**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

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| **Decision Maker:** | Cabinet |
| **Date:** | 7 December 2021 |
| **Title:** | Financial Update and Budget Setting and Provisional Cash Limits 2022/23 |
| **Report From:** | Chief Finance Officer and Director of Corporate Operations |


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## Section A: Purpose of this Report

The purpose of this report is to:

1. Provide an update to Cabinet and County Council on the in-year financial position as at the end of September, including the transformation programmes (Transformation to 2019 and to 2021).

2. Set out the process and framework for setting the 2022/23 budget.

3. Consider the financial impact of the Autumn Budget and Multi-Year Spending Review for the County Council, announced by the Government on 27 October, and to consider the Council's financial prospects over the medium term.

4. Present the unavoidable pressures and investment priorities that have been identified to date as part of the preparatory work for the 2022/23 budget.

## Section B: Recommendations

**It is recommended that Cabinet:**

5. Notes the latest financial position for the current year as at the end of September compared to that reported to the last Cabinet

6. Notes the increasing cost pressures building across both Adults, Health and Care and Children's Services Departments.

7. Notes the announcement of a three year Spending Review and the impact on the County Council's medium term financial planning, set out in Section E.

8. Approves the revised baseline position for the forecast completion of the Transformation to 2019 and Transformation to 2021 Programmes as outlined in Section F.

9. Approves the allocation from corporate contingencies of £326,000 recurring funding and one-off funding of £125,000 per annum for two years for the Council’s Climate Change Team from April 2022.

10. Approves the provisional revenue cash limits for 2022/23 set out in Appendix 1.

11. Approves the capital guideline amounts for the next three years set out in paragraph 96.

12. Approves the reallocation of £1.5m of Public Sector Decarbonisation Scheme grant funding from the boiler controls programme to a new programme of cavity wall insulation and approves a contribution of up to £150k from the Schools Condition Allocation underwrite funding for the decarbonisation programme approved in March 2021.

**Section C: Executive Summary**

13. The Government announced an Autumn Budget and 3 year Spending Review on 27 October; the first multi-year budget since 2016/17. Specific details of the resources available to the County Council will follow in the Local Government Finance Settlement, expected in mid-December. However, it has not yet been confirmed whether this will be a multi-year or single year settlement. The Spending Review announced additional grant funding for local government, totalling £4.8bn to 2024/25, which, depending on the distribution methodology used by Government, could be worth between £15m and £20m per annum to Hampshire. However, the additional funding will, at most, meet the assumptions for extra grant already included in the County Council’s Medium Term Financial Strategy as part of the SP23 programme and allocations remain broadly flat in 2023/24 and 2024/25.

14. The settlement does not therefore offer any longer term solution to the demand pressures we face, which are expected to continue to outstrip increases in financial resources over the Spending Review period. Furthermore, the Council will have the flexibility to increase the Adult Social Care Precept by only 1% each year rather than 2% as assumed in the Medium Term Financial Strategy (MTFS). This will result in a further funding shortfall of £7m per annum leaving a £14m budget gap by 2023/24.

15. As of September, departments are forecasting a net Covid pressure of £74m to be met from local resources, an increase of £3m as compared to the MTFS position reported to Cabinet in October. However, as the country continues to recover from the immediate pressure of the pandemic, in many service areas, the separation of latent and longer term Covid impact from ‘business as usual’ is less clear and the ‘new normal’ is not yet clearly understood. The complex

inter-relationship of numerous variables post-pandemic makes forecasting difficult, but based on recent analysis carried out as part of the detailed budget preparation work, the medium term forecast for departmental spending now anticipates significant pressure building by 2024/25 within Adults' and Children's social care.

16. The forecast position takes account of re-emerging growth in demand, particularly in Older Adults across Residential, Nursing and Domiciliary care, combined with increasing prices and labour market shortages. Within Children's Services, the forecast pressure is driven by two key areas of spend; levels of pay for Children's Social Workers and the associated pressure of recruiting agency staff to cover vacant posts and provide the necessary operational capacity to deal with the current and forecast increasing activity in this area. The Council's DSG deficit is expected to reach £57.8m by 2022/23 due to a further overspend of more than £22.3m in-year, driven by a further 18% year on year increase in Education Health and Care Plans to June 2021.

17. For Adults' Health & Care (AH&C), further slippage on T19 savings of £2m is anticipated across 2021/22 and 2022/23, however the delivery profiles for other departments remain in line with the MTFS position. AH&C also anticipate further slippage of £3.3m on T21 savings to 2024/25 while a reduction of £0.5m is anticipated for Children's Services. The increase in delayed delivery will be cash flowed from departmental cost of change reserves. However, there is considerable risk that departmental resources will be insufficient to cash flow T21 savings for Waste which are expected to slip by a further £7m beyond 2022/23.

18. An allocation from corporate contingencies of £326k permanent funding and £125k one-off funding for two years is sought to fund the Council's Climate Change Team. The investment will allow the team to build upon the considerable progress made to date in delivering the Climate Change Strategy and look to gain additional funding or sponsorship from other organisations to further the work of the team in the future. Two future investment priorities are also highlighted: a new market supplement model for Children's Social Workers and the introduction of Advanced Practitioner roles, and a review of the Council's Strategic Land Programme. Additionally, the Council faces several unavoidable financial pressures including rising inflation forecasts, contractual pressures due to the Health and Social Care Levy, rebated (red) diesel restrictions, and sustained demand pressures on the Educational Psychologists Service.

19. The report sets out the provisional cash limits for 2022/23 and capital cash limit guidelines to 2024/25 for Cabinet approval. Additional inflation and growth pressures totalling £66.2m are expected in 2022/23, however this does not yet include the impact of the local government pay award. There are no proposed changes to the capital cash limit guidelines however it is noted that rising inflationary pressures within the construction sector will limit the output achievable from cash limited resources within the capital programme. The impact will be monitored and factored into future financial planning.

## Section D: Contextual Information

20. The Medium Term Financial Strategy (MTFS) update presented to Cabinet and County Council in October and November respectively, addressed the challenges of long term financial planning in an environment of significant uncertainty, in respect of both ongoing spending commitments and the national funding position for the local government sector.

21. The 2021 Spending Review represents the first multi-year budget since 2016/17 following single year spending announcements in 2019 and 2020 linked to uncertainty surrounding the UK's exit from the EU and recently the economic impacts and fiscal response to Covid-19. Details of the resources available to the County Council will follow in the Local Government Finance Settlement. However, it has not yet been confirmed whether this will be a multi-year or single year settlement and the Council's ability to fully assess the viability of its spending plans over the medium term therefore once again remains uncertain.

22. The MTFS presented a forecast deficit position of £71m to the end of 2023/24 associated with the ongoing impacts of the pandemic. This figure represents the gap between government support provided to the Council and the pressures identified due to Covid-related demand and recovery costs, lost fees and charges and reductions to precept income. As of September, the total forecast deficit that must be met from local resources has increased by £3m to £74m. This is partly due to continuing pressures in Children's Services from increased referrals to the 'Front Door' which are expected to extend into 2022/23, but also reflects a changed profile for delays in ETE Tt2021 waste savings as a result of delays in the Environment Act, implementation of which is unlikely to happen until 2024/25. Additional one-off cashflow support has therefore been built in to support the later delivery of the waste savings to coincide with the expected implementation of Extended Producer Responsibilities and other changes. To help balance this against the available funding, the forecast position for Covid impacts for 2023/24 has been reduced, reflecting the current estimates provided by Departments.

23. The impact of Covid-19 continues to be dealt with as a discrete one-off financial impact, separate from the business as usual medium term financial strategy. The budget setting approach and provisional cash limits presented in this report do not take account of Covid impacts as these will be centrally funded on a one-off basis in line with the pressures reported by departments in their financial monitoring returns.

24. Business as usual demand pressures in Adults and Children's Social Care totalling at least £32m per year are expected across the MTFS period. Each 1% increase in Council tax raises approximately £7m additional income for the Council. As discussed in the following section of the report, local authorities will be permitted to raise overall Council tax by up to 3% per year to 2024/25, raising a further £21m per annum for the County Council. Increases in Council tax therefore fall short of meeting additional spending on social care alone by at least £11m per year, without accounting for general inflation or any additional

growth in the cost of delivering other non-social care services. The 1% per annum allowed for the social care precept is also below what was assumed in the MTFS and creates a further financial pressure for the County Council.

**Section E: Autumn Budget and Spending Review**

25. The government announced an Autumn Budget and 3 year Spending Review on 27 October covering the period from 2022/23 to 2024/25. Office for Budget Responsibility (OBR) Forecasts released alongside the Spending Review presented an improving picture for the economy, with GDP growth of 6.5% expected in 2021. This allowed the Chancellor to increase revenue expenditure by an average of 3.3% a year in real terms across government departments in the period to 2024/25. Local government Core Spending Power will increase by 3% per year in real terms, however this includes raising Council tax and the Adult Social Care (ASC) Precept by the maximum permitted increases.

26. Over the next three years, local authorities will be allowed to increase core council tax by up to 2% per year without a referendum. In addition, ASC authorities will be allowed to raise the ASC Precept by 1% each year. The Medium Term Financial Strategy assumes that the Council will have the flexibility to raise the ASC Precept by 2% each year and the reduction in the referendum limit therefore presents a further funding shortfall for the Council of £14m by 2023/24.

27. However, the Spending Review did include an additional £4.8bn grant funding for social care and other services to 2024/25, which the Council welcomes with cautious optimism. This includes around £1.5bn per year to be distributed through the local government finance settlement in addition to an extra £200m for the Supporting Families Programme and over £70m to boost cyber security and to further strengthen local delivery and transparency. The Department has not yet confirmed its approach to distributing the additional grant. If the funding was allocated on the same basis as the new social care monies announced at the 2020 Spending Round, Hampshire could receive around £15m - £20m. However, should the Department decide to modify the distribution to further benefit low tax base authorities, Hampshire could receive a considerably smaller share of the national pot.

28. It should be noted that, while the Council may receive a significant increase in grant for 2022/23, the funding remains relatively flat in 2023/24 and 2024/25. The settlement therefore does not present a long term solution to funding growth in social care demand for which the Council has lobbied the government for a number of years.

29. It should also be noted that the SP23 proposals for Children's Services and Adults' Health and Care include assumptions for a total of £26m additional grant funding by 2023/24. Therefore, even if the Council receives a favourable

funding allocation based largely on social care need, there will be no reduction in the level of savings required to be delivered through SP23.

30. The Spending Review confirmed that £3.6bn of the additional £5.4bn funding for adult social care reforms announced on 7 September will be routed through to local government. The funding is expected to cover all additional costs resulting from the personal care cap and revised capital limits, however a further sum of £1.7bn has been set aside to compensate public sector employers for the additional national insurance costs they will face as a result of the new Health and Social Care Levy. As yet there are no details on how this will be distributed or what conditions, if any, are attached. Included within the Department of Health and Social Care settlement is an additional £1.7bn over three years to improve the wider social care system, including the quality and integration of care. At least £500m of this will be allocated to improve qualifications, skills, and wellbeing across the adult social care workforce, which is a welcome recognition of the pressures in this area.

31. Members will recall that the total capital funding allocated to the County Council for Highways Maintenance was cut by 24% in 2021/22 as compared to 2020/21 levels. The Spending Reviewed announced £2.7bn funding for local road maintenance for non-mayoral authorities over the remaining years of the parliament, equivalent to £900m per year. This allocation is expected to maintain highways funding at 2021/22 levels, though Hampshire's allocation from the national funding pot is not yet known. The Council continues to supplement the national settlement with additional local funding to improve the condition of the County's roads, with a sum of £7m per year having been approved by Full Council in November for inclusion in the 2022/23 budget.

32. The government published its report on the outcome of the Fundamental Review of Business Rates. The report sets out the conclusions drawn from the review, the changes the government will pursue and provides a broad timeline for implementation of those changes.

33. The review reaffirmed the advantages of business rates as a form of business taxation and did not propose any fundamental changes to the basis on which the tax is levied. However, the government announced a move to 3-yearly revaluations starting in 2023, a freeze on the multiplier and significant new temporary and permanent reliefs, including a 50% relief for retail, hospitality and leisure businesses in 2022/23. Local authorities will be fully compensated for the multiplier freeze and new reliefs via Section 31 grants.

34. Disappointingly, there was no mention of the Fair Funding Review in the Budget. Hampshire has long been campaigning for a fairer funding settlement which addresses the much lower levels of funding per person in shire counties than in major conurbations. Whilst the additional grant funding announced at the spending review is welcome, it is concerning that this will again be allocated based on a set of outdated formulae which remain unchanged since 2013.

35. Hampshire has joined forces with 26 other low funded authorities to lobby the government to implement a temporary solution to address the inequality in

funding already highlighted by the Fair Funding Review. This would see a ‘floor’ introduced into the methodology so that all authorities receive a minimum level of core spending power, which it is believed could be done as part of the provisional local government settlement and would cost around £300m nationally.

36. Whilst this is only a temporary solution it would help to address some of the inequality in the current system whilst we wait for the full Fair Funding Review to be implemented. The Leader of the Council has signed a joint letter to Michael Gove and has separately written to all Hampshire MPs to gain their support in pushing this initiative through.

**Section F: Transformation to 2019 and 2021**

37. Members will be aware that both the Transformation to 2019 (Tt2019) and Transformation to 2021 (Tt2021) Programmes had a longer delivery tail for some elements of the Programme. This has been extended further by the impact of Covid-19 which switched resources from delivery of the Programmes to response and recovery over the last 18 months.

38. Directors have reviewed the baseline positions for delivery of both the Tt2019 and Tt2021 Programmes, focussing on the outstanding elements of the programmes only. The re-baselining involved planning what the revised delivery milestones will be within the individual savings areas and assessing what the cash flow impact will be based on those revised plans.

39. The following table provides a summary of the revised baseline position for delayed Tt2019 savings per department and a breakdown of the funding allocated to provide cashflow support:

| | **2021/22 £'000** | **2022/23 £’000** |
|---|---|---|
| Adults’ Health & Care | 4,220 | 641 |
| Children’s Services | 4,654 | 629 |
| CCBS | 160 | 160 |
| **Total Tt2019** | **9,034** | **1,430** |
| *To be met from:* | | |
| Covid-19 Response Funding | (4,883) | (629) |
| Approved Corporate Cashflow Support | (2,953) | (160) |
| Departmental Resources | (1,198) | (641) |

40. For Adults' Health & Care, further slippage of £2m is anticipated across 2021/22 and 2022/23 as compared to the MTFS position. This is largely attributable to delays to the Living Independently Programme due to the diversion of resources to support the Covid-19 response effort and a reduced ability to affect the volumes of care and price paid as a result of the need to support the NHS in freeing up acute capacity. The delivery profiles for Children's Services and CCBS Tt2019 savings are in line with those reported in the MTFS.

41. The delays to the Tt2019 programme which are directly attributable to the impacts of Covid-19 remain consistent with the MTFS position. The additional slippage in the baseline position for Adults' Health & Care will therefore be met from existing departmental resources.

42. The following table provides a summary of the revised baseline position for delayed Tt2021 savings per department and a breakdown of the funding allocated to provide cashflow support:

| | **2021/22 £'000** | **2022/23 £'000** | **2023/24 £'000** | **2024/25 £'000** |
|---|---|---|---|---|
| Adults' Health & Care | 26,707 | 9,596 | 814 | 315 |
| Children's Services | 2,781 | 459 | | |
| ETE | 8,349 | 8,149 | 6,974 | 2,517 |
| CCBS | 100 | | | |
| **Total Tt2021** | **37,937** | **18,204** | **7,788** | **2,832** |
| *To be met from:* | | | | |
| Covid-19 Response Funding | (16,451) | (9,272) | (5,274) | |
| Approved Corporate Cashflow Support | (19,216) | (6,159) | (149) | |
| Departmental Resources | (2,270) | (2,773) | (2,365) | (2,832) |

43. For Adults' Health & Care, further slippage of £3.3m is anticipated to 2024/25 as compared to the MTFS position. This is attributable to challenges in the provider market affecting the opportunity to impact prices for older adult care and the urgency required to meet faster discharges from hospital. Additionally, anticipated savings from HCC Care have been delayed due to the need to maintain staffing levels to sustain services during the pandemic.

44. Slippage in delivery of the Children's Services Tt2021 target has reduced by £0.5m as compared to the MTFS position. This is due to the opening of a new SEN Academy in Basingstoke resulting in reduced Home to School Transport costs, and lower than anticipated demand pressures in Children's Disability Services.

45. The most significant change in this area relates to the implementation of waste savings within ETE. The original savings in this area were inextricably linked to changes in Government Policy around waste, recycling and the environment.

Before Covid-19 the intention was to align any changes that the County Council was looking to introduce with the Government's proposals to ensure that service delivery across the waste system was consistent with the Government's approach.

46. Unfortunately, the passage of the Environment Bill was delayed significantly by Covid and it was difficult to predict when it might be enacted and when the implementation of the proposed changes may take place. The Environment Bill received Royal Assent on 9 November and this means there is now clarity over what is included within it and greater certainty over the likely timescales for implementation which we expect to come into force during the 2024/25 financial year.

47. However, this delay does have implications for the ETE Tt2021 waste savings if we are to continue to align implementation to the introduction of the Government's changes. The table above shows the cashflow support that will be required to achieve this and also assumes that the County Council will benefit from the new arrangements for Extending Producer Responsibilities in order to make up the balance of its savings programme in waste for Tt2021.

48. Support for the 2021/22 financial year was already in place, but from 2022/23 onwards £12.2m of the cashflow support for ETE would be an additional draw from the one off Covid funding that the County Council has set aside, given that the delay to the Environment Act was caused by the impact of the pandemic (the balance of funding will come from ETE's cost of change reserve). To ensure that the overall net cost of Covid-19 does not exceed the £74m that is set aside, the intention is to reduce the £15m provision allowed for the 2023/24 financial year, allocating £12.2m towards this cashflow support and keeping the remainder as a contingency amount for that year. At this stage, no Departments other than ETE are predicting a Covid-19 impact from 2023/24 onwards and it is therefore considered prudent to adopt this approach.

**Section G: 2021/22 Business as Usual Financial Monitoring**

49. As at the end of September all Departments are currently forecasting balanced positions in-year. However, significant additional pressures are building in both Adults and Children's Social Care which are likely to require additional corporate support from 2022/23 and could impact significantly on future projections for budget deficits. These potential pressures, explained below, are over and above those already provided for through corporate investment and cannot be met fully through use of Cost of Change.

50. The consolidated position for all departments for 2021/22 requires funding of £42.9m to meet additional costs in-year, including £27.1m in corporate cashflow support and £15.8m from Cost of Change and other departmental reserves. This is broadly in line with what was forecast earlier in the year.

51. For 2021/22, savings on business as usual service delivery in Adults' Health & Care have increased by £2.5m to £13.7m. This is due to a combination of further savings of £1.7m in HCC Care from repurposing vacant beds to provide Discharge to Assess capacity, and the benefit provided by various government grants remaining in place to support Covid and hospital discharges. These savings have offset the additional delays to the Tt2019 and Tt2021 Programmes for Adults as set out in Section F to leave a net improvement of £0.7m in the overall in-year position for the department requiring a smaller draw from the cost of change reserve to achieve a balanced forecast for 2021/22.

52. However, whilst demand for residential and nursing care is still lower than pre-Covid demand, in recent months, there has been an unprecedented acceleration in the rate of growth in demand particularly in Older Adults across Residential, Nursing and Domiciliary care, part of which is being driven from higher than usual discharges from the Acute Hospitals. In addition, the Residential and Nursing sector is experiencing significant cost pressures that have led to prices paid by the County Council increasing at a significantly faster rate than had previously been forecast. This cost pressure, that providers have passed onto the County Council, arises from a number of factors including the impact of a shortage of care workers, increases in the complexity of clients requiring care and increased operational costs including testing and infection control.

53. These price increases are already present, despite the Government funding that has been passed onto providers for infection control and prevention. Once that funding ends, the inflationary increase in average prices will potentially accelerate further. Based on this emerging picture for Older Adults, alongside the continuous but more gradual increase within Younger Adults care costs, it is anticipated that there will be a material underlying cost pressure from 2022/23 and beyond. Whilst it is unknown what, if any specific additional funding for Adult Social Care will be available on a recurring or short term basis, coupled with uncertainty over likely future market changes, precision over the scale of the longer term pressure is difficult to estimate.

54. For Children's Services, the forecast overspend position to 2024/25 takes account of two key areas of spend; increasing levels of pay through market supplements for Children's Social Workers and the associated pressure of recruiting agency staff to cover vacant posts. A cumulative pressure of £22.9m for agency staffing to 2024/25 is predicated on the continuation of recruitment at currently planned levels in line with increasing demand.

55. Whilst it is anticipated that this pressure will be partly eased by the extra investment in market supplements, it seems clear at this point that in operational terms there will always need to be a mix of permanent staff and agency staff required to deal with the volatile and fluctuating levels of activity, to train and support new staff under the Graduate Entry Training Scheme and provide flexible cover for sickness and other absences. The overall picture in respect of children's social work staffing will be monitored closely as these changes are implemented and based on this a further fundamental workforce

review will be commissioned to look at the longer term strategy for this area and ensure that it is resourced appropriately.

56. Departments are currently expecting to achieve around £20m of the £80m SP23 savings target in 2022/23, an improvement of £4m on the position reported in the MTFS. For all services, savings that are achieved early are added to departmental cost of change reserves and can be used to cover any shortfall in 2023/24 in line with the Council's financial strategy.

57. The financial position will continue to be reviewed throughout the remainder of the year and continuing focus at the ongoing monthly meetings between the Chief Finance Officer and the Directors of Children's and Adults Health and Care Services will be on the robustness of future plans and any potential requirement for additional corporate funding. A detailed review of non-departmental budgets (including contingencies) and reserves will be undertaken and considered in the 2022/23 revised budget position.

58. The financial pressures facing schools have been highlighted for some time, driven in part by an increasing requirement for pupils with Special Educational Needs (SEN), which exceeds the available funding and is mirrored nationally (as is the consequent pressure on Home to School Transport). SEN pressures have mainly arisen due to significant increases in the number of pupils with Education Health and Care Plans (EHCPs) coupled with increasing complexity of need and the extension of support to young people up to the age of 25. As of June 2021, there were 11,259 EHCPs being maintained, which is an increase of 18% in a year (compared to 12% the previous year). The two most significant areas of budget pressure are:

    - Top-up funding for mainstream schools, resourced provisions and Post 16 colleges. An overspend of £15.3m is forecast in 2021/22 due to increasing demand and complexity of need.
    - Placements in Independent and Non-Maintained Special Schools. An overspend of £7m is forecast due to a combination of rising demand and unit costs increases of between 6% and 8%.

59. In 2021/22 the current forecast is for a further overspend of more than £22.3m which will bring the cumulative deficit to £57.8m. Whilst this sum sits as a 'negative reserve' on the County Council's balance sheet it in effect represents an overdraft for schools which they (and the Government) need to address over the longer term.

60. The Spending Review included an additional £4.7bn core funding for schools by 2024/25 and a £2.6bn increase in capital funding for new SEN school places, which is welcomed. However, the additional core funding falls considerably short of the £7.1bn increase to 2022/23 provided in the 2019 Spending Round. The government's commitment to increase starting salaries for teachers to £30,000 also raises concerns as to the adequacy of the settlement. Whilst the additional funding for schools will help to address future growth in High Needs pressures, the demand continues to accelerate meaning

future pressures are likely and it does not provide a solution to the significant cumulative deficit position the Schools Budget will face at the end of 2021/22.

61. As we move further through the financial year, we will have a clearer picture of the likely business as usual outturn position for 2021/22 across all areas. A revised budget will be presented to Cabinet in February which reflects the latest monitoring information available.

## Section H: Revenue Investment Priorities

62. In past years it has been possible to add significant schemes to the Capital Programme using surplus revenue funding generated by the early achievement of savings. As the financial strategy has evolved and savings have been required to meet successive budget deficits, there is less ability to do this above and beyond the use of specific capital resources that come from government or developers. However, the County Council continues to provide resources to invest in specific priorities in line with the County Council's focus on continuous service improvement, to generate revenue or capital benefits in future financial years and to mitigate the key risks that it faces.

### Climate Change Team

63. Hampshire County Council declared a climate emergency in June 2019 and in 2020 adopted an ambitious strategy and action plan which sets out how the Council will meet two targets of becoming carbon neutral by 2050 and building resilience to a two-degree rise in temperatures. In February 2020 Full Council agreed an initial allocation of up to £2m to support climate projects and 2 years of funding for staffing resource to deliver the climate action plan from the Investing in Hampshire Fund.

64. Despite the impacts of the Covid-19 pandemic, considerable progress has been made to date in delivering the Climate Change Strategy, including:

- Delivering a number of community projects, including pilot on-street residential electric vehicle charge points and active travel schemes
- Securing £29.3m from the Public Sector Decarbonisation Scheme to fund building upgrades to the Council's corporate estate, including window replacements and solar PV installation
- Embedding climate considerations into all aspects of the council's activities, through work on Decision Tools, E-learning and the Procurement Framework

65. Tackling climate change is clearly not a temporary issue, it is an ongoing challenge which requires sustained investment and the accumulation of expertise within the authority. Therefore, in order to support the Council's

continuing commitment to deliver on its climate targets, it is proposed to fund the Climate Change Team within the revenue budget on a permanent basis. Cabinet is asked to approve the allocation of £326k recurring funding from corporate contingencies for the Climate Change Team. In addition, it will be beneficial to augment the team in the short term to provide further staff capacity and give a better chance of securing external funding from partners and sponsorship to further the work of the team in the future. Therefore, it is also proposed to allocate one-off funding of £125k per annum for two years, funded from corporate contingencies.

**Section I: Future Unavoidable Investment Pressures and Investment Priorities**

66. As part of the ongoing financial resilience monitoring and meetings with Directors there are a range of items that may impact the budget in 2022/23 and possibly future years. Some of these items reflect unavoidable pressures in the current year or are issues that we know will be coming forward in due course, whereas for others there is an element of choice.

67. There remains uncertainty as to the extent and timing of these pressures and therefore no further funding allocations are requested at this stage. The issues identified will continue to be closely monitored and considered during budget preparation and any additional corporate support required will be requested in the February budget report to Cabinet and Full Council. These items are over and above the emerging pressures across Adults and Children's social care services highlighted earlier in the report.

68. In the meantime, the following paragraphs set out the key items that have been identified so far under the two separate headings.

**Unavoidable Pressures**

69. **Impact of legislative changes on contract costs** – A number of the council's contractors will be entitled to increase charges as a result of legislative changes recently announced by government. The increase in employer National Insurance Contributions to pay for the Health and Social Care Levy and restrictions governing the use of rebated (red) diesel to be introduced in April 2022 will increase costs for the Council's suppliers. The council will seek to work with providers to manage pressures as far as possible within existing provisions for inflationary uplifts. However, should the increased budget pressures exceed current funding provisions, a request for additional permanent budget will be brought forward.

70. **Inflationary cost pressures** – The recent significant increases in inflation forecasts for the coming year have received widespread publicity in the media. The latest forecasts released by the Office for Budget Responsibility alongside the Autumn Budget predicted that Consumer Price Inflation will reach a peak of 4.4% in 2022 before falling back to an average of 2.6% in 2023. At the point at which the Council undertook inflationary cost modelling for 2022/23, the CPI forecast remained in line with the Bank of England's target of 2%. It is therefore

likely that additional funding may be required in some areas to meet the rising costs of providing services.

71. The highways and construction sectors in particular are experiencing a time of significant supply chain challenges in both the cost and availability or materials and labour. There is extreme volatility, the likes of which have not been seen for many years, as a result of the pandemic, Brexit and global transport issues. This is already impacting on the County Council's ability to secure construction capacity from the market in a timely way. As is reported nationally and experienced internationally, global production is struggling to keep up with a rapid increase in demand. Hampshire is not immune from this. Therefore, it is now difficult to assess and predict future costs. National indices confirm that productivity has returned to around 94% of pre pandemic levels which explains why there is so much pressure in the system. Material prices have increased by over 6% in one quarter of 2021 and nearly 17% in one year. Unprecedented in recent times. Tender prices have increased on average by over 6% a year and it is likely that that will accelerate further.

72. To manage these and future challenges, collaborative working arrangements with contractors and stakeholders continue to be developed and embraced. The County Council prides itself on being a client of choice for its contractor partners and the strong collaborative relationships that are already in place will enable open and honest dialogue around the ongoing challenges, and in some cases, this can hopefully lead to innovative, value-engineered solutions at reduced cost. The position will be kept under review as we move into the new year.

73. **Hampshire and Isle of Wight Educational Psychologists (HIEP)** – There has been a sustained increase in the level of Education Health and Care Plans (EHCPs) to be completed which continues to require the provision of an increased volume of statutory advice from HIEP. A detailed planning exercise was undertaken in June to review the total cost of the service including current plans for agency recruitment and forecast income for the year. The exercise identified a net pressure of around £0.9m which will be met from departmental cost of change reserves in-year. The position is expected to improve considerably in 2022/23 in line with a revised pricing structure, however the future resourcing needs and resulting funding implications will be kept under close review as demand for the service continues to build.

**Future Investment Priorities**

74. **Children's Social Workers – Market Supplements and Advanced Practitioner roles** – Although Children's Services have been successful in recruiting new staff through their Graduate Entry Training Scheme, there has still been a reliance on agency social workers to provide the additional capacity needed for the Transforming Social Care Programme and to deal with ongoing turnover across the service in the face of increasing demand. It is therefore proposed to introduce a new market supplement for Newly Qualified Children's Social Workers and to increase the rate of market supplements for Qualified

Children's Social Workers with levels linked to step progression within grade. A new role of Advanced Practitioner will also be created to provide a progression route for the Council's most experienced and skilled social workers. The proposals will initially be funded from departmental Cost of Change reserves however, if the approach proves to be successful and essential in terms of recruitment and retention, permanent funding will be required in due course as part of the wider workforce review mentioned earlier in the report.

75. **Strategic Land Programme** – An annual revenue amount is usually provided to continue activity on this Programme. However, the ability to continue to provide large scale funding into the future has been impacted by the need to cover Covid-19 costs along with other pressures on the budget outlined in this report. The Chief Executive has therefore been undertaking a review of the Strategic Land Programme and a further, more detailed report will be presented in due course setting out the proposed development and disposal strategy for each site and the annual resources needed to support this.

## Section J: Medium Term Financial Position

76. Once the Provisional Local Government Finance Settlement is released in December, we will be able to compare this to the assumptions that have been made to determine whether we are better or worse off against the original forecasts that underpinned the scale of the SP2023 Programme. In previous years we have taken these differences into account in setting the next round of savings targets, however the potential to achieve further efficiencies in service delivery continues to reduce following the delivery of 6 major change programmes over the past decade.

77. At this stage we are aware that the authority's ability to raise Council tax through the ASC Precept will be limited to a 1% per annum increase. This will result in a further funding shortfall of £7m per annum, adding £14m to the Council's permanent budget gap by 2023/24. This gap which must be bridged either by additional ongoing funding sources or further savings.

78. It is also clear that the Council will continue to experience funding shortfalls over the medium term as the additional funding from Council tax increases and the government grants, which remain broadly flat in real terms in 2023/24 and 2024/25, will not be sufficient to meet the increases in social care costs currently forecast across the MTFS period. The County Council will continue to lobby on this issue and separately has joined forces with a number of low funded authorities to seek a temporary solution to the funding inequalities currently baked into the system.

79. Speaking to the HCLG Select Committee on 8 November, the Communities Secretary indicated that existing plans for local authorities to retain a greater share of business rates would not go ahead. The Secretary said that increased business rates retention would "go against the broader principle of levelling up"

as it “works against the process of redistributing money to those who need it most”. He also indicated that the Department would consider additional measures to help local authorities with less resilient tax bases in the wake of Covid.

80. The increased retention of business rates was expected to benefit regions with buoyant tax bases such as Hampshire, as it would allow them to retain a greater share of local business rates growth, so the move away from this approach is disappointing. Furthermore, the Secretary’s comments regarding funding redistribution towards lower tax base authorities suggest that Hampshire may continue to be disadvantaged by the methodology used by the government to distribute future grants.

81. The Government confirmed that it will announce the next steps for the Fair Funding Review alongside the Local Government Finance Settlement in December, which is welcome news. However, in light of the Secretary’s comments, it appears unlikely that the Review will offer a panacea for the financial challenges faced by Shire Counties and the Council must therefore continue to plan based on a difficult medium term financial outlook.

82. Beyond 2021/22 we have consistently said that we face an annual gap of at least £40m a year as a result of inflation and demand growth after a 3.99% council tax increase. In light of the outcome of the Spending Review and pending the publication of detailed funding allocations, it is reasonable to assume that the Council must plan to bridge a gap of at least £47m per year from 2022/23. A full update on the Council’s medium term position will be provided to Cabinet and Full Council in February following the publication of the provisional local government finance settlement, currently expected in mid-December. However, it should also be noted that the Department has not yet confirmed whether the settlement will cover multiple years or 2022/23 only and that the duration of the settlement will significantly impact the accuracy of the Council’s medium term budget forecasts.

**Section K: 2022/23 Budget Setting**

83. The tried and tested financial strategy which the County Council operates works on the basis of a two year cycle of delivering departmental savings targets to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Budget Bridging Reserve (BBR) and with any early delivery of resources retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures. The model has served the authority well.

84. In line with this strategy the SP2023 Programme will deliver £80m of savings required to help balance the 2023/24 budget, with savings delivered in 2022/23 retained by departments for reinvestment in services, currently estimated to be £20.4m. Detailed savings proposals for each department were approved by the County Council in November 2021, in order to allow more time for delivery

of the savings; including the requirement to undertake a second stage of service specific consultations where necessary.

85. The next section of this report sets out the details of provisional cash limits for departments for 2022/23, which take into account any base budget changes and the impact of inflation but do not include the £80m SP2023 savings, which will be incorporated in cash limits from 2023/24. Departments are asked to prepare detailed budgets within these cash limits and then secure approval through Executive Members, Cabinet and finally County Council.

86. The MTFS approved by the County Council in November 2021 includes the working assumption that council tax will increase by the maximum permissible without a referendum in line with government policy. This will mean a council tax increase of 2.99%, of which 1% will contribute towards the increased costs of adults' social care, in line with the government's amended approach which is built into their settlement calculations.

87. In addition, the financial strategy assumes a significant draw from the BBR in 2022/23 to provide for the one off corporate funding needed to cash flow the SP2023 Programme, recognising the lead in times for enabling investments and achieving the savings themselves.

88. The council tax base and collection rates also have a considerable impact on the overall financial position, with council tax constituting around 80% of the Council's net budget. Preliminary data received from district councils suggests that the council tax base is expected to grow by around 1% to 2022/23. This would contribute £7m to the council's base budget to fund the additional highways maintenance spending agreed by Full Council in November. Information from district councils on collection fund deficits and estimates of retained business rates are not available at the time of writing this report and will therefore be taken into account in setting the final budget in February. The MTFS is predicated on the prudent assumption of zero growth in the council tax or business rates bases. However, tax base growth is still below pre-Covid levels and there remains a continued risk of pandemic-related impacts over the medium term.

89. Details of the provisional local government settlement for next year are also a key component to budget setting and it is expected that these will be available from mid-December.

**Section L: Provisional Cash Limits 2022/23**

90. Provisional cash limits are set to enable departments to prepare their detailed budgets for the next financial year. These take account of changes in the base budget, for example as a result of grant changes or transfers between departments, approved growth and inflation for the year.

91. Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation. At this stage they do not include an allowance for the 2021/22 or the 2022/23 pay award pending national negotiations and the outcome is uncertain. An amount will be retained centrally in contingencies until any awards are agreed.

92. The calculation of the provisional cash limits is shown in detail in Appendix 1. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2022/23 position has been updated taking into account forecast changes, such as increases in respect of the pupil premium and other grant related changes.

93. Funding previously approved to meet growth in demand driven services has also been allocated and is reflected in the provisional cash limits, with the exception of funding for external legal costs associated with demand pressures for Children Looked After. Additionally, funding for Covid-related pressures and corporate cashflow support for outstanding savings has been retained in contingencies due to the uncertainties associated with forecasting these amounts. Funding will be allocated in-year when the corresponding pressures can be more accurately determined.

94. Chief Officers, with Executive Members will be developing their detailed budgets within these provisional guidelines, subject to their approval, so that the Leader and Cabinet can make the final budget recommendations for 2022/23 at the meeting in February 2022.

**Section M: Capital Investment**

95. The County Council's Capital Programme continues to be maintained and expanded, ensuring that we invest wisely in sustaining our existing assets and delivering a programme of new ones.

96. The timeframe for capital planning moves on each year and for the 2022/23 budget process, the programme will be extended into 2024/25. The table below shows the provisional, locally resourced capital cash limit guidelines that are being allocated to each department:

| | **2022/23** | **2023/24** | **2024/25** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| Adults' Health & Care | 481 | 481 | 481 |
| Children's Services | 100 | 100 | 100 |
| CCBS | 4,559 | 4,559 | 4,559 |
| ETE | 11,929 | 11,929 | 11,929 |

| | | | |
|---|---|---|---|
| **Total** | **17,069** | **17,069** | **17,069** |

97. There are no proposed changes to these guidelines and indeed, they have remained broadly similar over several years with no allowance made for inflation. During periods of low inflation, the impact of price changes can be absorbed within project scope and design. However, more significant inflationary pressure is becoming increasingly more apparent within the construction sector as a result of economic conditions and supply chain constraints. This will obviously limit the output achievable from cash limited resources. The impact will be monitored and factored into future financial planning.

98. Cabinet is requested to approve these provisional guidelines to allow departments to prepare their detailed capital programmes for approval as part of the budget setting process in January and February.

99. The figures in the table above represent the 'locally resourced' allocations to the Capital Programme, which supplement other capital resources that fund the overall programme, such as developers' contributions, capital receipts, Government grant and prudential borrowing. The total programme approved last February is shown in the following table and this will be updated as part of the budget setting process for 2022/23:

| | **Revised 2020/21 £'000** | **2021/22 £'000** | **2022/23 £'000** | **2023/24 £'000** | **Total £'000** |
|---|---|---|---|---|---|
| Adults' Health & Care | 25,376 | 15,588 | 481 | 481 | 41,926 |
| Children's Services | 67,733 | 39,048 | 17,417 | 53,071 | 177,269 |
| Environment & Transport | 127,476 | 69,368 | 94,970 | 45,021 | 333,629 |
| Culture, Communities and Business Services | 105,511 | 38,232 | 21,971 | 21,971 | 187,685 |
| **Total** | **326,096** | **162,236** | **134,839** | **120,544** | **743,715** |
| | | | **417,619** | | |

100. Whilst the Programme looks front loaded, there can sometimes be slippage in the phasing of schemes and the County Council has, in recent years, consistently spent cash of around £200m per annum on capital investment projects.

**Revised programme 2021/22**

101. A revised capital programme for the current financial year will be presented to Cabinet in February alongside the forward capital programme. However, there is one change which requires decision now. As reported to Cabinet in February 2021, the County Council was successful in securing £29.3million of funding from the Government's Public Sector Decarbonisation Scheme (PSDS) to deliver a programme of decarbonisation work across more than 400 sites within the County Council's schools and corporate estates. This included £2.8m for a programme to improve boiler controls. In addition, Cabinet approved in March 2021 an underwrite of up to £3.27m from the Schools Condition Allocation grant to ensure the carbon reduction programme can be delivered in full.

102. The original timescale for the delivery of work under the PSDS grant funding was September 2021. Earlier this year Salix, the government's carbon agency, extended the deadline for expenditure of the grant to March 2022, recognising the delays caused by shortages in both labour and materials experienced across the construction industry supply chain over recent months. Good progress has been made to commit the grant funding across most of the decarbonisation workstreams, however, the supply chain challenges have particularly impacted on the pace of implementation of the boiler controls programme where a worldwide shortage of microchips is affecting the availability of the required boiler control technology.

103. Salix has agreed to the County Council reallocating a proportion of the grant funding that was allocated for the boiler controls programme to an alternative programme of cavity wall insulation. This will deliver operational carbon emission reductions in line with the required metrics for the PSDS grant and can be procured and delivered within the available timescale.

104. Cavity wall insulation improves the thermal performance of a building, reducing the energy required for heating. This delivers immediate benefits through a reduction in operational carbon emissions, energy cost savings and a more comfortable internal environment for building users. Improving the thermal performance of the building envelope is also a key step towards achieving a net zero position for operational carbon emissions as the reduced heating requirement opens up the opportunity to replace current heating technology with low carbon alternatives in the future.

105. The total maximum anticipated value of the cavity wall programme is £1.5m of PSDS grant funding with a potential additional contribution of up to £150k from the £3.27m Schools Condition Allocation (SCA) underwrite funding approved by Cabinet in March 2021. The full SCA funding is not required for the windows replacement programme and will only be applied to the cavity wall insulation programme if necessary to achieve the required metric for carbon reduction per pound of spend across the programme. It is anticipated that the programme will comprise 40-60 individual sites with a maximum scheme value at any one site of £40k-£50k.

106. It is recommended that Cabinet approves the reallocation of £1.5m of Public Sector Decarbonisation Scheme grant funding from the boiler controls programme to a new programme of cavity wall insulation (including fees) and

approves a contribution of up to £150k from the Schools Condition Allocation underwrite funding for the decarbonisation programme approved in March 2021.

**Section N – Consultation, Equalities and Climate Change Impact**

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

108. This report deals with the provisional revenue and capital budget guidelines for services to enable detailed budget preparation to progress for 2022/23. This is the interim year of the two year financial planning cycle when no new savings proposals are being considered. Therefore no consultation or Equality Impact Assessments are required.

109. 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.

110. This report deals with the provisional revenue and capital budget guidelines for services to enable detailed budget preparation to progress for 2022/23. Climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. There are no further climate change impacts as part of this report which is concerned with setting the process and framework for budget preparation.

## REQUIRED CORPORATE AND LEGAL INFORMATION:

### Links to the Strategic Plan

| | |
|---|---|
| **Hampshire maintains strong and sustainable economic growth and prosperity:** | **Yes / ~~No~~** |
| **People in Hampshire live safe, healthy and independent lives:** | **Yes / ~~No~~** |
| **People in Hampshire enjoy a rich and diverse environment:** | **Yes / ~~No~~** |
| **People in Hampshire enjoy being part of strong, inclusive communities:** | **Yes / ~~No~~** |

### Other Significant Links

| **Links to previous Member decisions:** | |
|---|---|
| Title | Date |
| Medium Term Financial Strategy Update and Savings Programme to 2023 Savings Proposals<br>https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=163&MId=7737 | Cabinet – 12 October 2021<br>County Council – 4 November 2021 |
| **Direct links to specific legislation or Government Directives** | |
| Title | Date |

**Section 100 D - Local Government Act 1972 - background documents**

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

| Document | Location |
|---|---|
| None | |

# EQUALITIES IMPACT ASSESSMENT:

## 1. Equality Duty

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

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

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

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

## 2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely impacted by the proposals in this report but the County Council's budget and the services that it provides are delivered in a way that ensures that any impact on equalities issues are fully taken into account.

Appendix 1

# PROVISIONAL CASH LIMITS – 2022/23

| | 2021/22 Cash Limit £'000 | Base Changes £'000 | Inflation & Growth £'000 | 2022/23 Cash Limit £'000 |
|---|---|---|---|---|
| Adults' Health and Care | 410,259 | 1,951 | 26,901 | 439,111 |
| Children's – Schools | 942,548 | -1,305 | - | 941,243 |
| Children's – Non Schools | 214,856 | 2,693 | 29,126 | 246,675 |
| Corporate Services | 50,544 | -354 | 2,847 | 53,037 |
| Culture Communities & Business Services | 43,373 | -128 | 1,530 | 44,775 |
| Economy, Transport & Environment | 103,667 | 6,935 | 5,838 | 116,440 |
| **Total** | **1,765,247** | **9,792** | **66,242** | **1,841,281** |

**Notes:**

Base Changes

- Largely relate to changes in grants (notably the Coronavirus Catch-up Premium for schools), movements between services and additions to / draws from reserves.
- Includes an additional £7m Highways Maintenance funding for Economy, Transport & Environment as approved by County Council in November

Inflation & Growth

- In addition to general price inflation (much of which relates to care provision in Adult's Health and Care) this includes a general allowance of 1.5% of relevant employee budgets (directly employed staff) for step progression.
- Includes the allocation of funding for growth (within the amounts set out in the MTFS) for both Adults' Health and Care and Children's Services in relation to demand and complexity.
- Reflects inflation for the waste contract and also includes an agreed allowance for growth in volumes.