Appendix 1

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	14 July 2020 16 July 2020
Title:	Medium Term Financial Strategy Update
Report From:	Deputy Chief Executive and Director of Corporate Resources

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VALID AS AT 1 JULY 2020

Section A: Purpose of this Report

1. The purpose of this report is to provide an update on the medium term financial prospects for the County Council to 2022/23, in particular in view of the impact of the Covid-19 pandemic.

2. Under normal circumstances it would be usual to provide a fully updated Medium Term Financial Strategy (MTFS) in July that would cover a forward three year period. However, in the absence of any settlement figures beyond the current financial year and a further delay in the Comprehensive Spending Review (CSR) it is difficult to predict with any certainty what the financial prospects for the public sector will be beyond the current financial year.

3. On top of this, the financial uncertainty caused by the Covid-19 pandemic means that short term financial sustainability is called into question and it is therefore not practical to try to produce a ‘normal’ MTFS at this point. The main purpose of this report therefore is to outline what is considered to be as realistic a medium term financial scenario as possible and to assess the County Council’s ability to agree a strategy that at least ensures our continued financial sustainability until the end of 2022/23.

4. The report also takes advantage of the opportunity to seek several new approvals including social workers for Children’s Services, resources for Special Educational Needs and underwriting for capital schemes that are currently in progress. Furthermore, the report summarises the urgent financial decisions that have been taken so far in response to the pandemic.

Section B: Recommendation(s)

It is recommended that Cabinet:

5. Notes the current level of unfunded costs and losses of approaching £103m, as detailed in paragraph 14.

6. Notes that the County Council will continue to lobby the Government to underwrite all of the financial consequences of the crisis and that as part of this lobbying, the Leader of the County Council will write to the Government requesting that they honour their commitment to fully fund the financial consequences of Covid-19.

7. Notes the urgent decisions taken to date in respect of a number of key issues relating to the County Council's response to the Covid-19 pandemic, as set out in Appendix 1.

8. Approves additional ongoing funding of up to £1.7m to be met from general contingencies to enable the Special Educational Needs service to meet the rising demands they are facing and help them meet their statutory duties.

9. Approves an additional £3.783m for additional social workers in the current year to be met from Covid-19 grant funding and up to £6.7m in 2021/22 subject to a review of demand and caseloads at the end of this financial year.

10. Approves further payments to social care providers of £5.910m to be met from Covid-19 grant funding and delegates authority to the Deputy Chief Executive and Director of Corporate Resources in consultation with the Director of Adults' Health and Care to agree a further month's payments at a cost of £2.418m.

11. **Recommends to County Council that:**

    a) A capital underwriting of up to £5m be approved to be met from capital receipts to enable existing schemes to continue where there may be increased costs and to delegate authority to the Deputy Chief Executive and Director of Corporate Resources to allocate this funding as appropriate.

    b) The timetabling options for a successor savings programme as set out in paragraph 163 be approved.

    c) The Departmental savings targets as set out in paragraph 165 be approved.

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.

Council is recommended to approve:

a) A capital underwriting of up to £5m to be met from capital receipts to enable existing schemes to continue where there may be increased costs and to delegate authority to the Deputy Chief Executive and Director of Corporate Resources to allocate this funding as appropriate.

b) The timetabling options for a successor savings programme as set out in paragraph 163.

c) The Departmental savings targets as set out in paragraph 165.

Section C: Executive Summary

12. Members will be fully aware of the significant financial impact locally, nationally and globally of the Covid-19 pandemic, not least due to the level of spend that has already been necessary to respond to the crisis and support the economy but also as a result of the long term impact on the economy and public finances going forward.

13. The speed of lockdown which came at the end of March had implications for decision making within the County Council and in the absence of the ability to hold virtual meetings, the key decisions that were made in respect of response costs were taken under the urgent provisions within Financial Regulations. These allow the Chief Financial Officer in consultation with the Leader and Chief Executive to take urgent financial decisions where necessary as long as these are reported to Cabinet or County Council in due course. Appendix 1 provides a summary of these decisions and provides links through to the formal decision records.

14. The latest return to the Ministry for Housing Communities and Local Government (MHCLG) in June saw a decrease in the net position of £14.7m, but still leaves the County Council with unfunded costs and losses in the region of £103m, before the impact on future years is taken into account. This figure includes income losses which for the most part relate to the consequential losses arising from lockdown (country parks, outdoor centres, registration services etc) or relate to trading type services that the County Council provides in areas such as school catering, county supplies, school improvement services and property services.

15. Of the total £20.7m reported as income or commercial losses in the June MHCLG return only £3.5m relates to lost investment income linked to the stock market crash at the end of March 2020. Whilst some of this relates to our pooled property funds, we hold no direct property assets and are not therefore suffering the significant hardships in this area as many other authorities are doing and for which the Government has made it clear that any bail out will be ‘painful’. This once again underlines that the Council’s prudent investment approach in this area was the correct one.

16. Covid-19 has also impacted on both the Transformation to 2019 (Tt2019) and the Transformation to 2021 (Tt2021) Programmes and an early assessment of the cash flow impact of this was included in the report to Cabinet in May and totalled more than £30.8m across the three years. This exercise has been repeated taking into account the greater levels of information available at this time and a revised figure of approaching £37.8m has been forecast which has been fed into the financial assessment outlined in the report.

17. This is clearly a concerning time for public sector finances and most authorities will be trying to assess what the medium term impact is for their organisation and what it means for their financial sustainability. Indeed, Chief Financial Officers (CFOs) in their Section 151 role are required to make such an assessment and the purpose of this report is to consider the County Council's position over the period to the end of 2022/23.

18. In assessing our financial viability, we have the taken the view that it is not sufficient just to be able to survive the current crisis, we must at least be in a position to also respond to the challenges that lie beyond 2022/23, within what will almost certainly be a period of further challenge for public sector finances, on top of the usual inflationary and growth pressures that we face.

19. In this context, we have made the assumption that in order to be financially viable, the County Council must at least be in the same financial position at the end of 2022/23 as it was expecting to be in the last Medium Term Financial Strategy (MTFS) approved in November 2019. Even this position showed a shortfall of funding available to support a successor programme beyond Tt2021 but given the significant uncertainty on all aspects of costs and funding, this was thought to be a reasonable position against which to assess our financial sustainability.

20. One of the most difficult but important aspects of the process is to come up with a base case for costs, income losses and spending pressures. This has been developed using a range of specific assumptions that have been prepared by departments in relation to their services, which are detailed in Appendix 2. At this stage, the base case has been developed by looking at only the key services that we believe have been or will be, impacted by Covid-19 over the next few years. As ever, adults' and children's social care account for the major proportion of the additional costs based on the assumptions that are set out in detail in Appendix 2.

21. The report then considers three potential scenarios in terms of further government funding against this base case for 2020/21, 2021/22 and 2022/23 as a result of Covid-19. The base case also assumes that the pre Covid-19 projections of a £40.2m gap each year after 2021/22 still hold true and the scenarios deal with the marginal changes over and above this position. Finally, a Reasonable Worst Case Scenario (RWCS) has also been calculated at a very high level to provide further context to the sustainability assessment.

22. In summary, the impact of each of the scenarios is outlined overleaf:

Scenario	Scenario Description	Financial Sustainability Impact
1	No further government funding announcements or support for council tax and business rate losses.	There is still a small deficit even after all of the General Fund Reserve has been used**. The County Council is not considered to be financially viable.**
2	Additional government funding to meet response, recovery and demand costs in 2020/21, but no support for council tax and business rate losses.	£3.7m of General Fund Reserves would need to be used, which would need to be replaced in future years. Given the extra strain that this would cause, and the sensitivity of this scenario to any other financial shocks, **the County Council is not considered to be financially viable.**
3	The best case scenario assuming both additional government funding and council tax and business rate support is provided for the current year only.	Requires no use of the General Fund Reserve and still retains £30.9m of headroom in swapping out existing capital funding for prudential borrowing. **The County Council is considered to be financially viable.**
Reasonable Worst Case	Reasonable Worst Case Scenario for costs / losses and highest level of government funding / support as per Scenario 3 above.	There is still a significant deficit of £11.3m after the use of all General Fund Reserves**. The County Council is not considered to be financially viable.**

23. It should be noted that the assumptions and forecasts that underpin this assessment are very high level and are a snapshot at a point in time - they are not of the same accuracy that we would normally expect to find in an MTFS. In essence, the process of assessment will need to be constantly updated as more information becomes available and in light of changing circumstances and assumptions based on the progress of the infection, the Government's response and all of the other factors that influence the overall position.

24. It is also very important to note that whilst these response packages have been developed in a crisis situation and significant sums have been pulled together as a result, it must be understood that for all scenarios, **this makes the County Council VERY vulnerable to any future financial shocks!**

25. In Capital Programme terms there has not been a significant impact arising from Covid-19. Some programmes of works were temporarily suspended but most of these re-started again soon after. We anticipate that there may be some claims for compensation together with potential increased costs for social distancing measures, but overall, the immediate financial impact is expected to be less than £5m. This report seeks a capital underwriting up to this value to

enable existing schemes already in progress to continue without the need to seek further financial approvals.

26. Given the overall financial position and the future impact of Covid-19 on some of our asset base, it is also not considered the right time to be considering options for new capital investment outside of any urgent health and safety works which may be required, which will be brought forward for consideration in due course.

27. Later sections of the report consider the financial prospects beyond 2022/23 and the timing of any potential successor savings programmes. The financial landscape is so uncertain at the moment that keeping to normal timescales is neither practical nor possible and two options for a revised timetable are therefore considered but are dependent on our financial position at budget setting time in February 2021.

28. The final section of the report considers financial resilience and sustainability in the context of the current environment. The key purpose of this report is to assess our financial sustainability going forward and as outlined above there are scenarios where the County Council is not considered to be financially viable in the medium term that would require the County Council to take appropriate action.

29. There has been discussion across the sector about the issuing of Section 114 Notices and revised guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) encourages CFO's to discuss the potential issue of Section 114 Notices with the Government prior to issuing them. However, this is a last resort position assuming that the CFO does not think that appropriate action is being taken by the authority, which is not expected to be the case in Hampshire County Council.

30. What this report demonstrates is that once again the strong financial performance of the County Council in the past means that it has sufficient 'firepower' in the short term to deal with the impact of Covid-19 whilst it waits for further information on government funding and the prospects for next year's settlement.

31. The intention is to continue to provide regular updates to Cabinet on the overall position, but a key decision point will be reached in February 2021 when we set the budget for 2021/22. At that point we can take stock of everything that is known at that time and consider how it influences the assessments made within this report and the timing of any successor savings programme.

Section D: Contextual Information

32. The financial strategy which the County Council has been successfully following since 2010 works on the basis of a two year cycle of delivering departmental savings targets to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes

every two years, with deficits in the intervening years being met from the Budget Bridging Reserve (BBR) and with any early delivery of resources retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures.

33. The model has served the authority well to date and the County Council's strategy placed it in a very strong position to produce a 'steady state' budget for 2020/21 and safely implement the next phase of changes through the Transformation to 2021 (Tt2021) Programme to deliver further savings totalling £80m.

34. The outturn position for 2019/20, which is set out in the 2019/20 - End of Year Financial Report presented elsewhere on the Agenda, highlighted the strong financial performance across the County Council with the achievement of a net saving against the budget of £19.1m; despite having taken a further £140m of savings from the budget that year.

35. Both the Transformation to 2019 (Tt2019) and Tt2021 Programmes were progressing to plan and there were clear signs that the strategies being applied in the more complex areas of adults' and children's social care were having an impact on controlling demand. This is particularly true for Children Looked After (CLA) where reductions in the overall number of children in care have been achieved against the trends nationally and our own experience of increasing demand.

36. However, since the budget was set in February an unprecedented national crisis, in the shape of the Covid-19 pandemic has demanded a similarly unprecedented set of responses from across the public sector, most notably the NHS, but also local government. The County Council's response to the Covid-19 crisis has been wide ranging both in terms of its own service provision and in supporting a number of partners both directly and through the Local Resilience Forum (LRF).

37. In view of the urgent requirement for the County Council to respond at pace to emerging events, especially during the early stages of the crisis, a number of urgent financial decisions were needed to facilitate timely action. Where an urgent financial decision is required that falls outside of the defined process or limits within Financial Regulations or Financial Procedure Rules, but is felt to be in the wider interests of the County Council, the Chief Financial Officer (CFO) in consultation with the Leader and Chief Executive can make the decision subject to it being reported back to the appropriate decision making body.

38. All of these decisions are described briefly in Appendix 1 and the approved spend can be met either from existing budgetary provisions or from the Covid-19 grant funding allocated by the Government.

39. The financial implications of the crisis on the County Council's own budgets and financial planning will be profound based on where we are today and at this stage it is difficult to predict when we might see a return to normality.

40. Response costs and consequential losses arising from reduced income, trading losses and lost investment income are significant and continue to grow as more issues are uncovered and require actions. In line with the Government's guidance we have also been providing support to various providers to ensure sufficiency of provision now and into the future.

41. A separate exercise has been undertaken to assess the impact of the crisis on the Tt2019 and Tt2021 Programmes, to take account of the delay in implementation.

42. A summary was presented to Cabinet on 15 May setting out the known position as at the close of play on Monday 4 May and this was reflected in the first return to the Ministry of Housing, Communities and Local Government (MHCLG) setting out the financial impact. At that point, the estimated total cost of the response for the three month period to the end of June, together with the impact on savings programmes was £96.2m of which we predicted £74.6m would be met from existing budgets, government grant and savings in some services.

43. In the absence of further government funding the net unfunded cost was estimated to be £21.6m and whilst it would have been possible to cover this level of gap from existing reserves, it would have had an impact on our financial sustainability in the medium term. The intention therefore was and remains to continue to lobby the Government to underwrite all of the financial consequences of the crisis. As part of this lobbying, the Leader of the County Council will write to the Government requesting that they honour their commitment to fully fund the financial consequences of Covid-19.

44. It was made clear that this initial estimate did not include recovery costs, demand increases or losses in council tax and business rates and it was highlighted that the estimated cost of response for each extra month at that point was judged to be nearly £18.5m. It was also flagged that as we moved out of response and into recovery, we would face further financial challenges arising not least from increased demand for services across adults' and children's social care, which would not be fully quantified for some time to come. Therefore, it was clear at that stage that the financial pressure was only going to get worse.

Section E: MHCLG Return and Assumptions

45. The first return to the MHCLG was submitted early in the crisis and the guidance provided to local authorities on a 'Common Operating Picture' (COP) was almost non-existent at that time. Unsurprisingly, as a result, the approach adopted by individual authorities was very different and analysis and discussion across the sector after the submission highlighted that this initial data collection was almost unusable at a national level.

46. Since that time, MHCLG have been consulting with the sector and issued a draft second form and guidance to the different Treasurers Societies to seek

feedback before the next return was due. Hampshire fed back on the form on behalf of the Society of County Treasurers (SCT) and highlighted that the key issue was to set a timeframe for Council's to work toward and a COP against which to base revised forecasts.

47. Separately, the County Council's Network (CCN) commissioned PricewaterhouseCoopers (PwC) to run two workshops just prior to the submission date in order to try to agree a common approach at least across CCN members to the completion of the form.

48. Taking all of these factors into account, it was therefore agreed to produce figures based on the following scenario:

    - Extend the figures reported to Cabinet for an extra month to the end of July.
    - Add a further month of costs and losses to allow for a phased recovery period of a further two months (assuming that we return to 'normal' over the course of that period on a straight line basis).
    - Add high level guesses for recovery and demand costs for major services where we expect there to be an impact.
    - Assume a percentage loss of business rates and council tax yield for the current year only (the form does not deal with future years impact).
    - As with the first form only including the impact of savings programme delays for the current year only.

49. In addition to these global assumptions, we have also been considering service specific assumptions as part of this MTFS Update and these are contained in Appendix 2. This includes generic assumptions that apply to all services and one of the most important of these is that we do not expect a second peak and complete lockdown later in the year as any increase in community infection will be managed through the outbreak plans that have been developed.

50. For the May return, better information was available on response costs and income losses but the impact on trading areas was less clear and only very high level estimates were provided for future recovery and demand costs.

51. In May, the revised estimated total cost of the response for the extended four month period to the end of July, together with the impact on savings programmes was more than £195.5m of which we predicted £85.9m would be met from existing budgets, government grant and savings in some services. In the absence of further government funding the net unfunded cost was estimated to be approaching £109.7m which is clearly significantly more challenging to the financial sustainability of the County Council.

52. In developing forecasts for this Medium Term Financial Strategy (MTFS) Update, further more detailed work has been undertaken on recovery and response costs and specific workshops were arranged by the Deputy Chief Executive and Director of Corporate Resources with the Directors of both

Adults' Health and Care and Children's Services, in order to consider what assumptions it is reasonable to make and the consequential impact on demand forecasts both in the short and medium term.

53. We also have the benefit of two months of monitoring data and have reviewed and changed major assumptions as outlined later in the report. A key assumption that impacts on many areas is the position of schools once we reach September. Whilst there is significant national debate around this issue, a prudent financial approach has been adopted in each of the key services which are impacted by the extent of school opening and the total numbers of children returning.

54. It is also important to note that many of the May forecasts were based on a five month response period in line with government guidance and yet in some areas such as country parks income losses have been mitigated by the ability to open in line with the easing of lockdown restrictions that continue to be announced.

55. This information has all been fed into the MHCLG return for June and in some areas is very different to the original high level figures that were submitted as outlined below. This serves to underlines the complex environment in which we are working and the iterative nature of financial forecasting as we learn more and things change on a month by month basis.

Financial Summary

56. The following table shows a summary of the figures for the May and June returns broken down over the key areas requested by MHCLG:

	May £'000	**June £'000**	**Change £'000**
Response and Recovery Costs	68,024	71,805	3,781
Lost Savings – 2020/21 only	9,996	9,996	0
Business Rate / Council Tax Losses – 2020/21 only	34,600	34,600	0
Lost Income / Investments	16,016	11,474	(4,542)
Commercial / Trading Losses	23,122	9,182	(13,940)
	151,758	**137,057**	**(14,701)**

57. The main differences between the two returns are shown in the table overleaf, but in the main relate to reduced response costs and losses in some areas due to easing of the lockdown measures and the end of the peak in infections, together with changed assumptions and forecasts in recovery and demand costs:

	£'000
Reduced adults' social care demand	(10,000)
An extended period for supporting the adult social care market and other associated costs (7 months)	7,665
Increased children's social care costs, including increased social workers	5,109
Home to School Transport reduced demand pressures on the assumption that social distancing will only apply for SEN children	(2,800)
Reduced income losses across CCBS based on early monitoring information and eased lockdown	(3,747)
Reduced Trading Losses based on early monitoring information, wider schools opening and current activity levels	(13,940)
Purchase of IT kit to enable extended home working	2,800
Other net changes	212
	(14,701)

58. As explained above the changes in the return relate to the iterative nature of financial forecasting during this unstable and completely unprecedented period. Where possible we have looked to fully align the current years data in the MHCLG return with the forecasts on financial sustainability presented later in this report.

59. The table in paragraph 56 shows that losses in income, investments and commercial / trading losses total £20.7m. The categories follow the MHCLG guidelines which do not properly represent the kinds of losses that we have experienced. A more appropriate breakdown for the County Council would be as follows:

Type	Description	Loss £'000
Client contributions	Adult's social care client income due to reduced package numbers	2,500
Fees and Charges	Lost fees, charges, sales income, event income, permits, licenses, room hire, parent contributions all as a consequence of lockdown	5,474
Traded Services	Net losses arising from trading activity in HC3S, County Supplies, Property Services, HIAS, School Music Service, Hampshire Transport Management etc.	9,182
Investment income	Losses in the investment of cash balances in pooled property, pooled equity and other higher yielding returns as a result of the stock market crash and economic conditions	3,500
Total		**20,656**

60. What this table shows is that almost £17.2m of the income loss is entirely due to the impact of Covid-19 and the lockdown measures that have been put in place. The lost investment income is as a result of the stock market crash and the general economic conditions surrounding Covid-19. It does not relate to any losses from direct property investment that the Government has been concerned about for some time. In considering the impact on what the Government terms 'unwise investments' they have suggested that there may be some help available, but it will be 'painful' for the sector given the previous warnings that have been issued.

61. The County Council's strategy has always been to seek pooled investments to help spread the risk and this is a strategy that has served it well in the current circumstances. We will continue to lobby the Government for assistance towards the lost income that is purely consequential to Covid-19 and lockdown measures, but the financial analysis detailed later in the report does not assume that this will be received as clearly a more prudent view needs to be taken in assessing our financial sustainability.

62. In order to complete the financial snapshot using the same methodology as reported to Cabinet and separately to all Members of the County Council we need to include Market Underwriting costs and the second two years of savings programme losses. This increases gross losses to £188.2m, which are offset by grants, budgets and other savings as outlined in the following table:

	£'000
MHCLG Return	**137,057**
Market Underwriting	23,355
Lost Savings – 2021/22 and 2022/23	27,775
Total Costs and Losses	**188,187**
Specific Funding (CCG's and Government)	(4,392)
Covid-19 Grant Allocations	(53,968)
Forecast Savings	(3,600)
Market Underwriting (budgeted)	(23,355)
Net Unfunded Costs and Losses	**(102,872)**

63. At the end of May, the net unfunded costs and losses were forecast to be £109.7m. Although some of the individual elements have changed (for example some offsetting savings are now reflected in the figures submitted to the MHCLG), the net snapshot position for June is around £6.8m lower than May, mainly as a result of the changes outlined in paragraph 57 above, offset by the worsening position for Tt2019 and Tt2021 delivery.

64. It is worth re-iterating though that this is simply a snapshot and is based on assumptions for response outlined in paragraph 48 and on recovery and demand costs that are detailed later in this report. It is inevitable that as our knowledge grows about what has already happened and we respond to changing assumptions about what might happen, that the figures reported for the current year will continue to fluctuate on a monthly basis.

Section F: Transformation to 2019 and Tt2021 Programmes

65. It would be usual as part of an MTFS Update report to provide a summary of progress on our transformation programmes, which are important in understanding the medium term cash flow support requirements that are needed either from departmental Cost of Change Reserves or the BBR.

66. Clearly, over the last three months departments have been focussed on responding to the crisis and the majority of activity on the transformation programmes was suspended, as were the normal reporting arrangements.

67. Early on in the crisis, an assessment was made of the impact of a delay in implementation of the Tt2019 and Tt2021 Programmes based on a four month delay in most areas and six months in the more complex services, recognising that it would take time to re-build momentum in these areas.

68. These figures have now been further reviewed as part of the preparation for this MTFS Update and are already included in the table set out in paragraph

62. The more detailed analysis by department and financial year is shown in the table below:

	2020/21	2021/22	2022/23	Total
	£'000	**£'000**	**£'000**	**£'000**
Adults' Health and Care	5,829	4,951		10,780
Children's Services	2,697	4,887	1,047	8,631
ETE	1,222	9,770	5,275	16,267
CCBS	143	1,630		1,773
Corporate Services	105	215		320
	9,996	**21,453**	**6,322**	**37,771**

69. The total impact has increased by more than £6.9m from the £30.8m previously reported to Cabinet. This reflects the latest assessment by departments and takes into account the impact of recovery and demand activities which were not considered the last time the exercise was undertaken, which was essentially in the first 2 weeks of April.

70. It is also worth noting that at this stage these figures are all assumed to be cashflow impacts and that savings will all eventually be delivered but on a longer time frame. In social care areas it is very difficult to understand the consequences of Covid-19 for potential future demand and how this will impact on the savings programmes. However, on the basis that current transformation activity in these areas is controlling or reducing demand, this should continue to be the case irrespective of whether or not there is a future spike in demand.

71. It is likely that in many areas transformation activity can be resumed within the next four to six weeks and it is expected that formal monitoring of the Programme will also start later in July with a view to providing greater levels of information on the Tt2019 and Tt2021 Programmes to Cabinet in September.

Section G: Financial Update

72. Significant work has been undertaken at speed to build an even more comprehensive financial picture of the impact of the pandemic, including extending the picture to 2022/23. Whilst this is crucial to enable the County Council to plan for the medium term, due to the uncertain and very complex environment which is evolving on a day to day basis and for which there is no past comparator it is unavoidably based on a wide range of assumptions made at this particular point in time.

73. Appendix 2 sets out for each department the key assumptions that have been used to prepare the latest and more comprehensive financial picture, and a

summary of the main issues and impacts are set out in the following paragraphs:

Adults' Health and Care

74. Adults' Health and Care have been at the forefront of the County Council's response to the crisis and unsurprisingly faces the largest cost pressures as a result of the Covid-19 pandemic. There are a number of immediate issues / cost drivers including:

- Increased demand from the acceleration of patients transferred from NHS care into various social care settings, albeit these are currently being met by the CCG's.
- Significant cost of providing Personal Protective Equipment (PPE) across all social care settings.
- Reduced income from new adult social care self-funders and fee payers coming into the system.
- Payments to private and third sector providers delivering day care and respite where this income loss is having to be compensated to support the market but where no service is being delivered.
- The need to increase unit prices paid to providers to enable them to cover their additional costs.
- Additional staffing costs to cover illness and enable social distancing measures, in addition to security and deep cleaning.

75. Whilst the future is uncertain, a return to a "normal" social care environment is unlikely. Across the wider sector plans to re-configure care delivery and invest in infrastructure have been paused until the new landscape is better understood.

76. A number of issues could drive additional pressures in the medium term. These remain hard to quantify and will vary in degree and impact in different localities. The assumptions that we have applied are set out in Appendix 2 but some of the issues are as follows:

- Costs associated with PPE, shielding and social distancing are expected to become embedded.
- Under occupancy of residential care places is a risk, with a corresponding shift towards domiciliary and other care settings. This is attributed to Covid-19 making traditional forms of residential care less attractive to new clients, particularly in regard to self-funders who may have a broader choice of options.
- While this could boost efforts to shift demand away from residential care to potentially less expensive settings such as domiciliary or day care, any benefit is likely to be offset by the increased complexity of needs, some of which may be directly related to Covid-19 (for example additional

vulnerability that will need to be mitigated and an increased reluctance to seek hospital care in the early stages of illness).

- A structural reduction in demand for residential care, particularly for self-funders, triggered by Covid-19 is likely to impact the viability of providers and drive up unit costs.

77. Early on in the crisis the County Council made additional payments to social care providers to help them with extra costs in respect of PPE, cleaning, waste disposal and overtime or agency staff for sickness cover among other things, in line with government guidance. These payments were made to the end of July and whilst the first peak of infection has now passed, care providers are still facing a very challenging environment to ensure that staff and clients remain safe and to limit the spread of the infection as far as possible.

78. Although the Government has also provided additional funding to providers, this was specifically for infection control measures and cannot be used on basic costs such as PPE or the additional costs of agency workers. Furthermore, as highlighted above, many care providers are struggling financially as income from self-funders has significantly reduced and there is a danger that providers could go into administration placing potential strain on the market.

79. Given all of these factors, this report proposes a further two months of payments totalling £5.910m with the option for a further month costing £2.418m to be agreed under delegation if considered necessary. Both of these sums are contained within the financial forecasts set out in this report and can be met from the Covid-19 grant funding provided by the Government, albeit that this does not cover all of our current costs at this stage.

Children's Services

80. Children's Services faces pressure across a range of service areas but notably children's social care and home to school transport.

81. Some of the key drivers include:
    - Increased costs to providers and in-house services leading to increased unit price. Areas include for example PPE, social distancing, shielding and deep cleaning of facilities.
    - A lower than expected level of referrals during the lockdown period, but this is expected to rise sharply as lockdown eases and when children return to school.
    - Expectation that lockdown will exacerbate current challenges for some families (for example increased domestic violence), leading to additional demand. In addition, the fact that those who would previously have been care leavers are currently remaining within the County Council's care.
    - A downturn in the supply of fostering places and an increase in placement breakdowns, with carers increasingly unwilling or unable to take on cases.

This is considered likely to have an inflationary effect on the unit cost for foster care.

- In terms of home to school transport the cost pressure arises largely from having to implement social distancing, in addition to supporting local providers during school closures from current budgets.

82. In the longer term there are a number of financial pressures as follows:

    - Covid-19 is likely to exacerbate the current shortage of foster care placements in some areas, leading to the use of more expensive care options.
    - Any increase in demand caused by Covid-19 reflects a longer term commitment which will have to be funded over several years.
    - The impact of the resulting economic downturn is likely to cause further demand and this longer term impact along with changes to the provider market are very difficult to predict but are significant. Any increase in demand will also impact the requirement for social workers and support staff to ensure the maintenance of reasonable caseloads.
    - If home to school transport has to continue to observe some form of social distancing and protective measures, there will be further costs but the availability of transport assets to enable such a policy may be a limiting factor.

83. One of the key factors in being able to respond positively to the anticipated future increase in demand is having adequate social worker capacity to deal with increased referrals and cases, not to mention the positive impact this also has on staff wellbeing if caseloads are controlled effectively. It is important that this capacity is in place before demand starts to spike and this report therefore requests funding of £3.783m in this financial year to increase social worker capacity and can be met from the Covid-19 grant funding provided by the Government, albeit that this does not cover all of our current costs at this stage. Funding of up to £6.7m is also requested for next financial year subject to a review of demand and caseloads at the end of this financial year the funding for which would need to be addressed as part of budget setting for 2021/22. Both of these sums are contained within the financial forecasts set out in this report.

84. In addition, as part of regular meetings held by the Deputy Chief Executive and Director of Corporate Resources with the Director of Children's Services there has been on-going focus on the Special Educational Needs (SEN) service which has been dealing with an increasing workload.

85. Additional one off investment has been provided by the Department through the use of Cost of Change to enable the service to deal with rising demand and much has been achieved since June 2019 when this interim funding was agreed. The service has completed recruitment, improved its operating procedures and has good performance management data which is well utilised.

86. However, on-going funding of up to £1.7m is now required to ensure that the service can maintain the current performance and help them meet their statutory duties. This additional business as usual pressure has been included in the financial position set out in this report, subject to approval by Cabinet and would need to be funded from existing contingency provisions on an ongoing basis.

Economy, Transport and Environment (ETE)

87. In the main, response costs have not been significant within ETE, although allowance has been made for potential compensation claims in some contract areas. Market underwriting has been a key feature within transport and concessionary fares in line with the Government's guidance and there may be recovery costs associated with social distancing measures.

88. The position for waste disposal is complex but the best current estimate assumes the additional cost of a revised approach to payments is expected to be offset by other savings arising from the different operating environment. For highways maintenance any financial impact can only be mitigated by reducing the amount of highway works undertaken during the year.

89. Some of the key drivers include:

- Social distancing requirements will limit recycling volumes through Household Waste Recycling Centres for the rest of the current financial year.
- Alternative payment approaches across a range of services will continue in line with government guidance.
- The impact of social distancing on highways works and costs.

90. At this point there are not expected to be any longer term pressures that impact on the scenarios outlined later in the report.

Culture Communities and Business Services (CCBS) and Corporate Services

91. Within CCBS there has been a major impact on income generation and on trading areas such as HC3S, the County Council's catering service, and County Supplies who have had significantly reduced trading activity as a result of the reduced numbers of children at school.

92. Some of the key drivers include:

- The continuation of lockdown measures and social distancing, albeit some areas such as country parks saw easing some time ago.
- The numbers of children able to attend school, which impacts in particular on the provision of school meals through HC3S and the purchase of goods through County Supplies.

- The extent to which events such as marriages and the use of buildings will be relaxed in the future, some indications on which were given in the announcements on 23 June.

93. At this point there are not expected to be any long term pressures, but this is dependent on there being no further lockdowns. The reasonable worst case scenario for CCBS assumes that further disruption to income streams could be experienced during any future peak infection period.

94. There are also small income losses predicted across Corporate Services but no other short or long term pressures and so a separate set of assumptions are not included in Appendix 2 for this Department.

Risks in the Forecast

95. It would be usual as part of the MTFS to state the key assumptions that have been used around government grants, council tax and social care demand etc. and to highlight the potential risks and sensitivities within those assumptions.

96. However, given the complex nature of the forecasts we are producing during these unprecedented times and without any historical information to act as a guide, in essence we must treat all of the forecasts in this report as high risk in nature.

97. Later in the report we set out several funding scenarios and a Reasonable Worst Case Scenario (RWCS), in order to consider the potential medium term impact on the County Council. However, it must be recognised that many of these figures are speculative in nature and are based firmly on the individual departmental assumptions set out in the Appendix 2.

98. A prime example of the complexities we face relates to assumptions around social distancing. We had assumed that the “2 metre social distancing rule” would be in place for some time and this has implications for a range of services. On 23 June, the day after the initial financial analysis had been completed, the Government announced a relaxation of the social distancing measures. Given the timing of this and the fact that it would only improve the financial position, we have not re-worked the numbers, but this is a prime illustration of the difficulties we have in producing sensible forecasts in an ever evolving and rapidly changing environment.

99. Similarly, an announcement was made in respect of marriages re-commencing which equally impacts on the assumptions included for the Registration Service.

100. As time progresses and as more information becomes available, it will be possible to continually refine these figures and the expectation is that we will report regularly to Cabinet on the latest figures as we lead into budget setting for 2021/22.

101. In overall financial risk terms however, it is very important to note that whilst the response packages set out below have been developed in a crisis situation and significant sums have been pulled together as a result, it must be understood that for all scenarios, **this makes the County Council VERY vulnerable to any future financial shocks!**

Financial Forecasts

102. The above summaries of departmental issues and assumptions have been used to produce a base case for costs, losses and pressures in key service areas for 2021/22 and 2022/23. This has been combined with the unfunded costs and losses for the current year as set out above and the revised cashflows for Tt2019 and Tt2021.

103. All of this has been fed into the financial scenarios outlined later in the report. In addition, work has also been undertaken at a very high level to predict what a RWCS might look like as part of our assessment of the County Council's financial sustainability over the next three years.

Schools Funding

104. The Covid-19 Financial Report presented to Cabinet in May provided an update on the financial implications for schools resulting from the pandemic. In particular, there are concerns within the sector about income levels and the extent to which these support core activities within schools. Whilst there has been some government funding it is likely that Covid-19 will put some schools into deficit or will impact on financial recovery plans that were already in place.

105. Last month, a further £1bn pounds was announced for schools but this is targeted at making up for lost teaching time during the pandemic. A one off grant of £650m will be shared across state primary and secondary schools over the 2020/21 academic year. Whilst head teachers will decide how the money is spent, the Government expects it to be spent on small group tuition for whoever needs it.

106. Separately, a National Tutoring Programme, worth £350m, will increase access to high-quality tuition for the most disadvantaged young people over the 2020/21 academic year. It aims to reach up to two million pupils.

107. Whilst welcome, this does not help to improve the overall financial position of schools and it may be some time before the full impact at a local level is understood.

108. In terms of other impacts, the County Council has been putting in measures to support Early Years Providers, by continuing to pay budgeted amounts to them, irrespective of the number of children they are looking after. In addition, extra payments have been made to ensure key worker and vulnerable children have suitable placements where their normal care setting is closed or unable to take

them. We are also working closely with the sector where they are experiencing specific financial difficulties.

109. In all of these areas, the ultimate impact will be on spend measured against this years Dedicated Schools Grant (DSG) and could lead to further deficits over and above those being experienced within the High Needs block, which includes SEN. In line with government guidance, these deficits must be addressed through recovery plans and future years DSG, and therefore do not feature as a pressure within the forecasts outlined in this report.

Section H: Local Government Funding

110. Prior to the Covid-19 pandemic, local government has had to adapt to significant reductions in funding during the period of austerity and Members will be fully aware of the County Council's response to these reductions.

111. In broad terms, through our transformation programmes we have responded by driving out efficiency savings, reconfiguring services and generating additional income. This means that the County Council, along with other local authorities entered the pandemic with reduced financial resilience and fewer options available to absorb the significant increased costs and income reductions caused by Covid-19.

112. The period immediately before the Covid-19 crisis was one of considerable uncertainty. A lack of multi-year funding settlements already made it hard for local authorities to develop longer term financial plans. The key areas were:

- Funding for adults' social care was already a major challenge, with significant growth in demand projected alongside increasing complexity of need and a fragile provider market which was in need of additional investment. Government had started to address this in the form of ad-hoc, though significant, funding allocations but the longer term solution had yet to emerge, along with the anticipated social care green paper.
- Equally pressures in children's social care were growing and again whilst one off funding (albeit insufficient to meet the rising costs) had been made available, no longer term solution had been advocated.
- It had been recognised by government that the current system for calculating business rate allocations was also in need of review, and while different levels of retention had been piloted there had not been a definitive decision on the longer term for Business Rate Retention (BRR). The system for calculating rateable values was also due for review at a time when the value of business activity was increasingly removed from the value of their premises.
- The system for calculating relative needs and the allocation of central government funding was also due to be revised. The 'Fair Funding Review' has been delayed a number of times.
- The future for specific grants, such as the New Homes Bonus.

113. These were among a number of factors that were already creating considerable uncertainty as to the future funding model for local government. The Covid-19 crisis has now exacerbated the need for these long standing funding uncertainties to be addressed.

114. The County Council is still in the position of having no visibility of its financial prospects beyond the 2020/21 year, which clearly makes any accurate financial planning difficult to achieve and the Comprehensive Spending Review (CSR) which was planned for this year is fully expected to be postponed (although this has yet to be officially confirmed) and replaced with a further one year Spending Round; extending the period of uncertainty.

115. Whilst there are some signs that the key messages on funding requirements are getting through, local government as a sector will continue to push the Government for a programme of multi-year rolling settlements that avoid the inevitable cliff edge that we face at the end of every Spending Review period.

116. For now, one of the key messages we have been giving to local MPs and the Government is the need for an urgent single year Spending Round that provides provisional settlement figures for 2021/22 in order that we can start to plan for budget setting for next year. We are in a very similar position to last year where our exit from the EU created considerable uncertainty and the Government responded by announcing a Spending Round in September that provided upper tier authorities with the certainty they needed for the year ahead. Arguably, the current uncertainty and immediate financial instability within the sector provides an even greater impetus for a similar announcement this year.

Section I – The Council's Challenge to 2022/23

117. In the current MTFS approved in November 2019 the forecasts that were set to inform the Tt2021 target of £80m were affirmed. However, what is particularly pertinent for the forecast is the lack of any detail around the Government's intentions beyond the current financial year. The two year position to 2021/22 presented in the MTFS assumed that all government funding announced for 2020/21 (including the extra £1bn for social care) would be built into the base position going forward. However, no further increases in funding for the growth in social care costs that we know we will face in 2021/22 were assumed.

118. The key risks within the forecast at that point can be summarised as follows:

- Grant reductions or funding re-distribution are greater than expected following the Fair Funding Review and extended BRR.
- The assumption of ongoing core council tax increases of 2% plus a further 2% for the adult social care precept.
- The assumption that there will be continued government funding allocated towards social care pressures at least at 2020/21 levels.

- That growth in adults' and children's social care is even greater than forecast.
- Potential changes resulting from the long awaited Green Paper (or possibly a White Paper) on social care for older people and the parallel work being undertaken looking at social care for working age adults.
- Pay and price inflation exceed the provisions contained in the forecast.

119. Since then the environment in which we are operating has changed fundamentally and the financial implications of the Covid-19 crisis on the County Council are profound.

120. As outlined in Section G, the key departmental issues and assumptions (as set out in Appendix 2) have been used to produce a base case for costs, losses and pressures in key service areas for 2021/22 and 2022/23. This has been combined with the unfunded costs and losses for the current year, in line with the latest MHCLG return set out in Section E, and the revised delivery profile for Tt2019 and Tt2021.

121. One additional business as usual pressure in respect of the SEN service has also been included as described in paragraph 90 subject to approval of this funding.

122. The impact of all of these items has been profiled across the financial years to 2022/23 to understand the cash flow impact. The delay in savings programmes was already profiled over the three years and in technical terms, the council tax and business rate losses for this year will not have an impact on the County Council until next financial year through the collection fund mechanism.

123. Further forecasts have also been provided on the possible future impacts on council tax and business rate income, given that the economic downturn will mean that many households will apply for the local council tax support schemes, which has the impact of reducing our income. Combining all of these factors gives a base case for costs, losses and pressures across the years as follows:

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**Total £'000**
Net Unfunded Costs and Losses	40,497	56,053	6,322	102,872
Departmental Pressures		32,331	30,997	63,328
Business Rates and Council Tax		21,000	14,000	35,000
Other Pressures	1,700	4,200	3,200	9,100
Total Costs, Losses and Pressures	**42,197**	**113,584**	**54,519**	**210,300**

124. Three scenarios have then been applied to the base case for total costs, losses and pressures as follows:

   1. No further government funding and no underwrite for council tax and business rate income
   2. Further government funding to meet all Covid-19 response, recovery and demand costs (£17.8m) but no underwrite for council tax and business rate income.
   3. Further government funding to meet all Covid-19 response, recovery and demand costs (£17.8m) and underwriting for council tax and business rate income for the current year's losses (£34.6m).

125. None of the scenarios assume that income losses (beyond council tax and business rates), future years costs or lost savings will be covered by the Government. This is necessarily prudent given that the purpose of this report is to assess the County Council's future financial sustainability; and this is certainly not a time for optimistic forecasting.

126. These scenarios form the base position for a potential financial response package which is explained in detail in Appendix 3 and summarised in the next section.

Section J: Financial Response Package

127. Options to develop a financial response package have been considered in order of the severity of their impact on the County Councils existing financial strategy and approved plans as outlined in the following paragraphs and set out in detail in Appendix 3.

128. Initially work has been undertaken to review all potential sources of funding that can be applied to meet the total costs, losses and pressures, without any impact on commitments or plans that have already been approved. These miscellaneous items include:

   - Historic un-earmarked non-specific grants.
   - Provision for the cash flow of Tt2019 and Tt2021 savings delivery pre-Covid-19 which has now been superseded as the new profile of delivery is included in the base case.
   - Provision within General Fund Balances which is marginally in excess of the level recommended by the CFO of 2.5% of the budget requirement.

129. Subsequently, a review has been completed to assess any opportunities to release corporate funding, either one off or on-going, through a review of contingency provisions, in respect of inflation and risks in the budget, and potential treasury management savings. This has been done as safely as possible and ensures we can continue to manage key risks to some degree, but it does limit our ability to manage further new shocks that may arise.

130. Work has then been completed to identify corporate reserves that can be released without impacting currently approved commitments, recognising that drawing this funding will significantly reduce the County Council's ability to fund future investment and / or develop initiatives which to date has continued to be possible. These corporate reserves encompass the Invest to Save Reserve, the Corporate Policy Reserve and the Organisational Development Reserve.

131. A General Capital Reserve is available which, albeit fully committed to existing spend programmes, can be utilised where the planned spend meets the definition of capital expenditure and can be replaced by prudential borrowing. This option would not be utilised unless it was really needed as any resulting borrowing would create additional revenue costs to cover interest and loan repayments and so would add to any future budget gap.

132. As a last resort the use of General Fund Balances can be considered. The General Fund Balance in effect represents a working balance of resources that could be used in the event of a major financial issue. However, any draw that takes the level below that recommended by the CFO needs to be replaced and so will add to any future budget gap that needs to be bridged.

133. Finally, the BBR can be used to cash flow the position, recognising that we need to replenish this to enable us to maintain our financial strategy and develop and implement a successor transformation programme to take us to 2022/23 and beyond.

134. The individual tables outlining the financial response package for each scenario are contained in Appendix 3. It is difficult to provide a summary of these given the complex interaction of drawing from and contributing to the BBR in order to manage the cash flows. However, the key variable elements of the scenarios are the use of the General Capital Reserve (by releasing existing funding through replacement prudential borrowing) and General Fund Balances to balance the position.

135. The table below summarises these key elements for each scenario along with the final position forecast at the end of 2022/23:

	Scenario 1 £'000	**Scenario 2 £'000**	**Scenario 3 £'000**
Use of the General Capital Reserve	80,012	80,012	49,089
Use of General Fund Balances	21,098	3,677	0
Final Year Deficit / (Surplus)	416	0	0

136. Elsewhere in this report the criteria for financial sustainability were described as being in the same position at the end of 2022/23 as we were pre Covid-19, as this would mean we maintained our capacity to respond to the challenges that

lay ahead, including ensuring that the BBR has been 're-paid' to put it back into the same position.

137. The need to use General Fund Balances in full for Scenario 1 means that this would have to be replaced in subsequent financial years. Achieving this on top of maintaining cash flow support in the BBR is not considered to be viable and under this scenario the County Council is not financially sustainable.

138. For Scenario 2 the use of £3.7m of General Fund Balances is required, which would need to be replaced and would put additional strain on future years to achieve this. Scenario 2 also effectively uses up all of our remaining 'firepower' and means there is no contingency and we therefore have no ability to deal with any further financial shocks. Given the very high level nature of the assumptions and forecasts this is not a prudent position and on that basis the County Council is not considered to be financially viable under this scenario.

139. The final scenario does not require the use of General Fund Balances and only draws on circa 60% of the flexibility within the General Capital Reserve, so is within the boundaries set for financial sustainability.

140. Figures have also been modelled for a RWCS, which would increase the total cost pressures from £210.3m to £273.6m. Even if the best case funding assumptions were applied to this position, there is still a deficit of £11.3m after using all of the General Capital Reserve flexibility and all General Fund Balances. Clearly the County Council is not financially viable under this scenario.

141. Not surprisingly, in the face of a potential £200m impact, the County Council is not financially sustainable in three out of the four scenarios considered. It is possible under Scenario 3 that we would be able to stay on track, but this is dependent on two further elements of government funding.

142. Early on in the crisis, Government Ministers made various commitments to local government:

"We will do whatever it takes" – Rishi Sunak, Chancellor of the Exchequer

"Spend what you need to spend and we will reimburse you" – Robert Jenrick, Secretary of State for Housing, Communities and Local Government

143. Since then there have been statements around local government 'sharing the burden' with government, which are in stark contrast to what went before. This thinking is flawed as local government has no local tax raising powers beyond council tax, which is restricted by the Government and is likely to reduce as a result of the crisis and the reduced earning capacity of residents. Government on the other hand can borrow to support revenue spend and can increase taxes to raise revenue across a number of different areas.

144. Based on the scenarios presented in this report and impact on our financial sustainability, it is clear that the Government needs to honour its previous

commitment to fund the financial consequences of Covid-19. The County Council will therefore continue to lobby strongly through existing channels such as the CCN and the SCT, and directly to the Government, to ensure that the full range of extra costs are reimbursed by the Government as initially promised.

Section K: Capital Programme

145. The Capital Programme was last approved in February 2020 as part of the budget setting process and an update on the capital outturn position is included in the 2019/20 - End of Year Financial Report presented elsewhere on the Agenda.

146. Cabinet will be aware that in a similar process to that carried out a number of years ago, the Corporate Infrastructure Group (CIG), which is chaired by the Director of Economy, Transport and Environment have been capturing departmental priorities for capital investment over the next few years.

147. The intention was to bring these departmental investment priorities, together with those identified by Councillors to Cabinet and on to full County Council for consideration and approval in due course, dependant on the funding that was available.

148. The impact of Covid-19 has not only delayed this process but the medium term financial impact as set out in this report highlights the need to delay any significant decisions in respect of capital investment until more certainty over the financial landscape is secured going forward. This makes sense not only from a financial viewpoint but also in respect of some of the proposed investments themselves which could be heavily impacted by Covid-19, particularly in some of the building based assets such as care homes and office accommodation.

149. Departments have been asked to look at any urgent health and safety related priorities that may still need to be progressed with a view to bringing those to Cabinet and County Council in September this year.

The Impact of Covid-19

150. At this stage, the impact of Covid-19 on the Capital Programme has not been significant. Some highway projects were stopped for a brief time, but these resumed again shortly after and most building related projects have continued whilst complying with government guidance.

151. There are expected to be some compensation claims from contractors and an initial estimate was included within the MHCLG returns for May and June, but these are not significant in the context of the overall total.

152. Whilst going forward there may be some impact on the capital costs of schemes, this is not certain at this stage and in fact in some areas tenders have been coming in below what was expected. However, the long term

impact is clearly less certain and would need to be considered as part of any future updates of the Capital Programme.

153. More recently a very high level exercise has been undertaken to consider response costs such as site closures and compensation claims and the potential additional costs over the next six months for re-mobilising and measures that have had to be put in place by contractors to comply with government guidelines.

154. Initial figures suggest that up to £5m may be required after mitigations have been put in place by departments. These are very high level figures at this stage and will be refined as more information is collected. In order that existing schemes that are already in progress are not halted as a result of revised cost estimates, this report seeks approval of a ‘capital underwriting’ of up to £5m that will be allocated as appropriate by the Deputy Chief Executive and Director of Corporate Resources.

155. This would only be applied where absolutely necessary and only after other measures to mitigate the impact have been explored or additional funding sought from other partners linked to the schemes where appropriate (e.g. the Government, Local Enterprise Partnerships etc.). The spend of up to £5m can be accommodated from smaller capital receipts that have accrued corporately over recent years but have never been committed.

Section L: Beyond 2022/23

156. It has previously been highlighted that each year the County Council faces a shortfall to meet cost and demand pressures that historically were provided for by the Government and looking ahead, the predicted shortfall in the interim year of 2022/23 is forecast to be £40.2m.

157. There remains a lack of detail around the Government’s intentions beyond 2020/21, and the current crisis has significant financial implications at a national level which will no doubt impact on all public finances for many years to come. The impact on our reserves in respect of the financial scenarios highlighted above will mean we are less well placed to meet any delays in a successor savings programme and therefore, what is clear is that any programme will need to be delivered in full within the requisite timescales, as continuing to provide large scale corporate support will not be possible based on our current knowledge of the financial landscape ahead.

158. This report considers the period up to the end of 2022/23 and assumes that the forecast gap (pre Covid-19) for that year remains at £40.2m. It is impossible at this stage to predict what the annual deficit beyond this might look like, but it is highly unlikely that a position of less than £80m of savings will be required.

159. The normal timescales for considering what would be a Transformation to 2023 Programme are set out in the following summary:

Item	Date
High level opportunity assessment carried out by Departments	October 2020 – March 2021
High level opportunity assessment considered by Corporate Management Team and Executive Members	Spring 2021
Public consultation on proposals	Summer 2021
Final savings programme approved by Executive Members, Cabinet and County Council	September – November 2021

160. At this stage, there are a number of significant issues that would impact on this normal timeline:

- The delay in the Tt2019 and Tt2021 Programmes due to Covid-19 means that these programmes are further extended beyond the previous timelines.
- The next peak in Covid-19 infections is expected in October / November this year and may require some similar elements of response from the County Council during this period.
- The CSR is not expected to take place at least until Summer 2021.
- We are unlikely to know the detailed impact on the County Council going forward, assuming it is a multi-year settlement, until December 2021.

161. Given these factors, it would therefore make sense to delay any successor programme for a full year, but this would be dependent on there being sufficient reserves to cover an additional interim year and crucially that the programme would need to be fully delivered by 1 April 2024.

162. At this stage, given the significant range of financial uncertainties it is recommended that this position be reviewed at the point the County Council sets the 2021/22 budget and council tax in February 2021, as by this time we will better understand the picture for 2021/22. We should have more certainty as to the ongoing costs and losses associated with Covid-19 and also what government support might be available in both the short and longer term in response to this.

163. If at that point it is not considered viable to extend any successor programme to 1 April 2024 then a separate timetable will be needed to pursue options in a shorter timescale. The two options for timetables are therefore set out in the following table:

Item	1 April 2023 Implementation	1 April 2024 Implementation
High level opportunity assessment carried out by Departments	February 2021 – June 2021	October 2021 – March 2022
High level opportunity assessment considered by Corporate Management Team and Executive Members	Summer 2021	Spring 2022
Public consultation on proposals	Autumn 2021	Summer 2022
Final savings programme approved by Executive Members, Cabinet and County Council	January – February 2022	September – November 2022

164. Whilst the earlier timetable reduces the timescales for implementation compared to our normal arrangements, it offers the best compromise under the circumstances and still gives the opportunity to review the position before final decisions are made in light of the CSR outcome, the detail of which should be available in December 2021 at the latest.

165. In the absence of any detailed information, the best forecast we have at the moment is an annual gap of £40.2m per annum. This would give a further £80m target for a successor savings programme on the assumption that it covers only a two year period. Based on the County Council's current financial strategy this would be allocated on a straight line basis in proportion to Departmental cash limits for 2020/21, which would give the following distribution:

	£'000
Adults' Health and Care	40,695
Children's Services – Non Schools	20,595
ETE	10,523
CCBS	3,253
Corporate Services	4,934
Total	**80,000**

166. Cabinet and County Council are requested to approve these targets, but the aim would be to review the overall financial position once the detailed outcome of the CSR is known for the County Council. Should the programme be extended to be implemented from 1 April 2024, then this would cover three years' deficits and would require total savings of £120m but clearly this position would also be impacted by the CSR due out next year.

Section M: Financial Resilience and Sustainability

167. Financial resilience describes the ability of local authorities to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

168. Whilst the County Council has always fared well against measures of financial sustainability, in particular CIPFA's measures of financial stress and their financial resilience index, it has been made clear that without a change in the quantum and distribution of government funding, in particular in respect of social care services, the County Council is not financially sustainable in the medium term.

169. This was the position prior to Covid-19 and arguably, as a result, national and local government is about to enter the most uncertain economic and financial period since the end of World War II.

170. It is therefore no longer appropriate to rely on these past measures of resilience and sustainability and the main purpose of this report is to undertake a financial assessment of the County Council up to the end of 2022/23 that the CFO can use to assure herself and the Cabinet and County Council that we remain financially viable during this period and would still be in a reasonable position to face the challenges that will arise beyond it.

171. Section J outlined the financial response package that could be put in place to meet the various financial scenarios outlined and considered what the impact would be against a RWCS.

172. This concluded that under the three scenarios presented, the County Council would not be financially viable for two of them. Similarly, for the RWCS, it was concluded that even under the highest level of assumed government funding that the County Council was not financially sustainable.

173. Cabinet and County Council may be aware that discussions have been going on in the sector and with the Government about the issuing of Section 114 Notices during the Covid-19 crisis and CIPFA have released revised guidance that urges CFOs to consult with the Government prior to them issuing such a notice.

174. At this stage, we must wait until further information becomes available before making any decisions, but the aim is to report regularly to Cabinet and County Council on the position and if necessary provide information directly to Members where this is considered necessary, given the fast moving pace and changing consequences of the crisis. As outlined above and demonstrated in Appendix 3, the County Council has sufficient cash flow resources to meet the predicted short term impact of Covid-19 which places it in a strong position to address any financial issues going forward.

175. In any event, should action need to be taken to address an assumed future deficit, this will be done in good time and will no doubt have the full support of the Cabinet and County Council in dealing with any financial issues in a structured and responsible way. A Section 114 Notice is a last resort action, issued only if the CFO feels that the authority is not taking appropriate action to address the financial situation it faces, and it is not anticipated that a Section 114 Notice would therefore be required within Hampshire County Council that has a strong track record of addressing its financial issues.

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:	
	Date
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

   Given that this report deals with a large number of options and proposals for savings as part of the Transformation to 2021 Programme, the individual EIAs have been appended to this report to aid the decision making process.

Urgent Decisions

1. Where an urgent financial decision is required that falls outside of the defined process or limits within Financial Regulations or Financial Procedure Rules, but is felt to be in the wider interests of the County Council, the Chief Financial Officer in consultation with the Chief Executive and the Leader can make the decision subject to it being reported back to the appropriate decision making body.

2. In view of the urgent requirement for the County Council to response at pace to emerging events, especially during the early stages of the crisis, the decision reports therefore sought approval to facilitate timely action. All of the decisions are described briefly below and the approved spend can be met either from existing budgetary provision of from the funding allocated by the Government.

Members' Devolved Grants Budget (Decision Date 1 April 2020)

3. The Policy and Resources portfolio includes provision for a range of grants to the voluntary and community sector. Given the heightened importance of these grants at this time it was agreed to increase the amount available in 2020/21 to £10,000 per Member.

4. This is an increase of £156,000 and will bring the budget in 2020/21 to £780,000, to be funded from a combination of savings on the Leader's grant pot and the Members' Devolved Grants Budgets in 2019/20 and the Leader's 2020/21 grant pot.

Temporary Mortuary Provision (Decision Date – 2 April 2020)

5. Unlike neighbouring counties, Hampshire and the Isle of Wight has no public mortuary provision. Therefore, all mortuary capacity is situated with the NHS Acute trusts. As a consequence, there was a need for temporary mortuary provision to deal with the potential for excess deaths that were predicted as part of early modelling undertaken on behalf of the Local Resilience Forum (LRF).

6. The award of a contract for the provision of refrigerated haulage container units was approved as were the County Council's share of the associated one-off cost.

Personal Protective Equipment – Strategic Reserve (Decision Date 6 April 2020 and 21 April 2020)

7. The supply market has faced unprecedented levels of demand for PPE, making it extremely challenging to secure supplies, and to do so in the quantities required and at appropriate prices.

8. Failure by the Council to secure this equipment has significant risks in terms of the resultant operational pressures that will be generated for partners within the

LRF (including Hampshire Fire, Police, NHS and the County Council) where services have inadequate supplies to carry out their functions. This would otherwise impact adversely directly on members of the public affected by the non-delivery of such services at a time of local and national crisis.

9. A significant contract was awarded to secure critical PPE supplies and to provide a strategic reserve of equipment for use by partners across Hampshire and Hampshire County Council's In-House service, in light of the Covid-19 pandemic. In addition, given the international position in relation to PPE, to enable the organisation to respond in an agile way further spend was also approved in order that opportunities to purchase further supplies were not missed, including any specific Single Tender Approvals required.

10. There remains the risk that the County Council could pay for PPE reserves that are either not used or are not paid for by other partners who are drawing down on the stock. To mitigate this, it is proposed to put in place a financial underwrite across all partners within the Local Resilience Forum that are making use of the reserve, such that any unrecovered costs are shared appropriately between them.

COVID-19 Emergency Funding for Local Government (Decision Date 7 April 2020)

11. A sum of £1.6bn of additional funding to support local authorities in responding to the Covid-19 pandemic was announced in March 2020 – Hampshire County Council's allocation was £29.6m. This funding was intended to help local authorities address the pressures they are facing in response to the Covid-19 pandemic across all the services they deliver.

12. Approval was given to delegate authority to both the Deputy Chief Executive and Director of Corporate Resources and the Head of Finance to allocate this funding in line with the intended purpose for decisions below £1m to ensure timely response to swiftly changing circumstances.

13. The current urgent decision arrangements under financial regulation 2.31 continue to apply for decisions over £1m, including the requirement for the Deputy Chief Executive and Director of Corporate Resources to make the decision and to consult with the Chief Executive and Leader.

Adults' Health and Care - Response to Covid-19 (Decision Date 9 April 2020)

14. The funding, as referenced in paragraphs 11 to 13, is intended to meet the increased demand for adult social care and also enable councils to provide additional support to social care providers. It was anticipated by the Government, following feedback from local authorities that the majority of this funding would need to be spent on providing the adult social care services required to respond to the Covid-19 crisis.

15. The County Council suspended normal payment processes and principles and subsequently we have amended the way we transact with providers and considered both what we could offer and how that would be undertaken. A set of proposals was approved in respect of principles for how we pay for adults' social care and how we make those payments.

16. In addition, plans for the provision of a first point of contact as part of the broad welfare response to vulnerable people (for example, the over 70's, people with underlying health conditions, etc.) who have been advised by the Government to shield themselves for an extended period were approved along, with the associated costs of these changes and services.

Grant to Hampshire and Isle of Wight Trust (Decision Date 16 April 2020)

17. The Trust has been offered first refusal on the purchase of Deacon Hill (a 10.6 Ha chalk grassland Site of Importance for Nature Conservation) for a total purchase cost £250,000. They launched a public fund raising appeal which at the end of March 2020 had raised £230,000 of which £100,000 was made by a single benefactor. The deadline for the Trust to raise the full funds and complete the purchase has been extended to the end of April 2020.

18. A grant of up to £20,000 from the Investing in Hampshire fund was approved, with the actual amount depending on any final shortfall in funds generated by the Hampshire and IOW Trust land purchase appeal, to enable the purchase of this land.

19. Ownership of the site by the Trust will provide public benefit by opening up a new area of land close to Winchester for public access and to develop a connection with nature that is so important for their health and wellbeing.

Managing Hampshire's Built Estate (Decision Date 27 April 2020)

20. To ensure that the highest maintenance priorities are addressed and to avoid an increase in future condition liabilities, Property Services is seeking to minimise delays to the repairs and maintenance programme due to Covid-19 as far as possible, in line with central government guidance and construction industry protocols. Reactive or lower cost repair options have been considered and, in many cases, implemented over a period of time, before the named schemes come forward for more significant investment. In the longer term these options are unsustainable and lead to further deterioration of the building impacting on its operational use.

21. Therefore, to progress these priority works through design, pre-construction and on-site delivery, approval was given for the carry forward of unspent budgets from 2019/20, the high level allocation of 2020/21 budgets and project appraisals for capital schemes with a value of £250,000 or above.

Purchase of IT Equipment to Enable Better Home Working (Decision Date 4 June 2020)

22. Due to the pandemic and the Government's policy of lockdown the majority of County Council staff are currently working from home, facilitated in large part by the HCC IT strategy delivered over the past four years which has meant that staff with IT access have been able to work from home with a high level of efficacy.

23. The original IT provision was intended for a short period of home working, but it is now clear an extended period beyond this is likely to be required. This may be a result of an extended lockdown, repeat local lockdowns, or where staff are compelled to self-isolate as a result of 'track and trace'.

24. Expenditure was therefore approved for a more sustainable solution considering staff welfare and productivity with the following objectives:

    - Provide all Fixed staff with suitable equipment to support an extended period of home working with a corporate mobile device as a minimum
    - Offer 'Flexible/Field' staff with existing mobile devices with additional equipment to support extended periods of home working.
    - Keep expenditure to a minimum, whilst considering the total cost of ownership.

25. This expenditure to purchase additional equipment required will have not only take into account staff welfare and productivity but also ensure our ability to respond effectively during this extended lockdown period.

Adults' Health and Care – Forward View

1. Key Issues

1.1 The Department has and continues to play a fundamental role in the delivery of services to the people of Hampshire in response to Covid-19 and this is not just limited to the predictable provision of care packages and delivery of Public Health services and leadership during this time. In addition, the Department have delivered the welfare services to support co-ordination and delivery of key services to those most vulnerable within our society whilst also supporting our NHS partners to release sufficient acute capacity to provide the much needed health care services to those in need.

1.2 With all this said however the unavoidable truth is that it remains those key care packages and our relationship with providers through the associated price paid and volumes purchased that will most significantly influence the Department's financial resilience both in the immediate and medium term.

1.3 Projecting the cost of care services, which can be particularly volatile during stable periods, is increasingly difficult at present, with the need to take into account a rapidly changing situation and corresponding government advice, often at short notice, with financial commitments as well as general forecasts regarding the likely rates of infection of the virus in the future.

2. Assumptions – Duration of NHS Covid-19 Discharge Funding

- Base assumption is that this funding stream, to meet the cost of ongoing care incurred by the County Council for clients discharged from hospital, will remain until end of October 2020.
- Upon cessation of this funding stream long-term care packages paid for by the County Council but funded through this route will need to be funded by the County Council.
- There are clients placed within interim placements, that the County Council do not pay for. Upon cessation of the funding they will have been allocated a long-term care package at an additional cost to the County Council. This is a temporary step increase in costs that will taper off over 18 months.

3. Assumptions – Duration and Extent of Response Activity

- Base assumption that care providers will continue to require enhanced payments to meet increased costs through to the end of October 2020.
- All other response costs including Welfare and County Council enhanced Personal and Protective Equipment (PPE) purchases will be required through to the end of October 2020.

4. Assumptions – Changes in Future Demand for Care Packages and Market Availability at Affordable Rates

- During the crisis period overall levels of care provided have already reduced, but it is assumed these will recover steadily over the next three years.
- Care volumes, in particular within Residential Care and Nursing, will return to pre Covid-19 levels during 2022/23. This will be further affected by societal attitudes and perception of the health risks to family members entering Residential Care and the impact of the death rate on the volume of, what would have been, Hampshire County Council funded clients in the future.
- Price of care will increase above inflation and previously anticipated levels due to:
  - Changes in market capacity to meet reduced demand, assuming that lower cost providers are more likely to exit the market earlier, leaving available capacity at the higher end.
  - Providers will have received enhanced payments from the County Council for a considerable time as part of the response phase and a response from the market when we seek to return fee rates back to previous levels is highly likely.

5. Assumptions – HCC Care Income

- Changes in demand as highlighted above will be managed by the Department to ensure that County Council care beds are the preferred destination for clients needing Residential or Nursing Care where possible. This will:
  - Avoid, as possible, the cost of additional external packages, through making use of capacity that is already paid for and available in house.
  - Enable Hampshire County Council care income levels to return to budgeted levels as early as possible.

6. Assumptions – Ability to Achieve Reductions on Care Volumes to Meet Budgeted Level

- Due to the changes in unit prices described above the departmental recovery plan to reduce the underlying cost of care to be within the recurring budget is much less likely to be achievable in full within the period reviewed as part of this update.
- 50% of the £9m reduction required is assumed to be achieved in 2022/23 instead of the full saving by end of 2020/21.

7. Beyond 2022/23

7.1 Going beyond 2022/23 the impact is difficult to quantify reliably due to the sheer volume of potential outcomes both locally and nationally over the next three years. However, the key issues and main factors affecting the financial health of the Department remain inextricably linked to the volumes and costs of care provided to eligible clients.

7.2 Whilst the forecast up to 2022/23 has assumed an increase in unit cost over that timeframe, in particular within Residential and Nursing Care, there remains a significant risk that a greater number of lower cost providers continue to exit the market thereby driving unit prices up further.

7.3 The Department purchases approximately 25% of the care capacity in Hampshire. The remaining provision is purchased primarily by private clients, it is the changes in this activity that will drive the economic stability of the market and correspondingly affect changes in supply that in turn will affect the rates paid by Hampshire County Council.

7.4 In addition, the market will have assumed and planned for increased demand over the time period affected and beyond. Therefore, even if the County Council returns to purchasing the same levels of care by 2022/23, this increased capacity issue, alongside the likely reduced demand from private clients is likely to lead to a greater surplus in available provision; thereby further destabilising the market. In turn as the market inevitably continues to match supply against demand further price increases are likely to be faced by the County Council.

7.5 Further changes in the ratio between Residential and Nursing Care and Homecare may significantly affect the financial position beyond 2022/23. Any scenario whereby larger volumes of clients remain at home carries both potential benefits and risks. These potential financial benefits arise from Home Care generally costing less on average, however, disbenefits could arise as current legislation entitles councils to take into account value of property when assessing the charges for Residential Care but not for Home Care resulting in a loss of income.

7.6 The changing landscape of the care market may also make the planned savings to manage future activity within the available budget even more challenging. With potentially less providers in the market and potentially greater reliance on Home Care, the opportunities to affect price are significantly diminished. However, opportunity to control demand and ensure placements are suitable remain in place.

<u>Children's Services – Forward View</u>

1. Key Issues

1.1 There is an expectation of demand increases in children's social care in relation to Child in Need and Child Protection services; and the impact on the number and cost of children in care.

1.2 There will continue to be a loss of income for services sold to schools and other agencies.

1.3 Supporting the early years market in both the short and longer term will be necessary.

1.4 Home to school transport supply during a period of social distancing and unusual school opening patterns will impact cost, capacity and resource.

1.5 By way of context, for children's social care, demand has been supressed during the lockdown. There is also sufficient evidence now internationally, that as restriction measures reduce then demand for children's social care will spike. It is considered there are three possible ways this spike in demand could present:

- short term increase in demand then returning to normal levels (least likely)
- longer term spike that slowly reduces to near normal levels (second least likely)
- longer term spike that does not reduce but becomes the new normal in terms of demand levels (most likely).

1.6 The evidence that the latter will apply is based on the sustained surge in demand seen by children's social care services since the onset of other 'shocks to the system; such as Baby P in 2008 and austerity from 2010. With even greater economic challenges now coming, it is prudent to plan for this highly likely scenario. As of week commencing 8 June 2020, referrals to children's social care were 15% higher than the average for the three months prior to the outbreak, indicating that the spike in activity has begun.

2. Assumptions – Front Door Services - Multi Agency Safeguarding Hub (MASH) and Out of Hours Services

- Initially referrals to children's social care reduced in April 2020 but by May were back to normal levels, despite only 3% of children being in school, which is a main referral source. The predicted sustained surge in demand in referrals is anticipated at between 10 to 20%, so on average 15% for the remainder of the year and into 2021/22.
- To support the above increase additional social work staffing and associated management of 12 FTE will be required in the MASH and for the Out of Hours services which deal with all incoming work to Children's Services. The cost is £850,000 full year effect (£600,000 in

2020/21). Assumed agency at 70% for additional social worker and assistant team manager posts – all other posts assume recruitment to be HCC employed.

3. Assumptions – Social Care Including Children Looked After (CLA)

- Overall increase in CLA (excluding Unaccompanied Asylum Seeking Children) of 15% in 2020/21 (1,753), 7% in 2021/22 (1,871) and 6% in 2022/223 (1,986).
- It is anticipated the costs of placements will increase due to Covid-19, as all local authorities will be seeking to manage similar increases in demand with a limited supply of placements, and that a range of additional cost pressures from providers will emerge across the different placement types for CLA, from in house provision to external residential, with costs ranging from 5 - 20%.
- Combined increases in activity, cost pressures and associated legal costs due to the growth in CLA placements are £2m in 2020/21, rising to £11m in 2021/22 and then £10m in 2022.23
- An increase of 2 FTE placement officers is required to support the identification of placements for the increased numbers of children requiring them at a full year cost of £60,000 (£40,000 in 2020/21).
- Children with disabilities costs such as direct payments, home care and respite to increase by 10% per year for the next two years (£750,000 in 2020/21 and £950,000 in 2022/23).
- 15% increase in Care leavers, in line with CLA, with additional costs of £900,000 in 2020/21 and £950,000 in 2021/22
- Contact costs – additional £250,000 for five additional contact staff and £100,000 for third parties, venues and transport in light of additional CLA activity.

4. Assumptions – Additional Social Workers and Associated Support

- 15% increase in all aspects of children's social care work to support the increased volume of Children in Care, Children in Need, court work and children subject to child protection plans.
- To maintain the current social work practice framework (the Hampshire Approach) and maintain manageable caseloads across Child in Need, Child Protection and CLA, an additional 48 FTE social workers will be required at a full year cost of 5m, including associated management, admin support, travel and IT (£2.7m in 2020/21). This is in addition to the 12 FTE for the front door services. Assumed agency at 70% for additional social worker and assistant team manager posts – all other posts assume recruitment to be HCC employed.

- Additional funding required to support an increase of 16 FTE Intensive Support Workers (including associated management support) to support the highly effective Hampshire Approach model of social work with the additional families who will be requiring interventions, £800,000 full year effect (£450,000 in 2020/21).

5. Assumptions – Home to School Transport

- If all children return to school in September, there will be no additional costs assuming no social distancing.
- If some form of social distancing remains until July 2021, there will be an estimated 20% increase in costs totalling £3m in 2020/21 and £4m in 2021/22. This includes a range of additional costs such as additional parental mileage, dual running of vehicles and other costs.

6. Assumptions – Traded Services & Lost income

- The current lost income for traded services (School Improvement Service, Music Service, Skills & Participation, Hampshire & IOW Education Psychology Service) is around £0.5m per month and if there are no changes to the current situation from September this will continue.
- Even with a partial or even full return of pupils in September there will still be loss of income, which could be in the region of £0.2 – 0.4m per month if social distancing measures continue. Whilst services are developing other strategies to deliver services, reviewing business models and working to develop safety measures; service delivery in many areas will still be at a reduced rate. Estimated figures show lost income in 2020/21 could be between £1m – £2m.
- When services can return to schools, income will remain significantly impacted as support continues to be directed towards underpinning the core effort, rather than income generation.
- Currently the Government's advice does not allow for residential or day trips. The assumption currently is that this will be lifted in September. If this barrier is not removed the income loss for Hampshire Outdoors will be significant.

7. Assumptions – Early Years

- Following Department for Education (DfE) guidance, additional costs relating to double funding for Key Worker and Vulnerable (KWV) and providing financial support to early years providers, to meet our statutory duty of providing sufficiency in the market on reopening of services, are allowable charges to the Dedicated Schools Grant (DSG). Current estimates suggest this could increase the pressure on the DSG by in the region of £0.5 - 1.5m

- Additional Local authority funding of 4 FTE Childcare Development Business Support Officers, costing £200,000, to provide advice and business support to the market, which is particularly important in order to support childminder provision.

8. Beyond 2022/23

8.1 The need to recruit additional social workers will continue to be challenging and consideration will need to be given to factors that promote recruitment and retention among social workers.

8.2 The Department have been very successful in providing sector led improvement work to other local authorities which generates an income and has been beneficial to both our learning and reputation. The focus of this may change as other organisations' face the impact of Covid-19.

8.3 Support from other agencies, i.e. Health, may reduce as the focus shifts inwards. This could increase our need to provide preventative and other services.

8.4 The impact of the economic downturn will be felt particularly in children's social care as poverty deepens. This could take a significant time to reverse and will have an impact on the services provided for some years.

<u>Economy, Transport and Environment – Forward View</u>

1. Key Issues

1.1 Economy, Transport and Environment (ETE) spend is dominated by major contracts (for example waste disposal and highways maintenance) together with payments under the statutory Concessionary Fares scheme. Government guidance on supplier payment where delivery of these services has been affected by Covid-19 has been applied. For passenger transport services including Concessionary Fares this market intervention can either be met from existing budget provision or from additional government grant specifically for this purpose.

1.2 The position for waste disposal is complex but the best current estimate assumes the additional cost of a different approach to payments is expected to be offset by other savings arising from the different operating environment. For highways maintenance the financial impact can only be mitigated by reducing the amount of highway works undertaken during the year.

2. Assumptions – Highways and Construction

- The construction industry moved relatively early to re-start work in accordance with social distancing guidelines, but costs associated with the safe closure and re-start of construction schemes have been factored into current financial year forecasts. It is assumed no similar costs will be incurred in future financial years.
- Alternative payment approaches agreed under the Hampshire Highway Service Contract will continue in line with government guidance.

3. Assumptions – Passenger Transport

- Market underwriting required by the Government over and above that for which budget provision exists will continue to be fully funded by government grant.
- Alternative payment approaches agreed with operators for local bus subsidy, Concessionary Fares and Community Transport will continue in line with government guidance.

4. Assumptions – Waste Disposal

- Social distancing requirements will limit recycling volumes through Household Waste Recycling Centres for the rest of the current financial year.
- Alternative payment approaches agreed under waste disposal contracts will continue in line with government guidance.

5. Beyond 2022/23

5.1 The key service where a longer-term impact is anticipated is waste disposal, with significant delays now expected to the balance of the Transformation to 2019 (Tt2019) and Transformation to 2021 (Tt2021) Programmes, which are now being run in parallel.

5.2 Delivery of these savings programmes depends on complex negotiations, both with Waste Collection Authorities around future operational and financial arrangements for recycling and our commercial partner, Veolia. The outcomes are likely to require the building of new infrastructure with a probable two year lead time to become fully operational. These negotiations in turn are dependent on the outcome of government legislative changes which have been delayed due to the response to Covid-19 and the resulting economic pressures.

5.3 Given the continuing uncertainty in the wider environment a prudent view of the revised delivery profiles for the agreed savings has been taken and it is still hoped that these timescales can be accelerated.

<u>Culture Communities and Business Services – Forward View</u>

1. Key Issues

1.1 Culture Communities and Business Services (CCBS) is characterised by many diverse services ranging from building and facilities maintenance for the corporate estate, management of Country Parks and other countryside sites, to the Hampshire Library Service and the provision of school meals.

1.2 During the decade of austerity, the Department has deliberately pursued a strategy of reducing its call on cash limited resources by meeting an increasing percentage of its costs from other income. By 2020/21 62% of gross costs were planned to be met from income and recharges compared to 38% from cash limited budgets. The department is also home to three trading areas fully funded from earned income with planned turnover in 2020/21 of £55.9m. The strategy has been successful but has recently meant many CCBS services have experienced a significant loss of funding due to the Covid-19 lockdown and continuing restrictions.

1.3 Service recovery plans are in place to safely re-open services to the public and other users as soon as possible. Progress is clearly dependent on:

- Government guidance.
- Public perception and appetite to return to activities.
- The impact of wider economic downturn on people's ability and willingness to pay.

1.4 The overriding assumption is that all restrictions will have been lifted by the end of the current financial year and income levels will have returned to previously planned levels at that point.

1.5 Finally, it is currently still expected that Transformation to 2021 (Tt2021) savings can be delivered in full and on time.

2. Assumptions – HC3S and County Supplies Income

- Schools form a key customer base for both HC3S, the County Council's catering service, and County Supplies and in both cases the number of pupils on site each day is an important driver for income.
- Key assumption: 50% Primary and 5% Secondary pupils on site per day to the end of 2020/21. This is linked to a wider assumption that social distancing at two metres remains in force to the end of this financial year.

3. Assumptions – Other CCBS Income

- Income assumptions for public-facing services have been driven by individual service recovery plans encompassing a phased re-opening of services

- The seasonal nature of demand for some services (e.g. Countryside sites, Outdoor Centre activities, Registration Ceremonies) means most income is achieved by the end of the summer.

4. Beyond 2022/23

4.1 The expectation is that beyond 2022/23 the environment that CCBS are operating within will have returned to a pre-Covid normality in relation to any impact on income levels across all areas of the business.

<u>Financial Position to 2022/23</u>

1. Introduction

1.1 As set out in the main report due to the uncertain and very complex environment which is evolving on a day to day basis and for which there is no past comparator the financial forecasts that follow are unavoidably based on a wide range of assumptions made at this particular point in time.

1.2 Much work has been completed at speed but it should be reiterated that given the complex nature of the forecasts we are producing during these unprecedented times and without any historical information to act as a guide, in essence we must treat all of the forecasts in this report as high risk in nature.

2. Base Case

2.1 For each department assumptions have been applied, as set out in Appendix 2, to produce a mid-case realistic scenario for pressures in key service areas for 2021/22 and 2022/23. This has been combined with the unfunded costs and losses for the current year based on the most recent submission to the Ministry for Housing and Local Government (MHCLG) and the revised cash flow requirements for both the Transformation to 2019 (Tt2019) and Transformation to 2021 (Tt2021) Programmes to produce an overall financial position.

2.2 The impact of these items has been profiled across the current and next two financial years as shown in the table overleaf. The delay in savings programmes was already profiled over the three years and in technical terms, the council tax and business rate losses for this year will not have an impact on the County Council until next financial year through the collection fund mechanism.

2.3 Further forecasts have also been provided on the future impacts on council tax and business rate income, given that the economic downturn will mean that many households will apply for the local council tax support schemes, which has the impact of reducing our income.

2.4 Other key assumptions have also been built into the forecasts including allowance for some other 'business as usual' pressures that have come through as part of the financial Resilience meetings held with the Directors of Adults' Health and Care and Children's Services and an estimate of the ongoing impact on investment income of the economic downturn.

2.5 The table overleaf sets out the complete base case financial position that has been produced over the period to 2022/23 and shows the scale of the challenge that the County Council faces with an overall forecast gap of £210.3m:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Net Unfunded Costs and Losses	40,497	56,053	6,322	102,872
Departmental Pressures		32,331	30,997	63,328
Business Rates and Council Tax		21,000	14,000	35,000
Other Pressures	1,700	4,200	3,200	9,100
Total Costs, Losses and Pressures	**42,197**	**113,584**	**54,519**	**210,300**

2.6 The specific action required to deal with this challenge will be dependent on the provision of any further funding from the Government and the following Sections set out the elements of any financial response package and then for a number of scenarios set out the responses that are proposed.

3. Financial Response Package

3.1 Options to develop a financial response package have been considered in order of impact on the County Councils existing financial strategy and approved plans as outlined in the following paragraphs.

3.2 Initially work has been undertaken to review all potential sources of funding that can be applied to meet the total costs, losses and pressures, without any impact on commitments or plans that have already been approved. These miscellaneous items include:

- Historic un-earmarked non-specific grants.
- Provision for the cash flow of Tt2019 and Tt2021 savings delivery pre-Covid-19 which has now been superseded as the new profile of delivery is included in the base case.
- Provision within General Fund Balances which is marginally in excess of the level recommended by the Chief Financial Officer (CFO) of 2.5% of the budget requirement.

3.3 Subsequently, a review has been completed to assess any opportunities to release corporate funding, either one off or on-going, through a review of contingency provisions, in respect of inflation and risks in the budget, and potential treasury management savings. This has been done safely and ensures we can continue to manage key risks, but it does limit our ability to manage further new shocks that may arise.

3.4 Work has then been completed to identify corporate reserves that can be released without impacting currently approved commitments, recognising that drawing this funding will significantly reduce the County Council's ability to fund future investment and / or develop initiatives which to date has continued to be possible. These corporate reserves encompass the Invest to Save Reserve, the Corporate Policy Reserve and the Organisational Development Reserve.

3.5 A General Capital Reserve is available which, albeit fully committed to existing spend programmes, can be utilised where the planned spend meets the definition of capital expenditure and can be replaced by prudential borrowing. This option would not be utilised unless it was really needed as any resulting borrowing would create additional revenue costs to cover interest and loan repayments and so would add to any future budget gap.

3.6 As a last resort the use of General Fund Balances can be considered. The General Fund Balance in effect represents a working balance of resources that could be used in the event of a major financial issue. However, any draw that takes the level below that recommended by the CFO needs to be replaced and so will add to any future budget gap that needs to be bridged.

3.7 Finally, the Budget Bridging Reserve (BBR) can be used to cash flow the position, recognising that we need to replenish this to enable us to maintain our financial strategy and develop and implement a successor transformation programme to take us to 2022/23 and beyond.

4. Scenario 1 – No Further Government Funding

4.1 Early on in the crisis, Government Ministers made various commitments to local government:

“We will do whatever it takes” – Rishi Sunak, Chancellor of the Exchequer

“Spend what you need to spend and we will reimburse you” – Robert Jenrick, Secretary of State for Housing, Communities and Local Government

4.2 Since then there have been statements around local government ‘sharing the burden’ with government, which are in stark contrast to what went before. This thinking is flawed as local government has no local tax raising powers beyond council tax, which is restricted by the Government and is likely to reduce as a result of the crisis and the reduced earning capacity of residents. Government on the other hand can borrow to support revenue spend and can increase taxes to raise revenue across a number of different areas.

4.3 The County Council will therefore continue to lobby strongly through existing channels such as the County Council Network and the Society of County Treasurers, and directly to the Government, to ensure that the full range of extra costs are reimbursed by the Government as initially promised.

4.4 In the absence of any further funding from the Government, even applying all of the options set out in Section 2 to the maximum extent possible, the County Council cannot fully cover the total costs, losses and pressures as shown in the following table:

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Costs, Losses and Pressures	**42,197**	**113,584**	**54,519**
Miscellaneous Items	(5,405)	(3,784)	(5,841)
Corporate Funding	(30,000)	(30,000)	(20,000)
Corporate Reserves		(10,844)	(2,900)
General Capital Reserve		(8,144)	(71,868)
General Fund Balance			(21,098)
Borrow (from) / Contribute to BBR	(6,792)	(60,812)	67,604
Remaining Gap	**0**	**0**	**416**

4.5 Whilst the previously reported position for the BBR is maintained which to some extent limits the impact on the County Councils financial plans, clearly without further support from the Government the County Council cannot at this point meet all of the anticipated costs, losses and pressures, without looking to reduce net expenditure, albeit that point can be staved off until 2022/23.

4.6 In addition, it is important to note that this position fully utilises all possible resources. Therefore, as a minimum any future package of spending reductions would also need to include provision to reinstate the General Fund Balance and meet the revenue costs of borrowing taken in lieu of using the General Capital Reserve.

5. Scenario 2 – Government Funding of Response and Recovery Costs

5.1 Initial government support to local authorities to assist with the response has mainly centred around the announcement on 19 March of £1.6bn grant funding, which for Hampshire equated to an allocation of £29.6m.

5.2 On 18 April, a second announcement was made allocating a further £1.6bn to local government. The final allocations to individual authorities were not released until 28 April due to changes to the distribution methodology used, which saw a move away from a relative needs basis (linked partially to Adults Social Care) to one based more on population and in two tier areas this was split 35% to Districts and 65% to County Councils.

5.3 The County Council's share of the second tranche of funding was £24.3m (bringing the total to approaching £54.0m) which was to be utilised to meet response costs and help fund the other financial consequences of Covid-19 such as lost income and trading losses.

5.4 Should additional funding be provided, by the Government to meet the response and recovery costs in 2020/21 in full the County Council would require a third tranche of funding of just over £17.8m. In this scenario applying the options available would allow the County Council to meet all of the costs, losses and pressures as shown overleaf:

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Costs, Losses and Pressures	**42,197**	**113,584**	**54,519**
Government Funding – Response and Recovery Costs	(17,837)		
Miscellaneous Items	(5,405)	(3,784)	(5,841)
Corporate Funding	(30,000)	(30,000)	(20,000)
Corporate Reserves		(1,151)	(12,593)
General Capital Reserve			(80,012)
General Fund Balance			(3,677)
Borrow (from) / Contribute to BBR	11,045	(78,649)	67,604
Remaining Gap	**0**	**0**	**0**

5.5 If some additional funding is received from the Government the County Council can meet all of the anticipated costs, losses and pressures, whilst also preserving the BBR to use in line with planned financial strategy, but this does require the use of some of the General Fund Reserve, which would need to be replaced, creating further strain post 2022/23.

5.6 The scenario also effectively uses up all of our remaining firepower and means there is no contingency and we therefore have no ability to deal with any further financial shocks. Given the very high level nature of the assumptions and forecasts this is not a prudent position and on that basis the County Council is not considered to be financially viable under this scenario.

5.7 It also comes at the cost of £80m of additional prudential borrowing and the use of all of the available firepower to try to balance our financial position. We will therefore be looking to the Government to properly underwrite the genuine consequential costs and losses we have suffered, which would help to balance this position and reinstate the strong financial position we have worked so hard to achieve over many years.

6. Scenario 3 – Government Funding of Response and Recovery Costs and Underwrite of Council Tax and Business Rates in 2020/21

6.1 Since the start of the Covid-19 crisis there have been many attempts to quantify the costs of the crisis in local government and, considerable effort has been invested into estimating the total costs – primarily via returns to the MHCLG.

6.2 However, there is huge uncertainty around the forecasts and in particular in relation to council tax and business rates income. Despite measures put in place by the Government to support businesses and also individuals facing hardship the longer term financial stability of local authorities is at risk of they cannot collect council tax and business rates in a post-Covid-19 recession.

6.3 There are growing calls on the Government to provide a guarantee to local authorities by underwriting the potential loss of council tax and business rates. As yet there has been no official response to this but there now seems to be a wider understanding of the issue and full support for one year would see the County Council receive £34.6m based on currently anticipated losses of taxation income.

6.4 In this scenario applying the options available would allow the County Council to meet all of the costs, losses and pressures as shown below:

	2020/21 £'000	2021/22 £'000	2022/23 £'000
Total Costs, Losses and Pressures	**42,197**	**113,584**	**54,519**
Government Funding – Response and Recovery Costs	(17,837)		
Underwrite of Council Tax and Business Rates		(34,600)	
Miscellaneous Items	(5,405)	(3,784)	(5,841)
Corporate Funding	(30,000)	(30,000)	(20,000)
Corporate Reserves			(13,744)
General Capital Reserve			(49,089)
Borrow (from) / Contribute to BBR	11,045	(45,200)	34,155
Remaining Gap	**0**	**0**	**0**

6.5 If the Government underwrite the anticipated impact on council tax and business rate income, the County Council can meet all of the anticipated costs, losses and pressures, whilst also preserving the BBR to use in line with planned financial strategy and retaining over £30m of the flexibility in the General Capital Reserve to deal with other potential shocks.

6.6 Furthermore, this would be achieved without drawing on General Fund Balances and with reduced borrowing costs as part of the Capital Reserve swap, thereby minimising the impact beyond 2022/23.

6.7 Whilst this might be considered to be a more favourable position, it comes at the cost of nearly £50m of additional prudential borrowing and the use of all of the available firepower to shore up our financial position. As a minimum we would still be looking to the Government to properly underwrite the genuine consequential costs and losses we have suffered, which would help to reinstate the strong financial position we have worked so hard to achieve over many years.

7. Reasonable Worst Case

7.1 In addition to developing a base case or mid-case realistic scenario for pressures in key service areas for 2021/22 and 2022/23 a worst case has also been prepared. This has again been combined with the unfunded costs and losses for the current year and the revised cash flow requirements for both the Tt2019 and Tt2021 Programmes to produce an alternative financial position.

7.2 The worst case scenario sees an overall gap across the three year period of approaching £273.6m due to greater pressures in key service areas, but these are even more speculative in nature than the forecasts outlined in the base case.

7.3 The impact of these items again has been profiled across the current and next two financial years as shown in the following table, along with the application of all available funding set out in Section 2 and assuming government support in line with Scenario 3:

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**
Total Costs, Losses and Pressures	**55,059**	**142,273**	**76,242**
Government Funding – Response and Recovery Costs	(17,837)		
Underwrite of Council Tax and Business Rates		(34,600)	
Miscellaneous Items	(5,405)	(3,784)	(5,841)
Corporate Funding	(30,000)	(30,000)	(20,000)
Corporate Reserves		(8,102)	(5,642)
General Capital Reserve			(80,012)
General Fund Balance			(21,098)
Borrow (from) / Contribute to BBR	(1,817)	(65,787)	67,604
Remaining Gap	**0**	**0**	**11,253**

7.4 Even with additional government funding to meet all anticipated response and recovery costs and support to underwrite losses in council tax and business rate income in the worst case the County Council cannot meet all of the anticipated costs, losses and pressures, despite applying all of the options set out in Section 2 to the maximum extent possible.

7.5 It is once again important to note that this position fully utilises all possible resources and so future plans will need to include provision to reinstate the General Fund Balance and meet the revenue costs of borrowing taken in lieu of utilising the General Capital Reserve.

7.6 Clearly the County Council is not financially sustainable under this scenario either and it would require additional government funding of at least £32m over the period before this was even considered to be an acceptable position.

8. Summary

8.1 The CFO has already reported that the County Council is not financially viable in the medium term without significant additional government funding and the current crisis accelerates this position unless some form of government underwriting is confirmed.

8.2 The scenarios in this Appendix underline that point, and in addition highlight that it is possible that even with additional funding the County Council is not be able to adequately bridge the gap as we approach 2022/23 in three out of the four scenarios outlined, and is therefore not financially sustainable.

8.3 At this stage, it is not possible to say whether we will reach the reasonable worst case scenario as set out in this report, but the aim is to report regularly to Cabinet and County Council on the position and if necessary provide information directly to Members where this is considered necessary, given the fast moving pace and changing consequences of the crisis.