

# Hampshire County Council

Auditor's Annual Report  
Year ended 31 March 2025  
20 February 2026



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Audit Committee  
Hampshire County  
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20 February 2026

Dear Audit Committee Members

#### 2024/25 Auditor's Annual Report

We are pleased to attach our Auditor's Annual Report including the commentary on the Value for Money (VFM) arrangements for Hampshire County Council. This report and commentary explains the work we have undertaken during the year and highlights any significant weaknesses identified along with recommendations for improvement. The commentary covers our findings for audit year 2024/25. This report was issued in draft in November 2025 as required by the Code of Audit Practice and has now been finalised following the issuing the 2024/25 audit opinion.

This report is intended to draw to the attention of the Council any relevant issues arising from our work up to the date of issuing the report. It is not intended for, and should not be used for, any other purpose.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 5 March 2026.

The [2025 Transparency Report](#) for EY UK provides details regarding the firm's system of quality management, including EY UK's system of quality management annual evaluation conclusion as of 30 June 2025.

Yours faithfully

Andrew Brittain

Partner, For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code), and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Hampshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Hampshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hampshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Purpose

The Auditor's Annual Report summarises the year's audit work, including value for money commentary and confirmation of the financial statement opinion. It also references any use by the auditor of their additional powers and duties under the Local Audit and Accountability Act 2014. In line with the NAO Code of Audit Practice 2024 ("the 2024 Code") and Auditor Guidance Note 03 (AGN 03), this report provides an overview to Hampshire County Council and the public, detailing current recommendations and a review of prior years' actions, including our assessment of whether they have been satisfactorily implemented.

Auditors must issue their draft annual report to those charged with governance by 30 November each year, reflecting the audit position and value for money assessment at that time, even if the 2024/25 audit is ongoing.

### Responsibilities of the appointed auditor

We have undertaken our 2024/25 audit work in accordance with the Audit Plan that we issued on 30 April 2025. We have complied with the 2024 Code, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- whether the financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the year; and
- have been prepared properly in accordance with the relevant accounting and reporting framework.

Reporting by exception:

- if the annual governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- the use of additional powers and duties, for example making written recommendations under Section 24 and Schedule 7 of the Act or making a report in the public interest; and
- if we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

### Responsibilities of the Council

The Council is responsible for the preparation of the financial statement, including the narrative statement and governance statement, in accordance with the CIPFA Code and for having internal controls in place to ensure these financial statements are free from material error. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Executive Summary (cont'd)

## 2024/25 conclusions

Financial statements	<p>As reported in our January 2025 Audit Results Report we issued a disclaimer of opinion on the Council's 2023/24 financial statements in addition to the disclaimer opinion on the 2022/23 financial statements, under the arrangements to reset and recover local government audit.</p> <p>In 2024/25, we have continued to audit the closing balance sheet and in-year transactions. Although the level of assurance gained has increased, we have not yet obtained sufficient evidence to have reasonable assurance over all in-year movements and closing balances. As a result of the disclaimer of opinion on the 2023/24 financial statements, we do not have assurance over some brought forward balances from 2023/24 where we did not gain assurance (the opening balances). This means we do not have assurance over all 2024/25 in-year movements and the comparative prior year movements. We also do not have assurance over all the 2023/24 comparative balances disclosed in the 2024/25 financial statements. Taking into account the requirement to conclude our work by the 2024/25 backstop date, we will not be able to rebuild assurance over these balances as part of the 2024/25 audit. As a result of the above factors, we issued a disclaimer of opinion for 2024/25 on 12 February 2026. This is consistent with LARRIG01 and the illustrative timescale for progress to full assurance, which sets out that there is potential for qualified except for opinion, but more likely to be disclaimed.</p>
Going concern	As a result of our disclaimer of opinion for 2024/25, we did not provide an opinion in relation to going concern.
Consistency of the other information published with the financial statements	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.

# Executive Summary (cont'd)

## 2024/25 conclusions (cont'd)

Additional powers and duties	We had no reason to use our auditor powers.
Whole of Government Accounts	Our work to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission is in progress. In addition, the NAO have not yet confirmed the final reporting position and whether any questions will be raised on individual returns. We cannot issue our Audit Certificate until these procedures are complete.
Certificate	We will issue our certificate once we have completed our Whole of Government Accounts (WGA) procedures. We cannot conclude on WGA work until the NAO confirms if they would like any additional procedures performed.

# Executive Summary (cont'd)

## Value for money scope

Under the 2024 Code, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

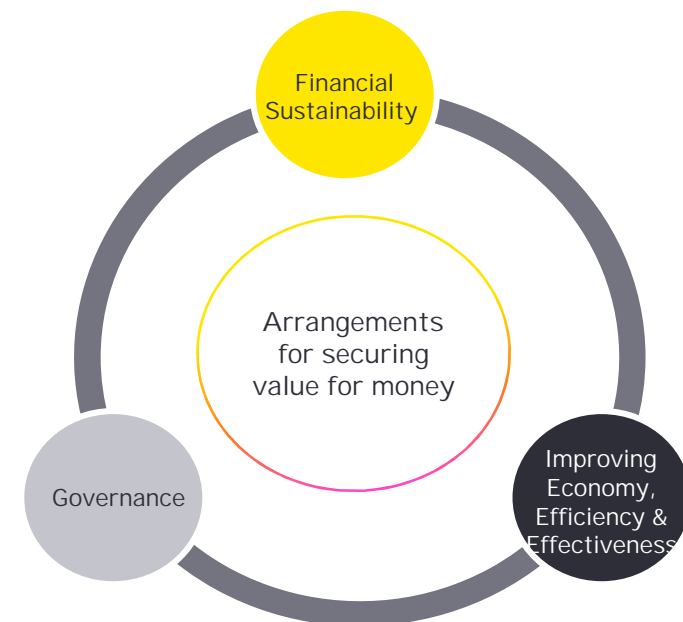
We do not issue a 'conclusion' or 'opinion', but where significant weaknesses are identified we will report by exception in the auditor's report on the financial statements.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

In undertaking our procedures to understand the body's arrangements against the specified reporting criteria, we identify whether there are risks of significant weakness which require us to complete additional risk-based procedures. AGN 03 sets out considerations for auditors in completing and documenting their work and includes consideration of:

- our cumulative audit knowledge and experience as your auditor;
- reports from internal audit which may provide an indication of arrangements that are not operating effectively;
- our review of Council committee reports;
- meetings with the Chief Financial Officer;
- information from external sources; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.



# Executive Summary (cont'd)

## Reporting

Our commentary for 2024/25 is presented in Section 03. This section provides a summary of our understanding of the arrangements at the Council, as determined from our evaluation of the evidence obtained in relation to the three reporting criteria (see table below) throughout 2024/25 and up to the date of issuing this Auditor's Annual Report. The recommendations we have agreed upon with the Council are included in Appendices A and B.

In compliance with the 2024 Code, we are required to provide commentary against the three specified reporting criteria. The table below outlines these criteria, indicates whether a significant risk of weakness was identified during our planning procedures, and details our current conclusions regarding any significant weaknesses within your arrangements.

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	Risk of significant weakness identified (see Section 03)	No significant weakness identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weakness identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weakness identified

# Executive Summary (cont'd)

## Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

We highlight the following relationships that may be reasonably considered to bear upon our objectivity and independence. However we have adopted the safeguards noted below to mitigate these threats.

Description of relationship	Related independence threat	Safeguards adopted and reasons considered to be effective
Independent Service Organisation Controls Type 2 Assurance Report for the Hampshire Integrated Business Centre (IBC).	Self-Interest threat, as a result of this work being undertaken by EY	<ul style="list-style-type: none"><li>• The work was led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council did not work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.</li><li>• The estimated fee is in line with market rates for this type of engagement. The engagement had a clearly defined scope, as set out in the scope of work and this work will not influence our conduct of or the outcome of the audits.</li><li>• The SOC report issued was generic in nature and not specific to a particular customer or IBC. The controls reviewed were homogenous controls.</li><li>• The work was limited to review of controls within the end processes at the IBC. It did not include any aspects of decision-making on behalf of the IBC or the Council. It did not involve giving any advice in relation to decisions the IBC/Council may take.</li></ul>

# Executive Summary (cont'd)

## EY Transparency Report 2025

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Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2025:

[EY UK 2025 Transparency Report](#)



# 02 Audit of financial statements

# Audit of financial statements

## Key findings

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Our audit of the 2024/25 financial statements is now complete. We issued a final Audit Results Report on 9 February 2026 which reported the findings and conclusions from our audit. Our findings in respect of areas of audit risk are summarised below.

Risk	Status of our work
Misstatement due to fraud or error	We did not identify any indications of fraud or other misstatements through our work on this risk.
Inappropriate capitalisation of revenue expenditure	We did not identify any misstatements or instances of inappropriate capitalisation of revenue expenditure.
Pension Liability Valuation	We identified one non-material disclosure misstatement through our work on pensions, which was corrected by management.
Property, Plant & Equipment (PPE) Valuation	We identified one non-material misstatement in an individual asset valuation through our testing, which was corrected by management.
IFRS 16 Adoption - Leases	We identified two misstatements related to IFRS 16, and one further judgmental misstatement in our PFI work. One of these was corrected by management; it was agreed that the others could remain unadjusted, as none of the differences was material to the financial statements.
Mosaic children's services accruals	We did not identify any misstatements through our testing of Mosaic children's services accruals.
Group Accounts Considerations - Manydown Garden Communities Limited Liability Partnership (MGCLLP)	We identified one non-material misstatement, which was corrected by management, through our work on group accounts.

# Audit of financial statements

## Financial Statement reporting assessment

Management, and the Audit Committee, as the Council's body charged with governance, have an essential role in supporting the delivery of an efficient and effective audit. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit. The table below sets out our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures.

In addition, the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that and what still needs to be done to successfully rebuild assurance is set out on page 18. The timetable set out in LARRIG 01 assumes that disclaimers for 2022/23 and all prior open audit years were issued by the statutory backstop date of 13 December 2024.

Area	Status			Explanation	Further detail
	R	A	G		
Timeliness of the draft financial statements	Effective			The financial statements were published by the 30 <sup>th</sup> June 2025 deadline set out in the Accounts and Audit Regulations.	N/A
Quality and completeness of the draft financial statements	Effective			Whilst a small number of trivial casting, consistency and presentational issues were identified in the draft financial statements, we did not identify material errors that should have been detected through internal quality review prior to publication.	N/A
Delivery of working papers in accordance with agreed client assistance schedule	Effective			Working papers were provided to the agreed timetable.	N/A
Quality of working papers and supporting evidence	Requires Improvement			Working papers and supporting evidence were generally of a good standard. However, we encountered some limited issues around the sufficiency and timeliness of responses provided by officers outside the main Finance team. Examples were in our testing of exit packages, education expenditure and creditors. Further queries were also required to support our work on PPE valuations, where responses did not fully cover the initial questions raised. Due to the limitations of the ledger system, a higher than normal degree of manual work was also required to be performed by the audit team on transaction listings prior to sampling for debtors, creditors, income and expenditure.	The audit team and officers will work together in 2025/26 to build an action plan to address these issues as far as possible.  We expect to charge additional scale fee in respect of the additional work required in these areas in 2024/25.
Timeliness and quality of evidence supporting key accounting estimates	Effective			Supporting evidence for key accounting estimates was received in a timely manner and was generally of a good standard.	N/A

# Audit of financial statements

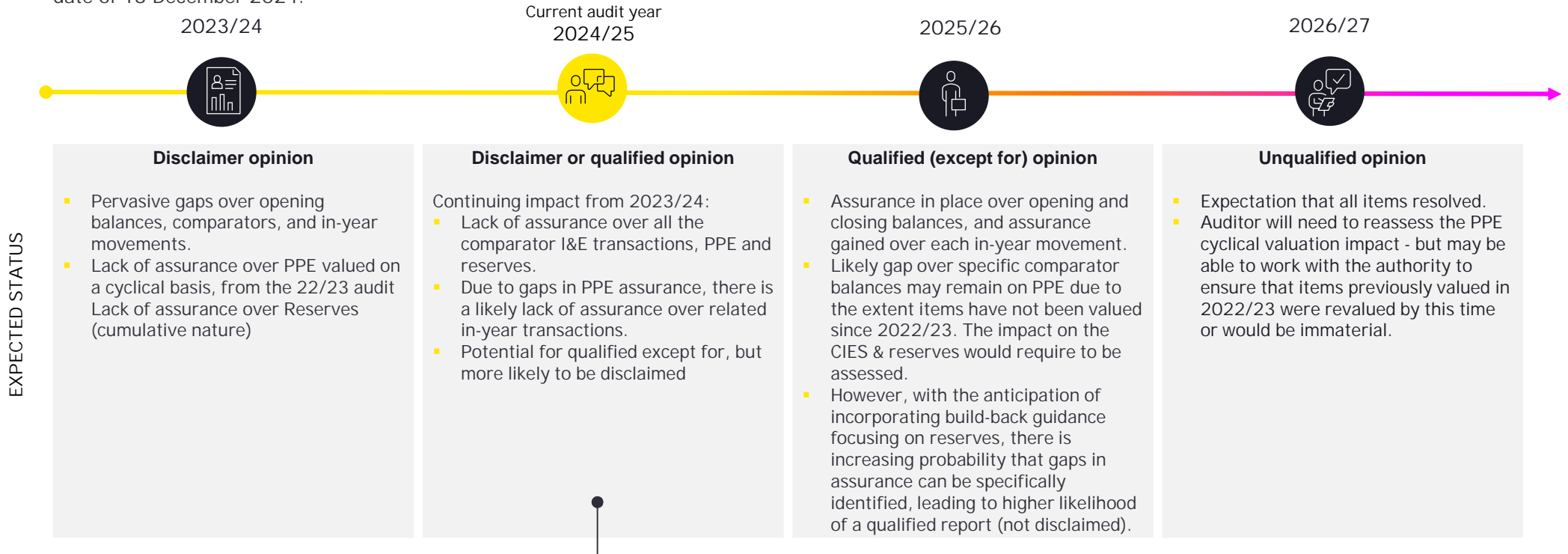
## Financial Statement reporting assessment

Area	Status			Explanation	Further detail
	R	A	G		
Access to finance team and personnel to support the audit in accordance with agreed project plan	Effective			Some delays were experienced in relation to some audit requests however, this did not impact the overall delivery of the audit for this year. Delays were mainly experienced where requests needed to be routed outside of the main Finance team, and this may be something for future consideration. However, our core audit contacts were helpful and responsive and the majority of requests were responded to timely.	N/A
Volume and value of identified misstatements	Requires Improvement			Our testing identified non-trivial errors in Right of Use Assets and corresponding Lease Liabilities, non-schools PPE depreciated replacement cost valuations, PFI IFRS 16 transition adjustments, Group accounts, and a projected overstatement of creditors balances.	Further details of the errors identified during the audit were reported within our final Audit Results Report.  IFRS 16 and Group Accounts were outside the scope of the 2024/25 scale fee and due to the additional work in these areas, we expect to charge additional scale fee.
Volume of misstatements in disclosures	Effective			Whilst a number of disclosure misstatements were identified as part of our work, a significant proportion of these were related to minor internal consistencies and immaterial variances, therefore this is not deemed to be a significant issue to the audit.	N/A

# Audit of financial statements

## Progress to full assurance

Set out below is the illustrative timescale for the process of re-building assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that and what still needs to be done to successfully rebuild assurance. The timetable set out in LARRIG 01 assumes that disclaimers for 2022/23 and all prior open audit years were issued by the statutory backstop date of 13 December 2024.



### CURRENT AUDIT STATUS OF HAMPSHIRE COUNTY COUNCIL

- The Council's progress is in line with the expected timescales for rebuilding assurance set out in LARRIG 01.
- The main areas where further work is necessary to rebuild assurance are reserves, property, plant and equipment, developers' contributions, capital grants receipts in advance, and the CIES and some disclosure notes as a result of incomplete assurance over the referenced areas of the balance sheet.
- More detail in relation to the assurances we have gained by accounts area was included in our Audit Results Report.



# 03 Value for Money commentary

# Value for Money

## The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Our responsibilities

Under the revised NAO Code we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. Our summary is below:

	Significant risk identified	Significant weakness identified	Other matters identified
 <p><b>Financial sustainability</b> How the Council plans and manages its resources to ensure it can continue to deliver its services.</p>	<ul style="list-style-type: none"> <li>The Council faces significant challenges to its financial sustainability as a result of ongoing funding constraints and increased demand for services</li> </ul>	<ul style="list-style-type: none"> <li>No significant weaknesses in arrangements were identified as a result of our procedures to address the identified risk</li> </ul>	<ul style="list-style-type: none"> <li>No other matters identified</li> </ul>
 <p><b>Governance</b> How the Council ensures that it makes informed decisions and properly manages its risks.</p>	<ul style="list-style-type: none"> <li>No significant risks identified</li> </ul>	<ul style="list-style-type: none"> <li>No significant weaknesses identified</li> </ul>	<ul style="list-style-type: none"> <li>No other matters identified</li> </ul>
 <p><b>Improving economy, efficiency and effectiveness</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services.</p>	<ul style="list-style-type: none"> <li>No significant risks identified</li> </ul>	<ul style="list-style-type: none"> <li>No significant weaknesses identified</li> </ul>	<ul style="list-style-type: none"> <li>No other matters identified</li> </ul>



# VFM commentary: Financial Sustainability

## Financial sustainability: Our audit procedures

Our audit procedures obtained assurance over the arrangements in place for the Financial Sustainability sub-criteria set out in AGN03:

- How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the body plans to bridge its funding gaps and identifies achievable savings;
- How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

## Significant risks identified during planning procedures

As part of our audit planning procedures, we identified a risk of a significant weakness in the Council's arrangements for achieving financial sustainability. In the prior year, no significant weaknesses were identified and there are no outstanding recommendations relating to 2023/24 or earlier years. The Council's underlying arrangements in relation to financial sustainability are not significantly different in 2024/25.

## Overview of our conclusions

We undertook a programme of work to assess the identified risk of significant weakness in respect of financial sustainability. The main areas reviewed, and conclusions reached, are set out on the following pages, alongside our wider understanding of related arrangements and reported outcomes/forecasts.

Based on the work performed, the Council had proper arrangements in place in 2024/25 to plan and manage its resources to ensure it can continue to deliver its services.



# Financial Sustainability considerations

## Medium Term Financial Strategy and 2025/26 budget forecast

The Council produces a Medium-Term Financial Strategy (MTFS) every year on a rolling basis. This includes an update on the current budget and sets out financial estimates for the following two years, with the main focus on the budget for the following year. The current MTFS highlights the significant challenges which the Council faces in maintaining its financial sustainability beyond the immediate short term. Key challenges outlined within the Council's planning include:

- Ongoing austerity measures stemming from reduced central government spending
- Increased demand for social care services
- Increased demand for children's services including Special Educational Needs services and children with disabilities
- Growing school transport costs
- Ongoing inflation and the high cost-of-living knock-on effects
- Sharp increases in the costs of energy
- Higher than expected nationally set pay awards
- Rising interest rates impacting on contractual costs and other costs arising from the capital programme

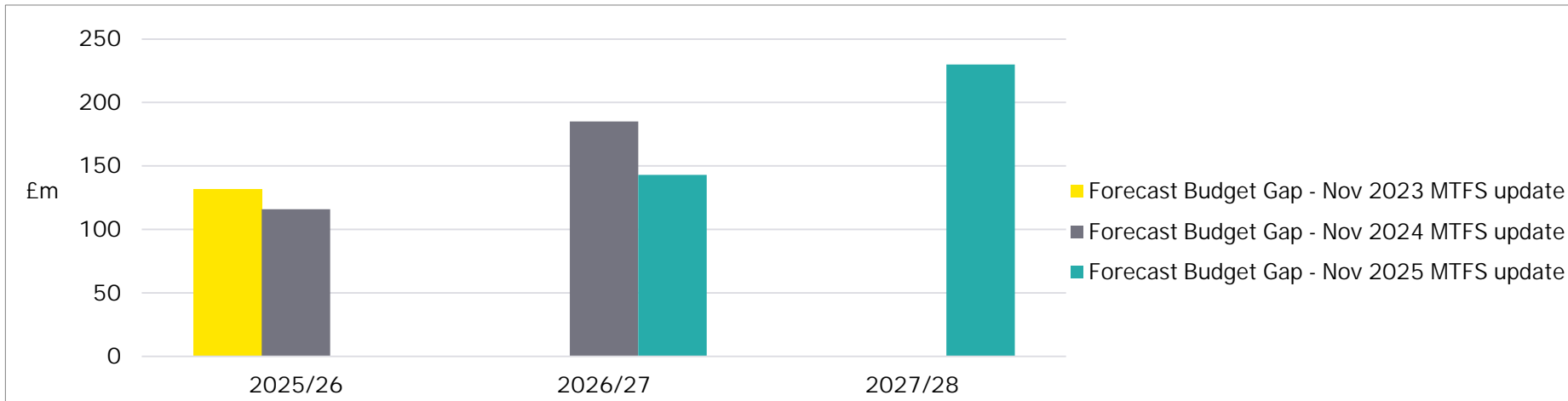
The Council identified a budget gap of £98m in setting its budget for 2025/26 (reduced from £116m per the November 2024 MTFS update). Whilst the Council was able to bridge this gap through savings schemes and a £65m draw on usable reserves, they made clear in their reporting that this was not a sustainable position for 2026/27 onwards.

The graph on the following page sets out the size of the net budget gaps reports in November MTFS updates for 2024 and 2025. Subsequent pages illustrate the reducing position of the Council's reserves available to support the revenue budget. These figures should also be seen in the context of reduced scope for identification of savings given the cumulative quantum already identified in prior years (£640m since 2008, up to 2023/24).



# Financial Sustainability considerations

## Illustration of the Forecast Budget Gaps in recent MTFS updates



As the graph clearly shows, annual forecast budget gaps are steadily increasing. The Council has undertaken detailed work to identify potential savings and opportunities to increase income (further detail on this is shown later in this report). It has also tried to make use of reserves to support the budget a last resort, but this option has needed to be used increasingly over the last 5 years. The Council has been clear in its published reports, and in its communications with central government, that these efforts cannot keep pace with the ongoing increases in demand for key services, in particular adults and children's social care, or fully mitigate the impact of reduced government funding since the introduction of austerity in 2010.



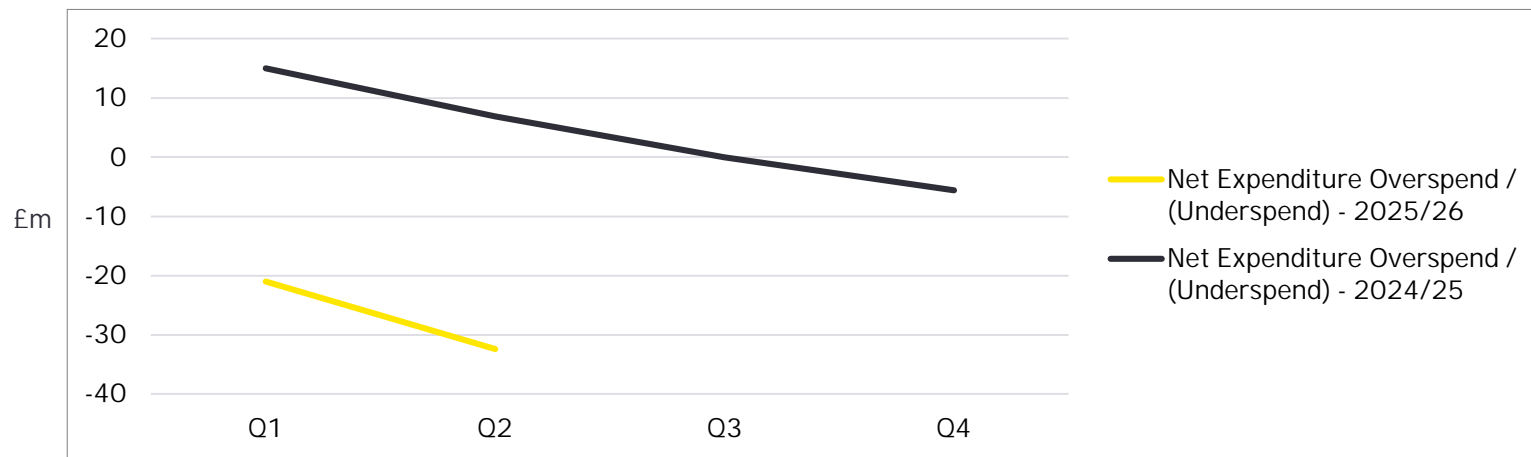
# Financial Sustainability considerations

## 2024/25 Outturn Position and 2025/26 Budget Monitoring

The 2024/25 outturn report was presented to the Cabinet and Full Council in July 2025. This showed the performance of the Council against both its revenue and capital budgets. The overall position against the approved budget was an underspend of £5.6m. However, this was in the context that the budget was only balanced by a draw from the Budget Bridging Reserve (BBR), and it was not therefore an underspend against in-year funding. Instead, it meant that the net draw from the BBR for 2024/25 was £5.6m less than planned, at £68.5m.

The graph below shows the monitoring of the budget for 2024/25 across the year (reports were issued as at August, November and Q4), and for 2025/26 to date. The position for 2024/25 was forecast to be an overspend for the majority of the year, before crystallising at year-end as a small underspend (after use of reserves) as noted above. For 2025/26, the forecast at the end of Q2 is for an annual underspend of £32.4m which, if achieved, would reduce the draw on the BBR for 2025/26 to £32.5m. This figure includes the full amount of corporate contingency from the budget, and a net forecast Directorate underspend of £6.4m. It should be noted that this excludes schools spend and a forecast overspend on High Needs pupils from the Dedicated Schools Grant (DSG), due to the statutory override in this area. Further information relating to the DSG is included in our review of reserves later in our report.

The Council's budget monitoring reports outlined a small underspend at the end of 2024/25 and a forecast underspend for 2025/26 as at Q2





# Financial Sustainability considerations

## Savings plans

The Council has needed to make over £640m cumulative savings since 2008, through to 2023/24. The Council has followed an approach of setting budgets over a two-year timeframe to try to ensure they are properly considered and that the impact of changes is not unrealistic in any single year. As part of the 2024/25 budget setting process, the Council therefore prepared a series of savings proposals over a two-year horizon covering 2024/25 and 2025/26. Given the size of the financial challenge faced, Departments were asked to identify savings based on delivering statutory and critical services, with discretionary services only continuing where there was a clear longer-term value for money case for doing so. Each budget line was reviewed to understand where:

- Further efficiencies could be achieved through changes to working practices or service management
- Investment in new technology could enable services to be delivered more efficiently
- Income generation could be increased through expanding the potential for sales or charging fees for certain services
- Non-statutory or discretionary services could be reduced, ceased or moved to a cost neutral position

As a result, £90.4m of savings were identified, with £75.1m of these expected to be achieved by 2025/26. This would bring total savings since 2008 to in excess of £730m. The breakdown of savings by Directorate and year is shown in the table below.

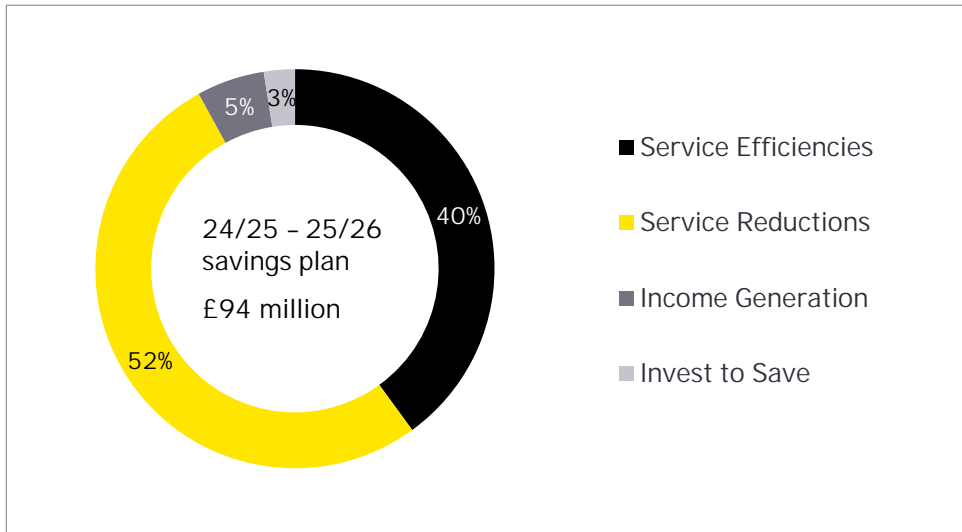
	2024/25 £000	2025/26 £000	Full Year £000	% of 2023/24 Budget
Adult's Health and Care	7,683	34,650	47,900	9.1%
Children's - Non-schools	2,390	11,095	11,095	3.5%
Universal Services	1,160	19,279	19,279	13.1%
Hampshire 2050	632	2,968	5,037	32.8%
Corporate Operations	4,509	5,116	5,116	13.7%
People and Organisation	731	2,007	2,007	12.3%
Total	17,105	75,115	90,434	8.6%



# Financial Sustainability considerations

## Savings plans (continued)

The chart below illustrates the split of the £90.4m savings by type:



As the chart shows, just over half of the identified savings were expected to be found from service reductions, with 40% expected from service efficiencies. As noted on the previous page, the Council had already identified £640m of savings in prior years, meaning the opportunity for further efficiencies and new sources of income generation was significantly reduced. This is expected to be even more so the case after 2025/26, given the scope and granular nature of the exercise to identify these most recent savings.

The Council's small net underspend outturn position for 2024/25 indicates broadly successful delivery of planned savings. The Quarter 2 financial monitoring report for 2025/26 shows that £93.9m of the updated forecast of £99.9m full-year savings are expected to be achieved (94%). Delayed savings in Adults social care are the main driver of the £6m shortfall. The expected savings requirement rises to £126.2m in 2026/27 and £134.1m in 2027/28, emphasising the growing scale of the financial challenge and the need for continuous focus on identification and achievement of savings.

Even with the achievement of the 2024/25 - 2025/26 savings plans, the Council remained reliant on use of its reserves to balance its 2024/25 and 2025/26 budgets, and expects to be more acutely so in 2026/27. The impact of the financial position on usable reserves is analysed further on the next page.

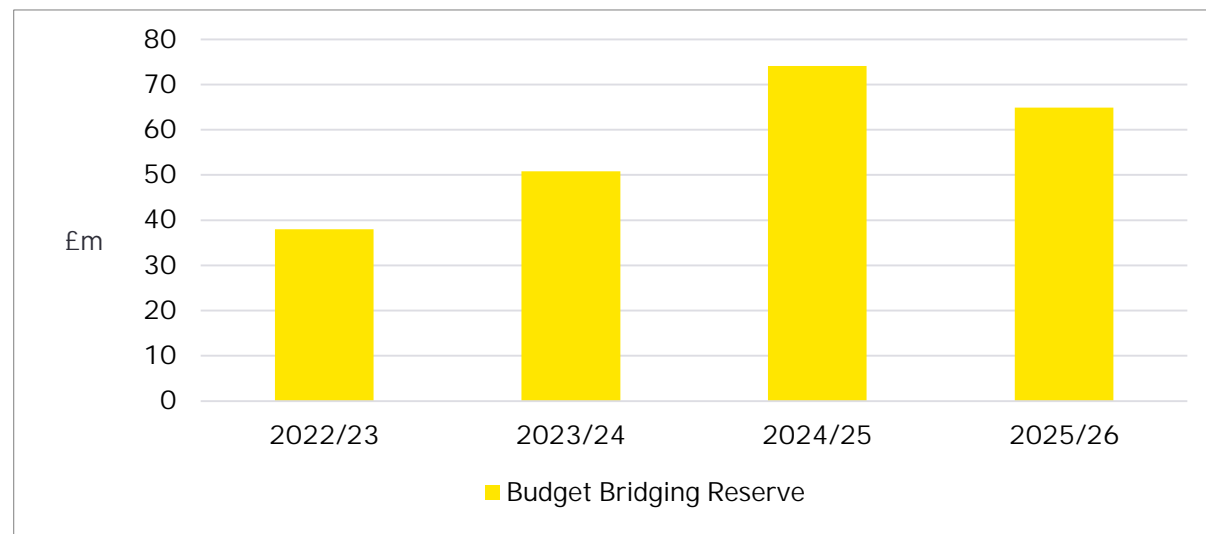


# Financial Sustainability considerations

## Reserves position

The Council uses its Budget Bridging Reserve (BBR) to achieve balanced budgets, once all savings and changes in external funding have been taken into account. As budgetary pressures – resulting from increased demand for core services and significant reductions in Government grants – have grown in recent years, the requirement to draw on the BBR has increased. Annual budgeted use of the BBR is shown in the table and graph below.

	Budgeted draw from BBR to balance budget £m
2022/23	38.0
2023/24	50.8
2024/25	74.1
2025/26	64.9
Total	227.8



As noted in our review of current budget forecasts, the Q2 forecast for 2025/26 suggests a surplus position and therefore a positive impact on the planned draw on the BBR in-year, reducing this to £32.5m. However, it is important to note that the forecast balance remaining on the BBR at the end of 2025/26, should the underspend remain as currently expected, would be £109.5m. The 2026/27 budget gap is expected to be £136m, which would therefore exceed the remaining balance on the BBR, should it need to be funded entirely from reserves. This highlights the unsustainable nature of the Council's position without significant changes either to other sources of funding or service delivery requirements, as it has been signalling to Government and reporting publicly in recent years.

As an upper-tier Authority, the Council is allocated Dedicated Schools Grant (DSG) by central government, as the key component of funding for schools provision. In common with many other Councils with education responsibilities, schools' costs have outstripped DSG receipts in recent years due to a number of factors, including large increases in costs related to special educational needs and disabilities (SEND). The Council has been permitted, through a statutory override, to hold a negative reserve for the difference between costs and DSG funding, so that this does not adversely impact its overall general fund position. However, the costs are real, and have therefore placed significant strain on the Council's cash balances to meet the shortfalls. The statutory override is currently in place until 31 March 2028. Recent announcements have confirmed that Central Government will assume responsibility for SEND costs from 2028/29 onwards and will fund 90% of Councils' DSG deficits. Clearly this removes a significant part of the risk associated with the deficit from the Council's financial position, but the current cash pressures remain marked, and there is ongoing uncertainty around the funding for the remaining 10% of the deficit.



# Financial Sustainability considerations

## Conclusions regarding identified risk of significant weakness in respect of Financial Sustainability

From the above considerations, it is clear that Hampshire County Council faces very significant challenges in respect of its financial sustainability. It is apparent that even if the Council were to operate at legal minimum service levels and pursue the savings, efficiencies and income generation opportunities highlighted above, it is highly unlikely that there will be sufficient recurring resources to balance the budget on a sustainable basis in the medium and longer term. At this point, should other approaches not be available to the Council, such as approval from central government for Exceptional Financial Support (EFS), a Section 114 notice, formally confirming that the budget cannot be balanced, will become increasingly likely. It should be noted that the Council requested EFS, in the form of a 14.99% Council Tax increase, for 2025/26 but this was denied; engagement with MHCLG is ongoing.

However, in our judgment, the Council has demonstrated that its own internal arrangements are not the cause of the challenges it faces. The Council has in place procedures to identify and manage cost pressures, to identify and deliver savings, and to maximise the use of reserves. The Council has a good track record of delivering planned savings, and of meeting budgetary targets. As an upper tier authority, the Council is subject to severe cost pressures arising from demand-led services, and in particular adult social care and children's services. The residual risks presented by the negative DSG position are also present across other upper tier Councils. The Council's ability to mitigate increases in costs in these areas is limited, and the impact of reductions in government funding has been marked. The Council has also been constrained in its ability to raise significant additional revenue, for example through EFS, as mentioned above. Nevertheless, the Council continues to transparently report (including publicly) its position and related concerns, and to make its case robustly to Government for meaningful measures to improve its financial sustainability going forward.

Therefore, whilst the risk of a Section 114 notice in the medium term is pronounced, and the options open to the Council to produce a balanced budget for 2026/27 and later years are increasingly limited, this is not judged to be as a result of a significant weakness in the Council's own arrangements during the 2024/25 financial year and up to the date of issuing this Auditor's Annual Report.

We would recommend that the Council continue to review regularly any further opportunities for savings or income generation which may arise, as well as opportunities to increase the efficiency through which services are delivered such as the use of new technologies, where the cost/benefit of doing so is favourable. We would also recommend the Council continue the ongoing dialogue it has with central government in respect of funding and ways in which the underlying causes of some of its cost pressures can be addressed. The Council should also continue to be clear in its public reporting with respect to its financial position, so that this can be understood and challenged by the local electorate as appropriate.



# VFM commentary: Governance

## Governance: Our audit procedures

Our audit procedures obtained assurance over the arrangements in place for the Governance sub-criteria set out in AGN03:

- How the body monitors and assesses risk and how the body gains assurance over the effective operations of internal controls, including arrangements to prevent and detect fraud;
- How the body approaches and carries out its annual budget setting process;
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer and member behaviour (such as gifts and hospitality or declarations/conflicts of interests), and for example where it procures or commissions services.

## Significant risks identified during planning procedures

As part of our audit planning procedures, we identified no risks of a significant weakness in the Council's governance arrangements. In prior years, no significant weaknesses were identified and there are no outstanding recommendations relating to prior years. The Council's underlying arrangements in relation to governance are not significantly different in 2024/25.

## Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 to make informed decisions and properly manage its risks.



# Governance considerations

## Annual Governance Statement

Hampshire County Council's Annual Governance Statement (AGS) for 2024/25 sets out its commitment to delivering Value for Money (VFM) across its operations. The Council's governance framework, aligned with the CIPFA/SOLACE principles, integrates VFM considerations into decision-making processes, aiming to ensure that public funds are used economically, efficiently, and effectively.

A key aspect of the Council's approach to VFM is the use of benchmarking and performance data. Officers utilise this information to facilitate discussions around balancing the budget while retaining outcomes, allowing the Council to identify areas for improvement and implement strategies that enhance efficiency and effectiveness in service delivery. The Council also emphasises the importance of collaborative arrangements to secure VFM. By working in partnership with other authorities and stakeholders, the Council aims to achieve economies of scale, share best practices, and deliver services more efficiently, thereby working to maximise the value derived from public resources.

The Council also focuses on transformational service redesign where possible, as a means to achieve VFM. This approach involves rethinking and restructuring services to achieve the same or improved outcomes at reduced costs, to try to ensure that public funds are used to their fullest potential.

The AGS for 2024/25 therefore highlights a wide ranging and proactive approach aimed at securing VFM, intended to try to ensure that public resources are managed responsibly and effectively to meet the needs of residents.

The AGS also includes an update on the prior year actions to address governance matters, demonstrating both transparency and a focus on continued improvement at the Council.

## Risk Management

The Council maintains a Corporate strategic risk register to identify risks to its operations, and related control measures to mitigate these risks as far as possible.

The key risk identified relating to value for money is around the potential inability to maintain the financial resilience of the Council's services. This risk is consistent with the prior year and remains the highest rated risk. This is within expectations and is consistent with our assessment of financial sustainability as set out earlier in this report. The other risk rated as High relates to protecting the safety of the workforce and public, and is a general risk of the sort which would be expected for an organisation of this type. The mitigations for this risk rely on the overall framework for risk management throughout the organisation.

Other risks, judged less likely/less potentially severe, are focussed mainly on specific areas of safeguarding, failure to maintain property and IT assets, and risks around workforce resilience, climate change and terrorist threats. These risks appear appropriately identified and are consistent with those we would expect for an upper tier local authority. The mitigating control measures appear reasonable and appropriate to the identified risks.

The Council therefore has in place appropriate arrangements to identify and monitor strategic risks, and to identify reasonable mitigations to those risks.



# Governance considerations

## Internal audit arrangements

The Council has an internal audit service to help gain assurance over the effective operation of internal controls. The Audit Committee is responsible for ensuring that internal audit's programme of work considers the Council's risks and has an appropriate annual scope. Management is responsible for responding to the internal audit findings appropriately and in a timely manner, with monitoring and challenge provided by the Audit Committee.

Quarterly reports are received from the internal auditors highlighting work carried out, including a breakdown of fraud investigations, with any significant issues set out in summary format. A live tracker of outstanding management actions, categorised as High, Medium or Low priority, is also reported quarterly to the Audit Committee, with responsible officers attending the Committee's meetings to update on findings and actions as necessary.

The internal audit plan sets out the agreed areas for review in each year, and incorporates both reactive and proactive fraud work along with thematic reviews to identify and mitigate fraud risk. The 2024/25 Internal Audit Opinion stated that sufficient assurance work had been carried out to form a conclusion on the adequacy and effectiveness of the internal control environment at the Council, and confirmed that "Reasonable" assurance could be given (the gradings used by internal audit are Substantial, Reasonable, Limited, and No Assurance).

There was one "No Assurance" report issued during the year, in respect of Hampshire Transport Management (HTM) – Health and Safety Compliance. Limited Assurance was given in 11 instances, with Reasonable Assurance given in 30 areas and Substantial Assurance in 7.

Our review of each of the No and Limited assurance reports has not identified any risks relevant to our VFM responsibilities. The issues identified in the reports appear limited to the specific areas they relate to, and do not have significant implications on the wider arrangements at the Council.

To manage fraud risks, the Council maintains policies including the Anti-Fraud & Corruption Strategy, Whistleblowing Policy, and Anti-Bribery Policy, which support the prevention, detection, and investigation of fraud and corruption. Counter-fraud activity is integrated within the internal audit strategy and focuses resources on assessed fraud risks, including new and emerging threats. As noted above, internal audit undertakes both reactive and proactive counter fraud work, investigating allegations of fraud, and completing proactive work in areas which are judged susceptible to fraud risks. The Council participates in the National Fraud Initiative, which matches electronic data across public and private sector bodies to prevent and detect fraud. Match reports are issued across pensions, payroll, blue badges, concessionary travel, creditors, VAT, and Companies House data. Any matches identified are then investigated as judged necessary.



# Governance considerations

## Informed decision making and member challenge

The Council has a number of arrangements in place aimed at ensuring that appropriate decisions are made and that there is robust Member challenge of officers' recommendations. Council decisions may be made either at meetings of Full Council, at committees of Council, at a meeting of all executive members (the Cabinet) or by individual executive members at 'decision days'. Decisions made by Cabinet or at decision days may be held to account by Select Committees. Advisory panels and committees support and inform the decision making process.

The Council's decision making structure and allocation of responsibilities, as set out in its Constitution, are elaborated further below.

### County Council:

The Full Council is responsible for specified major decisions, such as setting the budget, and debates topical issues. It also receives reports from the Executive, and members are able to question the Executive on their areas of business.

### Leader and Cabinet:

Since 2001 Hampshire has operated with a Leader and Cabinet structure. Hampshire's Cabinet is made up of the Leader and executive members who each have a portfolio of responsibilities. The Cabinet make decisions together on strategic issues and individual executive members can take decisions on issues relating directly to their portfolio areas.

### Select Committees:

Select Committees (Overview and Scrutiny) hold the executive members to account on the decisions they make both collectively as Cabinet and individually. They can assist the Cabinet and executive members to make effective decisions by examining issues beforehand and making recommendations – this is called 'pre-scrutiny'. The Select Committees can also challenge decisions before they are implemented, review decisions after they have been implemented to see if they achieved what was intended, and suggest new policy areas or review the effectiveness of existing policies.

### Audit Committee:

The purpose of the Audit Committee is to monitor, review and report on the governance arrangements of the County Council. The committee meets quarterly and the regulatory framework that it follows is shown below:

- To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council
- To review and consider reports from the Chief Finance Officer on the treasury management function
- To consider the effectiveness of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements
- To receive and form a view on internal assurances around governance practices, including the Annual Governance Statement
- To consider the County Council's compliance with its own and other published standards and controls
- To make recommendations for the making or amending of standing orders and regulations related to the conduct of the Council's business.



# Governance considerations

## Informed decision making and member challenge (continued)

### Monitoring Officer:

The Council also has a Monitoring Officer in place. The function and role of the Monitoring Officer is shown within the Constitution. The functions of the Monitoring Officer include:

- Maintaining the Constitution
- Ensuring lawful and fair decision making
- Supporting the Conduct Advisory Panel, including conducting investigations
- Ensuring that records of decisions, together with the reasons for those decisions and relevant officer reports and background papers, are made publicly available as soon as possible
- Checking whether executive decisions are within the budget and policy framework
- Providing advice to members and offices on relevant matters
- Giving guidance to the Audit Committee on matters pertaining to the governance of the County Council's affairs

In our judgment, as set out above, the Council has appropriate arrangements in place to enable informed decision making and Member challenge.



# Governance considerations

## Local Government Re-organisation

Local Government Reorganisation is expected to pose challenges for local authorities over the next year. During this period of change, the Council must maintain essential services and fulfil statutory duties. According to MHCLG guidance issued in July 2025, decisions made by the Council prior to reorganisation regarding ongoing service delivery and the medium-term financial strategy should focus on providing value for money for taxpayers and avoid limiting future decisions or the sustainability of new councils.

The government has stated that it will issue directions under section 24 of the 2007 Act after Structural Changes Orders are made, specifying a person authorized to give consent on relevant matters and outlining how this authority should be exercised. MHCLG has noted these directions will follow previous precedents, requiring written consent from the successor council for land disposals and contracts exceeding a specified value.

To comply with MHCLG guidance and forthcoming directions, councillors and statutory officers need to be aware of their responsibilities and ensure that appropriate accounting and governance systems are maintained.

## Failure to prevent fraud legislation

The offence of failing to prevent fraud, as introduced by the Economic Crime and Corporate Transparency Act 2023, became effective on 1 September 2025. The Home Office has published statutory guidance (most recently updated in October 2025) which organisations must consider. This guidance outlines the core principles for establishing, reviewing, or enhancing anti-fraud procedures.

It is recommended that authorities review existing fraud policy and procedures against the latest Home Office guidance. If this review has not yet taken place, it should be prioritised to ensure compliance with the Act and to mitigate the risk of enforcement action.



# VFM commentary: Improving economy, efficiency and effectiveness

## Improving economy, efficiency and effectiveness: Our audit procedures

Our audit procedures include:

- How financial and performance information has been used to assess performance to identify areas for improvement;
- How the body evaluates the service it provides to assess performance and identify areas for improvement;
- How the body ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess where it is meeting its objectives; and
- Where the body commissions or procures services, how it assesses whether it is realising the expected benefits.

## Significant risks identified during planning procedures

As part of our audit planning procedures, we identified no risks of a significant weakness in the Council's arrangements for improving economy, efficiency and effectiveness. In prior years, no significant weaknesses were identified and there are no outstanding recommendations relating to prior years. The Council's underlying arrangements in relation to improving economy, efficiency and effectiveness are not significantly different in 2024/25

## Overview of our conclusions

Based on the work performed, the Council had proper arrangements in place in 2024/25 in terms of how it uses information about its costs and performance to improve the way it manages and delivers its services.



# Improving economy, efficiency and effectiveness considerations

## Financial and performance information

The Council is currently operating under the “Serving Hampshire – Strategic Plan for 2021-2025”. The Plan has 4 strategic aims:

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

Each year the Council produces performance reports which detail the Council’s performance throughout the year, both financial and non-financial. We have reviewed the key financial reports in compiling our work on financial sustainability, as reported in the relevant section above.

At the end of 2024/25 the Council produced an Annual Corporate Performance Assurance Report. This report provides strategic oversight of the Council’s performance in-year against the “Serving Hampshire” plan, and sets out the sources of assurance for the Council’s revised Performance Management Framework which was agreed at Cabinet in July 2023.

The report references to other ongoing sources of assurance, and reports against a focused set of performance measures. An officer overview comment for each directorate is included. Our review of the report did not identify risks of significant weakness for our VFM work. Performance against the reported measures was generally good, and this was corroborated by the findings of external reviews by regulators, and assurances provided by internal and external auditors.

## Procurement, commissioning of services, and contract management

The Constitution of the Council in Part 3, Chapter 6, sets out the Standing Orders on Procurement and Contracts. This includes procedures and statutory requirements in terms of the procurement of services, and how contracts should be managed.

The Council has also developed a Procurement Strategy which sets the framework in which it will work to try to ensure that procurement delivers value for money across all services and directly contributes to the achievement of their strategic goals.



# Improving economy, efficiency and effectiveness considerations

## Partnership working

The Council has a number of collaborative working arrangements which are all disclosed within the Statement of Accounts. The Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity.

The Statement of Accounts also identifies the companies where the Council has interests which are shared with Reading Borough Council, Basingstoke and Deane Borough Council, and Kent County Council.

### Integrated Business Centre:

The Integrated Business Centre (IBC) is hosted by Hampshire County Council and was launched in 2014/15 for the provision of shared financial and HR services. The IBC has since extended its services to Oxfordshire County Council, London Borough of Hammersmith and Fulham, City of Westminster Council and Royal Borough of Kensington and Chelsea. A summary of the services offered by the IBC is shown below:

<b>HR Services</b>	<b>Finance Services</b>	<b>Purchase to Pay</b>
<ul style="list-style-type: none"> <li>• HR administration</li> <li>• Recruitment</li> <li>• Payroll</li> <li>• Pensions employer administration services</li> <li>• Digital Learning Environment</li> </ul>	<ul style="list-style-type: none"> <li>• Billing services</li> <li>• Cash management and collection</li> <li>• Tax</li> <li>• General Ledger Maintenance and month end management</li> <li>• Financial reporting tools</li> <li>• Planning, budgeting and forecasting tools</li> </ul>	<ul style="list-style-type: none"> <li>• Purchasing services</li> <li>• Invoice processing and payments</li> </ul>
<b>Reporting</b>		
<b>Master Data (customers, vendors, employees, catalogues)</b>		
<b>Mobile Working through Employee Self Service Lite (including volunteer self service)</b>		

Performance of partnership arrangements is formally reviewed on a quarterly basis, and this includes a range of performance measures, overlaid by detailed service performance reports, and agreed actions aimed at driving continued collective performance improvement.

The IBC provides an ISAE 3402 Type 2 report in relation to the control environment. This allows HCC to monitor the control environment and follow up on any control weaknesses noted. The overall opinion for 2024/25 raised no significant issues and did not indicate any risks for our VFM work.

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