HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	24 November 2020 3 December 2020
Title:	Financial Update and Budget Setting and Provisional Cash Limits 2021/22
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Carolyn Williamson – Deputy Chief Executive and Director of Corporate Resources

Tel: 01962 847400 **Email:** Carolyn.Williamson@hants.gov.uk

Section A: Purpose of this Report

1. The purpose of this report is to provide a further update to Cabinet and County Council on the financial position for the County Council in view of the impact of the Covid-19 pandemic. It provides a snapshot of the latest position in respect of the current financial year, as at the end of September, and also for the medium term, compared to that reported to Cabinet and County Council in July as part of the update of the Medium Term Financial Strategy (MTFS).

2. In addition, the report includes an update on business as usual financial monitoring, including the transformation programmes (Transformation to 2019 and to 2021), and sets out the process and framework for the setting of the 2021/22 budget, together with the prospects for the medium term under a business as usual scenario.

3. In light of the announcement of a single year Spending Review the report considers the timing for the next savings programme that needs to be put in place to achieve a further £80m of savings albeit that we have no information beyond 2020/21 at this point.

4. It is also considered necessary to determine some critical requests for one off funding and how these might be accommodated given the current financial constraints.

Section B: Recommendation(s)

It is recommended that Cabinet:

5. Notes the latest Covid-19 financial position for the current year as at the end of September compared to that reported to Cabinet in September, which was as at the end of August.

6. Notes the latest Medium Term forecast arising from Covid-19 as at the end of September and the County Council's response to it.

7. Notes the latest position in respect of the business as usual financial resilience monitoring for the current financial year.

8. Approves the mid-year report on treasury management activity at Appendix 1 and notes the action to be taken should we encounter negative interest rates as set out in paragraphs 83 and 84.

9. Notes the additional government funding of £1bn announced on 12 October of which the County Council will receive £8.8m.

10. Approve the revised baseline position for the Transformation to 2019 and Transformation to 2021 Programmes as outlined in Section G.

11. Approves funding of £3.82m to meet the critical one off health and safety priorities identified in Section I.

12. Approves the provisional cash limits for 2021/22 set out in Appendix 3.

13. Notes the announcement of a one year Spending Review and the impact on the County Council's medium term financial planning and therefore the timeline for the next successor savings programme.

14. Notes that the 2023 savings programme will need to be delivered in full by 1 April 2023.

15. Approves the capital guideline amounts for the next three years set out in paragraph 139.

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

    a) The updated position for the impact of Covid-19 in this year and for the medium term is noted.

    b) The schemes detailed in Appendix 4 are added to the Economy, Transport and Environment Capital Programme

    c) The updated departmental savings targets for a successor savings programme, as set out in paragraph 149, be approved.

d) The updated timetable for a successor savings programme, as set out in paragraph 150, be approved.

RECOMMENDATIONS TO COUNCIL

Council is recommended to:

a) Note the updated position for the impact of Covid-19 in this year and for the medium term.

b) Approve the addition of the schemes detailed in Appendix 4 to the Economy, Transport and Environment Capital Programme.

c) Approve the updated departmental savings targets for a successor savings programme, as set out in paragraph 149.

d) Approve the updated timetable for a successor savings programme, as set out in paragraph 150.

Section C: Executive Summary

17. During the Covid-19 pandemic, regular reports have been provided to Cabinet and County Council on the financial consequences, together with the medium term impacts of Covid-19 in areas such as social care in particular. Members will therefore 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.

18. The Medium Term Financial Strategy (MTFS) Update reported to Cabinet and County Council in July 2020 sought to assess the medium term impact of Covid-19 on the financial sustainability of the County Council. It explained that we were treating the medium term impact of Covid-19 as a one off financial impact that we aimed to address through a financial response package of Council resources and further government support and concluded that further government funding of £52.4m was required to ensure that the Council was financially sustainable in the medium term.

19. The September return to the Ministry for Housing Communities and Local Government (MHCLG) shows a net decrease in response costs and losses, mainly as a result of clarification in the guidance that some savings made during the year should be directly offset against the costs and losses within the return. Increased Tranche 4 grant of £8.8m from the Government, together with additional savings identified across departments means that the overall position returned to the MHCLG has improved by £15.3m compared to the position presented to Cabinet in September.

20. The County Council welcomes the further financial support that has been provided by the Government but it is obvious that the latest distribution methodology is designed to address political pressure points rather than being based on any assessment of real need and even following this allocation of funding we still face a gap of £39.7m in the current year.

21. Whilst the direction of travel appears positive, the MHCLG return focuses primarily on the immediate impact of the Covid-19 pandemic and indications are that longer term, there could be further increases in demand costs within adults' social care, income losses within Communities, Culture and Business Services (CCBS) may not return to normal levels next year and the County Council's transformation programmes have been impacted.

22. Taking these factors into account, the latest medium term 'snapshot' position has now been extended to 2023/24 and despite an improving current year position and additional government grant, the County Council still faces an unfunded gap of £210.7m over the period and the County Council will continue to press the Government to fund the full financial consequences of Covid-19. In the meantime, it is clear therefore based on this position that a minimum level of government support of at least £50m is still required to help balance this deficit once the financial response package has been applied.

23. In conclusion, whilst the financial values will no doubt continue to fluctuate, the over-riding message is that significant additional funding is still required from the Government if the County Council is to continue to be financially viable for the medium term and remain in a strong enough position to address the business as usual pressures it faces.

24. The impact of Covid-19 is being dealt with as a separate one off financial impact as highlighted above and the second half of the report considers business as usual financial monitoring and the prospects for the 2021/22 budget setting process which is progressing with no detailed information available from the Government on what might happen to public sector finances beyond the current year.

25. The report sets the framework for developing the detailed revenue budgets and the Capital Programme that will be presented to Executive Members, Cabinet and County Council during January and February.

26. Targets for 2021/22 based on a reduction of circa 13% in cash limited spend, were approved by the County Council in September 2018 as part of the Looking Ahead - Medium Term Financial Strategy report. Proposals to meet these targets were approved by Executive Members, Cabinet and County Council in October and November 2019 and are being implemented through the Transformation to 2021 (Tt2021) Programme. Given this position, no new savings proposals will be presented as part of the 2021/22 budget setting process.

27. The report includes funding approvals in respect of investment in critical one off areas that have been identified and need to progress despite the current

financial constraints. Consideration of other unavoidable pressures and future investment priorities (over which there is some choice) is delayed until after the Provisional Local Government Finance Settlement is announced.

28. We await details of the single year Provisional Local Government Finance Settlement in early December and this will enable us to assess the deficit that we face for 2021/22 but will not help in considering the medium term financial position. A further consequence of this is the impact on the scope and timing for the next successor savings programme which is also considered in this report.

Section D: Contextual Information

29. During the Covid-19 pandemic, regular reports have been provided to Cabinet and County Council on the financial consequences, together with the medium term impacts of Covid-19 in areas such as social care in particular.

30. The Medium Term Financial Strategy (MTFS) update presented to Cabinet and County Council in July explained that we were treating the medium term impact of Covid-19 as a one off financial impact that we aimed to address through a financial response package of Council resources and further government support.

31. The aim was to place the County Council in the same financial position it would have otherwise been in if Covid-19 had not happened in order to ensure that it still had sufficient fire power in its reserves to address the business as usual deficits of at least £40m per annum predicted after the current Transformation to 2021 (Tt2021) Programme has been implemented.

32. The financial response package used up all flexibility within the resources that we have available and still relied on additional government funding of at least £52.4m in order for us to remain financially sustainable in the medium term, albeit that this position left us very vulnerable to any future financial shocks. An update on this position is provided within this report, but it should be re-iterated that the situation remains very fluid and it is difficult to make accurate predictions on the short and medium term financial consequences of Covid-19.

33. The figures presented in this report aim to achieve a balanced position based on what little information we have for future years at this stage. Prudent assumptions have been made without being overly pessimistic, but it should be noted that the figures do not, by any means, reflect a worst case scenario. Even allowing for this, the current position is that the County Council is not financially sustainable in the medium term.

34. The impact of Covid-19 is being dealt with as a separate one off financial impact as highlighted above and the second half of the report considers the prospects for the 2021/22 budget setting process which is progressing with no detailed information available from the Government on what might happen to public sector finances beyond the current year, made worse by the

announcement of a single year Spending Review for 2021/22, details of which will not be available until 25 November.

35. We await details of the single year provisional Local Government Finance Settlement in early December and this will enable us to assess the deficit that we face for 2021/22 but will not help in considering the medium term financial position. A further consequence of this is the impact on the scope and timing for the next successor savings programme which is also considered in this report.

36. At the current time, the intention is still to treat the medium term Covid-19 financial consequences separate from the business as usual medium term financial strategy, but clearly the validity of this approach will be kept under review.

Section E: MHCLG September Return and Funding Announcement

37. Members will be familiar with the format of reporting for the current year, which in the main is based on actual response costs and losses experienced in the early part of the year, together with forecasts for recovery costs and additional demand costs for the second half of the year. The original intention within this report was to provide Cabinet and County Council with the latest October Ministry of Housing Communities and Local Government (MHCLG) return figures. However, with the announcement of a further one month lockdown starting from 5 November, further work needs to be undertaken to assess the potential impact of this. The Chief Financial Officer has therefore decided to report on the September return figures in this report as these are better understood based on the assumptions made at the time.

38. In line with government reporting formats and to be consistent with information being produced by other County Councils, we will only include future years losses arising from slipped savings programmes in the medium term position, leaving current year reporting to stand on its own. This change is highlighted in the table overleaf by re-stating the August figures and then goes on to provide a summary of the September MHCLG return in comparison:

	August Return £'000	August Re-Stated £'000	September Return £'000	Change £'000
Response and Recovery Costs	85,035	85,035	81,121	(3,914)
Lost Savings – 2020/21 only	9,996	9,996	10,421	425
Business Rate / Council Tax Losses – 2020/21 only	34,600	34,600	34,600	0
Lost Sales Fees and Charges Income	15,862	15,862	14,164	(1,698)
Commercial / Other Income	13,787	13,787	11,129	(2,658)
Total Costs and Losses	**159,280**	**159,280**	**151,435**	**(7,845)**
Add Back:				
Further Years of Lost Savings	27,775			
Market Underwriting Costs	24,955	24,955	26,184	1,229
Gross Losses for 2020/21	**212,010**	**184,235**	**177,619**	**(6,616)**

39. The main reason for the reduction in response and recovery costs is that the guidance has clarified that some savings made during the year should be directly offset against the costs and losses within the return. The same applies to the improved position in sales fees and charges, and in total across the two areas £2.4m of the reduction is due to this change and is also reflected in the funding table below.

40. The improved position for Commercial / Other income losses partly relates to the fact that adult social care clients' contributions of £1.1m have been more than covered by reduced expenditure and so have been taken out for the latest return. In addition, County Supplies have seen a general improvement in warehouse turnover compared to that previously forecast, reducing their anticipated net losses by just over £0.9m.

41. The total gross losses of just over £177.6m have partially been funded through a range of government grants, CCG funding, the Sales Fees and Charges Compensation Scheme and savings that the County Council has been able to make itself as follows:

	August Return £'000	August Re-Stated £'000	September Return £'000	Change £'000
Total Costs and Losses	**212,010**	**184,235**	**177,619**	**(6,616)**
Service Specific Funding (CCG's and Government)	(6,819)	(6,819)	(7,808)	(989)
Covid-19 Grant Allocations	(61,610)	(61,610)	(70,395)	(8,785)
Test and Trace, Infection Control and Emergency Assistance Grants	(24,174)	(24,174)	(24,174)	0
Income Reimbursement	(2,400)	(2,400)	(2,500)	(100)
Forecast Savings	(9,279)	(9,279)	(6,860)	2,419
Market Underwriting (Budgeted)	(24,955)	(24,955)	(26,184)	(1,229)
Total Savings and Funding	**(129,237)**	**(129,237)**	**(137,921)**	**(8,684)**
Net Unfunded Costs and Losses	**82,773**	**54,998**	**39,698**	**(15,300)**

42. The table shows that the re-stated position for the August return is an unfunded loss for the year of nearly £55m compared to September which is £15.3m lower. This is a combination of the reduced costs outlined above and an increase in Government Covid-19 grant following the October announcement. These have been partially offset by the movement of some savings to directly offset costs in line with government guidance.

43. The announcement of a further £1bn of Tranche 4 funding on 12 October is already reflected in the table, but it was felt important to highlight to Members the methodology that has been applied in distributing it. Members will recall that the basis for distributing the £500m Tranche 3 funding was adjusted to include factors (such as deprivation) that favoured the Metropolitan and London authorities, leaving Hampshire with an allocation of £7.6m which was at the lower end of the range that had been predicted.

44. Even under this distribution methodology Hampshire would have expected to receive around £15.2m of the £1bn announced on 12 October, which would have gone some way to help closing the current year gap of £39.7m outlined above.

45. On 22 October, the Government released the allocations of the £1bn stating that it was on the same distribution basis as Tranche 3. However, what soon became apparent was that all of the previous tranches of funding had been re-calculated using the Tranche 3 methodology to give each authority a revised total across all four tranches of funding. The Government have then only paid the difference between that total amount and what had already been received from the other three tranches (albeit with a minimum allocation of £100,000 for all authorities).

46. For Hampshire, the total amount for all four tranches based on the Tranche 3 methodology is £70.4m of which we had already received £61.6m meaning that our Tranche 4 allocation is only £8.8m, only just over half of what we might have expected. In contrast, Manchester, which was featured heavily in the news at around this time received £24.3m in Tranche 4, some 3.4 times more than they received under Tranche 3.

47. It is obvious that this distribution methodology is designed to address political pressure points rather than being based on any assessment of real need. Indeed, the letter from Robert Jenrick on the Tranche 4 allocations states they expect the funding to be used for *"adult social care, children's services, public health services, household waste services, shielding the clinically extremely vulnerable, homelessness and rough sleeping, domestic abuse, managing excess deaths (including costs relating to additional mortuary capacity) and support for re-opening the country."*

48. This list is almost identical to the priorities that were outlined for the very first tranche of funding and yet had Hampshire received the Tranche 4 funding on the same basis as that first allocation, we would have received £18.5m. Whilst the County Council welcomes the financial support that has been provided by the Government, it needs to reflect the real needs that we have and even following this allocation of funding we still face a gap of £39.7m in the current year let alone the worsening medium term impact described in the next section.

Section F: Medium Term Impact of Covid-19

49. Members will recall that in addition to the unfunded costs and losses detailed above, the MTFS update report presented in July made further assessments for departmental pressures (mainly social care costs and increased social worker capacity), the ongoing impact of council tax and business rate losses and other pressures such as investment losses.

50. Combining all of these factors gave a base case for unfunded costs, losses and pressures up to the end of 2022/23 of £210.3m. The County Council will continue to press the Government to address the full financial impact of Covid-19 on local government but has also looked at what potential response package it might be able to put in place as a back-up.

51. A one off financial response package was outlined in the MTFS in July to address the deficit, but the report concluded that further government support of at least £52.4m was required if the County Council was to remain financially sustainable before starting to tackle the future financial challenges that lay ahead.

52. Since that time further work has been undertaken to update the figures in light of the following information and factors:

    - A continued growth in the number of adults' and children's social care referrals which is likely to increase care costs in the medium term.

- The expectation that income levels in some areas may take time to return to normal levels.
- Information from other authorities that suggest that demand costs and council tax and business rate losses could extend at least to 2023/24.

53. Taking these factors into account, the latest medium term ‘snapshot’ position which has now been extended to 2023/24 is set out in the table below:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Net Unfunded Costs and Losses	5,098	11,533	11,533	11,534	39,698
Slipped Tt2019 & Tt2021 Savings		22,714	4,688	596	27,998
Departmental Pressures		42,703	32,498	15,000	90,201
Business Rates & Council Tax		21,000	14,000	7,000	42,000
Other Pressures	1,700	4,200	3,200	1,700	10,800
Total Gap	**6,798**	**102,150**	**65,919**	**35,830**	**210,697**

54. For the departmental pressures shown for future years, the assumption is that Covid-19 will create a peak of demand next year and will then start to return to normal growth levels. Similarly, for business rates and council tax, the losses are expected to reduce over time as normal annual growth erodes the losses, but it should be pointed out that in previous years this normal annual growth was used to meet new pressures or initiatives and to help balance the budget.

55. The table shows, that despite an improving current year position and additional government grants of £18.9m since the July figures, the County Council still faces an unfunded gap of £210.7m over the period. It is clear therefore based on this position that a similar level of government support of at least £50m is still required to help balance this deficit once the financial response package has been applied.

56. In addition, the Government have previously announced that they intend to share in council tax and business rate losses, although as yet we do not know at what level and for how many years this might apply.

57. In conclusion, whilst the financial values will no doubt continue to fluctuate, the over-riding message is that significant additional funding is still required from the Government if the County Council is to continue to be financially viable for the medium term and remain in a strong enough position to address the business as usual pressures that are outlined later in this report.

Section G: Transformation to 2019 and 2021

58. The analysis contained in the above sections includes the impact of a delay in the delivery of the outstanding elements of the Transformation to 2019 (Tt2019) Programme and the Tt2021 Programme due to come into effect in April 2021.

59. The original assumption that departments were asked to work to was a six month delay in the delivery of the Programmes, albeit it was expected that it may take longer to capture lost momentum across the more complex areas of adults' and children's social care.

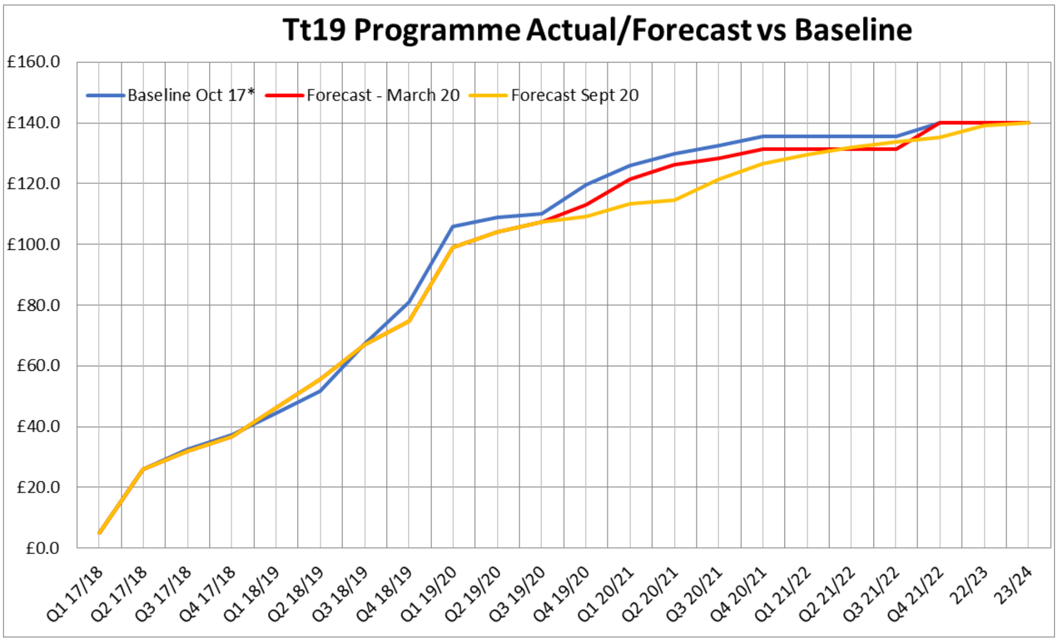
60. Following the initial Covid-19 response period, departments have been requested to re-commence delivery of their savings programmes wherever possible, but again recognising that the social care services were dealing with recovery activity and increased demand as a result of the pandemic which may further impact their ability to fully re-commence the delivery of savings. More recent escalation of the virus and the further national lockdown will also continue to have an impact.

61. Reporting activity across the Programmes was suspended during this 'pause' but given the intention to provide a major financial update in this report in the lead into budget setting, it was agreed that departments should undertake detailed work to re-baseline their Tt2019 and Tt2021 Programmes. This will facilitate a resumption of monitoring and reporting as part of the overall financial reporting process.

62. The re-baselining involved planning what the revised delivery milestones will be within the individual savings areas and assessing what the cash flow impact will be based on those revised plans. The following paragraphs provide an overview of the re-baselined programmes for the Tt2019 and Tt2021 Programmes.

Transformation to 2019 Programme

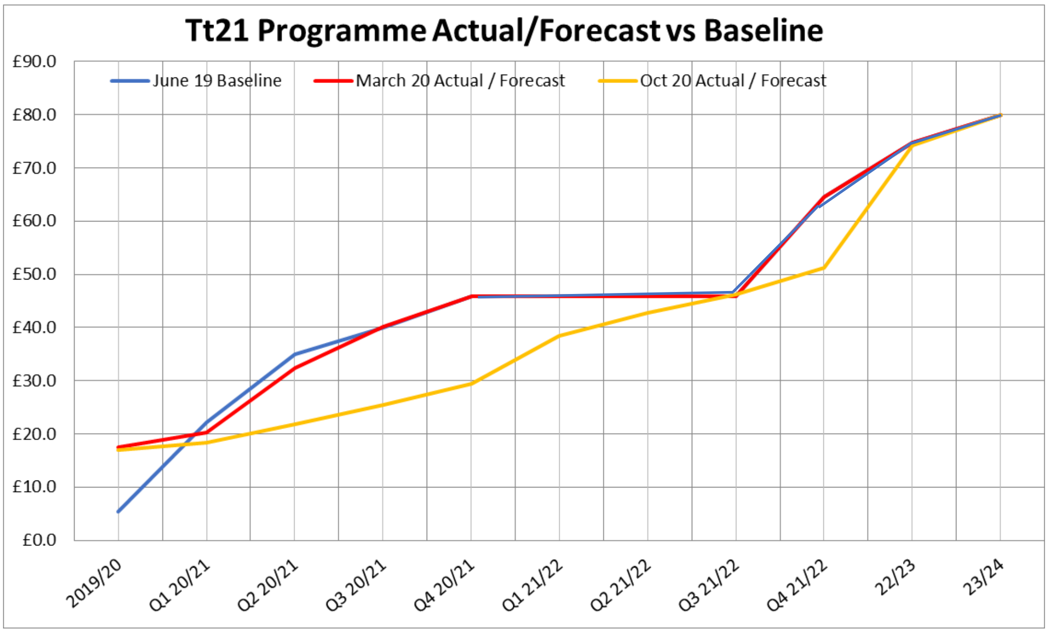
63. The graph overleaf shows the overall Programme delivery profile against the original and March 2020 forecast:



64. The graph shows that there is a dip in delivery during 2020/21, as would be expected, but that the Programme then remains broadly on track as we move into 2021/22. However, whereas the programme was due to be completed by the end of 2021/22 there is now a small tail that extends into later years, with around £4.0m due to be achieved in 2022/23 and £0.8m falling into the first part of 2023/24. The majority of this relates to Children's Services Transforming Social Care Programme.

Transformation to 2021 Programme

65. Similarly, the graph below shows the revised delivery profile for the Tt2021 Programme.



66. Whilst it is less obvious from the graph, the detailed numbers show a summary position that effectively shifts around £13m of the whole programme to the right, with much more now expected to be completed in 2022/23. In that year, expected delivery of savings was originally forecast to be £10.1m which has now increased to £23m. The tail of the Programme due to be delivered in 2023/24 has increased marginally from £5.3m to £5.7m.

67. Cabinet is recommended to approve the new baselines and subject to this future reporting will be against the revised baselines. The above figures deal with expected delivery timelines, but they will also have an impact on the cash flow support that is required.

68. In cash flow support terms, the previous figures for the delay caused by Covid-19 have also been updated based on the re-baselining work and the impact is set out below:

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Tt2019 Increased Slippage	6,160	5,118	789		12,067
Tt2021 Lost Early Delivery	4,261				4,261
Tt2021 Increased Slippage		17,596	3,899	596	22,091
Increase Required	**10,421**	**22,714**	**4,688**	**596**	**38,419**

69. The table shows that increased cash flow support of £38.4m is required which compares to almost £37.8m included as part of the MTFS update reported in July. The increase already forms part of the £210.7m highlighted in Section F, which requires additional government support on top of the County Council's own response package in order to balance the overall position.

Section H: 2020/21 Business as Usual Financial Monitoring

70. The financial landscape in the year is obviously complicated by Covid-19 however, excluding this as the impact will be managed through a separate financial response package, complexity remains due to a range of one off impacts arising from transformation activity, previously planned late delivery of savings, use of cost of change and corporate cash flow support.

71. The business as usual (i.e. excluding Covid-19) forecast position for 2020/21 as at the end of September (Month 6) indicates that with the exception of Children's Services all departments will be able to manage the large scale investment required to deliver their planned transformation activity and meet service pressures through the use of cost of change (and other) reserves along with currently agreed corporate funding.

72. For Children's Services revised funding for a range of pressures has been provided for, but it is currently predicted that even with this funding the

Department will be over spent by approaching £1.4m at the end of the year. Pressures are notably in the areas of Home to School Transport and agency staff costs. Additional funding for Children's Services has been approved previously to ensure the Department could operate from a firmer financial base. However, some financial pressures remain to be addressed and their Cost of Change Reserve is exhausted.

73. However, it is worth reiterating that at this point in the year the forecasts themselves tend to concentrate on the more significant negative items without considering in depth other areas of potential under spend that could be used to offset them. Monitoring in the first half of the year therefore tends to the side of prudence and it is anticipated that this position may improve through a combination of continued positive management action in the pressure areas and under spends elsewhere in Children's Services, albeit this too may be impacted by Covid-19.

74. The financial position will continue to be reviewed throughout the remainder of the year and continuing focus at the ongoing monthly meetings between the Deputy Chief Executive and Director of Corporate Resources and the Director Children's Services will be on the robustness of future plans and any potential requirement for additional corporate funding.

75. As the year progresses possible options to address any remaining pressure will be considered and may, if necessary, be advanced as part of the ongoing development of the budget, recognising the uncertainty surrounding the financial position facing the County Council and the challenge presented by the Covid-19 pandemic.

76. The financial pressures facing schools have been highlighted for some time, driven in part by an increasing requirement for pupils with Special Educational Needs (SEN), which exceeds the available funding and is mirrored nationally (as is the consequent pressure on Home to School Transport). SEN pressures have mainly arisen due to significant increases in the number of pupils with additional needs and as a result of the extension of support to young people with high needs up to the age of 25. There are also increases in the amount of funding required due to increasing complexity of need resulting in a pressure on the top-up budgets for mainstream schools, resourced provisions and Post 16 colleges. There is also significant pressure due to more pupils requiring placements in independent and non-maintained schools.

77. In 2020/21 the current forecast is for a further over spend of more than £13.6m which will bring the cumulative deficit to approaching £36.4m. Whilst this sum sits as 'negative reserve' on the County Council's balance sheet it in effect represents an overdraft for schools which they (and the Government) need to address over the longer term.

78. Following extensive lobbying of the Minister for Education and local MPs additional funding for schools has been made available but while this will help to address the future growth in this area, the demand continues to accelerate

meaning future pressures are likely and it does not provide a solution to the cumulative deficit position the Schools Budget will face at the end of 2020/21.

79. As we move further through the financial year, we will have a clearer picture of the likely business as usual outturn position for 2020/21 across all areas and each year we prepare a revised budget that is presented to Cabinet in January which reflects the latest monitoring information available. Corporately a detailed review of non-departmental budgets (including contingencies) and reserves has been undertaken as part of developing the Covid-19 response package, but this will be revisited and considered in the 2020/21 revised budget position.

80. Given the current financial constraints and the limited ability to fund new or ongoing programmes a review of existing and planned spend both within revenue budgets and specific programmes will also be undertaken to see where spend could be halted or paused to buy some capacity and time while we wait for the financial position to stabilise.

Treasury Management Mid-Year Report

81. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management recommends that treasury management activity should be reported on at least twice a year against the strategy that has been approved.

82. Attached at Appendix 1 is the mid-year monitoring report for 2020/21 that sets out the borrowing and investment activity that has been undertaken to date and how this compares to the prudential indicators that were set for the year. Cabinet is asked to approve the report.

83. Of particular interest is the fact that we are moving into the territory of negative interest rates. The County Council's Treasury Management Strategy Statement for 2020/21 was written prior to the start of the pandemic and therefore prior to the fall in interest rates. However, it did identify that in the situation where negative interest rates arose, the security of the County Council's investments would be measured as receiving the contractually agreed amount at maturity, even when this was less than the amount originally invested.

84. The County Councill will continue to manage its investment balances proactively to avoid accepting negative interest rates wherever possible, however suitable governance is also in place to ensure that the County Council is able to access appropriate areas of the market paying negative rates should the need arise, including being able to access the Treasury's Debt Management Account Deposit Facility. Access to this facility is an important part of the County Council's approach to managing its investment balances as the counterparty is the UK government and therefore provides a significant level of security in times of market distress.

Section I: Revenue Investment Critical Priorities

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

86. This scope has clearly been further reduced by the impact of the Covid-19 pandemic on the County Council's financial position but in line with these specific priorities two health and safety related items have been identified as critical and the following investment is proposed.

Adult Social Care Health & Safety

87. Prior to Covid-19, work was being progressed on a strategic business case for the bed based programme in Adults' Health and Care looking at investment in, and expansion of, our in-house residential care and nursing homes. This was to be reported alongside other identified priorities for capital investment, but this work is now on hold given the current financial constraints and uncertainty regarding the future operating model.

88. As part of this work, a range of health and safety measures were identified through inspections that still need to be carried out irrespective of the wider programme. A summary report of the key items and associated costs is contained at Appendix 2 and a total of £2.9m has been requested over the next two years.

89. Given the importance of health and safety in these care settings an increased annual amount is also flagged in the future investment section detailed below, but this will all be subject to the Local Government Finance Settlement due in December this year.

Ash Dieback

90. Members will be aware that nationally there is a growing problem with the dieback of ash trees and in February County Council approved additional resources to fund a dedicated co-ordination and inspection team together with a commissioning budget to employ specialist arboriculturists to remove trees deemed to be higher risk.

91. At that stage it was difficult to quantify the scale of the problem and the potential costs of rectifying any safety issues discovered. The aim was to bring back a further and more detailed report based on the information and experience gained from the first year of operation to feed into further requests

for funding in future years once a greater understanding of the risks and mitigating activity had been compiled.

92. Work to date has been impacted by Covid-19 in the early part of the year and around £320,000 of the 2020/21 allocation is expected to be available. Based on the limited detailed information that has been collected to date an additional £1.24m is requested to continue the programme into the next financial year, which means that additional funding of £920,000 needs to be approved.

93. The two health and safety items above total just over £3.8m. Whilst in a normal year it would be possible to meet this funding requirement through savings in current year contingencies, all available funding from that source has already been allocated to the Covid-19 response package reported in July.

94. A further review has therefore been undertaken to identify what potential resources may be available to meet this expenditure. In particular we have considered the mid-year position relating to treasury management activity, included at Appendix 1. Following the sale of Transport for London bonds a profit of £2.9m has been realised and credited to the revenue account. In addition, the County Council's usual policy of borrowing internally rather than taking out borrowing and incurring a 'cost of carry' means that a further £0.9m can also be released.

95. It is therefore proposed that these separate treasury management savings are used to fund the £3.8m of critical health and safety items outlined above.

Section J: Future Unavoidable Investment Pressures and Investment Priorities

96. The Section above dealt with critical health and safety priorities that are considered to be essential to be dealt with at this point in time. As part of the ongoing financial resilience monitoring and meetings with Directors there are a range of other items that may impact the budget in 2021/22 and possibly future years. Some of these items reflect unavoidable pressures in the current year or are issues that we know will be coming forward in due course, whereas for others there is an element of choice.

97. It has been highlighted in previous reports that there has never been more uncertainty within national and public sector finances than there is at this point in time. In particular:

    - The current and ongoing impact of Covid-19 and how this might be funded is unclear.
    - The impact of Covid-19 on council tax and business rate income cannot be properly assessed for the current and future years. The current forecasts have been calculated at a very high level due to a lack of definitive data from the districts. The districts are gaining more clarity around this data and a much clearer picture will be available early next year.

- We are undoubtedly heading into a period of recession with government borrowing at levels beyond those following the 2008 crash.
- We have no financial settlement figures beyond the current financial year.
- The Fair Funding Review and Business Rate Retention have been delayed for some considerable time.

98. With this in mind, it is recommended that consideration of the unavoidable pressures and the future investment priorities (over which there is some choice) is delayed until after the Provisional Local Government Finance Settlement is announced, and are included in the budget setting report due to be presented to Cabinet and County Council in February next year.

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

Unavoidable Pressures

100. **IT Pressures** – As in previous years it is necessary to increase the forward budget for the IT service to take account of several factors associated with the IT infrastructure and the provision of equipment. A total of up to £2.1m per annum is required to meet amongst other things, the future refresh of the new equipment provided to staff and Councillors to facilitate homeworking during Covid-19, increased resilience against cyber-attacks, renewals of vital software at an increased cost above inflation and growth in IT capacity in areas such as disk space and wireless networks.

101. **Home to School Transport** – We continue to see pressure within Home to School Transport, most notably due to continued growth in SEN. The position is further complicated this term from the Covid-19 arrangements and further work will be undertaken on robust modelling on this autumn's data to understand the likely pressure we might face going forward.

102. **Hampshire and Isle of Wight Educational Psychologists (HIEP)** – There has been a sustained increase in the level of Education Health and Care Plans (EHCPs) to be completed. Additional investment has enabled the backlog that began to develop to be addressed but this has required the provision of an increased volume of statutory advice from HIEP. To deliver this in the short term resource has been redirected away from other traded work but a process review will be undertaken to consider the efficiency and sustainability of the current operating model and consider future resourcing and the resulting funding implications.

103. **Children's Social Workers Agency Costs** – Although Children's Services have been successful in recruiting new staff through their Graduate Entry Training Scheme, there has still been a reliance on agency social workers to provide the additional capacity needed for the Transforming Social Care Programme and to deal with ongoing turnover across the service in the face of increasing demand. Further options are being considered to reduce the

reliance on agency social workers that will be considered as part of the budget setting process.

104. **Coroner's Service** – There continues to be pressure within the Coroner's Service in the current year, partly driven by the impact of Covid-19, on the number of cases and delays in progressing inquests during the first lockdown. However longer term there are further pressures associated with an increase in activity generally, the change in cost apportionment reported previously and changes to the structure of the service across the wider coronial area.

105. **Corporate Estate Repairs and Maintenance** – There is always pressure on repairs and maintenance budgets in terms of the amount of work that needs doing compare to the resources that are available. Over the last five or six years additional annual funding has been provided to Property Services to undertake a programme of planned maintenance in order to improve the corporate estate and to try to reduce the level of reactive repairs that are required. The last tranche of this funding is now fully committed and a further bid for resources was submitted as part of the development of capital investment priorities which is now on hold due to Covid-19 as explained above.

106. As outlined above, a separate piece of work has been carried out on adult services' properties, but further inspection work and assessments have also been completed for the rest of the corporate estate. This has identified that there is a funding gap of £1.13m for the very highest priority critical works that need to be carried out in 2021/22 along with a longer term funding gap for other essential works in later years. Culture, Communities and Business Services (CCBS) have been looking at their current year monitoring and on the assumption that Covid-19 costs and losses are met from government grant they predict that they will have sufficient savings available to meet the costs in 2021/22.

107. Looking ahead, the changes to the funding of repairs and maintenance across the adult services' estate will hopefully free up some existing annual funding but it is still likely that additional resources will be required to meet essential liabilities in future years and if possible further allocations for planned repairs to continue the previous programme would help to maintain assets to the appropriate standards.

Future Investment Priorities

108. **Health and Safety in Residential Care and Nursing Homes** – As outlined above there is a programme of works that have been identified as being critical to carry out at this stage, separate to any wider investment that might be considered in the longer term.

109. At the moment, planned and reactive maintenance on residential care and nursing homes forms part of the overall corporate budget for repairs and maintenance and must be prioritised against the needs for other operational assets.

110. Given the importance of health and safety in these settings it is proposed that in line with other annual allocations, detailed inspections are undertaken each year to identify the necessary works and these will be considered as part of the normal budget setting process.

111. **Managing Placements Programme** – Children's Services are currently in the process of developing a business case in consultation with the Deputy Chief Executive and Director of Corporate Resources for various initiatives that will improve the way placements are managed and make changes to foster care arrangements that will improve the foster carers' experience and the support they are given and will help to reduce costs on an invest to save basis in the longer term. Further work is still being undertaken on the business case, but the intention would be to bring it forward for consideration as part of the budget setting process.

112. **Strategic Land Programme** – An annual amount is usually provided to continue activity on this Programme. However, following the signing of the Manydown contract with the developer, Urban and Civic a reimbursement of previous procurement costs was provided to the County Council and it is anticipated that this will be sufficient to cover costs for next year. In any event given the current economic climate it may be necessary to scale back work in this area to fit with an affordable financial envelope going forward.

113. **Operation Resilience** – In the current financial year an additional £3m was provided to this programme on a one-off basis to increase planned works and provide extra flexibility to transfer funding to the reactive maintenance programme in the face of rising demand. A commitment was given to look at adding this funding on a longer term basis, but clearly this will be dependent on the overall financial position in February.

114. **Major Schemes Development** – A recent feature of capital investment priorities has been to provide feasibility funding for highways schemes in particular so that detailed planning and design can be carried out for priority schemes that are then 'oven ready' to be submitted should there be a call for bids by the Government or Local Enterprise Partnerships (LEPs).

115. This methodology has proved very successful in the past at attracting major investment into the county and protects the Council's own capital resources. Funding of around £169m has been secured since 2018/19, highlighting the excellent return on investment that is created. In the past a sum of around £1.5m has been approved on an annual basis, although any activity would clearly need to be contained within whatever figure might be able to be provided.

116. As mentioned above the aim would be to consider all of these items as part of the budget setting process in February when hopefully much more is known about our forward financial prospects and what further support the Government may provide in respect of Covid-19 and council tax, and business rates in particular. It should be noted however that the further uncertainty created by a single year Spending Review and the financial constraints created by Covid-19

mean that it will be far more difficult to absorb these sorts of extra costs into the budget, which the County Council has been very successful in doing in the past.

Section K – Spending Review

117. Members will be aware that following previous delays in the Comprehensive Spending Review (CSR) it was hoped that a three year CSR would be announced in November this year. Following increasing rates of Covid-19 throughout October and the uncertainty over the long term economic impacts of Covid-19 the Chancellor announced that only a single year Spending Review would be put in place.

118. This is expected to be announced on 25 November and therefore no details are available at the time of writing of this report. This is clearly very disappointing news as it creates further uncertainty on what financial prospects the County Council might face at what is already the most uncertain time since the end of the Second World War.

119. Given this position, the County Council has no choice other than to concentrate on setting a balanced budget for 2021/22 and considering financial assumptions for future years to inform our financial planning for the medium term.

Section L: Medium Term Financial Position

120. At the time of writing this report we have no further information available to us compared to that previously reported to Cabinet and County Council.

121. Once the Provisional Local Government Finance Settlement is released in December, we will be able to compare this to the assumptions that have been made to determine whether we are better or worse off against the original forecasts that underpinned the scale of the Tt2021 Programme. In previous years we have taken these differences into account in setting the next round of savings targets, but this may not be possible due to the financial constraints as a result of Covid-19.

122. Beyond 2021/22 we have consistently said that we face an annual gap of at least £40m a year as a result of inflation and demand growth after a 3.99% council tax increase. In the absence of a multi-year settlement it is difficult to make any changes to these forecasts at this stage, but hopefully the December settlement will provide some insight as to the Government’s approach for dealing with the social care pressures that we face.

123. At this stage therefore the assumed £80m gap for a new 2023 Savings Programme remains the best estimate we have accepting the considerable uncertainty in national and international economics at this point in time.

Section M: 2021/22 Budget Setting

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

125. In line with this strategy, the Tt2021 Programme has been in place for some time to develop the £80m of savings required to balance the budget for 2021/22. Detailed savings proposals for each department were approved by the County Council in November 2019, in order to allow more time for delivery of the savings; including the requirement to undertake a second stage of service specific consultations where necessary.

126. Since the transformation programme is already in place to deliver approved departmental savings, there are no new savings proposals to be considered as part of the 2020/21 budget setting process and as explained above the impact of Covid-19 is being dealt with as a separate issue. However, it is still necessary for the County Council to go through the normal 'technical' process of setting provisional cash limits for departments, asking them to prepare detailed budgets within those cash limits and then securing approval through Executive Members, Cabinet and finally County Council.

127. The next section of this report sets out the details of provisional cash limits for departments for 2021/22, which take into account any base budget changes and the impact of inflation.

128. The MTFS approved by the County Council in November 2019 including the working assumption that council tax will increase by the maximum permissible without a referendum in line with government policy. This will mean a council tax increase of 3.99%, of which 2% will contribute towards the increased costs of adults' social care, in line with the government's amended approach which is built into their settlement calculations.

129. In addition, the financial strategy assumes a significant draw from the BBR in 2020/21 to provide for the one off corporate funding needed to cash flow the Tt2021 Programme, recognising the scale of the transformation and the lead in times for achieving the savings themselves.

130. Council tax base and collection rates will have a key impact on the overall position and at this stage the assumption is that there will be an overall 5% reduction in income in the current year and a 3% council tax base reduction next year, which reduces by 1% each further year due to normal annual growth.

131. Latest information from district councils on collection fund deficits and estimates of retained business rates are not available at the time of writing this

report and will therefore be taken into account in setting the final budget in February. This is particularly difficult this year since billing authorities will not be able to accurately predict collection fund deficits or the ongoing impact on the council tax base due to Covid-19, so we will be working closely with them to try to get a consistent approach as far as possible.

132. Final details of the local government settlement for next year are also a key component to budget setting and it is hoped that this will be available from early December.

Section N: Provisional Cash Limits 2021/22

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

134. Inflation allowances are given each year for pay and price increases and the provisional cash limits detailed in this report include allowances for price inflation. At this stage they do not include an allowance for the 2021/22 pay award as negotiations have not yet been formally commenced and the outcome is uncertain. An amount will be retained centrally in contingencies until any awards are agreed.

135. The calculation of the provisional cash limits is shown in detail in Appendix 3. The figure for Schools will be updated once the provisional settlement is known, but for now, the 2020/21 position has been updated taking into account forecast changes, such as increases in respect of the pupil premium and other grant related changes.

136. Funding previously approved to meet growth in demand driven services, notably adults' and children's social, has also been allocated and is reflected in the provisional cash limits, with the exception of a sum of up to £1.0m for external legal costs associated with the increase in the number of Children Looked After, which has been retained in contingencies and will be allocated in year once further analysis has been completed.

137. Chief Officers, with Executive Members will be developing their detailed budgets within these provisional guidelines, subject to their approval, so that the Leader and Cabinet can make the final budget recommendations for 2021/22 at the meeting in February 2021.

Section O: Capital Investment

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

139. The timeframe for capital planning moves on each year and for the 2021/22 budget process, the programme will be extended into 2023/24. The table below shows the provisional capital guidelines that are being allocated to each department:

	2021/22	**2022/23**	**2023/24**
	£'000	**£'000**	**£'000**
Adults' Health & Care	481	481	481
Children's Services	100	100	100
CCBS	4,559	4,559	4,559
ETE	11,929	11,929	11,929
Total	**17,069**	**17,069**	**17,069**

140. The capital guideline for Economy, Transport and Environment (ETE) reflects the recurring funding of £10.0m per annum for Operation Resilience that has been maintained through an ongoing revenue contribution to capital to ensure the continuation of Operation Resilience which was due to end in 2020/21. It should be noted that this is not additional funding, rather it ensures the continuation of the £10.0m that has been part of the programme for many years and provides a sustainable funding source going forward.

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

142. The figures in the table above represent the 'locally resourced' allocations to the Capital Programme, which supplement other capital resources that fund the overall programme, such as developers' contributions, capital receipts, Government grant and borrowing. The total programme approved last February is shown in the following table and this will be updated as part of the budget setting process for 2021/22:

	Revised 2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Adult Social Care & Health	25,980	13,042	481	481	39,984
Children's Services	98,807	42,433	37,829	62,248	241,317
CCBS	74,002	24,917	21,585	21,585	142,089
ETE	148,178	68,416	50,625	42,889	310,108
Total	**346,967**	**148,808**	**110,520**	**127,203**	**733,498**
			386,531		

143. New capital schemes over a certain value must be added to the Programme by Cabinet or the County Council. Members may be aware that we have been working closely with Southampton and Portsmouth City Councils on their Transforming Cities Fund (TCF) bids, the results of which were announced earlier in the year.

144. Overall, Southampton received £57m and Portsmouth's allocation was eventually confirmed at just under £56m. Within these amounts were bids relating to highway improvements on the County Council's network that play a major part in the transport infrastructure for the two cities. TCF funding of £34.7m will be transferred to the County Council as part of a package of schemes totalling £37.9m.

145. A full list of schemes (including a separate scheme for Aldershot Station) together with their funding sources are included within Appendix 4 and County Council is requested to approve the addition of the schemes to the ETE Capital Programme.

Section P: Next Steps / Strategy Beyond Transformation to 2021

146. For a number of years it has been reported to Cabinet and County Council through updates of the MTFS that the County Council will not be sustainable in the medium to long term unless there is a sustainable solution to the increasing demand and complexity of adult social care services and new funding to meet the real annual growth in children's social care costs.

147. These points have been consistently made to government and formed a significant part of the submission that Hampshire made to the latest Spending Review. Other factors that have been raised consistently relate to the need for greater flexibilities in charging for some services and within schools funding the need to address the ongoing increases in SEN and a one off solution to the deficits that have accumulated in this area.

148. Following the announcement of a further single year Spending Review, this places the County Council in a very difficult position in terms of future financial planning. Whilst in December, we would expect to receive detailed settlement figures for next year, given the lack of any certainty after this period, the County Council has no choice but to assume that savings required to meet a two year gap of at least £80m will be required by April 2023 as we cannot take the risk of delaying the programme until 2024. Furthermore, the financial constraints created by Covid-19 mean that there will no funding available to cash flow a savings programme beyond April 2023.

149. County Council in July 2020 approved the initial allocation of savings for departments for a 2023 Savings Programme and these have now been updated to reflect the provisional cash limits set out in Appendix 3 as follows:

	£'000
Adults' Health and Care	40,536
Children's Services – Non Schools	21,325
Corporate Services	4,639
CCBS	3,239
ETE	10,261
Total	**80,000**

150. The report in July also set out a timeline to achieve an April 2023 Programme, accepting that a final decision was originally not going to be made until February 2021 as part of the budget setting process. With the news of the single year Spending Review it is clear that we need to start this planning now to give departments more time to complete the initial high level opportunity assessment by May, leading into the rest of the timetable as follows:

Item	**1 April 2023 Implementation**
High level opportunity assessment carried out by Departments	November 2020 – May 2021
Public consultation on proposals	June – July 2021
Final savings programme approved by Executive Members, Cabinet and County Council	September – November 2021

151. The County Council's financial strategy is to fund the deficit for the interim year (2022/23) from the BBR. Given the carefully considered approach that has

been taken to managing the Covid-19 pandemic as a one off financial impact, with the aim of placing the County Council in the same position it would have otherwise been in if Covid-19 had not happened, this strategy can be maintained

152. The business as usual deficit in 2022/23, forecast to be £40.2m, has been provided for and will be drawn from the BBR. However, given the current medium term deficit shown for Covid-19 and the resulting financial response package which uses up all flexibility within the resources that we have available and still requires significant additional government funding, it is critical that the savings programme developed must be delivered by 1 April 2023 and Cabinet is requested to note this point.

153. Given the level of savings already achieved and the shortened timescales for delivery, we expect the savings to be less around transformation of services and more about what services may be reduced or stopped. In social care services, there will inevitably be some reliance on the assumption of additional government funding, but this is high risk given the financial constraints on the Government created by the Covid-19 pandemic. The 2021/22 settlement may give us some insight as to potential additional resources in this area going forward.

154. What is clear is that the financial prospects for the County Council are as difficult today as they have ever been, but the past prudent and well planned financial management has placed it in a strong position to face these challenges going forward.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

Links to previous Member decisions:	
Title	Date
Medium Term Financial Strategy Update and Transformation to 2021 Savings Proposals http://democracy.hants.gov.uk/ieIssueDetails.aspx?IId=22267&PlanId=0&Opt=3#AI22852	Cabinet – 15 October 2019 County Council – 7 November 2019
Medium Term Financial Strategy Update https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&MId=6499&Ver=4	Cabinet – 14 July 2020 County Council – 16 July 2020
Financial Update https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&MId=6500&Ver=4	Cabinet – 29 September 2020
Direct links to specific legislation or Government Directives	
Title	Date

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

Treasury Management Mid-Year Monitoring Report 2020/21

1. Summary

1.1 The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code),and provides an update on the performance of the treasury management function during 2020/21.

1.2 The County Council's Treasury Management Strategy (TMS) was most recently updated and approved at a meeting of Full Council in February 2020. The County Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the County Council's TMS.

1.3 Treasury management in the context of this report is defined as

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 Overall responsibility for treasury management remains with the County Council. No treasury management activity is without risk and the effective identification and management of risk are integral to the County Council's treasury management objectives.

1.5 All treasury activity has complied with the County Council's TMS and Investment Strategy for 2020/21, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the County Council's treasury advisers, Arlingclose.

1.6 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council on 13 February 2020.

2. External Context

2.1 The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2020/21.

2.2 Economic commentary

2.3 Coronavirus dominated the news during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus whilst also supporting their economies. A national lockdown in the UK was followed by the gradual easing of restrictions and the introduction of various support packages, including the job retention scheme and the Eat Out to Help Out (EOHO) offer.

2.4 The Bank of England's Monetary Policy Committee (MPC) maintained the Bank Rate at 0.1% throughout the period and increased its Quantitative Easing programme to £745 billion. It has also not ruled out the use of negative interest rates in future, which has had an impact on interest rates available in the money markets.

2.5 Gross Domestic Product (GDP) contracted by 19.8% in the second quarter according to the Office for National Statistics (ONS), pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering although output is still significantly below pre-coronavirus levels. A potential second wave of the virus and the impending end of the transition period for the UK's exit from the EU may have a further impact on GDP and the economy over the remainder of the year.

2.6 The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, significantly below the Bank of England's 2% target. Inflation was slightly higher at 0.5% year on year using the CPIH measure, which is preferred by the ONS and includes owner-occupied housing.

2.7 In the three months to July, the unemployment rate increased from 3.9% to 4.1% while wages fell in both real and nominal terms. The unemployment rate may pick up sharply in the coming months as the furlough scheme ends and the Bank of England has forecast unemployment could hit a peak of between 8% and 9%.

Financial markets

2.8 After selling off sharply in March 2020, world equity markets started recovering in April and have continued to regain value during quarter two and three. Not all sectors and geographies have rebounded to the same extent and the recovery has largely been driven by a small number of US technology stocks, while in the UK the FTSE 100 and 250 have only made up around half of their pre-crisis losses. Central bank and government stimulus packages continue to support asset prices, but volatility and uncertainty remain.

2.9 Ultra-low interest rates and the flight to quality continued during the period, with the yield on some shorted-dated UK government bonds turning negative and yields on longer-dated bonds remaining low.

Credit review

2.10 After rising sharply in late March, credit default swap spreads slowly eased over quarter two and three to slightly above their pre-crisis levels suggesting a relatively high level of confidence in UK banks. That being said, Fitch downgraded the UK sovereign credit rating to AA- in March, which was followed by revising the outlook for all UK banks approved for use by the County Council by Arlingclose either to negative or rating watch negative, although the long term rating for HSBC was increased. Fitch and S&P also downgraded the long-term rating for Transport for London.

2.11 The extent of the losses that banks and building societies will suffer as a result of the coronavirus pandemic remains uncertain but is expected to be substantial. Arlingclose have therefore conducted a stress testing exercise and consequently a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits in June 2020. Arlingclose also continue to recommend a maximum duration of 35 days for investments with the remaining counterparties. Although far better capitalised than during the Great Financial Crisis there remains significant uncertainty about the impact of the pandemic and with the added unknown of what the final Brexit trade deal may look like. Arlingclose are therefore recommending a prudent approach and the institutions on Arlingclose's counterparty list remain under constant review.

3. Local Context

3.1 On 31 March 2020, the County Council had net investments of £544m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below:

Table 1: Balance Sheet Summary

	31/03/2020 Balance £M
CFR	783.48
Less: Other Debt Liabilities*	(149.43)
Borrowing CFR	**634.05**
External Borrowing	(307.24)
Internal Borrowing	**326.81**
Less: Usable Reserves	(643.14)
Less: Working Capital	(227.28)
Net Investments	**(543.61)**

* PFI liabilities that form part of the County Council's total debt

3.2 The County Council's current strategy is to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, to reduce risk and keep interest costs low. The treasury management position as at 30 September 2020 and the movement since 31 March 2020 are shown in Table 2:

Table 2: Treasury Management Summary

	31/03/2020 Balance £M	Movement £M	30/09/2020 Balance £M	30/09/2020 Rate %
Long-term Borrowing	(261.2)	5.9	(255.3)	4.7
Short-term Borrowing	(10.0)	(4.7)	(14.7)	3.7
Total Borrowing	**(271.2)**	**1.2**	**(270.0)**	**4.6**
Long-term Investments	274.3	(22.2)	252.1	3.5
Short-term Investments	105.5	32.0	137.5	0.6
Cash and Cash Equivalents	201.7	(142.1)	59.6	0.1
Total Investments	**581.5**	**(132.3)**	**449.2**	**2.2**
Net Investments	**310.3**	**(131.1)**	**179.2**	

Note: the figures in the Table 2 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments

3.3 The reduction in net investments of £131.1m shown in Table 2 reflects reductions in both total borrowing and total investments. The reduction in total borrowing of £1.2m reflects the repayment of debt in line with scheduled timescales. The reduction of £132.3m of investments reflects the early payment of employer's pension contributions of £235m in order to achieve significant savings in the cost of these contributions over a three-year period, offset by an increase in investment balances reflecting the higher balances typically seen at this time of year, due to the difference in timing between income and expenditure.

4. Borrowing Activity

4.1 As shown in Table 2, at 30 September 2020 the County Council held £270.0m of loans as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2020 are shown in Table 3.

Table 3: Borrowing Position

	31/03/20 Balance £M	Net Movement £M	30/09/20 Balance £M	30/09/20 Weighted Av. Rate %	30/09/20 WAM (Years)
Public Works Loan Board	(226.5)	1.0	(225.5)	4.7	10.7
Banks (LOBO)	(20.0)	0.0	(20.0)	4.8	12.8
Other (Fixed Term)	(24.7)	(0.2)	(24.5)	3.6	16.7
Total Borrowing	**(271.2)**	**1.2**	**(270.0)**	**4.6**	**11.4**

(* Weighted Average Maturity)

Note: the figures in Table 3 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts but adjusted to exclude borrowing taken out on behalf of others, and accrued interest.

4.2 The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with the flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.

4.3 Short-term interest rates have remained much lower than long-term rates and the County Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

4.4 With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs may be higher.

4.5 During the period April to September 2020 the County Council repaid £1m of maturing PWLB debt and made £0.25m of scheduled repayments of loans entered into for energy efficiency projects. The County Council did not replace any of this borrowing. This strategy enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.6 The County Council continues to hold £20.0m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. None of the LOBO loan options were exercised by the lender during the period.

5. Treasury Investment Activity

5.1 The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. The County Council's investment balance was £449.2m at 30 September 2020, which was £130.6m (22.5%) lower than the same time last year.

5.2 During the six-month period from 1 April to 30 September 2020, the County Council's investment balances ranged between £336m and £521m due to timing differences between income and expenditure.

5.3 Table 4 shows investment activity for the County Council as at 30 September 2020 in comparison to the reported activity as at 31 March 2020. The reduction in total investments since 31 March 2020 reflects the combination of the early payment of employer's pension contributions of £235m in order to achieve significant savings in the cost of these contributions over a three-year period, offset by an increase in investment balances reflecting the typical higher balances seen at this time of year, due to timing differences between income and expenditure.

Table 4: Treasury Investment Position

	31/03/20 Balance £M	Net Movement £M	30/09/20 Balance £M	30/09/20 Income Return %	30/09/20 WAM * (Years)
Short Term investments					
- Banks and Building Societies					
- Unsecured	26.3	(2.8)	23.5	0.1	0.1
- Secured	15.0	(15.0)	0.0-	N/A	N/A
- Money Market Funds	175.3	(116.7)	58.6	0.1	0.0
- Local Authorities	80.5	24.5	105.0	0.7	0.6
- Cash Plus Funds	10.0	0.0	10.0	1.2	0.0
	307.1	**(110.0)**	**197.1**	**0.5**	**0.3**
Long Term investments					
- Banks and Building Societies					
- Secured	33.2	(2.6)	30.6	0.5	2.0
- Local Authorities	40.0	(15.0)	25.0	1.5	1.6
	73.2	**(17.6)**	**55.6**	**0.9**	**1.8**
Long Term investments – Higher Yielding Strategy					
- Fixed deposits	20.2	1.3	21.5	4.3	13.0
- Fixed bonds	10.0	(10.0)	0.0-	N/A	N/A
- Pooled funds					
- Pooled property**	77.0	0.0	77.0	4.1	N/A
- Pooled equity**	52.0	0.0	52.0	4.5	N/A
- Pooled multi-asset**	42.0	4.0	46.0	4.0	N/A
	201.2	**(4.7)**	**196.5**	**3.5**	**13.0**
Total investments	**581.5**	**(132.3)**	**449.2**	**2.2**	**1.1**

* Weighted Average Maturity - The WAM figures exclude pooled funds which have no fixed end date.
** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2020.

Note: the figures in Table 4 at 31 March 2020 are from the balance sheet in the County Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

5.4 The CIPFA Code and government guidance both require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The County Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.

5.5 Security of capital has remained the County Council's main investment objective and has been maintained by following the County Council's counterparty policy as set out in the Treasury Management Strategy Statement.

5.6 Counterparty credit quality has been assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in of financial institutions, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

5.7 The County Council also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

5.8 Over the six month period, the County Council has continued to feel the effects of the Coronavirus pandemic and has experienced uncertainty over income and expenditure in addition to falling money market rates, a lower number of suitable counterparties and a reduction in advised investment durations.

5.9 Liquid cash has been diversified over several counterparties, including Money Market Funds (MMFs) and bank call accounts to manage both credit and liquidity risks. The return on MMFs net of fees has fallen over the six-month period and for many funds net returns now range between 0% and 0.1%, with the fund management companies in several instances temporarily lowering or waiving fees to maintain a positive net return.

5.10 The County Council also has the option of using the Debt Management Account Deposit Facility (DMADF), which offers a high level of security as the counterparty is the UK government. On 25 September the overnight, 1- and 2-week deposit rates on DMADF deposits dropped below zero percent to -0.03%, which discourages local authorities from using this facility for short-term cash. The County Council has not needed to use the DMADF during this period and has maintained a positive net return on all of its investments, however it is important for the County Council to maintain the ability to access this facility as part of its suite of treasury management options.

5.11 The County Council's Treasury Management Strategy Statement for 2020/21 was written prior to the start of the coronavirus pandemic and the ensuing impact on financial markets. However, it did identify that in the situation where negative interest rates arose, the security of the County Council's investments would be measured as receiving the contractually agreed amount at maturity, even when this was less than the amount originally invested. The County Councill will continue to manage its investment balances proactively to avoid accepting negative interest rates wherever possible, however suitable governance is also in place to ensure that the County Council is able to access appropriate areas of the market paying negative rates should the need arise, including being able to access the Treasury's DMADF accounts.

5.12 To reduce risk, 69% of the County Council's internally invested cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities and secured bank bonds. Of the remaining balance, the majority is invested in overnight money market funds which are subject to reduced bail in risk.

5.13 Against this backdrop, the County Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.80% on internally managed funds as at 30 September 2020 whilst also maintaining sufficient liquidity through the use of call accounts and money market funds. The County Council has benefited from holding investments where deals were made prior to interest rates falling in March. However, as investments mature and are replaced, lower rates will be achieved, and the average rate of return is therefore likely to fall over the course of the financial year assuming the low interest rate environment persists.

5.14 The progression of risk and return metrics for the County Council's investments that are managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5. This compares the data for the quarter ended 30 September 2020 with data for the quarter ended 31 March 2020.

Table 5: Investment Benchmarking (Excluding Pooled Funds)

	Credit Rating	**Bail-in Exposure**	**Weighted Average Maturity (Days)**	**Rate of Return %**
31/03/2020	AA	50%	551	0.97%
30/09/2020	AA-	31%	608	0.80%
Similar Local Authorities	AA-	49%	991	0.57%
All Local Authorities	AA-	64%	18	0.27%

5.15 During the six-month period from 31 March to 30 September 2020, the impact of the two Bank Rate cuts in March was felt across the money markets. This resulted in the investment return on the internally managed investments in the County Council's portfolio reducing, albeit the average return is currently greater than the average for other Arlingclose clients included in the investment benchmarking exercise.

5.16 The prepayment of employer's Local Government Pension Scheme contributions in April has meant that the weighted average maturity of the County Council's investments has increased. However, the County Council has balanced this by continuing to ensure that suitable levels of liquidity are held to meet its requirements. This has also contributed to a reduction in bail-in exposure and where the County Council is exposed to this risk it is largely through money market funds, which invest in instruments that are liable to bank bail-in but which are highly diversified therefore reducing this risk.

5.17 The average credit rating of the internally managed investments fell from AA to AA- however this is a strong credit rating. The County Council only invests with banks on Arlingclose's approved list of counterparties and currently only holds unsecured investments with these institutions for short durations to mitigate risk. The AA- rating is also in line with the average achieved by Arlingclose's other local authority clients.

5.18 In order to minimise the risk of receiving unsuitably low investment income, the County Council has continued to invest a proportion of steady core balances in externally managed pooled funds as part of its higher yield strategy.

5.19 These pooled fund investments are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term. By holding these investments for the longer term, the County Council is able to ride out periods of volatility that result in falls in value and therefore can manage the security of its original investment. Investing only steady core balances also means the County Council should not ever need to be a forced seller for liquidity reasons.

5.20 The County Council's investments in pooled property, equity and multi-asset funds allow diversification into asset classes other than cash without the need to own and manage the underlying investments, with £175m now invested. The County Council also invests a further £10m into an externally managed cash plus pooled fund, which forms part of its short-term cash portfolio.

5.21 These investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the County Council's investment objectives is monitored regularly and discussed with Arlingclose.

5.22 The impact of the Covid-19 pandemic on financial markets at the end of the financial year meant that the County Council's investments in these pooled funds suffered a £22.4m fall in capital value (12.84%) over the year to 31 March 2020. However, such losses are only realised if the assets are sold before they have the chance to regain value, which is not the County Council's intention.

5.23 Since March there has been improvement in market sentiment which is reflected in increases in capital values of the multi-asset income funds and one (of two) equity income funds in the County Council's portfolio. The change in capital values of the pooled fund investments is summarised in Table 6.

Table 6: Pooled Fund Capital Values

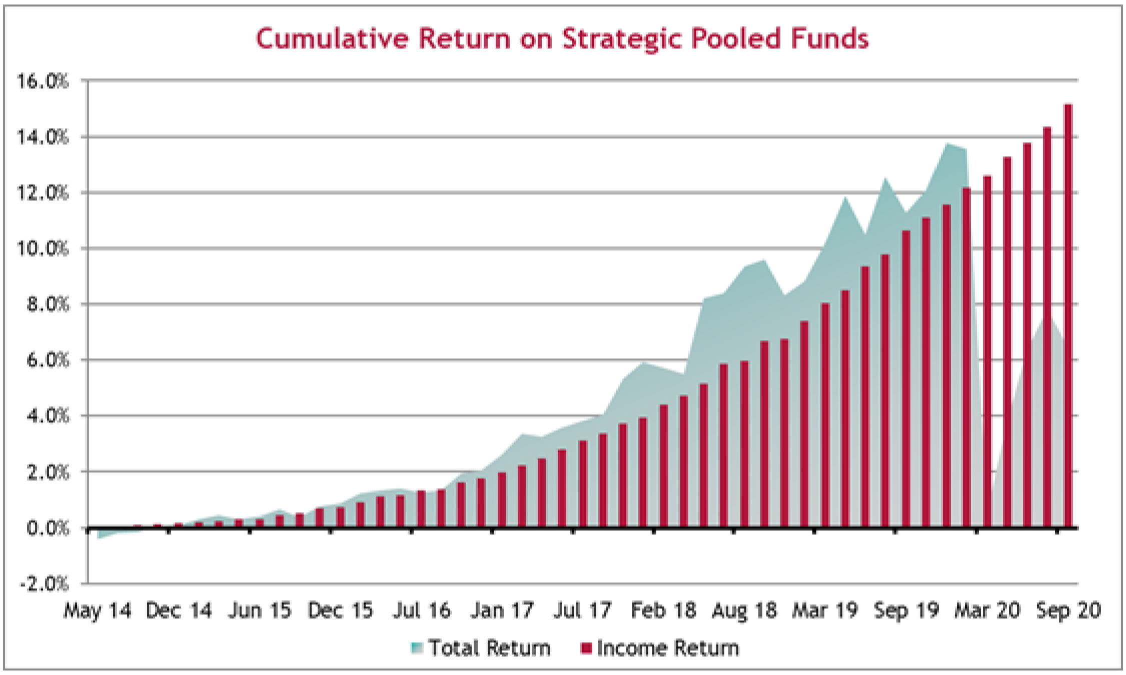
	Principal invested £M	31/03/20 Capital value £M	Movement £M	30/09/20 Capital value £M
Pooled property	77.0	78.3	(2.0)	76.3
Pooled equity	52.0	40.1	2.8	42.9
Pooled multi asset	46.0	37.0	6.8	43.8
Total	**175.0**	**155.4**	**7.6**	**163.0**

5.24 Dealing in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers, and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty was re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for this property fund; from September 2020 investors are now required to give at least 90 calendar days' notice for redemptions. The Lime Property Fund and the Threadneedle Property Unit Trust, in which the County Council has smaller investments, also suspended dealing for the same reasons and the dealing suspensions were lifted in July and September 2020 respectively. Threadneedle now requires investors to provide four months' notice for withdrawals.

5.25 In 2020/21, the County Council expects to receive significantly lower income from both its internally managed cash and its higher yielding portfolio than it did in previous years, with an estimated impact of £3.5m included as part of the Medium Term Financial Strategy update during the summer. Dividends and income paid will depend on many factors including the ongoing impact of the pandemic and the individual strategies of each pooled fund, such as their sectoral allocations and investment decisions. Equity income funds will also be affected by enforced or voluntary dividend cuts and deferrals.

5.26 Given the impact on capital values and income described above the investments in pooled funds have been reviewed with Arlingclose, whose advice remains that these investments continue to be appropriate for the County Council. Capital values should recover over time and in the meantime these investments will continue to generate income returns significantly in excess of what could be achieved on traditional cash investments, to benefit the revenue budget.

5.27 The chart below shows the positive impact of regular income returns from these pooled funds and the positive cumulative total return (income + capital values) over time.



5.28 The County Council's investments as part of its higher yielding strategy are made with the intention of holding these investments for at least the medium term, however this does not mean that the County Council does not continue to monitor performance and nor does it mean it will hold these investments indefinitely.

5.29 As a result of this ongoing review, Arlingclose advised in June 2020 that the County Council should sell the long term bonds tranche of its higher yielding portfolio. The Deputy Chief Executive and Director of Corporate Resources approved this sale under her delegated authority and a gain on disposal was achieved on completion of the sale. The County Council is in the process of reinvesting the sale proceeds as part of its higher yielding strategy, with £4m added to two existing multi-asset pooled fund investments as at the end of September 2020. The remaining balance will be invested in pooled funds in tranches to mitigate risks associated with market timing.

6. Non-Treasury Investments

6.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the County Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the MHCLG Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

6.2 This could include loans made to Hampshire based businesses or the direct purchase of land or property and such loans and investments will be subject to the County Council's normal approval process for revenue and capital expenditure and need not comply with the treasury management strategy.

6.3 The County Council's existing non-treasury investments are listed in Table 7 below:

Table 7: Non-Treasury Investments

	30/09/20 Asset Value £M	30/09/20 Rate %
Loans to Hampshire Based Business	9.5	4.00
Joint Venture Recruitment Agency	0.2	5.00
Total	**9.7**	**4.02**

7. Compliance Report

7.1 The County Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the County Council's approved TMS.

7.2 Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 8.

Table 8: Debt Limits

	2020/21 Maximum £M	30/09/20 Actual £M	2020/21 Operational Boundary £M	2020/21 Authorised Limit £M	Complied
Borrowing	271	270	730	780	✓
PFI and Finance Leases	149	149	150	180	✓
Total Debt	**420**	**419**	**880**	**960**	✓

7.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this would not be counted as a compliance failure.

8. Treasury Management Indicators

8.1 The County Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

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

Table 9: Interest Rate Risk Indicator

	30/09/2020	Impact of +/- 1% Interest Rate Change
Sums Subject to Variable Interest Rates		
Investment	£218m	+/- £2.2m
Borrowing	£23m	+/- £0.2m

8.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

8.4 This indicator is set to control the County Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 10: Refinancing Rate Risk Indicator

	30/09/20 Actual	Upper	Lower	Complied
Under 12 months	5.4%	50%	0%	✓
12 months and within 24 months	3.7%	50%	0%	✓
24 months and within 5 years	9.0%	50%	0%	✓
5 years and within 10 years	20.0%	75%	0%	✓
10 years and within 20 years	53.0%	75%	0%	✓
20 years and within 30 years	8.9%	75%	0%	✓
30 years and above	0.0%	100%	0%	✓

8.5 The County Council holds £20m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the County Council has the option to either accept the new rate or to repay the loan at no additional cost. If not repaid before maturity, these loans have an average maturity date of 13 years (minimum 7 years; maximum 25 years).

Principal Sums Invested for Periods Longer than a year

8.6 The purpose of this indicator is to control the County Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 11: Price Risk Indicator

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£262m	£216m	£196m
Limit on principal invested beyond year end	£340m	£330m	£330m
Complied	✓	✓	✓

8.7 The table includes investments in strategic pooled funds of £175m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

9. Other

9.1 The implementation of the new International Financial Reporting Standard (IFRS) 16: Leases has been delayed until 2021/22.

10. Arlingclose's Outlook for the Remainder of 2020/21

10.1 The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, Coronavirus has not been supressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

10.2 The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in the third quarter.

10.3 However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and Purchasing Managers Index data, even before the latest restrictions.

10.4 This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. The Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have already priced in a chance of a negative Bank Rate.

10.5 Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

10.6 Arlingclose expects the Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (Quantitative Easing). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

10.7 Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out a negative Bank Rate or growth / inflation prospects improve.

10.8 Downside risks remain in the near term, as the Government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Adults Health and Care – Health and Safety Requirements

1. Introduction

1.1 Following the onset of Covid-19, work on developing capital investment priorities across the County Council was paused. Within Adults' Heath and Care (AHC) work had been undertaken to develop a Bed Based Programme which included essential health and safety works that were required across our residential and nursing estate.

1.2 Whilst the work on wider capital investment is on pause, it is of course necessary to ensure that critical health and safety works identified as part of an inspection programme are progressed. The works outlined in this report will address health and safety, compliance and operational priorities within the residential and nursing building portfolio.

1.3 This Appendix identifies the estimated costs of these works and highlights the gap in existing funding arrangements and considers arrangements for funding in the future.

2. Background and Context

2.1 The AHC bed-based portfolio consists of twenty-four locations; of which seventeen are nursing and residential homes for older adults. Of these, two include new build extensions constructed between 2006 and 2008 as part of the County Council's 'Enhance' programme.

2.2 The proposed programme of essential health and safety works forms a part of the wider AHC capital programme and bed-based review to deliver high quality care within updated fit-for-the-future facilities.

2.3 Recognising the significant financial pressures that the County Council is facing due to the Covid-19 pandemic, a review has been undertaken to identify those works which are essential in the next 18 month period to maintain compliance and health and safety across the portfolio. This Appendix also outlines proposals for dealing with health and safety within these buildings for the future to maintain the health and safety and operational functionality of them in the medium to longer term.

2.4 These works have been identified from a combination of specific surveys, inspections and testing and information gathered from the general knowledge and understanding of the portfolio of buildings through Property Services' ongoing programmes of servicing, maintenance and risk management activities and AHC's operational experience, particularly during the Covid-19 pandemic.

2.5 Work undertaken over the last two years to review the risk profile across the built estate has highlighted that the AHC bed-based portfolio of buildings represent the highest risks in terms of health and safety, compliance and service continuity. This is due to:

- The vulnerable nature of the building occupants.
- The complexity of services being provided in the buildings.

- The 24 hour / 7 days a week occupation and operation of the buildings.
- The regulation framework within which the service is operating.
- The need to ensure that the buildings provide an environment that is ‘homely’, compatible with the residential nature of the service.

2.6 As the highest risk buildings in the corporate estate, and in line with the requirements of the Care Quality Commission (CQC) registration and corporate health and safety procedures, there is a rigorous regime of surveys, inspections, testing and monitoring in place to manage building related health and safety risks in these buildings. Property Services also works closely with AHC’s operational management team to ensure that repair, maintenance and improvement priorities are fully aligned to operational needs.

2.7 The most significant building related health and safety risks within these buildings that are managed on an ongoing basis are:

- Fire safety.
- Legionella management.
- Critical building systems and services e.g. back-up generators, lifts, boilers, bathroom, kitchen and laundry plant and services.
- Hygiene and infection control.

2.8 In addition, specific reviews of risks associated with pedestrian and vehicle movements and glazing have been undertaken in the last 12 to 18 months as part of the corporate health and safety work plan.

3. Proposed Priority Works

3.1 The following table lists the types of works that have been identified against each of the health and safety risk headings. These works have been identified through the surveys, inspections and monitoring regime or through the specific risk assessments. Anticipated lifecycle replacement and upgrade works have also been identified from the information obtained from the term maintenance contract activities including servicing, reactive repairs, and annual black building tests.

3.2 The works that have been costed are those that are considered to be essential in the next 18 month period and do not represent the full maintenance liabilities for these buildings. Some works, including the fire precaution repairs, need to be completed within the next 6 months to comply with the County Council’s own corporate health and safety procedures and as well as CQC expectations.

Health & Safety Risk	Proposed Works
Fire precautions	Repairs and improvements to fire detection systems and physical fire precautions including signage, fire doors and fire compartmentation identified through recent fire surveys.
Legionella management	Improvements to hot water circulation, pipework and water tank insulation and removal of pipework 'dead legs' to reduce the risk of legionella colonising the water services systems. Works are targeted at buildings with positive legionella detections or out of parameter water temperature readings.
Glazing	Replacing or applying film to non-compliant glazing to reduce the risk of breakage and mitigate injury should a breakage occur as identified through recently reviewed glazing surveys and glazing risk assessments.
Vehicle & pedestrian movements	Improvements to site access and car parking areas to reduce the risks of harm to pedestrians as identified through surveys and risk assessments undertaken as part of a corporate health and safety led review across all sites.
Building systems and services	Works to essential building services and systems including: works to evacuation lifts to ensure compliance with the updated British Standard; remedial and improvement works to generators and back- up power systems identified through the annual black building tests and servicing regime; remediation of electrical defects identified through the electrical testing and inspection programme lifecycle replacement of boilers, boiler controls, kitchen plant and other critical plant.
Infection control and hygiene	Replacement of current timber handrails which have degraded and cannot be kept clean. Replacement of floor coverings in bedroom and lounge areas and internal re-decoration of bedrooms and communal spaces due to levels of wear and tear from frequent soiling and associated cleaning regimes creating an infection control risk. Maintaining standards of decoration is also essential to provide an appropriate 'home' environment for the residents.

4. Ongoing Annual Maintenance

4.1 As the highest risk buildings in the corporate estate, the AHC nursing and residential building require a higher standard of ongoing maintenance than most of the County Council's buildings to manage health and safety risks, address the higher levels of wear and tear associated with the 24 hour / 7 days a week operation of the building and ensure that an appropriate standard of accommodation is provided for the residents. It is therefore important that there is sufficient annual maintenance funding to support the ongoing programme of health and safety related inspections, surveys and testing and the repairs arising from these, as well as ad-hoc reactive repairs and improvement works.

4.2 Funding is also required to ensure that planned life-cycle replacement of critical building services and plant can be undertaken proactively at the appropriate time to mitigate the risks from an unplanned failure. Funding is also necessary to enable the regular cycle of redecoration and flooring replacement required to provide an appropriate standard of residential accommodation and support infection control and hygiene standards.

4.3 Experience also suggests that additional one-off investment may be required to address some of the ongoing health and safety concerns, such as legionella colonisation, where currently identified and planned works may not be sufficient to fully resolve the issues. The buildings are not static and new issues emerge over time due to the condition of the building, changes in operational use, or changes in statutory or corporate expectations on health and safety. Contingency funding to address unexpected or unplanned issues is therefore important.

4.4 At the moment these works are prioritised against other requirements in the corporate estate and often mean that less funding is available to deal with other problems due to the high levels of risk in these buildings. A revised approach is therefore proposed that considers the future years' costs based on the inspection and risk assessment process and that funds are agreed on annual basis through the budget setting process.

5. Finance

5.1 Total estimated costs of £4.3m, including a 10% contingency allowance, have been identified for the essential health and safety related works required over the next 18 months. This is broken down against the individual risk headings in the table overleaf.

5.2 A total of £510,000 of funding has been allocated from the 2020/21 Policy and Resources repairs and maintenance budget for the corporate estate and from the AHC annual capital works budget to address some of the priority works. A further £892,000 of AHC accrued capital funding is also available to allocate to these works. This leaves a total funding gap of £2.9m.

5.3 £2.2m of works have been identified as priorities for the current financial year with the remaining £2.1m required in 2021/22, albeit this will be dependent on the ability to procure and complete the works in the current year. Any unspent funding will be carried forward.

Works	**Total Cost £**	**2020/21 £**	**2021/22 £**
Fire	1,033,760	1,011,360	22,400
Legionella	128,800	128,800	0
Glazing	89,600	89,600	0
Vehicle and pedestrian	334,100	234,100	100,000
Building systems and services	756,224	418,768	337,456
Infection control and hygiene	1,565,200	128,800	1,436,400
Total Exc. Contingency	**3,907,684**	**2,679,028**	**1,896,256**
Contingency @10%	390,768	201,143	189,626
Total Inc. Contingency	**4,298,452**	**2,212,571**	**2,085,882**
Funded works	510,164	510,164	0
Available funding - unallocated	892,392	128,800	763,592
Unfunded Works	**2,895,896**	**1,573,607**	**1,322,290**

5.4 Analysis of historic repairs and maintenance expenditure on this portfolio of buildings indicates a typical combined revenue and capital expenditure in the region of £1.5m from the corporate repairs and maintenance budget in addition to the £480,000 annual AHC capital allocation. On the basis that the capital allocation continues to be made available, this suggests that an annual allocation of around £1.5m is likely to be required for ongoing maintenance activities subject to the inspections and risk assessments that will be carried out.

PROVISIONAL CASH LIMITS – 2021/22

	2020/21 Cash Limit £'000	Tt2021 Savings Target £'000	Base Changes £'000	Inflation & Growth £'000	2021/22 Cash Limit £'000
Adults' Health and Care	421,336	(43,100)	1,930	29,379	409,545
Children's – Schools	901,977		7,144		909,121
Children's – Non Schools	208,613	(17,202)	(102)	24,148	215,457
Corporate Services	54,218	(4,568)	(1,013)	3,881	52,518
Culture Communities & Business Services	43,496	(3,382)	435	2,567	43,116
Economy, Transport & Environment	109,553	(11,748)	755	5,107	103,667
Total	**1,739,193**	**(80,000)**	**9,149**	**65,082**	**1,733,424**

Notes:

Base Changes

- Largely relate to changes in grants (notably the Coronavirus Catch-up Premium for schools), movements between services and additions to / draws from reserves.

Inflation & Growth

- In addition to general price inflation (much of which relates to care provision in Adult's Health and Care) this includes a general allowance of 1.5% of relevant employee budgets (directly employed staff) for step progression and also reflects the 2020/21 pay award of 2.75% which has been agreed.
- Includes the allocation of funding for growth (within the amounts set out in the MTFS) for both Adults' Health and Care and Children's Services in relation to demography and complexity.
- Reflects inflation for the waste contract and also includes an agreed allowance for growth in volumes.

ETE Schemes to be Added to the Capital Programme

1. EMETE recommended approval at Decision Day 8 October

			Funding Sources					
Scheme Name		**Scheme Value £'000**	**Developer Contributions £'000**	**EM3 LGF £'000**	**Contribution from Rushmoor BC £'000**	**HCC Locally Resourced £'000**	**DfT Emergency Active Travel Fund £'000**	**Capital Programme Year**
Aldershot Station Transport Hub and Public Realm Improvements		1,440	594	300	300	96	150	2020/21

2. EMETE Decision Day 19 November 2020 recommendations

Transforming Cities Fund - schemes to be added to the Capital Programme
SCR - Southampton City Region; PCR - Portsmouth City Region

			Funding Sources					
Scheme Name	**SCR or PCR**	**Scheme Value £'000**	**Transforming Cities Fund £'000**	**Developer Contributions £'000**	**Local Transport Plan Grant £'000**	**DfT Safer Roads Fund £'000**	**Contribution From Other Local Authorities £'000**	**Capital Programme Year**
Totton Junction Road	SCR	754	754					2021/22
Eastleigh Town Centre cycle route	SCR	578	449	130				2020/21
Redbridge Viaduct	SCR	1,009	909		100			2021/22
Bursledon Road cycle route	SCR	646	546	100				2020/21
Local Transport Hub - Havant Park Road South (SB)	PCR	1,500	1,500					2021/22
Enhanced MM Corridor - Ladybridge R/A VE Bus Priority and Pedestrian/Cycling Enhancements	PCR	1,172	972	200				2021/22
Local Transport Hub - A27 Enhanced Safety Scheme (Portchester)	PCR	868	268			600		2021/22
Marchwood Bypass	SCR	1,308	1,224	56	28			2022/23
Eling to Holbury cycle route	SCR	3,441	3,418	23				2021/22
Rushington Roundabout	SCR	2,443	2,443					2021/22
Gosport Bus Station, taxi rank and Cross street improvements	PCR	5,900	5,200				700	2021/22
Enhanced MM Corridor - Rusty Cutter Bedhampton R/A	PCR	2,473	2,473					2021/22
Bishopstoke Road, Eastleigh	SCR	4,149	3,349	800				2022/23
Providence Hill cycle route	SCR	2,288	1,818	469				2022/23
Enhanced MM Corridor - Delme to Downend Bus and Cycle Scheme	PCR	9,334	9,334					2022/23
		37,863	**34,657**	**1,778**	**128**	**600**	**700**	