

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	19 July 2022 29 September 2022
Title:	Developing a Medium Term Financial Strategy
Report From:	Director of Corporate Operations

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Section A: Purpose of this Report

1. The purpose of this report is to set out the current progress towards developing a Medium Term Financial Strategy (MTFS) to 2025/26 against a challenging backdrop of public finances. It also sets out some interim proposals for capital investment priorities, some of which have been awaiting consideration since before Covid.

Section B: Recommendation(s)

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

2. Notes the continued decline in the County Council's financial position to 2025/26.
3. Notes the current progress towards the development of a Medium Term Financial Strategy that will be further reported to Cabinet and County Council as part of the 2023/24 budget setting process.
4. Delegates authority to the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council to allocate one off funding for inflationary pressures in the current year up to a value of £25m, to be funded from contingencies and the Budget Bridging Reserve as required.

5. Recommends to County Council that:

- a) An inflation underwrite of up to £15m be put in place for the current capital programme and that approval of allocations from this sum are delegated to the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council.
- b) The capital guidelines for 2023/24 and 2024/25 be increased by £6.75m and £6.8m respectively to meet the unavoidable capital priorities outlined in Section I, to be funded from prudential borrowing, the revenue consequences of which will be factored into the budget setting process for 2023/24.

RECOMMENDATIONS TO COUNCIL

This single report is used for both the Cabinet and County Council meetings, the recommendations below are the Cabinet recommendations to County Council and may therefore be changed following the actual Cabinet meeting.

County Council is recommended to approve:

- a) An inflation underwrite of up to £15m for the current capital programme and that approval of allocations from this sum are delegated to the Director of Corporate Operations in consultation with the Chief Executive and the Leader of the Council.
- b) That capital guidelines for 2023/24 and 2024/25 be increased by £6.75m and £6.8m respectively to meet the unavoidable capital priorities outlined in Section I, to be funded from prudential borrowing, the revenue consequences of which will be factored into the budget setting process for 2023/24.

Section C: Executive Summary

- 6. This report outlines the current progress towards developing a Medium Term Financial Strategy to 2025/26 against a backdrop of worsening public finances as a result of growth in demand and steeply rising inflation. Even considering a baseline level of deficit could see a budget gap of between £180m to £200m, which is well in excess of anything we have faced before.
- 7. The County Council's approach of looking ahead and adopting a planned and measured approach to setting its budget has served it well over many years and whilst the early consideration of our future position is still key, the approach to tackling the predicted deficit has had to change this time round due to both the size of the task and the fact that we will have already taken £640m out of the budget by 2023/24.

8. The key question is whether or not the County Council is able to balance the budget through its own actions or whether it needs to approach Government to begin discussions about our financial predicament. At this stage it is not clear whether or not we are able to balance the budget ourselves, but even if we were, we would also need to consider the profound impact that this would have on services and service users going forward.
9. We will of course engage with Government over the coming months, not least around the entire system of local government finance which is simply not fit for purpose as current local and national funding increases in year are entirely insufficient to keep pace with the cost and growth increases that we experience. Unless something changes within this model, then there are no prospects for financial sustainability for the County Council, a point that it has been making for many years now.
10. The report also considers some unavoidable capital investment proposals which need to be progressed in the next few years and proposes a response to the significant inflationary pressure that we are currently experiencing within revenue and capital budgets.

Section D: Background and Context

11. The MTFs update presented as part of the budget setting report in February 2022 outlined a challenging position, predicting a £157m budget deficit by 2025/26 after £80m of Savings Programme 2023 (SP23) savings had already been taken into account.
12. There were three key issues that contributed to this position:
 - Increased costs of Adults' Social Care – An increasing number of clients coming into care post Covid, coupled with price increases in the market of between 16% and 18% has created an additional forecast pressure of £52.6m by 2025/26.
 - Limited Government Funding – The Comprehensive Spending Review (CSR) provided some extra funding over the next three years, but this was 'flat' over the period, despite the annual growth in costs. The County Council received £22.9m extra funding in 2022/23, but over £14m of this was already accounted for as assumed extra funding as part of the SP23 programme. In reality, the total funding received has had little impact given that growth in Adult Social Care costs over the period are expected to rise by over £106m and pay and inflation are expected to be over £150m.
 - Reduced Social Care Precept – The County Council had previously been relying on a 2% per annum Adult Social Care Precept, but this was reduced to 1% over the life of the CSR, reducing council tax income by around £28m per annum by 2025/26.
13. This position must also be set in the context of the national economic picture, with growth slowing, the impacts of the Ukrainian war on inflation and geo-political stability and a Government who had to spend and borrow heavily

during the pandemic, increasing total cumulative Government borrowing to £2.3trillion, nearly 100% of the economy's annual output.

14. Rising social care costs that are not funded by Government continues to be the greatest financial challenge that the County Council faces. Recent Government white and green papers and a review into Children's Social Care Services highlight some of the challenges in this area and suggest that around £2.6bn needs to be spent over the next four years to start address some of the failings in the system.
15. For Adults Social Care escalating demand and price inflation in what is a challenging market following Covid is further complicated by the social care reforms being introduced by the Government, which will bring further burdens and complications into the system and is likely to lead to significant unfunded costs for local government as set out in a separate report on this agenda. The County Council's predictions alone suggest that the reforms could add up to £91m to the bottom line after Government funding has been taken into account.
16. This all adds up to the most challenging financial picture the County Council has ever faced and is highlighting now more than ever the consistent statement that we have been making for some time, which is that unless something is done about rising social care costs, the County Council is not financially sustainable in the medium to long term as it is not possible to keep making savings in services to fund the growth in social care.
17. As further context, it is worth re-iterating at this point, that the County Council has only four options for balancing its budget:
 - Increasing council tax, albeit that this is capped by the Government unless the County Council wanted to go for a referendum.
 - Increased Government funding.
 - Changes to legislation that reduce service cost or allow us to charge for services.
 - Making savings in services or generating more income as we have been doing since 2010 and we will have already taken £640m out of the budget by April 2023.

Section E: Updated Forecast to 2025/26

18. Appendix 1 sets out the high level forecast that was presented in February 2022 and shows that at this point, a budget gap of £157m was predicted by 2025/26. The assumption was that the County Council would look to bridge the deficits in the intervening years from reserves, whilst it developed a strategy to deal with the ongoing deficit, although this relied on no further financial shocks in the system during that period and a concerted effort to contribute sufficient funding to the Budget Bridging Reserve. It also assumed that the social care reforms would be fully funded by Government.

19. Since that time officers have been doing further work to take account of emerging pressures such as:
 - Pay Awards – Increasing inflationary pressures and announcements on the National Living Wage (NLW) suggest that there will be pay costs over and above what we have already allowed for.
 - Inflation – Rising costs of fuel, materials and other goods are feeding through to contract prices in many areas, such as social care, home to school transport, building maintenance, transport and highways.
 - Regulatory changes – The Government is currently consulting on a range of measures particularly around Waste Disposal which would impact on past and current savings proposals.
20. At this stage it is not possible to predict whether the inflationary impacts are permanent or just transitory and therefore it is difficult to forecast what the impact might be over the next 3 years. It is however possible that as a minimum, the current increase in prices will remain and give a new base spending level upon which further normal inflationary allowances will be required.
21. Given the uncertainty, it is not proposed to provide a detailed forecast at this stage, but it is not unreasonable to assume that by 2025/26 we could be facing a recurring deficit between £180m and £200m.
22. This position does not take into account the revenue impact of potential future capital investment proposals outlined below which would add further to the deficit if they were to proceed. It also does not include a potential long term solution to the maintenance of our existing nursing and care homes, our other built estate and the highway network, which will require a significant additional annual revenue contribution to properly maintain the assets that we own.
23. Finally, there are two further areas that need to be flagged as significant risks in the forecast although at this stage they are not being included as to do so would definitely mean that the County Council is not financially sustainable in the medium term.
24. The first is adult social care reforms, which are covered in detail in a separate report on this agenda. The new reforms are expected to add significant costs to our budget which at this stage are not fully funded by the Government. There are many different aspects and variables to the reforms but it is anticipated that unfunded costs of up to £91m could result as a consequence of their implementation.
25. The second relates to Special Educational Needs which are currently funded by the High Needs Block element of the Dedicated Schools Grant (DSG). Members will be aware that costs have been escalating in this area for many years following changes to Government legislation. In 2021/22 costs exceeded the Government grant by £27.7m and by 2024/25 this is expected to increase to over £40m despite mitigating measures being put in place.

26. At the current time there is a 'statutory override' in place that means the cumulative deficit (a total of £60m for Hampshire at 31 March 2022) is notionally offset against future DSG and does not need to be addressed by the local authority. However, this is due to cease at the end of 2022/23 and it is not yet clear what the Government's intentions are with respect to this nationally recognised problem.
27. At this point, the County Council does not have available funding to address the cumulative deficit and cannot possibly contemplate dealing with a further annual revenue pressure of £40m on top of the position set out in this Section. Nevertheless, it is a potential risk that needs to be flagged.
28. There remain the usual risks associated with all forecasts of this nature, not to mention that the Government is still considering a Fair Funding Review for local government finance which could negatively impact the position going forward. For now though we will stick with the current range of forecasts and consider how we go about addressing the challenge that we already have before us.

Section F: Developing a Realistic Approach

29. The County Council has been financially well managed for many years, making prudent assessments of its financial position, adopting a sensible forward-looking approach to balancing its budget deficit every two years and managing its finances through a robust reserves strategy.
30. This approach has served it well over many years, but more recently, we have seen a change from the ongoing transformation of our services (which is taking longer and longer in the more complex areas) to simply making savings to help achieve a balanced budget as has been the approach for SP23.
31. By April 2023, we will have been implementing savings for around 13 years and will have taken some £640m out of the budget. In simple mathematical terms our increases in income and funding do not match the increased costs and growth in services and there are no other options to balance the budget other than reducing spend or increasing charges to users.
32. Previous Medium Term Financial Strategies have highlighted that without changes to the way that social care growth is funded, the County Council is not financially sustainable in the medium to long term as it is not possible to keep making savings in other services to fund this growth. In fact, in June 2018, the MTFS included this statement:

'However, what is clear from the forward forecasts that have been prepared is that under current funding arrangements, against existing duties and anticipated demands, the County Council cannot maintain financial sustainability in the longer term. It simply does not have the capacity to continue to absorb the annual inflationary and growth pressures through successive change programmes without the allocation of additional government funding.'

33. It is clear that nothing has changed other than the fact that social care pressures are getting worse and that Government funding is not even remotely keeping pace with the general annual inflationary pressures that we face, before taking account of service growth, pressures and the current economic climate.
34. Whilst it seems incomprehensible that the County Council could be considering a scenario where it is unable to balance its budget in the medium term, it is also inevitable that we will reach this position at some point based on the current methodology for funding local government. The primary question at this stage is that assuming a 'base' level of deficit of up to £200m, is the County Council able to balance its budget through a range of measures or does it need to consider starting early discussions with Government about its future financial standing?
35. It should be pointed out that the County Council is asking this question now, well in advance of when it needs to, which has been a feature of the good forward planning and financial management we have exhibited to date and to ensure there is maximum time to address, as far as we are able, the financial gap that we predict. At the same time however, we must be realistic about what can be achieved and be cognisant of the impact that it will have on services and residents if we start to consider a statutory minimum level of services (albeit that this is not well defined and is a judgement call in many services that would ultimately be tested by the courts).
36. It should also be noted that the Council will face increased levels of financial risk in implementing further reductions to levels of service delivery and increasingly ambitious commercially-focussed approaches to income generation. Ultimately, the Council will need to reach a view on the level of risk that is acceptable considering both the potential financial impacts should risks materialise, and the consequences for the Council should it be unable to set a balanced budget.

Section G: Results of Early Work

37. Following the budget setting process for 2022/23 the Corporate Management Team started a high level exercise to look at options for closing the budget gap, which at that stage was the £157m identified in the MTFS. This did not follow the usual approach of setting a straight line percentage reduction to all Departmental cash limits but instead asked Directors to look at each service area and consider differing options with increasing levels of impact and severity.
38. They were also asked to come up with any cross cutting options and consider what legislative changes could be put in place that would have a material impact on the cost of service or provide options for charging users. Given the Government's own financial challenges, options that allowed the County

Council to help solve its own problems through legislative change were felt to be more favourable than just asking the Government for more funding.

39. The aim was to collate all of this information to assess at a high level whether we could realistically bridge the estimated gap by 2025/26 and then include the details of this in the Medium Term Financial Strategy due to be presented over the Summer.
40. The initial results of this exercise have been presented to CMT, and it is not yet clear whether or not the gap can be bridged through actions of the County Council alone. Given this position, there are a number of elements of the work that need to be expanded on.
41. During the Summer, the Chief Executive, together with a Director 'peer reviewer' will undertake a service by service review of each Department, working with the relevant Director to assess whether or not what has been put forward is achievable, realistic and goes as far as is possible.
42. The output of this piece of work, together with the results of the Fair Cost of Care exercise should be available in the autumn and the Government have also announced that there will be a further 2 year financial settlement, details of which should be available in December. This therefore points to a further comprehensive update being provided as part of the February Budget setting report, when more will be known about our future financial prospects.
43. Further updates on the process and timetable will also be provided later in this calendar year, but the fact that we have already undertaken some preliminary work and can continue to refine these plans and options will mean that further good progress can still be made over this period.

Section H: Talking to Government

44. Irrespective of the outcome of the above piece of work it is clear that under the current funding regime, the County Council is not financially sustainable and even if it were able to balance the budget by 2025/26 then the problem just moves on to the next financial year.
45. The County Council has been active in engaging officials from DLUHC and the Treasury and in lobbying MPs about its financial position but this activity must be stepped up over the Summer in order to highlight the challenge that we face and the work that is currently being undertaken.
46. In particular, it is important that we stress that it is not just about being able to balance the budget (or not as the case may be) but about the impact on services and residents as a result of potentially implementing the reductions or increased charges for use.
47. These are difficult decisions for the County Council, but it has a statutory responsibility to balance the budget and is fully aware of the failures in other councils of not taking this responsibility seriously enough. Whilst other councils

are concentrating on more short term issues it is important that we take this forward look even though this may potentially take us 'out of step' with some of our comparators.

Section I: Current year inflation

48. With inflation currently exceeding the 40 year high of 9%, there is immense pressure on the both the revenue budget and capital programme in the current year. Further information on capital inflationary pressure is given in section J below and the following paragraphs focus on revenue budget inflation.
49. When the 2022/23 budget was approved in February, it was based on assumed inflation of 2.5% for pay and an average of 3.2% for non-pay budgets. As part of the detailed budget preparation, the assessment of non-pay inflation takes into account a range of indices as applicable for the various different contracts and supplies and services included within individual cost centre budgets. In line with prudent financial management, a central contingency is held to manage various risks and pressures that might occur during the year and at the time the budget was approved, this included funding in respect of the forecast pressure on energy costs.
50. The LGA is now suggesting pay awards of 4% are likely which would require a further £5.0m in addition to the £8.25m (2.5%) included in the budget.
51. For non-pay budgets, budget managers are experiencing significantly higher inflation than budgeted including mounting pressure from contractors who simply can no longer afford to deliver service contracts within the agreed price. This pressure is widespread and especially acute in adult social care and home to school transport (HtST).
52. Further analysis of the likely impact is underway together with consideration of potential mitigation. However, in order to ensure the continued delivery of services to some of our most vulnerable residents, additional funding of up to £20m - £25m may need to be identified.
53. The message from Government officials is to use reserve funding for these pressures in the current financial year. However, this is a short-term solution and unless the rate of inflation becomes negative, this year's inflation will increase the base budget which will require on-going funding. A further update will be included in the next MTFS report, and delegated authority is sought in this report for additional one off inflation allocations to be granted to services on a case by case basis up to a value of £25m, which will be drawn from contingencies in the first instance and then the Budget Bridging Reserve.

Section J: Capital Investment Priorities

54. Throughout the period of austerity, despite the challenging financial environment, the County Council has maintained its capital programme and over the last five years, actual capital expenditure has averaged around £233m per annum. Over the same period, the revenue funded capital guideline has remained broadly unchanged at around £13m - £16m p.a. There has been no inflationary increase to annual capital guidelines for many years and as the value of the guideline has reduced in real terms, the approved capital programme includes only the very highest priority schemes and those attracting external funding.
55. Additional capital schemes are periodically added to the programme, identified as part of strategic service reviews and corporate capital investment priority reviews. The additional schemes are funded either from one-off revenue underspends or from prudential borrowing on the strength of a specific business case. The last corporate review of capital investment priorities was commenced in late 2019 and paused in 2020 at the start of the pandemic. The review has recently been revised and updated and considered by the Corporate Management Team. Three key themes have been identified:
- The significant **inflationary pressure** on capital allocations and especially on approved projects currently out to tender and in progress
 - The need for a realistic assessment of the annual cost of managing the condition of our highway network, associated infrastructure and built estate including **health and safety and regulatory compliance and life cycle replacement costs**
 - Some significant **stand alone capital investment priorities**.
56. These three themes are considered further below.

Inflationary pressure

57. The building and highway construction and maintenance industries continue to exhibit strong evidence of instability on the back of Brexit and the Covid pandemic with the consequence that inflation indices have been increasing significantly over the last two years. Additional cost pressures have followed, along with the anticipated changes in legislation for “red diesel” and national insurance contributions, which came into effect from April 2022. The on-going war in Ukraine is having a very significant and alarming impact on top of these existing challenges and is causing uncertainty with the availability and cost of critical materials such as steel, iron and timber.
58. Oil and gas prices are unstable and rising rapidly, and this directly affects fuel, energy, manufacturing, and also overhead costs. Bituminous products, i.e. asphalts, bitumen binders etc., are already being heavily impacted. Materials

that require intensive energy input, such as, bricks, plastics and ceramics are likely to continue to rise as are the costs of transportation due to the cost of fuel. Overall, the construction material price index rose 5% in March and is now almost 25% higher than 2021. This is driving higher tender prices ranging between 6% - 9% in 2022 with a further 2% - 7% forecast for 2023.

59. The County Council's highways and property services teams are already working closely with contractors to anticipate and where possible manage price and delivery pressures in the supply chain. Work programmes are also being reviewed and re-prioritised in order to manage the impact of higher cost within existing funding. These strategies have been reported to and approved by the relevant Executive Members.
60. The duration of the current situation is unknown, however the ability to manage the rising cost pressures within existing budgets can only be short term. It is therefore prudent to earmark contingency funding to underwrite the cost of inflation on individual schemes where it cannot be met from approved budgets. It is recommended that authority is delegated to the Director of Corporate Operations to review individual cases and where appropriate, allocate up to £15m of funding in consultation with the Chief Executive and the Leader.

Health and safety and regulatory compliance and life cycle replacement costs

61. Existing capital guidelines allow only limited planned investment in the County Council's built estate, highway network and associated infrastructure leading to a continued decline in the condition of the assets and an increasing risk of health and safety and regulatory compliance failures and unplanned failures in asset performance causing service disruption, for example boiler failure and safety concerns, for example pelican and puffin crossing failure. Additional capital funding would enable a programme of proactive lifecycle replacement for core and higher risk sites and assets.
62. Work is on-going to assess a realistic annual programme of planned condition work to meet essential health and safety and regulatory compliance and this will be informed by further asset condition surveys. In the meantime, investment required to meet the highest priority areas over the next two years has been identified and all of these items have been signed off as unavoidable by the relevant Director. Details are included in Appendix 2 and are summarised below.

Essential asset condition capital works	2023/24 £'000	2024/25 £'000
Replacement of highways electrical equipment for traffic signals and crossings at end of useful life	600*	1,000
Bridge replacement fund for essential work where external funding is either insufficient or unavailable.	2,500	2,500
Improve County Farms buildings to ensure compliance with tenancy and agricultural regulations	500	500
Management of Basingstoke Canal including bank stabilisation, weirs and sluices, and towpath (Hampshire section only)	500	500
Corporate estate lifecycle replacement programme for building fabric, mechanical and electrical assets	1,500*	1,500*
Countryside bridges and rights of way investment to meet legal obligations	800	800
Countryside improvement of livestock management (disease prevention), historic building repairs and Staunton lake wall repairs	350	0
Total	6,750	6,800

* Net of available funding

63. Given the overall pressure on the revenue budget and the need to maximise contributions to the budget bridging reserve, it is proposed that this additional capital investment will be funded by prudential borrowing. The repayment of the borrowing, including interest will commence the year after the expenditure is incurred and will represent an additional pressure on the revenue budget of £0.9m assuming repayment over 25 years. This increase will be factored into the budget setting process for 2023/24.

64. It is recommended that the capital guidelines for 2023/24 and 2024/25 be increased by £6.75m and £6.8m respectively to be funded by prudential borrowing and detailed project proposals will be reported through Executive Members and included in the capital programme presented to Cabinet and County Council next February.

Stand alone capital investment priorities

65. Through on-going service planning and review, several stand alone capital investment priorities have been identified. Whilst some of these services are statutory, there is still an element of choice as to how they are delivered and so these individual investment priorities will each require a robust business case that considers both financial and non-financial factors. Owing to the nature of these services, there may not be a sufficient financial pay-back to cover the cost of borrowing within the service revenue budget and thus corporate funding to repay borrowing may be required, subject to the detailed analysis of each individual business case.
66. Progressing with any schemes that significantly add to the bottom line deficit of the revenue budget at this stage, have to be viewed in the wider context of the financial predictions set out in this report and therefore any consideration of further capital investment will be delayed until the further work over the Summer has been concluded and we are able to substantiate that any investment is considered to be unavoidable at that stage.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
<u>Title</u>	<u>Date</u>
<p>Medium Term Financial Strategy Update and Savings Programme to 2023 Savings Proposals https://democracy.hants.gov.uk/mgAi.aspx?ID=45388#mgDocuments</p>	<p>Cabinet - 12 October 2021 and County Council – 4 November 2021</p>
<p>Revenue Budget and Precept 2022/23 https://democracy.hants.gov.uk/mgAi.aspx?ID=47431#mgDocuments</p>	<p>Cabinet - 8 February 2022 County Council – 17 February 2022</p>
Direct links to specific legislation or Government Directives	
<u>Title</u>	<u>Date</u>
<p>Section 100 D - Local Government Act 1972 - background documents</p> <p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p>	
<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

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 disproportionately low.

2. Equalities Impact Assessment:

This report does not contain any new proposals for major service changes which may have an equalities impact. Proposals for budget and service changes which are part of the Savings Programme 2023 were considered in detail as part of the approval process carried out in Cabinet and County Council during October and November 2021 and full details of the Equalities Impact Assessments (EIAs) relating to those changes can be found in Appendices 4 to 8 in the November Council report linked below:

<https://democracy.hants.gov.uk/mgAi.aspx?ID=45388#mgDocuments>

For proposals where a Stage 2 consultation is required the EIAs are preliminary and will be updated and developed following this further consultation when the impact of the proposals can be better understood.

High level financial forecast to 2025/26

The table below builds on the assumptions included in the previous Medium Term Financial Strategy (MTFS) for the SP23 target.

	2023/24	2024/25	2025/26
	£m	£m	£m
SP23 savings target	80.0	80.0	80.0
Adults Social Care pre-pandemic growth		13.5	27.0
Children's Social Care pre-pandemic growth		19.8	39.6
Other demand-led growth		4.0	8.0
Pay and price inflation		35.5	74.7
Previous MTFS assumed Council tax at 4.99%		(30.6)	(62.3)
Pre-pandemic budget gap	80.0	122.2	167.0
Additional budget pressures:			
Adults Social Care post -pandemic growth	45.0	49.2	52.6
Children's Social Care post -pandemic growth	10.4	10.4	10.4
Additional pay and price inflation	2.8	2.8	2.8
Budget gap before Finance Settlement	138.2	184.6	232.8
Local Government Finance Settlement:			
Additional grant funding	(22.9)	(22.9)	(22.9)
Less grant required to meet SP23	14.1	14.1	14.1
Reduction in Adult Social Care Precept	14.0	21.0	28.0
Budget gap after Finance Settlement	143.4	196.8	252.0
SP23 savings	(80.0)	(80.0)	(80.0)
Pension deficit contribution currently not required	(15.0)	(15.0)	(15.0)
Unmet budget gap	48.4	101.8	157.0

Essential asset condition capital works

Description of works	2023/24 £'000	2024/25 £'000
Highways electrical equipment for traffic signals replacement	600*	1,000
<p>The number of signalised junctions and crossings in Hampshire started to grow dramatically in the mid-1990s. Installations generally have a design life of 15 to 20 years after which it is necessary to renew the equipment to minimise maintenance costs, reduce fault occurrences and improve reliability and efficiency. Although austerity has stretched life expectancy to over 25 years in some cases, large numbers of sites have now reached the end of their life and need to be replaced.</p> <p>Maintaining older equipment will add pressure to the revenue budget, or money will need to be withdrawn from other equipment currently funded from this budget. Some equipment will fail and may need to be decommissioned. There will also be higher fault rates with the older equipment and longer time will be needed to repair equipment as we source spares, with some being obsolete. This increases specific safety concerns around pelican and puffin crossings. It is also likely that we would decommission elements of installations as they become unmaintainable or beyond economic repair.</p>		
Bridge refurbishment/replacement	2,500	2,500
<p>The County Council will continue to seek external funding for essential bridge replacement/refurbishment. However, such funding can be insufficient in total, for example in the case of the Campbell Road bridge over the railway in Eastleigh for which the external funding was insufficient to provide a bridge with appropriate weight capacity and needed additional local funding, or the external bids are unsuccessful, for example the October 2019 expression of interest to the DfT Challenge Fund for the Langstone Bridge refurbishment and the Havant Station footbridge replacement. To compensate for insufficient external funding, an element of the existing annual budget is put aside each year to build up a bridge fund. However the rate of accumulated funds is too low for essential work required over the next few years.</p> <p>Langstone Bridge, built in 1955, is the only vehicular route on and off Hayling Island. A small ferry operates from Eastney in Portsmouth, but this is only capable of carrying 63 foot passengers. The bridge requires extensive repairs to the bridge supports and deck, removal of chloride rich concrete and the installation of a cathodic protection system to protect the structure from salt water attack to the steel reinforcement. The Structures Team are working closely with Havant Borough Council Officers in connection with the Langstone</p>		

Description of works	2023/24 £'000	2024/25 £'000
<p>Coastal Defence scheme which could be taking place at the same time as the bridge refurbishment.</p> <p>Havant Station Footbridge provides the main pedestrian route over the railway, connecting Havant town centre and the park to the Civic Centre, Havant College and nearby suburban areas to the north. The existing footbridge, built in 1947, comprises a single span of 26m and is accessed by three non DDA sloped ramps totalling 158m.</p> <p>The current structural quality of the footbridge remains poor despite previous maintenance works being carried out and it has been propped for some years due to safety concerns. An interim maintenance scheme to address safety critical elements is being developed for this year (22/23) to keep the route open and this will include complete removal of one of the two northern ramps. Additionally, a number of cycle schemes are underway or planned in the vicinity of Havant Town Centre and the Railway Station and a replacement footbridge with enhanced pedestrian and cycle provision would provide a key link between the Town Centre and areas to the north of the railway line. Improvement of this footbridge will be a significant element of wider regeneration in the area which will form part of a future levelling-up bid.</p>		
County Farms buildings	500	500
<p>Capital investment is required to improve residential and farm buildings across the County Farms estate to ensure compliance with tenancy and agricultural regulations, including energy efficiency measures. Such investment is required to maintain income levels from lettings to support the revenue budget.</p>		
Basingstoke Canal	500	500
<p>In 2018 the Basingstoke Canal was allocated £1.5m Capital Investment Priorities funding over three years to meet the Council's obligations as the owner of the Canal. This will have been fully committed by the end of 2022/23 on schemes and addressing issues such as Dogmersfield landslip and the Swan Cutting scheme. Further capital investment is required for the continued management of canal assets including bank stabilisation, weirs and sluices and the towpath.</p>		
Corporate estate lifecycle replacement programme	1,500*	1,500*
<p>The annual revenue budget for repairs and maintenance to the corporate built estate addresses essential compliance and reactive maintenance but is only sufficient to address the very highest planned maintenance priorities where these are required to ensure safety and compliance. The limited planned maintenance investment is leading to a continued decline in the condition of the built estate and an increasing risk of compliance failures and unplanned failure</p>		

Description of works	2023/24 £'000	2024/25 £'000
<p>of building fabric and services (e.g. boiler failure) leading to service disruption including public facing services.</p> <p>Additional capital funding would enable a programme of proactive lifecycle replacement for core and higher risk sites and assets across the corporate estate to address the backlog of condition based maintenance and ensure safety, compliance and business continuity for essential buildings and the public services they support. Essential work would include upgrade existing building fabric and mechanical and electrical assets for example roof and window upgrades, heating, hot water and electrical infrastructure upgrades.</p>		
Countryside bridges and rights of way	800	800
<p>There are 600 bridges that cross the major river network and a total of 2,967 bridge structures on the 4,500 km (3,000 miles) rights of way network. Bridges and rights of way are only closed when there is a risk to public and temporary closures are only effective for 6 months after which the County Council must apply to the Secretary of State with a justification for the extension. This often attracts criticism from user groups and local communities; therefore, the Service prioritise work to keep paths open and safe to use. However, there continues to be a backlog of essential work to the condition of countryside bridges and rights of way, as increased use seen during the pandemic is to some extent continuing.</p>		
Countryside improvements	350	0
<p>A range of capital investment in countryside assets is required to ensure compliance with health and safety regulations and also to meet the County Council's legal obligations as land owner. The required investment includes improvements in the management of livestock in order to prevent disease, refurbishment of the historic buildings at Manor Farm and also capital repairs to the lake wall at Staunton Country Park.</p>		
Total	6,750	6,800
* Net of available funding		