21.8% lower than the revised estimate for 2023/24. 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.

14. Expenditure in 2023/24 was greater than the £190.9m incurred during 2022/23.

15. The County Council's capital expenditure in 2023/24 included:

- £66.2m for structural maintenance and the improvement of roads and bridges
- £49.8m of Integrated Transport Plan schemes including major road schemes and active travel schemes including walking and/or cycling improvements
- £24.4m of investment in new and extended school buildings to provide school places for children in Hampshire
- £19.1m to address condition-based enhancements to the schools estate
- £15.5m allocation of Disabled Facilities Grant funding to allow adaptations to people's homes.

16. 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 2023/24

Funding	**Planned****	**Actual**	**Variance**
	£'000	**£'000**	**£'000**
Prudential borrowing	18,645	13,529	(5,116)
less: repayments from capital	(6,422)	(7,265)	(843)
Capital grants	132,615	122,534	(10,081)
Contributions from other bodies*	62,272	48,652	(13,620)
Capital receipts	465	18,321	17,856
Dec 2023 cash limit guideline	13,669	0	(13,669)
Revenue contributions to capital	5,064	0	(5,064)
New resources in the year	**226,308**	**195,771**	**(30,537)**
Use of the capital reserve	21,876	0	(21,876)
Use of revenue reserves	1,611	0	(1,611)
Total funding for payments	**249,795**	**195,771**	**(54,024)**

* including developers

** February 2024 capital programme report plus £2.123m of subsequent adjustments and approvals

17. The revised capital programme assumed just under £22m of the capital reserves balance would be used in 2023/24, 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 no draws from the capital reserve in 2023/24, as shown in Table 6.

18. In addition to this spend, the Enterprise M3 Local Enterprise Partnership (LEP) invested £1.6m in capital projects within the M3 corridor during 2023/24. This spend is also included in the annual accounts as the County Council is the accountable body for the LEP.

19. 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.

20. In 2023/24 a total of £20.5m 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 funding was not applied to expenditure on projects in 2023/24, due to the value of capital receipts applied in year exceeding the amount required to be funded from local resources. The £20.5m 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 2023/24

	Cash Limit Guideline	**RCCOs**	**Revenue Reserves**	**Total**
	£000	**£000**	**£000**	**£000**
Revenue Contribution approved Feb 2024	13,669	4,148	1,731	19,548
Additional RCCOs		1,986	(80)	1,906
Transfers to Revenue		(973)		(973)
Additions to Capital Reserve	**13,669**	**5,161**	**1,651**	**20,481**
Applied to 2023/24 Capital Programme	0	0	0	0
Balance retained in Capital Reserve	**13,669**	**5,161**	**1,651**	**20,481**

Borrowing

21. 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.

22. 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).

23. It is proposed that a total of £13.529m is prudentially borrowed in line with this framework for expenditure incurred during 2023/24. 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.

24. Partially offsetting this new prudential borrowing will be the repayment of £7.265m 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 £13.529m of new prudential borrowing incurred during 2023/24 it is expected that £5.572m will be repaid through future developer contributions and capital receipts and £7.957m will be repaid through MRP charges.

25. 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 2023/24 and confirms compliance with the requirements of the Prudential Code.

Capital receipts

26. Capital receipts from the sale of land and property in 2023/24 were £25.3m in total.

27. Proposed corporate and departmental shares of capital receipts in 2023/24 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.

28. In line with this policy, departments will receive £1.017m of the £25.291m received in 2023/24 which has previously been approved by Cabinet. The remaining balance of £24.274m will be retained corporately to fund corporate priorities.

Analysis of capital programme 2023/24 and requests by services to carry forward capital schemes to 2024/25

	Approved value of programme	Schemes committed in 2023/24	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	48,579	15,783	32,796	0	32,796
Children's Services	49,991	26,863	21,028	2,100	23,128
Hampshire 2050	16,739	1,169	3,226	12,344	15,570
Universal Services	213,576	138,645	70,611	4,320	74,931
Total	**328,885**	**182,460**	**127,661**	**18,764***	**146,425**

* Carry Forward reflected in paragraphs 45-46 of the February 2024 capital programme report to Cabinet and County Council. Additional detail can be found in the Executive Member reports:

- 19 January 2024 report to Executive Member for Children's Services & Education Decision Day
- 22 January 2024 Leader & Executive Member for Hampshire 2050 & Corporate Services Decision Day
- 15 January 2024 Executive Member for Universal Services & Countryside and Regulatory Services Decision Day

Summary of capital expenditure in 2023/24

Analysis by services

	£'000	%
Adults' Health and Care	18,088	9.2
Children's Services	27,818	14.2
Hampshire 2050	6,027	3.1
Universal Services	143,838	73.5
Total	**195,771**	**100**

Analysis by type of expenditure

	£'000	%
Land	230	0.1
Construction work	142,632	72.8
Fees and salaries	28,912	14.8
Furniture, equipment and vehicles	7,643	3.9
Grants	16,354	8.4
Other	0	0
Total	**195,771**	**100**

Analysis of capital receipts 2023/24

The table below shows the total capital receipts received during 2023/24 of £25.291m. Of this amount:

- £0.065m of additional capital receipts added to directorate programme on top of the £0.952m already planned to be retained for specific projects in 2023/24.
- £24.274m 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 2023/24 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	1,597	0	65	1,532
Hampshire 2050	7,200	0	0	7,200
Universal Services	16,494	952	0	15,541
Total	**25,291**	**952**	**65**	**24,273**

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 31/3/24 against the most recent forward looking estimates.

Prudential Indicators for prudence	Estimated £m	Actual £m
Capital expenditure for 2023/24	248	196
Capital financing requirement (CFR) as at 31/3/24	731	724
External debt* as at 31/3/24	335	341

* includes long term liabilities including PFI

Prudential Indicators for affordability	Estimated	Actual
Financing costs to net revenue stream 2023/24	5.2%	4.9%
Net income from commercial and service investments to net revenue stream	0.2%	0.2%

The County Council confirms that it has remained within the Authorised Limit for External Debt for 2023/24 set in its Capital and Investment Strategy (£930m). This is a legal requirement. It has also remained within the lower Operational Boundary (£820m), 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 2023/24 and estimated further additions for the next two financial years.

Capital and Investment Strategy 2024/25 to 2026/27

This strategy document is presented in three sections and requires approval by the County Council.

- **Section A: Capital Strategy**

  This gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

- **Section B: Minimum Revenue Provision (MRP) Statement**

  This is a statement that the County Council is required to prepare and approve each year setting out its policy on making MRP for the repayment of borrowing in respect of the upcoming financial year. The statement sets out how the County Council proposes to discharge its duty to make prudent MRP charges to the revenue budget.

- **Section C: Non-treasury Investment Strategy**

  This focuses on investments that are not made for treasury management purposes and supports transparent reporting and democratic accountability for any such non-treasury investments.

The requirement for this strategy document stems from the:

- Local Government Act 2003, Section 15(1)
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]

As a result, the Authority is required to have regard to:

- MHCLG Statutory Guidance on Local Government Investments
- MHCLG Statutory Guidance on Minimum Revenue Provision (MRP)
- CIPFA's Prudential Code (last updated 2021)
- CIPFA's Treasury Management Code (last updated 2021)

Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, and a Treasury Management Strategy (TMS) in line with the requirements of the Treasury Management Code, the Investment Strategy can be published in those documents instead of as a separate document. The County Council includes its non-treasury management Investment Strategy with the

Capital Strategy. The TMS is a separate document and includes the investment strategy for treasury management investments.

Update July 2024

The Department for Levelling Up, Housing and Communities (DLUHC) conducted a consultation on proposed changes to the regulations and guidance on MRP, which closed on 16 February 2024. The outcome of the consultation was published on 10 April 2024.

The new regulations and guidance (5th edition) come into effect from 1 April 2025, except for changes relating to capital loans financed by debt, which come into effect from 7 May 2024.

- MRP guidance (4th edition):

  https://assets.publishing.service.gov.uk/media/5a7451d9ed915d0e8bf188f4/Statutory_guidance_on_minimum_revenue_provision.pdf
- MRP guidance (5th edition):

  https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition/capital-finance-guidance-on-minimum-revenue-provision-5th-edition

Following the publication of the outcome of the consultation, the County Council has made minor updates to the MRP Statement under Section B of this document. This update:

- Confirms the MRP Statement is consistent with the updated regulations and guidance applicable from 7 May 2024.

- Sets out that the County Council will not start charging MRP until assets become operational. This is set out within the current (4th edition) and updated (5th edition) guidance. This means that the County Council will be charging MRP over the period over which the capital expenditure provides benefits, as required by the regulations

- Adds that under the asset life method for calculating MRP the useful life will not be more than 50 years unless the authority has an opinion from an appropriately qualified professional advisor that the asset will deliver service functionality for more than 50 years.

The County Council has also made the following updates since February 2024:

- Updated the framework for prudential borrowing in Paragraph 4.4. to explicitly include a fifth scenario for prudential borrowing: *"Borrowing to take forward critical schemes related to the delivery of the County Council's functions as long as the schemes are consistent with the principle of Legal Minimum Service Levels."*

While not a change in policy, the County Council has reviewed the asset lives used to calculate MRP and identified that for land and buildings the previously used average of 25 years was not an accurate representation the period over which the capital expenditure provides benefits. The calculation of future MRP charges will be updated to better reflect the expected asset life of each asset, which for land and buildings is likely to be 50 years in most cases. The effect will be spread over the remaining useful life of each asset when recalculating the MRP charge on the residual CFR; as a consequential byproduct the council's forecast MRP payments will reduce, which will lead to a revenue savings for 2024/25 onwards.

None of the text, indicators or numbers quoted elsewhere in this strategy have been updated from those presented in February 2024. The outturn indicators for 2023/24 are reported as part of the end of year financial report presented to Cabinet and County Council in July 2024.

It should also be noted that in preparing the County Council's draft statement of accounts for 2023/24**,** the County Council's property valuers have reclassified a number of assets previously held as investment properties. Following a review of the purpose of holding these assets, they have been reclassified as surplus assets, as they are not held solely for capital appreciation and/or rental income. This will impact future reporting of the investment indicators included within the Investment Strategy and the prudential indicator for service and commercial income in the Capital Strategy.

Changes since February 2024 are highlighted in blue.

Section A: Capital Strategy

1. Introduction

1.1 This Strategy gives a high-level overview of how capital expenditure, capital financing, treasury management and investment activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability.

2. Governance arrangements for capital investment

2.1 The County Council's Medium Term Financial Strategy (MTFS) ensures that it continues to invest appropriately in its existing assets and to deliver a programme of new ones in line with overall priorities, need and affordability. This is kept under review by the Corporate Management Team and reported through Cabinet for approval by the County Council. The MTFS is closely linked to the 'Serving Hampshire – Strategic Plan 2021 – 2025' the Hampshire 2050 Vision and directorate service plans.

2.2 Risk management is an integral part of determining and delivering a capital programme. Given the impact of high inflation alongside wider economic uncertainty within the UK, in planning and monitoring the capital programme and MTFS, the County Council has introduced additional measures to mitigate risk. This includes additional detailed analysis of financial exposure for projects most sensitive to price uncertainty. The County Council also created a capital inflation risk reserve in 2022.

2.3 In accordance with the MTFS, each year the Cabinet sets cash limit guidelines for a three-year capital programme funded by local resources. The current MTFS assumes continuing revenue contributions to capital schemes throughout the forecast period. In order to allow the County Council time to continue to consider the evolving MTFS position, the capital cash limit guidelines approved by Cabinet in December 2023 only allocated the funding from these revenue based contributions to directorates for 2024/25, with the amounts for 2025/26 and 2026/27 to be held centrally pending further review.

2.4 Executive Members propose capital programmes within these cash limits together with schemes funded by government grants and other external sources. The proposed programmes are scrutinised by the relevant Select Committee. The final Capital Programme is then presented to Cabinet and to County Council in February each year as part of the formal budget approval. Once a defined scheme has been included in the approved capital programme, approval to spend must be granted either by the relevant Chief Officer in consultation with the Executive Member for schemes up to £500,000 or by the Executive Member for schemes of higher values, in line with the County Council's financial regulations.

2.5 Before a major capital project can be committed, the relevant Chief Officer must ensure it has undergone an appropriate project appraisal. This appraisal should be proportionate to scheme value and complexity including the options considered, appropriate financial analysis of capital and revenue implications, and conclusions setting out why the option proposed is the best use of available resources.

2.6 The 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.

3. Capital expenditure, capital financing and asset management

3.1 Capital expenditure is spending by the County Council on assets, such as land, property, the highway network, or vehicles, that will be used for more than one year. In local government this includes relevant spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or enhance assets.

3.2 The County Council considers estimates for the timing of capital expenditure and the availability of financial resources when determining the capital programme.

3.3 There are a number of ways that capital expenditure can be funded:

- A large proportion of the programme is typically funded from **external sources**, predominantly capital grants and contributions from the Government and other bodies, including developers.
- **Capital receipts** secured through the sale of assets owned by the County Council are also used to fund expenditure, although capital receipts can vary significantly from year to year and each asset can only be sold once.
- The remaining expenditure is funded through the County Council's own **local resources**, comprising prudential borrowing, contributions from the revenue budget, and the use of reserves. **Reserves** can only be spent once, and **prudential borrowing** creates a future pressure on the revenue budget through interest and repayment of principal (Minimum Revenue Provision) costs. Similarly, pressures on the revenue budget limit the extent to which **planned revenue contributions** can be used as a source of funding.

Capital expenditure

3.4 Table 1 provides details of the County Council's capital programme. As parts of the capital programme are managed on a 'starts' basis, the programme years do not fully reflect when capital expenditure is expected to take place. This is therefore shown separately in the second half of the table and is one of the required Prudential Indicators.

3.5 Some of the most significant areas in which the County Council is investing in its assets include:

- investment to safeguard the long-term viability of the Older Adult care estate
- the investment in new and extended school buildings to ensure there is a school place for every child in Hampshire
- structural maintenance and improvement of roads and bridges;
- Integrated Transport Plan schemes including schemes specifically focused on walking and cycling improvements
- condition improvements to the schools' estate

Table 1 – Capital programme

Prior years starts*		**Revised 2023/24**	**2024/25**	**2025/26**	**2026/27**	**Total**
£'000		**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
20,260	Adults' Health & Care	49,154	187,733	14,252	14,252	285,651
15,282	Children's Services	47,332	121,056	80,338	41,208	305,206
2,997	Hampshire 2050	4,445	62,990	100	1,776	72,308
250,837	Universal Services	207,077	137,547	107,583	84,467	787,511
0	Centrally held	0	0	13,669	13,669	27,338
289,376	**Total**	**307,998**	**509,326**	**215,942**	**155,372**	**1,478,014**

schemes started in prior years that have not yet completed

$\underbrace{\text{2024/25 – 2026/27}}_{\textbf{880,640}}$

Forecast timing of capital expenditure flows (Prudential Indicator 1)

	2023/24	2024/25	2025/26	2026/27	Future years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure	247,672	331,401	319,049	349,924	229,968	1,478,014

3.6 Further details can be found in the February 2024 Capital Programme Report.

Capital financing

3.7 All capital expenditure must be financed, either from external sources, the Authority's own resources, or debt. Debt is only a temporary source of funding and is replaced over time by other financing, usually from revenue through annual Minimum Revenue Provision (MRP) charges. External debt will also incur interest costs. The County Council's borrowing strategy is summarised in Section 6 and forms part of its Treasury Management Strategy.

3.8 The resources to fund the capital expenditure flows set out in Table 1 are shown in Table 2.

Table 2 – capital financing

	2023/24	2024/25	2025/26	2026/27	Future
	£'000	£'000	£'000	£'000	£'000
Prudential borrowing	19,305	28,514	56,467	139,966	103,143
less repayments from capital	(6,422)	(21,418)	(8,929)	(23,072)	(58,731)
Capital grants	130,818	159,513	141,216	132,853	94,731
Contributions from other bodies*	61,944	75,174	83,857	53,647	47,437
Capital receipts	465	19,316	810	24,030	6,982
Revenue contributions to capital	17,847	14,677	14,322	14,380	30,705
Use of the capital reserve	21,984	53,925	30,206	8,120	5,701
Use of revenue reserves	1,731	1,700	1,100	0	0
Total planned use of resources	**247,672**	**331,401**	**319,049**	**349,924**	**229,968**

** including developers*

Asset management and disposals

3.9 The 5-year Strategic Asset Management Plan (SAMP) for the **County Council's estate** was presented to Cabinet on 13 December 2022. This followed previous SAMPs published in 2011 and 2015.

3.10 The report sets out the context and drivers for the SAMP, its structure, and the key themes providing direction to the management of the County Council's property assets through a set of strategic actions. The SAMP itself was included as an appendix to the report and 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.

3.11 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 for disposals to:

- 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.

3.12 The County Council also applies asset management principles in relation to its **infrastructure assets** in developing a needs based programme of structural maintenance for its highways assets, developed based on various factors including condition, remaining life and lifecycle planning including whole life costs.

Capital receipts

3.13 The County Council's capital programme is supported by the appropriate use of capital receipts. These receipts vary from year to year, for example in 2021/22 they accounted for about 5% of the funding applied to capital expenditure, rising to 12.5% in 2022/23.

3.14 Capital receipts are generated when a capital asset is identified as surplus to requirements and is then sold. The proceeds from these asset sales may be used to fund new capital assets or to repay debt. The repayment of capital grants, loans and investments will also count as capital receipts, with the same restrictions on future use of the proceeds.

3.15 Capital receipts are fully retained to fund corporately agreed priorities, except where an appropriate business case for alternative use is agreed in advance.

4. Prudence and affordability

4.1 The County Council is required to ensure that capital expenditure, investment and borrowing decisions are prudent, sustainable and affordable. There are a number of prudential indicators that must be set and monitored to help with this requirement, which are set out in the Prudential Code. Actual figures for the prudential indicators at the end of each quarter will be included in regular reporting to Members. The prudential indicators cover:

- Capital expenditure (Tables 1 and 3)
- External debt (Tables 3 and 5)
- Affordability (Tables 6 and 7).

4.2 The Prudential Code sets out that certain acts and practices are not prudent activity for a local authority and incur risk to the affordability of local authority investment. The County Council will not therefore:

- Borrow to invest primarily for financial return
- Make investment or spending decisions that increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority (any financial returns should either be related to the financial viability of the project or incidental to the primary purpose).

Prudential borrowing

4.3 Capital financing costs associated with prudential borrowing must be financed by the County Council from its own resources. It is therefore important that the use of prudential borrowing is very closely controlled and monitored. The County Council will only use prudential borrowing where there is a clear financial case to support doing so, although it will not borrow to invest primarily for financial return and therefore retains full access to the Public Works Loan Board (PWLB).

4.4 The County Council operates within a framework for the use of prudential borrowing. This includes:

- Borrowing for which loan charges are financed by virement from the Executive Member's revenue budget, including invest-to-save schemes that will generate revenue savings or additional revenue income.
- 'Bridging' finance that will be repaid by eventual capital receipts, capital grants or contributions, provided that the cost of interest and the statutory minimum revenue provision is met by services in the years that such costs are incurred.
- Capital investment by business units, to be funded by business unit reserves.
- Temporary borrowing to accommodate shortfalls in general capital resources
- Borrowing to take forward critical schemes related to the delivery of the County Council's functions as long as the schemes are consistent with the principle of Legal Minimum Service Levels.

Ensuring borrowing is only for capital purposes

4.5 The Capital Financing Requirement (CFR) is the cumulative outstanding amount of debt finance. The CFR increases with new debt-funded capital expenditure and reduces through annual Minimum Revenue Provision (MRP) charges to the revenue budget and any capital receipts or other contributions used to replace debt.

4.6 The Prudential Code states that a local authority must ensure that gross debt is only for capital purposes over the medium term, which means that gross external debt must not exceed the total of the CFR from the preceding year plus the estimates of any additional CFR for the current and next two financial years, except in the short term. This is a key indicator of prudence and is shown in Table 3.

Table 3: Ensuring Borrowing is Only for Capital Purposes (Prudential Indicator 2)

	31/03/24 Revised £M	31/03/25 Estimate £M	31/03/26 Estimate £M	31/03/27 Estimate £M
CFR	**731**	**721**	**735**	**819**
Debt				
Borrowing	222	212	213	193
PFI Liabilities	113	104	95	85
Leases		15	13	12
Total Debt	**335**	**331**	**321**	**290**

4.7 Total debt is expected to remain below the CFR during the forecast period. External debt is expected to remain below the CFR because of the County Council’s borrowing strategy, whereby it has used internal borrowing (the temporary use of internal cash balances) to fund capital expenditure in place of borrowing money from external sources. Further details are in the Treasury Management Strategy.

Affordable borrowing limit

4.8 The County Council is legally obliged to set an Authorised Limit for the maximum affordable amount of external debt. In line with statutory guidance, a lower ‘Operational Boundary’ is also set as a warning level should debt approach the limit. The Operational Boundary is based on the County Council’s estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the County Council’s estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Table 4: Affordable Borrowing Limits (Prudential Indicators 3 and 4)

	2023/24 Revised £M	**2024/25 Estimate £M**	**2025/26 Estimate £M**	**2026/27 Estimate £M**
Authorised Limit:				
Borrowing	780	760	790	880
PFI and Leases	150	150	140	130
Authorised Limit	**930**	**910**	**930**	**1,010**
Operational boundary:				
Borrowing	700	680	710	800
PFI and Leases	120	120	110	100
Operational Boundary	**820**	**800**	**820**	**900**

Affordability of financing costs

4.9 Capital expenditure is not charged directly to the revenue budget, however the interest payable on loans and the annual MRP are charged to revenue, as are other financing costs. The impact of these costs needs to be well understood prior to making capital investment decisions and then closely monitored.

4.10 Table 5 shows the proportion of the County Council's net revenue stream (Council Tax, business rates and general government grants) required to meet financing costs. This is an indicator of the affordability of the County Council's capital programme.

Table 5: Ratio of Capital Financing Costs to Net Revenue Stream (Prudential Indicator 5)

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio	5.2%	4.8%	4.5%	4.6%

4.11 A low proportion is forecast, demonstrating that the cost of financing is minimised and the proportion of the revenue budget available for delivering services is maximised.

Reliance on income from commercial and service investments

4.12 The update to the Prudential Code in 2021 introduced a new prudential indicator intended to show how reliant a local authority is on income from commercial and service investments, and therefore how exposed the authority is to the loss of this income. Table 6 compares the income from these investments with the net revenue stream (Council Tax, business rates and general government grants) and demonstrates the County Council does not place a significant reliance on this income to balance its revenue budget.

Table 6: Net Income from Commercial and Service Investments to Net Revenue Stream (Prudential Indicator 6)

	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio	0.2%	0.2%	0.3%	0.3%

5. Treasury Management

5.1 The Treasury Management Strategy Statement (TMSS) supports the Capital and Investment Strategy in setting out the arrangements for the management of the County Council's cash flows, borrowing and investments, and the associated risks.

5.2 The County Council has potentially large exposures to financial risks through its investment and borrowing activity, including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy (TMS).

5.3 The County Council's TMS, included as Appendix 8 to this report, is scrutinised by the Audit Committee and approved by the County Council each year. Actual performance is reviewed by the Audit Committee and reported to Cabinet and County Council.

Treasury management borrowing strategy

5.4 The County Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs 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.

5.5 The County Council expects to continue its approach of internally borrowing instead of taking on additional external borrowing with the aim of reducing both net costs and overall treasury risk. Arlingclose assist the County Council in regularly monitoring this approach.

Treasury management investment strategy

5.6 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 rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The County Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

5.7 The contribution that these investments make to the objectives of the County Council is to support effective treasury management activities.

5.8 The County Council's actual and forecast treasury management investment balances are shown in Table 7 with further detail in the TMS. The large reduction in total balances in the year to 31/3/24 is related to the County Council paying its Local Government Pension Scheme employer pension contributions in advance for the 3 year period from April 2023.

Table 7 – Treasury Management Investments

	31/3/23 actual £m	31/3/24 forecast £m	31/3/25 forecast £m	31/3/26 forecast £m
Short term investments	501	69	74	60
Long term investments	225	239	103	20
Thames Basin Heaths pooled fund investments	14	15	15	15
Total**	**740**	**323***	**192***	**95**

*reduction in investments reflects the decision to pre-pay employer pension contributions for three years on 1 April 2023 as well as the forecast reduction to reserves and the impact of the increasing DSG deficit.

Pooled fund investments

5.9 The County Council holds reserves for a number of purposes, which are explained in more detail in the Reserves Strategy (Appendix 5). In previous years the County Council earmarked an amount of its cash balances for investments targeting higher yields; these were made from its most stable core balances with the intention that they would be held for at least the medium term, and it was targeted that these investments would achieve a return of at least 4%. This was a successful approach through the period of very low interest rates, as this portfolio achieved higher percentage income returns that was being achieved by cash investments and significantly increased the annualised average income return for the total investment portfolio.

5.10 Following the increases in UK Bank Rate there is no longer a significant difference between the interest rates being achieved by these investments and cash. The County Council will however continue to make use of long-term balances by making investments to mitigate the risk of low interest rates if the UK Bank Rate reduces in the future as expected.

5.11 The County Council continues to invest in pooled funds, although this allocation has been reduced over the last 12 months, as well as other long-term investments. Diversification helps to mitigate the risk of overexposure to a single event affecting a specific asset class.

5.12 Pooled funds allow the County Council to invest in a diversified ‘basket’ of individual investments and to benefit from the expertise of specialist external investment managers rather than having to employ its own specialists. Pooled fund investments do however present a number of risks which must be carefully managed, including the risk of loss of capital, illiquidity, entry and exit fees, and volatility of returns. The selection of pooled funds is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the County Council’s income return aims without putting its initial investment at undue risk over the longer term. Arlingclose supports the County Council in regularly reviewing the ongoing suitability of these investments.

5.13 At the current time, given the medium to long term nature of the investments, it is unlikely that a capital loss would ever be realised as the County Council would avoid selling investments that realised a capital loss.

5.14 The County Council is aware of the risks involved with investing in pooled funds and has an Investment Risk Reserve in place to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £10.15m. This helps to mitigate the risk of crystalising a loss on investments (although the medium to long term nature of these investments reduces this likelihood of selling at a loss) and risks related to the IFRS 9 statutory override.

6. Knowledge and skills

6.1 The County Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions in accordance with the approved strategies. This includes the Chief Executive, Director of Corporate Operations (S151 officer) and Deputy Director of Corporate Operations (Deputy S151 officer) all being longstanding members of the Chartered Institute of Public Finance and Accountancy (CIPFA). Performance against targets and learning and development needs are assessed annually as part of the staff appraisal process across the County Council, and additionally when the responsibilities of individual members of staff change.

6.2 Staff attend training courses, seminars and conferences provided by CIPFA, Arlingclose and other providers. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

6.3 CIPFA’s Code of Practice requires that the County Council ensures that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities. All Members were invited to a workshop presented by Arlingclose in November 2023, which gave an update of treasury matters. A further Arlingclose workshop is planned for 2024.

Investment Advisers

6.4 The County Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Operations, their staff, and Arlingclose.

7. Chief Financial Officers Conclusion on the Affordability and Risk Associated with the Capital and Investment Strategy

7.1 This Capital and Investment Strategy has been developed alongside the TMS (Appendix 8) and the Reserves Strategy (Appendix 5). Together, they form an integrated approach adopted by the County Council to balance the need for capital investment to support service priorities with consideration of affordability and the consequent impact on the revenue budget, whilst recognising and managing risk to an acceptable level.

7.2 The forward planning of capital investment and its funding, including being in a position to maximise the use of external grants, contributions and capital receipts, together with the process of regular monitoring of actual income, expenditure, and project progress, provides assurance to the Director of Corporate Operations that the proposed Capital Programme is prudent, affordable and sustainable.

Section B: Minimum Revenue Provision Statement

8. Minimum Revenue Provision (MRP) Statement

8.1 Where the County Council finances capital expenditure by debt, statutory guidance requires it to put aside revenue resources to repay that debt in later years, known as MRP. There are four options provided by the MHCLG guidance on MRP, however other options may also be considered:

- Option 1: Regulatory Method
- Option 2: CFR Method (4% of the CFR)
- Option 3: Asset Life Method
- Option 4: Depreciation Method

8.2 **Supported borrowing:** Prior to 2015/16 the County Council calculated MRP for supported borrowing[1] on a 4% reducing balance basis (Option 2). It was agreed by Cabinet in December 2015 that the calculation of MRP from 2015/16 onwards would change to a straight-line basis over 50 years. This is Option 3 from the range provided by the guidance. To be more prudent the 50 years was assumed to have started from 2008, however had the County Council been applying the new policy of a 50-year straight line calculation starting in 2008 it would have made £67m less in MRP payments by 31 March 2016. As agreed in 2016/17 the County Council paused making MRP payments on supported borrowing until it had realigned with the total amount of MRP payments under the new policy, which was during 2021/22 when payments recommenced. No new supported borrowing has occurred since 2013/14 and all MRP payments on pre-existing supported borrowing will cease by 2063/64 when the outstanding CFR balance is fully exhausted.

8.3 **Unsupported borrowing:** The County Council will continue to apply the Asset Life Method (Option 3) in respect of unsupported capital expenditure funded from borrowing. MRP will therefore be determined by charging the expenditure in equal annual instalments over an appropriate useful life for the asset. This will not be more than 50 years unless the authority has an opinion from an appropriately qualified professional advisor that the asset will deliver service functionality for more than 50 years.

8.4 **Private Finance Initiatives:** MRP in respect of leases and Private Finance Initiative (PFI) schemes brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice

[1] Borrowing or use other forms of credit to finance capital expenditure, for which central government historically provided a revenue stream to support repayment of principal and interest. This support ended in the late 1990s.

will match the annual principal repayment for the associated deferred liability i.e. the element of rent or charge that goes to write down the balance sheet liability.

8.5 **Leases:** The mandatory adoption of the new accounting standard for leases (IFRS 16) is April 2024. When the standard is introduced, it will mean that former operating leases will be brought onto the balance sheet on 1 April 2024. Where this is the case annual MRP charges will be set so that the total charge to revenue remains unaffected by the new accounting standard. For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

8.6 **Capital loans:** For capital expenditure loans to third parties, the County Council will make nil MRP and apply the capital receipts arising from principal repayments to reduce the capital financing requirement unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This is consistent with the updated regulations and guidance applicable from 7 May 2024.

8.7 **Commencement of MRP:** MRP is not charged until the year after the capital expenditure takes place, e.g. capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, except where an asset has not yet become operational. As set out in the statutory guidance (para 41 of the 4th edition) the County Council treats *'the asset life as commencing in the year in which the asset first becomes operational'*. This means that MRP is not charged until the financial year following the one in which the asset becomes operational (i.e. when the asset transfers from Assets Under Construction (AUC) to assets in use under normal accounting rules). This approach will also be consistent with the new statutory guidance from April 2025 (5th edition) and the updated regulations, as specified in regulation 27(3).[2]

---

[2] This states "where a local authority incurs capital expenditure financed by debt during a financial year, the authority may charge the minimum revenue provision in respect of that expenditure to a revenue account for (a) the following financial year or (b) in relation to an asset, if later, the financial year immediately after the financial year in which the asset first becomes available for use."

MRP forecast

8.8 Based on the Authority's latest estimate of its CFR on 31 March 2024, the budget for MRP has been set as follows:

Table 8: MRP Budget

	31/03/2024 Estimated CFR £M	**2024/25 Estimated MRP £M**
Supported Capital Expenditure	428	11
Unsupported Capital Expenditure After 31/03/2008	165	12
Leases and PFI	113	11
Transferred Debt	25	1
Loans to other bodies	0	0
Total General Fund	**731**	**34**

Section C: Non-treasury Investment Strategy

9. Non-treasury Investment Strategy

9.1. Government issued statutory guidance on local government investments in 2018 and requires an investment strategy to be produced, which may be included alongside the capital strategy and/or treasury management strategy.

9.2. The County Council could decide to invest its money for three broad purposes:

- Because it holds surplus cash in advance of need (treasury management)
- To support local public services (service investments)
- To generate a financial return (commercial investments)

9.3. Investments are categorised in accordance with the primary purpose of the investment. The majority of the County Council's investments are defined as **treasury management investments** and therefore summarised in Section 5 of this document and in more detail in the Treasury Management Strategy. The contribution that these investments make to the objectives of the County Council is to support effective treasury management activities.

9.4. This Non-treasury Investment Strategy therefore focuses on **service and commercial investments.**

Definitions

9.5. The Government guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios."

9.6. The County Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

9.7. The Government guidance states that assets that generate revenue income solely through fees and charges for discretionary services levied under Section 93 of the Local Government Act 2003 should not be classified as non-financial investments for this purpose.

Commercial strategy

9.8. The County Council operates a Corporate Land and Assets Board at officer level to consider the strategic development of its estate including commercial opportunities. Opportunities for investment are reported to the appropriate Member meetings and, if additional capital schemes are proposed, approval is sought to add them to the Capital Programme in accordance with the County Council's Financial Regulations.

9.9. The County Council's commercial strategy was summarised in the Medium Term Financial Strategy (MTFS) update to Cabinet and County Council in the autumn of 2023.

9.10. 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) the County Council's approach has been proven to appropriately manage risk whilst contributing to the financial strategy.

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

a. Business activity – selling, trading or receiving in come for operational delivery of goods and services.

b. 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.

c. Commercial operating model – developing our future operating model under key principles to be "more business like" in how we behave and operate.

9.12. 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, 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.

9.13. Another example is the place-shaping Manydown project, where the County Council has a Joint Venture arrangement in place with Basingstoke and Deane Borough Council named Manydown Garden Communities (MGC) LLP. In July 2020, MGC LLP formed a Joint Venture partnership with the development partner Urban & Civic and the Wellcome Trust known as the Manydown Development Vehicle (MDV) LLP. The programme is about bringing forward sustainable new communities at Manydown in western Basingstoke, with the vision to *"create communities of connected neighbourhoods developed in a well-planned and coordinated way, combining the best features from Hampshire villages and towns with a contemporary design."*

Investments for commercial purposes

9.14. Investments for commercial purposes are undertaken primarily for financial return but without being linked to treasury management activity or being part of service delivery. They are therefore additional investments taken voluntarily with the primary objective of generating a net financial return or profit. They will usually constitute capital expenditure. The income generated helps the County Council to deliver its service objectives.

9.15. The County Council has a small number of legacy arrangements that generate income from commercial tenants that would be considered commercial investments under the definitions of the Government guidance. It also holds a number of further assets classified as investment properties within its Balance Sheet.

9.16. All investment properties included within Table 9 are revalued on an annual basis at fair value based on market conditions. In accordance with government guidance, the County Council considers property investments to be secure where the accounting value is higher than the purchase cost including taxes and transaction costs. The most recent valuations are significantly higher than the purchase cost meaning the underlying assets provide security for the original capital investment.

9.17. These commercial investments generated around £1m of income in 2022/23 and therefore covered less than 0.1% of the gross expenditure of the County Council. The strategic land holdings are primarily not held to generate income but to generate future financial benefits and the County

Council is not heavily reliant on income from its commercial investments to balance its revenue budget.

Table 9 – investment properties at 31/3/23	Purchase cost	Gain/(loss) in fair value	Value in accounts at 31/3/22
	£'000	£'000	£'000
Legacy arrangements generating income from commercial tenants	13,777	2,107	15,884
Legacy arrangements generating income from residential (secure) tenants	304	586	890
Legacy arrangements generating income from other legal agreements	165	107	272
Strategic land holdings	16,619	102,229	118,849
Total investment properties in accounts	**30,865**	**105,030**	**135,895**

The Strategic Asset Management Plan (covered in more detail in Section 3) was updated in 2022. The vision and objectives identified in the SAMP reflect the role that land and property assets can play in achieving the strategic priorities of the County Council. This includes enabling and contributing to economic regeneration and growth in Hampshire, in line with the Hampshire 2050 strategy, as well as enabling the further transformation of County Council services and maximising the financial return from assets in the context of the significant financial challenges the County Council faces to 2025 and beyond.

9.18. The SAMP identifies a desire to explore **commercial opportunities** from assets, including through acquisition, with a change in the organisational risk appetite and an agile approach, to achieve commercial advantage. Any activity that constitutes commercial investments will be considered and reported appropriately in accordance with the requirements of the Prudential Code and the Government investment guidance. This will include consideration of the contribution the investment will make to the County Council, the security of the amount invested, an assessment of the risks involved, and an understanding of the impact of the potentially illiquid nature of the assets involved.

Investments for service purposes

9.19. Investments for service purposes are those undertaken primarily and directly for the delivery of public services or in support of joint working with others to deliver such services. They will normally constitute capital expenditure and it may be appropriate to borrow to finance these investments. They may or may not deliver financial returns, but this will not be the primary purpose of the investment. The County Council holds a limited number of service investments.

9.20. **Manydown:** The County Council together with Basingstoke and Deane Borough Council (BDBC) each hold an equal leasehold interest in land at Manydown with the option to purchase that land for future development. To undertake this purchase jointly, the Councils set up and operate a separate company called Manydown Garden Communities LLP. Both Councils entered into a joint venture arrangement (Manydown Development Vehicle LLP) with a development company called Urban and Civic (U&C) and it is hoped that a deal with the freeholder, The Manydown Company, for the purchase of the land can be agreed in the near future. Under the contractual arrangements, the County Council has some financial obligations and had financial opportunities as part of the overall funding for the development. The council has already made some loans totalling £3.7m under approvals within its Treasury Management Strategy however, given the heightened scrutiny on local authority investments and companies, our treasury advisers have suggested that all of these items should now be treated as service-based loans to reflect the wider benefits that the County Council and BDBC are aiming to achieve in terms of economic development, regeneration, place shaping and affordable housing.

9.21. **Farnborough International Ltd:** With the primary aim of improving economic prosperity and related infrastructure within Hampshire, the County Council has granted loans totalling £4.5m at market rates of interest to Farnborough International Ltd.

9.22. **EM3 Local Enterprise Partnership:** The loan to Farnborough International Ltd is part of a total of £9.5m including £5m from the Enterprise M3 Local Enterprise Partnership (EM3 LEP), where the County Council is the accountable body. A further £7.15m of loans for other projects have also been granted by the EM3 LEP. From April 2024 the central government sponsorship and funding of LEPs will cease and instead the government will "*support local and combined authorities to take on the functions* *currently delivered by LEPs."* Any future investments pursued by the County Council in taking on the functions of the EM3 LEP are likely to meet the qualification criteria for service investments given the purpose of the functions carried out by the LEP.

9.23. **Revolving Community Energy Fund:** In May 2022, the County Council approved the creation of a £250,000 Revolving Community Energy Fund (RCEF) from the Climate Change budget. This RCEF will invest in community energy projects with the primary objectives of helping to meet the County Council's climate change target and enabling the County Council to provide leadership and support to communities. Individual investments made through the RCEF will be of a value of up to £25,000 and will typically be made through direct investments in share offerings of small local entities. These investments will bring a greater degree of risk than the County Council would accept for treasury management investments, but it understands and accepts these risks given the way that these investments will help achieve the County Council's service objectives on climate change. Risk is mitigated by the RCEF being a very small proportion of the County Council's overall budget and by a defined due diligence process.

9.24. Accounting standards require local authorities to set aside loss allowances for loans, with a greater percentage loss allowance for loans with a greater chance of not being repaid. The loss allowances calculated are not material to the County Council.

9.25. The details of the County Council's service loans at the time of writing are set out in Table 10.

Table 10 – investments for service purposes	**Amount approved £'000**	**Amount invested £'000**	**Loss allowance £'000**	**Approved amount as % of net revenue stream**
Manydown (Loans)	53,700	3,700	40	5.0%
Farnborough International Ltd (Loan)	4,500	4,500	10	0.4%
Community energy projects through RCEF (Equity)	250	0	0	0.0%
On behalf of EM3 LEP (Loans)	12,153	12,153	224	1.1%

Table 10 – investments for service purposes	Amount approved £'000	Amount invested £'000	Loss allowance £'000	Approved amount as % of net revenue stream
Total	70,603	20,525	274	6.6%

Investment indicators

In addition to setting Prudential Indicators required by the Prudential Code, the County Council has also set the following quantitative investment indicators in accordance with the requirements of the Government investment guidance. Note that this table does not include short term treasury management investments.

Table 11 – Total Investment Exposure (£m) and net rate of return (%)	31.03.2023 Actual		31.03.2024 Forecast		31.03.2025 Forecast	
	Invested £m	Return %	Invested £m	Return %	Invested £m	Return %
Treasury management (long term)	225	4.2%	239	4.0%	103	4.0%
Service investments (loans)	20	4.7%	18	6.5%	36	6.9%
Service investments (equity)	0.0	n/a	0	5.0%	0	5.0%
Commercial investments	31	3.4%	31	3.4%	31	3.4%
Total investments	275	4.1%	288	4.1%	170	4.5%

9.26. This shows that the County Council expects the majority of its investments to continue to be for treasury management purposes, although potential future investments related to Manydown would increase the proportion of service based loans.

9.27. The commercial investments will continue to be legacy arrangements and strategic land holdings and in the table are forecast to be unchanged, although this position may evolve as set out in the recent Strategic Asset Management Plan update. None of these investments are funded by borrowing.

9.28. Figures shown are the amounts invested not the current market value where these amounts vary.

9.29. The figures above exclude invested on behalf the Thames Basin Heaths Joint Strategic Partnership Board (£10.7m) where these investments are held on the County Council’s balance sheet due to operational arrangements but where risks associated with these investments do not belong to the County Council.