HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet County Council
Date:	13 July 2021 22 July 2021
Title:	2020/21 – End of Year Financial Report
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Rob Carr, Head of Finance

Tel: 01962 847508 **Email:** Rob.Carr@hants.gov.uk

Section A: Purpose of this report

1. The purpose of this report is to provide a summary of the 2020/21 final accounts. It sets out the variance against the revenue budget for service departments and non-service budgets and explains the reasons for the variances. It makes recommendations for the use of budget underspends including transfers to earmarked reserves.
2. The report also covers capital expenditure and funding for 2020/21, revisions to the 2021/22 capital programme and reports on treasury management activity for the year ended 31 March 2021.

Section B: Recommendations

RECOMMENDATIONS TO CABINET

It is recommended that Cabinet:

3. Notes the year end position in respect of Covid-19 costs and losses as outlined in Section D.
4. Notes the outturn position set out in Section E.
5. Notes the use of £30m of contingencies as part of the Covid Financial Response package as previously agreed by County Council.
6. Approves the allocation of unspent central budgets of £14.7m for the specific purposes set out in section F.
7. Approves one off funding of up to £64,000 from contingencies in the current year and recurring funding of £110,000 from 2022/23 onwards for additional senior capacity to support the health and safety and risk functions across the County Council. The outcome of a further review of health and safety roles will be built into the base budget as part of the budget setting process for next year.

8. Approves the increase of service capital programme cash limits for 2021/22 to reflect the carry forward of capital programme schemes totalling £99.7m and shares of capital receipts totalling £0.113m as set out in Appendix 3.
9. Approves the addition to the capital programme, as outlined in Section I, a scheme to reconfigure Rookwood office accommodation with an estimated cost of £430k to be funded from capital receipts and revenue contributions from the fund proposed in section F of this report.
10. Approves the increase in the capital programme value for the A3090 Winchester Road/Halterworth Lane Junction, Romsey junction improvements scheme, from £0.574 million to £1.3 million with the increase to be funded from developer contributions as outlined in Section I.
11. Recommends to the County Council approval of the County Council's treasury management activities and prudential indicators set out in Appendix 2.

RECOMMENDATIONS TO COUNTY COUNCIL

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

County Council is recommended to approve:

a) The report on the County Council's treasury management activities and prudential indicators set out in Appendix 2.

Section C: Executive Summary

12. This report provides a summary of the 2020/21 final accounts. In line with the revised statutory requirement, the draft statement of accounts will be published by 31 July and will be reported to the Audit Committee in September, in conjunction with the External Audit report on the accounts.
13. The volatility of the coronavirus pandemic with the various restrictions, lockdowns and new requirements and approaches for the County Council made it extremely difficult to form an accurate prediction of the financial impact of the pandemic both in the short and medium term. Given the unprecedented situation at the start of last financial year, it was essential that our financial management approach was robust. It was appropriate, therefore, that our initial assessment of the potential financial impact was a prudent one and it is much better that subsequent monitoring and updates have reported an improving position than to have started from an overly optimistic position and then descend into an unanticipated black hole. The revised forecast of £88.3m was included in the February budget report and has been updated as outlined in section D of this report. During the year, general and specific funding from the Government and NHS England has been received and applied to offset the visible costs and losses resulting from the pandemic. Consequently, the County Council's financial response package of £30m identified in the Medium Term Financial Strategy has not yet been required.

14. Our position throughout and at the year end is very much in alignment with other County Councils who experienced similar challenges. The future remains difficult to predict. Therefore, given the on-going uncertainty of the financial impact of the pandemic in the medium term, particularly fears of a potential time lag in its impact on council tax, business rates and social care costs as we move through 2021/22 and government support comes to an end, it will be important to protect the locally funded response package and carry it forward for this purpose.

15. Savings on non-cash limited budgets total just over £14.7m. This largely results from unused inflation and Adult social care contingencies partly offset by lower than planned interest on balances and the requirement for an increased contribution to the bad debt provision.

16. This report recommends that these corporate savings of £14.7m are earmarked for specific purposes set out in section F. This includes investment in highways maintenance, a contribution to the interest risk reserve in line with the approved investment strategy, new funds to support new ways of working and other recovery issues post pandemic and funding towards the County Council's celebrations for the Queen's Platinum Jubilee.

17. Net service cash-limited expenditure was £51.9m lower than originally planned against an overall gross budget of approaching £2.0bn; a variance of 2.9%. This position is after the allocation of Government funding to cover the cost of responding to the coronavirus pandemic during 2020/21 and therefore reflects the financial position of the 'usual' business of the County Council, albeit 2020/21 was unusual in many respects as a consequence of the pandemic.

18. The underspend against budget reflects the early achievement of Tt2021 savings in many service areas, savings in travel and printing as a result of new ways of working in line with our original digital strategy, which has been accelerated by the work from home response to the pandemic, and largely expected to continue into the future. Additionally, to some extent, there has been a shift in focus away from some planned projects and service developments and instead directed towards activity required in response to the pandemic, which is covered by Covid funding. The financial position also reflects funding from NHS England as part of the Hospital Discharge Scheme which was supplemented by the Hampshire CCGs with a one-off additional contribution to the Better Care Fund of £7.75m to support reablement services. This is a reciprocal arrangement that will be adjusted for within 2021/22.

19. The nature and timescales of the on-going impact of the pandemic are still uncertain, as is future Government funding and the position continues to be volatile. Against this backdrop, departments need to complete full delivery of Tt2019 and Tt2021 and plan for the savings programme required in 2023. The one-off funding arising from the 2020/21 final outturn position can be used to meet the future costs of change, for example in shaping services to meet the changing needs of a post-pandemic world, to cash flow the necessarily slower delivery of some savings or to offset other service pressures, for example within social care.

20. The position for each of the departments is summarised in the table below:

	Variance (Under) / Over Budget
	£M
Adults’ Health and Care	(30.6)
Children's Services - Non Schools	(10.0)
Corporate Services	(6.1)
Culture, Communities and Business Services	(4.5)
Economy, Transport and Environment	(0.7)
Total Departmental Expenditure	**(51.9)**

21. The position for Adults’ Health and Care largely reflects additional financial support from NHS England and Hampshire CCG to facilitate hospital discharge and also reduced demand for residential/nursing care and day services. The longer-term position for the Department is likely to present greater challenges than might be indicated by the 2020/21 outturn position. Moving into 2021/22, whilst further NHS funding has been received, it is cash limited and will have a significantly reduced impact. Short term services that support the discharge of clients from hospital are estimated to cost in the region of £20m - £22m in 2021/22 and in the region of £15m - £18m annually thereafter. Whilst local and national discussions are on-going to identify sources of funding, there remains considerable uncertainty regarding the level and sustainability of such funding. At the same time, it is expected that residential and nursing care demand may begin to recover; this will likely generate a pressure.

22. The position in Children’s Services largely arises from early achievement of Tt2021 savings, lower demand for family support services and lower than anticipated numbers of secondary school pupils and pupils with special educational needs requesting local authority funded school transport. These combined savings more than offset cost pressures elsewhere including Safeguarding and Young People’s Services.

23. Corporate Services continues to implement a strategy of strong budgetary control, managing expenditure and gaining economies of scale through expanded joint working and generating income, for example for legal services, pension administration, internal audit, procurement and other services. This has ensured early achievement of Tt2021 savings resulting in an underspend against budget for 2020/21.

24. Culture, Communities and Business Services continues to take every opportunity to make savings in business as usual activity where possible. This has been achieved by stopping all non-essential spend including delaying planned infrastructure developments at the Great Hall and a pause on awarding new grants in 2020/21 and generating increased income through new contracts and new initiatives, particularly within Property Services and Scientific Services. Early achievement of Tt2021 also contributes to the net underspend for the department.

25. The final outturn position for Economy, Transport and Environment (ETE) is the result of early achievement of Tt2021 savings, reduced need for highways winter maintenance as a consequence of the relatively mild winter weather and further savings across the department as every effort has been taken to minimise all non-essential spend and maximise efficiencies and income, given the context of the severe financial pressure the County Council is currently facing.

26. The savings on the winter maintenance budget will be carried forward to be spent in 2021/22 in accordance with established principles, providing additional one-off resources to supplement existing maintenance programmes and activities.

27. The one-off funding arising from the 2020/21 final outturn position has been set aside for use by the respective services in line with County Council policy. This funding will be required to meet the future costs of change, for example in shaping services to meet the changing needs of a post-pandemic world, to cash flow the necessarily slower delivery of some savings or to offset other service pressures, for example within social care.

28. Schools continue to face increasing financial pressure, in particular relating to high needs for children with special educational needs and or disabilities (SEND). These pressures are outside the County Council's core budgets, but the County Council retains an active role and interest as the local education authority. In 2020/21 the overall position has once again been balanced through the use of the Dedicated Schools Grant (DSG) Reserve, as allowed by the Department for Education (DfE).

29. The accumulated DSG deficit is now approaching £35.5m (up from £22.8m last year) and will be funded from future years DSG funding. A DSG Deficit Recovery Plan was produced last year, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block. Longer term the County Council is still looking to the Government to implement a solution to this increasing deficit and make policy changes to existing criteria whilst providing increased funding to fully meet growth in demand in the future.

30. The report contains a small section on reserves and balances highlighting a net increase in revenue reserves available to the County Council of £89m.

This largely equates to the unused locally funded Covid-19 response package and early achievement of savings and in line with the objective set out in the MTFS, the County Council has achieved a financial outcome for 2020/21 that leaves it no worse off as a result of the pandemic.

31. The report also recommends approval of:

- permanent funding for additional senior capacity to support the health and safety and risk functions across the County Council.
- The annual report on the operation of the treasury management strategy and the County Council's end of year prudential indicators.
- A revised capital financing plan for 2021/22.
- 2020/21 Revenue Outturn.

Section D : Covid-19 Financial Impact

32. Cabinet and county council have had regular reports throughout last year in respect of the financial impact of Covid-19. On top of the fact that the pandemic itself was unprecedented, as was the County Council's response to it, the constantly changing landscape and volatility of the virus meant that it was virtually impossible to form an accurate prediction of the eventual impact on the County Council's finances.

33. For example, spikes in the virus leading to new and extended lockdown periods had an adverse impact on income generation across the Council's Services but also reduced activity within social care services compared to what was expected which reduced anticipated extra costs (but may have the effect of pushing the demand into the current year).

34. Similarly, it was not until very late in the year (mid-December) that any relevant information on council tax and business rate losses became available for which the County Council had assumed quite large losses resulting from the pandemic. Government support was allocated in tranches and more latterly specific government grants around public health were distributed that help to offset some costs already incurred.

35. Our position throughout and at the year end is very much in alignment with other County Councils who experienced similar challenges. However, from a robust financial management perspective it is always better to err on the side of prudence and then have an improving position than the reverse of being overly optimistic developing into an unanticipated black hole.

36. The final position on gross costs and losses is shown in the following table:

	Year End £'000
Response and Recovery Costs	113,110
Lost Savings – 2020/21 only	9,742
Lost Sales Fees and Charges Income	10,094
Lost Commercial / Other Income	4,088
Costs and Losses	**137,034**
Add Back:	
Market Underwriting Costs	22,757
Total Costs and Losses	**159,791**

37. During the year funding was made available to help meet the visible costs of Covid by the Government and NHS England, together with savings made in the budget and budgeted market underwriting costs as shown below. Due to the way in which the MHCLG wanted figures reported, savings in costs have been netted off the costs and losses figures in the table above and the Other Savings figure below represents the balance of consequential savings arising from Covid-19.

	Year End £'000
Total Costs and Losses	**159,791**
Service Specific Funding (CCG's and Government)	(12,861)
Covid-19 Grant Allocations	(70,395)
Test and Trace, Infection Control and Emergency Assistance Grants	(57,151)
Income Reimbursement Scheme	(3,482)
Other Savings	(1,348)
Market Underwriting (Budgeted)	(22,757)
Total Funding	**(167,994)**
General Covid-19 Grant Carried Forward	**(8,203)**

38. Test and Trace, Infection control and Emergency Assistance Grants were applied in the year to actual spend and the balance of these specific grants has been carried forward to 2021/22. A total of just under £70.4m of general Covid-19 grant was received in the year and after taking into account all of

the other adjustments a balance of £8.2m of the general grant will be carried forward to 2021/22 to help offset expected costs in that year.

39. In terms of the medium term impact, it has not yet been possible to fully update the forward projections given the recent change to the Government's roadmap and extended period of restrictions to 19 July. The previous figures reported to County Council in February have therefore been updated to reflect the outturn for 2020/21 and other minor revisions and gives the current position:

	2020/21	2021/22	2022/23	2023/24	Total
	£'000	£'000	£'000	£'000	£'000
2020/21 Spare Grant	(8,203)				(8,203)
Slipped T19 and T21 Savings		22,752	3,131		25,883
Departmental Pressures		37,921	25,704	15,000*	78,625
Covid Grant - Tranche 5		(23,979)			(23,979)
Updated Total Gap	**(8,203)**	**36,694**	**28,835**	**15,000**	**72,326**

* A pure guess at this stage but the assumption is that the spike in social demand will eventually tail off and return to previous levels.

40. Whilst this once again shows an improvement against the previous forecast, the County Council is still in a 'less worse' position as funding of £72.3m will need to be found to meet this cost, which could have been used for other purposes.

41. A fuller update will be provided in the Medium Term Financial Strategy that will be presented to Cabinet and county Council in October and November respectively and this will reflect better data around social care and income pressures for the current year.

Section E : 2020/21 financial outturn

42. The table below summarises the net outturn position for each department compared to the final cash limit for the year. The figures exclude schools spending:

	Variance (Under) / Over Budget
	£M
Adults' Health and Care	(30.6)
Children's Services - Non Schools	(10.0)
Corporate Services	(6.1)
Culture, Communities and Business Services	(4.5)
Economy, Transport and Environment	(0.7)
Total Departmental Expenditure	**(51.9)**

43. The budget report to Cabinet in February 2021 reported the forecast outturn position as at the end of November 2020 (month 8). In so doing it recognised that the financial landscape in the year was complicated by Covid-19. The report anticipated that there would be early delivery of savings in the majority of departmental budgets by the end of the 2020/21 year and that most services would make contributions to their departmental cost of change reserves.

44. Strong financial management has remained a key focus throughout the year to ensure that all departments stay within their cash limits, that no new revenue pressures are created and that they deliver the savings programmes that have been approved. Importantly, when the pandemic commenced just before the start of the financial year, directors were requested to minimise all non-essential spend. In addition to this normal financial resilience monitoring, specific monitoring has been in place to identify the financial impact of Covid-19 in order to ensure full and appropriate application of the various elements of Government funding that have been provided throughout the year.

45. The financial management approach has been to deal with the impact of Covid-19 as a separate one-off event in order to leave the County Council in the same position it would otherwise have been. Uncertainty continues in the medium term as highlighted above, but for the financial year 2020/21, the strategy has proved to be successful and the final position for departments has improved since the November forecast.

46. Key issues across each of the departments are highlighted in the paragraphs below.

Adults' Health and Care

47. The impact of the pandemic on Public Health activity and Adult Social Care has been profound requiring a significant shift in focus; the financial consequences of which have been complex and dynamic. The cost of Covid-19 has been offset using a wide range of new Government grants. In addition, funding has been received from NHS England under the Hospital Discharge Scheme and from CCGs to support reablement services. Furthermore, there is a significant lower spend on social care activity as a consequence of excess deaths and alternative support being taken by residents, rather than be admitted to residential and nursing settings.

48. The planned delivery of savings as part of the Tt2019 and Tt2021 programmes has been delayed over the last year. The primary area savings were delayed is from sustainable reduced care package costs. The reason for the increased delay is two-fold; project resources to deliver the saving have been diverted to support the Covid-19 response effort, and any ability to affect the volumes of care and price paid has been significantly impacted by the need to support the NHS in freeing up acute capacity. Nevertheless, the department has achieved £6.9m early delivery against the Tt2021 target of £43.1m.

49. There are various minor savings across the Department, including: £2.9m from utilising spare HCC Care capacity to accommodate NHS funded Discharge to Assess beds, £0.4m income from one off back dated NHS funded nursing care for 2019/20 announced in 2020/21 and £5.3m from care packages across all client groups primarily arising from one off funding made available through the NHS Discharge Scheme and significantly reduced client volumes within Older Adults Residential and Nursing care settings in addition to Day Services due to enforced closures. In addition, where non care services have been focussed on Covid-19 activity this has reduced spend on other business as usual services saving approximately a further £4.3m.

50. The longer-term position for the Department is likely to present greater challenges than might be indicated by the 2020/21 outturn position. Moving into 2021/22, whilst further NHS funding has been received, it is cash limited and will have a significantly reduced impact. Short term services that support the discharge of clients from hospital are estimated to cost in the region of £20 - £22m in 2021/22 and in the region of £15m - £18m annually thereafter. Whilst local and national discussions are on-going to identify sources of funding, there remains considerable uncertainty regarding the level and sustainability of such funding. At the same time, it is expected that residential and nursing care demand may begin to recover; this will likely generate a pressure. This is further exacerbated as it is likely that the care market will, over the course of 2021/22 and beyond, have adapted to reflect lower overall demand, particularly from private clients, potentially leading to higher costs on average for Council funded clients.

51. Public Health ended the year with a balanced position having applied various Government grants to offset the cost of response to the pandemic. The balance of these specific grants has been carried forward to 2021/22.

Children's Services

52. The outturn for 2020/21 on the non-schools' budget is an underspend of £10m. Of this, £8.8m relates to early achievement of Tt2021. The balance comprises a range of variances across all budgets as summarised below.

53. There has been significant focus on Children Looked After (CLA) numbers and costs over recent years and trends for average costs, numbers and the mix of placement type have been tracked. Based on this analysis and tracking, additional corporate support has been agreed to address the pressures arising from this growth. The pressure eased slightly during 2020/21 with lower activity than forecast in Non-County Placements (NCPs), Independent Fostering Placements (IFPs) and children with disabilities placements. However, this was largely offset by pressures in post 16 accommodation and special guardianship order placements.

54. The Department continues to apply strong focus to these. However, these pressures continue to be areas of some concern in Children's Services and for the County Council as a whole, particularly in light of the potential impact of the Covid-19 pandemic, as a consequence of the prolonged lock down period and the impact on family settings; and will be closely monitored throughout the coming year.

55. Additional spend was required to deliver Safeguarding and Young People's Services mainly from the use of social work agency staff. Whilst recruitment through the Graduate Employment Trainee Scheme (GETS) continues, reliance on agency staff to cover for the short supply of qualified social workers and to balance the experience within frontline teams has continued to be required.

56. Excluding the impact of Covid-19, an underspend against budget for Home to School Transport resulted from lower than budgeted growth in pupil numbers. The number of pupils with EHCPs has increased as expected although the number requiring local authority funded transport has not seen the same increase. Similarly, the number of pupils moving into the secondary phase in mainstream schools increased in line with forecasts but the number requiring local authority funded transport was also lower than expected which has meant that we have not seen the 'step increase' in secondary costs that was anticipated when the budget was set.

Corporate Services

57. Corporate Services departments achieved a saving against the budget of nearly £5.6m. This underspend is after substantial transformation costs have been met in year and largely results from early delivery of Tt2021 savings. This includes business efficiencies through the use of technology and additional income, for example for legal services, pension administration, internal audit, procurement and other services.

58. The overall Corporate Services cash limit also includes a number of non-departmental budgets, including Member Support Costs and Corporate Grants. The net saving of £0.5m largely reflects lower costs or additional income in a number of budget areas. This includes lower members support costs, one-off adjustments and lower grants to local organisations and grants to voluntary organisations as agreed projects will be progressed in subsequent years and the saving will be carried forward to match the expenditure as it is incurred.

Culture, Communities and Business Services

59. The final outturn position for CCBS is a £4.5m under spend, as the Department continues to make every effort to minimise non-essential spend and maximise income and efficiencies, with savings arising mainly from staff savings across the Department. Savings totalling £3.728m have been achieved through a combination of generating increased income through new contracts and new initiatives, particularly within Property Services and Scientific Services; targeted staff savings through holding vacant posts and non-pay savings mainly within Library Services, Registration and Facilities Management; and stopping all non-essential spend including delaying planned infrastructure developments at the Great Hall and a pause on awarding new grants.

60. The remaining £0.8m of the Tt2019 savings target, which relates to office accommodation, continues to be delayed due to the dependency on other workstreams across the Council, including the consideration of new ways of working post pandemic, and also due to existing contractual commitments. However, agreed corporate funding has offset this slippage in 2020/21. The Tt2021 savings programme for CCBS has been delivered in full and this early achievement of savings is included in the overall underspend.

61. The successful implementation of the Tt2021 Programme and the resulting early delivery of savings will enable one-off investment in services including, for example, funding for the reinstatement of countryside footpaths, the condition of which has deteriorated significantly as a result of increased use during the pandemic and exacerbated by the wet winter weather.

Economy, Transport and Environment (ETE)

62. ETE continues to maintain a relentless focus on core service delivery around Highways, Waste Management, Transport, Economic Development and statutory planning services. The first two of these being major universal demand led services. To date the Department has been able to make contributions to its Cost of Change Reserve to cash flow planned later delivery of savings and to provide for the necessary enabling investment to deliver transformation. This has been an effective strategy to date although the increased requirement for investment in assets and resources to generate the next phase of savings will place further pressure on the Department.

63. A position close to break even has been achieved for 2020/21 after one-off investment of nearly £4m in the year which has been funded from savings

across all service areas. In view of the current financial situation for Local Government (excluding the impact of Covid-19), the Department continues to take every opportunity to make savings in ‘business as usual’ work where possible. The identification of opportunities for the early delivery of Tt2021 activity has resulted in savings of £1.034m being achieved in 2020/21.

64. Included within this result is an amount just approaching £0.75m within the winter maintenance budget which will be carried forward to be spent in 2021/22 as part of an ongoing programme of maintenance work. As set out in the Revenue Budget and Precept 2020/21 Report approved by County Council in February 2020 this will be supplemented from corporate contingencies to ensure that a minimum allocation of £2.0m is available to provide greater certainty over reactive maintenance funding.

Overall Position

65. Detailed explanations for the outturn position for all departmental budgets are provided in Appendix 1.

66. The departmental savings will be set aside to meet the future cost of change in line with the current financial policy which incentivises good stewardship.

Schools Budget

67. The financial pressures facing schools are well documented and in 2020/21 there was a net pressure of £12.7m against the school budget (including a £15.8m pressure on the High Needs Block) which has been offset by a charge to the Dedicated School Grant (DSG) reserve, as allowed by the Department for Education (DfE).

68. This year, the charge will increase the deficit on the DSG reserve to a total of approaching £35.5m which will be funded from future years DSG funding. A DSG Deficit Recovery Plan was produced last year, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block.

Other Budgets

69. The outturn for other items contained within the County Council's budget is shown in the following table:

	Variance (Under) / Over Budget
	£m
Capital Financing / Interest on Balances	0.8
Contingencies	(18.1)
Covid 19 financial response package	(30.0)
Increase in Doubtful Debt Provision	2.6
Total	(44.7)

70. The main reasons for these variances are set out in the paragraphs below.

Capital Financing and Interest on Balances (£0.8m increase)

71. Despite the reduction in the UK Bank Rate to 0.10% in March 2020 in response to the coronavirus pandemic, the County Council's treasury management strategy, which includes a mixture of variable and fixed rate and short and long term investments, has performed well. Further information is included in Appendix 2. This small variance against budget relates to the cash flow impact of the pre-payment of employer pension contributions on 1 April 2020 for three years.

Contingencies (£18.1m Saving)

72. The level of contingencies held as part of the 2020/21 budget reflected the well documented pressures and risk around demand and costs. Through strong management, applied to manage demand and supress the additional costs, savings against these contingency amounts were realised.

73. Contingencies which were not required in the year related to inflation, general risk (including Brexit) and Adult social care contingencies.

Covid-19 Financial Response Package

74. The locally funded risk contingency of £30m was set aside early on in the pandemic given the significant uncertainty over the financial impact of the

Covid-19 crisis and potential Government Funding. Over the course of 2020/21, the Government has made available various sources of funding and the County Council has made appropriate use of these. Whilst the locally funded contingency has not been needed in 2020/21, the on-going uncertainty, particularly about council tax and business rates income, remains and this report recommends the unused contingency funding of £30m is carried forward to meet any future unfunded cost of Covid-19.

Doubtful Debt Provision (£2.6m Increase)

75. The County Council's policy is to make a provision against a proportion of debts that could prove to be irrecoverable. The provision is assessed on the basis of the age profile of outstanding debts and partly on the probability of specific larger debts being irrecoverable. There is no annual budgeted amount because the provision varies significantly from year to year. Part of the increase relates to the potential for greater bad debts as a result of the Covid-19 pandemic and organisations' and individuals' reduced ability to pay.

Section F: Proposed Allocation of Net Saving

76. As mentioned above, the full update for the medium term Covid-19 impact will be revised in light of data for the early part of 2021/22 albeit it is difficult to predict what the longer term impact might be in Adults' and Children's Social Care.

77. In any event, it is not anticipated that unfunded costs and losses will exceed the £72.3m to 2023/24 as stated above and therefore existing funding is already in place to meet this deficit on a one-off basis. Should some of the costs continue on a longer term basis this would need to be addressed as part of the Medium Term Financial Strategy at the time. The net one-off funding of £14.7m is therefore available to be applied to Council priorities during the current year.

78. The Budget Setting report for 2021/22 highlighted the significant challenges facing the maintenance and improvement of the County's highway network. Whilst additional funding has been approved to help with the planned maintenance programme, there is still a significant pressure every year to deal with a growing reactive maintenance problem. It is therefore suggested that a further £3m be approved for 2021/22 for this purpose.

79. Given the pressures on the maintenance budgets the longer term aim is to consider adding the equivalent of 1% council tax increase (£7m) to the highways budget (£3m for Operation Resilience and £4m Highways Maintenance) on a recurring basis from 2022/23 onwards. This will be considered as part of the next Medium Term Financial Strategy in the Autumn.

80. Part of the overall underspend relates to savings in travel and vehicle costs and printing and stationery, which is around £6m in total. It therefore seems appropriate that the equivalent of these consequential Covid-19 savings are used to create a 'Covid Recovery Fund' to be utilised as appropriate, but in the first instance to provide the necessary changes to accommodation,

equipment and technology to support new hybrid ways of working once staff are allowed to return to the office, albeit on a much reduced frequency compared to pre-Covid arrangements.

81. It is anticipated that the new ways of working will over time reduce the office footprint across the County Council and enable leased buildings to be returned or owned buildings to be sold off. There are already dilapidation and moving costs associated with the decision not to renew the lease on Hampshire House and the knock-on impacts of relocating those staff is also creating additional unbudgeted costs.

82. It is therefore proposed to allocate £4.3m as a property fund to facilitate future changes and savings in the overall property portfolio as the new ways of working are embedded. This will cover dilapidations, any refurbishment costs or costs of presenting properties to the market, together with any knock-on moves, alterations or spend associated with relocating staff currently in the buildings.

83. The County Council has been investing in higher yielding investments for some time now and to mitigate the slight extra risks associated with these investments, an 'investment risk reserve' was created. The Medium Term Financial Strategy approved last year set a target for the reserve equivalent to 2.5% of the maximum level of the higher yielding investment portfolio. This amounts to £6.25m and a further contribution of £1.292m is required to achieve this level.

84. Finally, a commitment was made during the last financial year to provide funding of £100,000 towards the County Council's celebrations for the Queen's Platinum Jubilee which it is proposed to take from this source.

85. Cabinet are requested to approve spend of £14.7m from the net savings in contingencies in order to enable these initiatives to proceed.

86. In addition Cabinet are also asked to consider a request for permanent funding for additional senior capacity to support the health and safety and risk functions across the County Council. This request is being considered at this stage following changes to the management structure within the Community Culture and Business Services (CCBS) Department and will ensure that sufficient senior capacity is available to maintain the strong focus on health and safety matters which CCBS are now overseeing for the County Council.

87. Members will recall that following an incident of a child being injured in Lymington, a thorough external review was undertaken of the health and safety function across the County Council to ensure that lessons were appropriately learned and applied. One of the changes was to move responsibility for health and safety to sit under the Assistant Director for Transformation within CCBS. Following the disaggregation of the Transformation and Governance Department earlier this year, further functions including Emergency Planning and Risk Management were also added to the remit of this post and it was re-designated as the Deputy Director for CCBS.

88. Whilst strong senior oversight will continue to be applied by both the Director and Deputy Director, an initial review of the structure within CCBS indicates that further senior resource will be required to add additional strategic

capacity and continued focus in this important area for the County Council. It is therefore recommended that funding be earmarked for additional senior capacity upto a total cost of £110,000 per annum and that this be available to CCBS during a forthcoming further review of the H and S roles. The part year cost of around £64,000 in 2021/22 will be met from general contingencies and the recurring impact from 2022/23 will be factored into the budget setting process for the next financial year.

Section G: General Balances and Earmarked Reserves

89. The County Council's reserves strategy, which is set out in the MTFS, is now well rehearsed and continues to be one of the key factors that underpin our financial resilience and ability to provide funding for the transformation of services and give the time for changes to be properly planned, developed and safely implemented.

90. We have made no secret of the fact that this deliberate strategy was expected to see reserves continue to increase during the period of tight financial control by the Government, although it was always recognised that the eventual planned use of the reserves would mean that a tipping point would come and we would expect to see reserves start to decline as they are put to the use in the way intended as part of the wider MTFS.

91. At the end of the 2020/21 financial year the total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £754m an increase of nearly £89m on the previous year. Of this increase, over £28m relates to the increase in reserves held by individual schools and £30m relates to the Covid-19 financial response package. The balance includes contributions to Departmental cost of change reserves offset by agreed use of the Corporate Reserves. The following table summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2019/20. There is a new requirement this year to show the DSG deficit separately; previously it had been deducted from Non HCC earmarked reserves.

	Balance 31/03/2020 £'000	**Balance 31/03/2021 £'000**	**% of Total %**
General Fund Balance	22,298	23,198	3.1
HCC Earmarked Reserves			
Fully Committed to Existing Programmes	184,545	202,115	26.8
Departmental / Trading Reserves	92,217	149,490	19.8
Risk Reserves	45,913	45,839	6.1
Corporate Reserves	111,092	96,107	12.7
HCC Earmarked Reserves	433,767	493,551	65.4

	Balance 31/03/2020 £'000	Balance 31/03/2021 £'000	% of Total %
Non HCC Earmarked Reserves	43,190	71,428	9.5
Total Revenue Reserves & Balances	**499,255**	**588,177**	**78.0**
Total Capital Reserves & Balances	**166,637**	**166,672**	**22.0**
Total Reserves and Balances	**665,892**	**754,849**	**100.0**
DSG deficit	**(22,754)**	**(35,444)**	
Net total	**643,138**	**719,405**	

92. General Balances at the 31 March 2021 stand at £23.2m, following the planned contribution in 2020/21, which is broadly in line with the current policy of carrying a general balance that is approximately 2.5% of the County Council's Budget Requirement (currently a sum of circa £20m).

93. In addition to the general balance, the County Council maintains earmarked reserves for specific purposes and to a large extent the majority of these are committed either to existing revenue or capital programmes or to mitigate risks that the County Council faces through self insurance or funding changes by government.

94. In overall terms the total value of earmarked revenue reserves has increased largely due to the departmental underspends outlined in this report. This reflects the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery and to allow delivery of the more complex savings to be achieved safely over a longer time period.

95. Other earmarked reserves have increased due to the timing of receipt of funds in advance of their planned use for an intended purpose, in particular in funding the Capital Programme and to cover specific on-going costs resulting from Covid-19.

96. Corporate Reserves relate to those reserves which whilst set aside for a specific purpose could be used to limit the impact of savings in services, which is exactly what for example the BBR does on a short term basis giving the County Council the time and capacity to properly and safely implement savings programmes. A net draw from the BBR in 2020/21 is in line with the planned use of this reserve as previously reported.

97. Non HCC reserves include individual schools' balances, over which the County Council has no direct control, and which have increased during 2020/21. In line with new statutory reporting requirements, the overall deficit in DSG is shown separately and not deducted from schools' balances. Non HCC reserves also include reserves held for the Enterprise M3 Local Enterprise Partnership (EM3 LEP).

98. In addition, a further £166.6m is held within capital reserves and balances, although of this sum almost £22.5m relates to the EM3 LEP which is included in the annual accounts, as the County Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

Section H: Treasury Management and Prudential Indicators

99. The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function, details of which are set out in Appendix 2. The report is also scrutinised by the Audit Committee. This approach accords with the current Treasury Management Code of Practice.

100. The Prudential Code for Capital Finance in Local Authorities requires that the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy. Appendix 2 summarises the relevant indicators for the 2020/21 outturn which are in accordance with the figures approved by the County Council.

Section I: Capital Spending and Financing

101. From the 2020/21 Capital Programme, schemes to the value of £235.2m were committed during the year, leaving £124.2m to be carried forward to 2021/22. The approval of Cabinet is required for proposals to carry forward schemes to the value of £99.7m, which are largely committed against named projects. This sum excludes schemes to the value £0.9m for Adults, £8.4m for Children's Services and £15.2m of Policy and Resources schemes for which approval to carry forward to 2021/22 has previously been given during 2020/21.

102. During 2020/21 capital expenditure of £214m was incurred, which can all be financed within available resources. This includes prudential borrowing of just over £28m in line with previously approved funding sources. There will also be a further repayment of prudential borrowing from capital receipts and other funding sources of approaching £19m. Further details of the outturn position for capital are provided in Appendix 3.

103. Since the 2021/22 Capital Programme was approved in February, two changes have been identified as outlined below. Cabinet is recommended to approve these variations to the 2021/22 capital programme.

104. Rookwood office accommodation in Eastleigh offers a suitable location for the Children and Families teams who were previously located in Hampshire House. It is proposed to add a scheme to the CCBS capital programme to reconfigure Rookwood to provide conventional desk space, break out space, collaboration space, quiet areas, meeting rooms, family contact centre and spaces for case meetings and other public contact activity. The necessary building and mechanical and engineering costs, including costs to address roof leaks, window repairs, IT, furniture and moves, is estimated at £430k. It is proposed to fund these works from capital receipts and revenue contributions from the fund proposed in section F of this

report. Works to Rookwood are estimated to take four to five months with a target completion by February 2022.

105. The A3090 Winchester Road/Halterworth Lane Junction, Romsey junction improvements scheme was added to the 2018/19 capital programme based on a feasibility estimate value of £0.574 million. Since this time, the scheme has been paused as trigger points to secure the S.106 funding contribution had not been achieved. In addition, the mitigation deemed necessary at the planning stage, resulting from the adverse impact of the development on the highway network, has only recently been realised as the development is now mostly occupied. Therefore, this is the optimum time to deliver the project.

106. The scheme design has now been developed further to reflect current conditions and design standards and it is anticipated that the scheme value will now be up to £1.3 million. The additional cost estimate is partly due to increased scope and added value (including additional carriageway resurfacing and increased utility diversions), in combination with sector wide cost increases (including increased labour costs due to a national skills shortage and inflationary pressures from rising materials and construction costs).

107. However, this scheme will add benefit to the local area and build on the measures that have already been undertaken in this locality to improve accessibility to local amenities including the construction of a new footpath to link the new “Silverwood” development north of the A3090 to the existing bus stop on the A3090, which will need to be moved, and the footpath extended as part of the revised scheme

108. The increase in the scheme value of approximately £0.726 million will be funded by developer contributions currently held by HCC. The project will also be subject to a full project appraisal to be considered by the Executive Member before any final commitments are made.

Section J : Assurance Statement

109. The code of Practice on Local Authority Accounting in the UK requires the County Council to publish, together with its Statement of Accounts, an annual governance statement signed by the Leader and Chief Executive. As part of this process, the Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control operating in the County Council as a whole. The Chief Internal Auditor’s Annual Report and Opinion is approved by the Audit Committee.

110. The Chief Internal Auditor has concluded that:

“In my opinion, Hampshire County Council’s framework of governance, risk management and management control is ‘Reasonable’[1.] *and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.”*

[1.] Reasonable means: There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

111. The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council's Statement of Accounts. The accounts for 2020/21 record that the value of the fund's assets increased significantly from £6.9bn to £9.07bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund and has concluded that:

"In my opinion, Hampshire Pension Funds framework of governance, risk management and management control is 'Substantial' 2 and audit testing has demonstrated controls to be working in practice. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

[2.] Substantial means: a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

112. For the Local Government Pension Scheme (LGPS) administered by Hampshire County Council, the latest actuarial valuation, as at 31 March 2019, showed it to be 98.9% funded – a significant increase from the position three years prior of 81%. Similarly to most investment markets, the Pension Fund has more than recovered the losses it sustained in 2020 as a result of the COVID-19 crisis and has now reached a record high valuation. The Fund is entering the final year of its actuarial valuation cycle and the estimates received from the Fund's Actuary indicate that the funding position has improved and the Fund is now more than 100% funded.

Section K: Statutory Statement of Accounts

113. Usually, the Accounts and Audit Regulations 2015 require local authorities to publish their draft accounts by 31 May, with the audited accounts required to be published by 31 July.

114. Due to the disruption caused by Coronavirus, the Government issued legislation (The Accounts and Audit (Amendment) Regulations 2021) which gives local authorities more time to prepare their accounts for 2020/21. This year, the draft accounts must be published before 1 August, with the audited accounts due by 30 September. The change in publication dates relates to the financial years 2020/21 and 2021/22 only. Therefore, unless further amendments are made, the deadlines will revert to the usual dates for the 2022/23 accounts.

115. There are no major changes to the format of the statement of accounts and they continue to follow the requirements of the Code of Practice for Local Authority Accounting (the Code) as set by the Chartered Institute of Public Finance and Accounting (CIPFA). The narrative report within the Statement of Accounts includes an explanation of how the required accounting

presentation relates to the financial performance of the County Council as set out in this report.

Section L: Consultation, Equalities and Climate Change Impact Assessment

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

117. This report deals with the outturn position and accounts for 2020/21, which is an end of year reporting matter and therefore no consultation or Equality Impact Assessments are required.

118. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council’s climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

119. This report deals with the outturn position for the revenue budget, capital programme and treasury management aspects of the County Council’s business. For the first two items climate change impact assessments for individual services and projects will be undertaken as part of the approval to spend process. For treasury management, in line with the CIPFA code, the County Council's treasury management investment balances are invested prioritising security, liquidity and then yield. Investments in pooled funds are managed by investment managers who are signatories to the PRI (Principles for Responsible Investment), managing investments in line with their own individual responsible investment policies. The County Council's Treasury Management Advisers, Arlingclose, have advised the County Council on Environmental, Social and Governance (ESG) issues in relation to investments in pooled funds.

120. There are no further climate change impacts as part of this report which is concerned with financial reporting.

1. CORPORATE OR 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~~

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	Date
Revenue Budget and Precept 2021/22 and Capital Programme 2021/22 – 2023/24 Agenda for County Council on Thursday, 25th February, 2021.	Cabinet – 9 February 2021 County Council – 25 February 2021
Medium Term Financial Strategy Agenda for County Council on Thursday, 16th July, 2020.	Cabinet - 14 July 2020 and County Council – 16 July 2020

IMPACT ASSESSMENTS:

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 under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic 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 characteristic connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic 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 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.

Adults' Health and Care Department – Revenue Expenditure 2020/21

Major variations in cash limited expenditure – Under Spend of £30.589m (6.36%) against the adjusted cash limit.

Service Area	**Variance (Under) / Over Budget £'000**	**%**	**Reason for Variation**
Director	(119)	(2.77)	The savings mainly relate to reduced spend on the wellbeing agenda budget and lower than expected staff related costs.
Strategic Commissioning & Business Support	(3,258)	(20.93)	The year end reported savings mainly relate to reduced spend on non-care contracts and staff budgets due to the difficulty in recruiting to vacant posts.
Transformation	(783)	(11.44)	The savings mainly relate to staffing budgets due to the delayed recruitment to vacancies. A significant proportion of the favourable variance has arisen from the reduced costs associated with training provided by the Workforce Development team.
Older Adults	(8,148)	(5.98)	The pressure within the homecare budget has been more than offset by the receipt of income available through the NHS discharge scheme to support the initial cost of all discharges from hospital. Additionally due to increased death rates and reductions in new clients entering residential and nursing settings there has been a material reduction in client numbers, albeit they have started to increase toward the later part of the year.
Younger Adults	(2,651)	(1.54)	The pressure on supported living budgets has been more than offset by savings within day care, the receipt of income available through the NHS discharge scheme to support the initial cost of all discharges from hospital and lower than anticipated client numbers.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
HCC Care	(5,772)	(12.08)	The savings are in part due to the closure of day centres during the pandemic and a significant and backdated increase in FNC rates. However, the primary reason for this variation is due to HCC Care beds being the NHS's preferred option to meet the need for Discharge to Assess and Designated Settings beds to aid in the rapid discharge of patients from hospital. These beds were fully funded by the NHS Discharge Scheme.
Governance & Assurance	(362)	(10.11)	The savings mainly relate to reduced spend on Best Interest Assessors and additional income in relation to deputyship fees.
Centrally Held	(9,496)	(34.6)	The savings relate to early achievement of Tt21 savings and unrequired one off provisions that were intended to offset potential in year pressures.
Public Health	0	0.00	
Total	**(30,589)**	**(6.36)**	

Children's Services Department – Revenue Expenditure 2020/21

Major variations in cash limited expenditure – Underspend of £10.0m (0.9%) against the adjusted cash limit.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Schools Budget			
Early Years free entitlements	(1,117)	(1.3)	There is an underspend on the free entitlements for two year olds and three and four year olds (universal and extended entitlement for eligible working parents) due to a reduction in the number of children accessing the entitlements across the year. This includes £264,000 that was earmarked for sustainability grants to early years providers set up to provide support to providers that have proven financial issues but are required to support sufficiency of places. Funding will be made available in 2021/22 for this.
Growth Fund	(905)	(18.6)	The position includes savings for infant class size funding, falling rolls, temporary classrooms and growing schools, due to fewer schools being eligible for funding than budgeted.
Central Provision funded by Maintained Schools	(799)	(27.7)	There has been a reduction in expenditure as a result of the covid-19 pandemic. There is an underspend on the redundancy and premature retirement budget due to many schools pausing their restructures and redundancy processes and the Affordable Schools Programme has been delayed due to school improvement services and schools focussing on the pandemic.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
High Needs top up funding	9,357	18.6	The pressure experienced in Hampshire is reflected in many other authorities and relates predominantly to demand led budgets funding pupils with high levels of additional need, where there are increasing numbers of pupils with Education, Health and Care plans (EHCPs); and the result of extending this support for young people up to the age of 25. This includes mainstream schools, special schools, post-16 provisions and education centres. There is also a continuation of the pressure on the service for discretionary and direct payments.
Independent and Non-maintained Special Schools	7,395	24.8	The pressure is due to an increase in both the number of placements and the average cost per placement. Whilst there is a significant and increasing pressure on this budget, the High Needs Strategy to increase in-house capacity continues to be progressed and will have resulted in a lower overall overspend on the High Needs Block this year.
Various other (net)	(1,241)	(0.1)	Various smaller budget savings across the department.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Carry Forward of Dedicated Schools Grant (DSC) Deficit	(12,690)	(1.4)	The total 2020/21 pressure of £12.69m has been offset by a charge to the DSG reserve, as allowed by the Department for Education (DfE). This year, the charge will increase the deficit on the DSG reserve to over £35.4m which will be funded from future years DSG funding. A DSG Deficit Management Plan was produced last year, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block.
Sub-Total Schools Budget	**0**	**0.0**	
COVID-19 pressures			£791,000 of COVID related costs are included within the figures above but funding will be allocated to the schools budget in 2021/22.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Non-Schools Budget			
Home to school transport	(2,946)	(8.9)	The underspend on HtST is due to lower than budgeted growth in pupil numbers on Transport. The number of pupils with EHCPs has increased as expected although the number requiring LA funded transport has not seen the same increase. Lower than forecasted SEN pupils on Transport. The service has seen a rise in the average cost of arranging transport for children with SEN, this is being investigated to understand the impact for future years. The number of pupils moving into the secondary phase in mainstream schools increased in line with forecasts but the number requiring LA funded transport was also lower than expected which has meant that we have not seen the 'step increase' in secondary costs that was anticipated when the budget was set.
Children Looked After (including CLA placements, SGOs, adoption and leaving care)	(1,926)	(1.0)	The saving has mainly arisen from one-off backdated health income relating to previous financial years, in house provision staff vacancies and fewer than anticipated children with disabilities placements. Lower activity than forecast in Non-County Placements (NCPs) and Independent Fostering Placements (IFPs) has been offset by pressures in post 16 accommodation and special guardianship order placements.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Swanwick Lodge	729	243.4	Progress has been made against the recovery plan, although this has been revised in year. The recruitment strategy is on course to ensure the unit can be appropriately staffed. A further review of the income strategy is underway to maximise income.
Safeguarding & Young People's Services	3,587	16.4	The pressure mainly results from the use of social work agency staff. Whilst recruitment through the Graduate Employment Trainee Scheme (GETS) continues, reliance on agency staff to cover for the short supply of qualified social workers and to balance the experience within frontline teams has continued to be required.
Skills & Participation	(412)	29.0	There has been an underspends as a result of early achievement of Transformation to 2021 savings targets alongside a review of working methods which has resulted in further on-going savings.
Family Support Services	(1,003)	(9.4)	The saving mainly relates to respite and support for disabled children, equipment and adaptations. In addition, there has been a saving on short breaks including underutilisation of care support in the community and the short breaks exceptions fund, compared to the budget.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Inclusion Services (Special Educational Needs, Educational Psychology and Services for young children inclusion)	555	53.5	This pressure is mainly due to the cost of agency Educational Psychologists (EP) and a significant decrease in income as EP resources were diverted on a risk assessed basis, away from income generating work towards statutory work; supporting clearing the backlog in SEN assessments.
Net Early Achievement of T2021 and other savings	(7,076)	(39.7)	Planned early achievement of savings used to offset the department's other pressures and contribute towards cost of change items across various budgets. The main early achievement is in relation to the Tt2021 Programme and £8.1m of additional funding for social care from central government allocated to Children's Services.
Various other (net)	(732)	(0)	Various smaller budget savings across the Department.
COVID-19 support package - Schools	(791)		To support COVID-19 related pressure across the service for Schools
Sub-Total Non-Schools Budget	**(10,015)**	**(4.2)**	
Total Budget	**(10,015)**	**(0.9)**	

Corporate Services Department – Revenue Expenditure 2020/21

Major variations in cash limited expenditure – Under Spend of £6.1m (8.2%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Corporate Services	(5,587)	(9.0)	Corporate Services continues to implement a strategy of strong budgetary control, managing expenditure and gaining economies of scale through expanded joint working and generating income, for example for legal services, pension administration, internal audit, procurement and other services. This has ensured early achievement of Tt2021 savings to contribute to the cost of change reserve to be used for future investment in further transformation work.
Corporate Non-Departmental budgets	(545)	(4.1)	The saving largely reflects lower costs or additional income in a number of budget areas. This includes lower members support costs, one-off adjustments and lower grants to local organisations and grants to voluntary organisations as agreed projects will be progressed in subsequent years and the saving will be carried forward to match the expenditure as it is incurred.
Total	**(6,132)**	**(8.2)**	

Culture, Communities and Business Services Department – Revenue Expenditure 2020/21

Major variations in cash limited expenditure – Under Spend of £4.5m (8.3%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Culture, Communities and Business Services	(4,520)	(8.3)	In view of the current financial situation for Local Government (excluding the impact of Covid-19), the Department continues to take every opportunity to make savings in business as usual work where possible. Savings totalling £3.728m have been achieved through a combination of generating increased income through new contracts and new initiatives, particularly within Property Services and Scientific Services; targeted staff savings through holding vacant posts and non-pay savings mainly within Library Services, Registration and Facilities Management; and stopping all non-essential spend including delaying planned infrastructure developments at the Great Hall and a pause on awarding new grants. In addition, the Department secured a total of £1.856m from early achievement of Tt2021 savings and what is now looking to be sustainable over-achievement of earlier Tt2019 plans.
Total	**(4,520)**	**(8.3)**	

Economy, Transport & Environment Department

Revenue Expenditure 2020/21

Major variations in cash limited expenditure – Under Spend of £0.7m (0.5%) against the adjusted cash limit.

Main variations

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Highways, Traffic & Engineering	(704)	(1.7)	In Highways the relatively milder winter weather resulted in savings against the winter maintenance budget of £746,000, which will be reinvested in the main highways maintenance revenue budget in 2021/22 in accordance with established principles, providing additional one-off resources to supplement existing maintenance programmes and activities. Higher than budgeted staff recharges to capital schemes reflecting the significant scale of the current capital programme for the Department; staff vacancies; and increased income, have been offset by planned increased spend in Highways maintenance on drainage and other works, where the budget for other revenue maintenance work continues to be under significant pressure.

Service Area	Variance (Under) / Over Budget £'000	%	Reason for Variation
Transport	(758)	(3.4)	In Transport, payments to bus operators for Concessionary Fares journeys were based upon payments made in the previous financial year, rather than actual journeys, which were significantly lower due to Covid-19. Nonetheless, this has still resulted in a saving against the budget, combined with income from increased staff recharges, and holding staff vacancies.
Waste, Planning & Environment	(469)	(0.9)	Waste prevention measures have achieved savings of £400,000 against the Waste budget. The remaining savings in this area predominantly relate to holding staff vacancies as planned.
Economic Development	(75)	(7.3)	The outturn reflects savings as a result of delays in planned expenditure, which will now take place in 2021/22.
Departmental Support and Early Achievement of Savings	(1,088)	(23.1)	In view of the current financial situation for Local Government (excluding the impact of Covid-19), the Department continues to take every opportunity to make savings in 'business as usual' work where possible. The identification of opportunities for the early delivery of Tt2021 activity has resulted in savings of £1.034m being achieved in 2020/21. In addition, further targeted staff and non-pay savings of £54,000 were achieved.
Planned one-off investment	2,399		Planned one-off investment utilising in-year savings to support the timing delays of the Waste Tt2019 savings target as a result of the complexity of these savings, and the investment needed to support the Tt2021 savings programme.

Appendix 1

Service Area	Variance (Under) / Over Budget		Reason for Variation
	£'000	**%**	
Total	**(0.7)**	**(0.5)**	

Treasury Management Outturn Report 2020/21

Purpose of the Report

1. The County Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017. The CIPFA Code requires the County Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report. The purpose of this report is therefore to meet this obligation by providing an update on the performance of the treasury management function during 2020/21.

Recommendations

2. That the outturn review of treasury management activities be noted.

Executive Summary

3. The report fulfils the County Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code and provides an update on the performance of the treasury management function during 2020/21.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2021. 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 treasury management strategy.

5. 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."

6. This annual report sets out the performance of the treasury management function during 2020/21, to include the effects of the decisions taken and the transactions executed in the past year.

7. All treasury activity has complied with the County Council's Treasury Management Strategy 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.

8. 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 latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2021.

External Context

9. The following sections outline the key economic themes in the UK against which investment and borrowing decisions were made in 2020/21.

Economic commentary

10. The coronavirus pandemic dominated 2020/21, resulting in significant levels of government borrowing and expenditure to support the economy, with the UK also agreeing a Brexit trade deal within the period.

11. The Bank of England (BoE) held Bank Rate at 0.1% throughout the year and extended its Quantitative Easing programme by £150bn to £895bn in November 2020. The Bank expects Gross Domestic Product (GDP) to remain low in the near-term but believes that the easing of restrictions is likely to lead to a strong recovery in growth later in 2021, with inflation forecast to increase in the near-term. The economic outlook has improved but downside risks remain, such as a further increase in unemployment when the furlough scheme ends.

12. Inflation remained low during 2020/21, with the annual headline rate of UK Consumer Price Inflation (CPI) rising to 0.7% year-on-year in March 2021, below expectations and below the BoE's 2% target. Unemployment was higher for the three months to March 2021 than for the same period the previous year, while periods of GDP contractions and growth over the year largely mirrored the tightening and easing of restrictions, creating some significant quarterly swings.

Financial markets

13. Monetary and fiscal stimulus helped provide support for equity markets which rose over the period. In the UK, the FTSE indices performed reasonably well during the period to November 2020 before being buoyed in December by both the vaccine approval and Brexit deal.

14. Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021

the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

Credit review

15. After spiking in March 2020, credit default swap spreads subsequently declined to broadly pre-pandemic levels. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks.

16. Moody's downgraded the UK sovereign rating to Aa3 with a stable outlook during the period and this change had an impact on a number of other UK institutions, banks and local government.

17. The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the pandemic and the effects of lockdowns and restrictions. This uncertainty means the County Council's treasury management advisors, Arlingclose, continue to recommend maximum durations of 35 days for unsecured investments with banks and building societies on their list of recommended counterparties.

Local Context

18. At 31 March 2021, the County Council's underlying need to borrow for capital purposes was £776.46m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £877.8m. These factors are summarised in Table 1.

Table 1: Balance sheet summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**
CFR	783.48	(7.02)	776.46
Less: Other debt liabilities*	(149.43)	7.96	(141.47)
Borrowing CFR	**634.05**	**0.94**	**634.99**
External Borrowing	(307.24)	6.47	300.77
Internal Borrowing	**326.81**	**7.41**	**334.22**
Less: Usable Reserves	(665.89)	(88.96)	(754.85)
Less: Working Capital	(204.53)	81.62	(122.91)
Net Investments	**(543.61)**	**0.07**	**(543.54)**

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

19. The CFR reduced by £7.0m during 2020/21. Other debt liabilities reduced by £8.0m in accordance with the PFI repayment models while the County Council's borrowing CFR increased by just under £1m as a result of its capital programme. External borrowing reduced by £6.5m during 2020/21 as a result of repayment of £10.0m Public Works Loan Board (PWLB) borrowing and the scheduled repayment of other borrowing of £3.4m, partly offset by a change in the short-term balances held on behalf of other organisations, which vary from year to year. At the end of the 2020/21 financial year total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £754m an increase of nearly £89m from 1 April 2020. Of this increase, over £28m relates to the increase in reserves held by individual schools and £30m relates to the Covid-19 financial response package. The balance includes contributions to Departmental cost of change reserves offset by agreed use of the Corporate Reserves.

20. The County Council's strategy was 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 at 31 March 2021 and the change during the year are shown in Table 2.

Table 2: Treasury management summary	**31/03/20 Balance £m**	**Movement £m**	**31/03/21 Balance £m**	**31/03/21 Rate %**
Long-term borrowing	(261.2)	11.9	(249.3)	4.66
Short-term borrowing	(10.0)	1.5	(8.5)	4.10
Total borrowing	**(271.2)**	**13.4**	**(257.8)**	**4.67**
Long-term investments	274.3	(14.4)	259.9	4.01
Short-term investments	105.5	89.2	194.7	0.32
Cash and cash equivalents	201.7	(89.2)	112.5	0.03
Total investments	**581.5**	**(14.5)**	**567.0**	**1.95**
Net investments	**310.3**	**(1.1)**	**309.2**	

Note: the figures in Table 2 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. Borrowing figures exclude short term balances held on behalf of others.

21. The reduction in net investments of £1.1m shown in Table 2 reflects a reduction in investment balances of £14.5m largely offset by the repayment at maturity of borrowing of £13.4m, in line with the County Council's policy on internal borrowing. Further details are provided in the Borrowing Activity and Treasury Investments Activity sections of this report.

Borrowing Update

22. In November 2020 the PWLB published its response to the consultation on ‘Future Lending Terms’. The rate at which local authorities could borrow from the PWLB is defined by a margin above gilts and following the response to the consultation the margin above gilts on PWLB loans was reduced from 1.8% to 0.8%, however restrictions were introduced meaning that this rate would only be available to authorities not planning to purchase investment assets primarily for yield.

23. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Authorities planning to purchase investment assets primarily for yield will only be able to access the PWLB to refinance existing loans or externalise internal borrowing and not for other purposes.

24. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

Borrowing Activity

25. At 31 March 2021 the County Council held £257.8m of loans (a decrease of £13.4m from 31 March 2020) as part of its strategy for funding previous years’ capital programmes. The year-end treasury management borrowing position and year-on-year change are summarised in Table 3.

Table 3: Borrowing position	**31/03/20 Balance £m**	**Net movement £m**	**31/03/21 Balance £m**	**31/03/21 Weighted average rate %**	**31/03/21 Weighted average maturity (years)**
Public Works Loan Board	(226.5)	10.0	(216.5)	4.7	10.7
Banks (LOBO)	(20.0)	-	(20.0)	4.8	12.3
Other (fixed term)	(24.7)	3.4	(21.3)	4.0	18.7
Total borrowing	**(271.2)**	**13.4**	**(257.8)**	**4.7**	**11.5**

Note: the figures in Table 3 are from the balance sheet in the County Council’s statement of accounts but adjusted to exclude short term balances held on behalf of others, and accrued interest.

26. 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. The flexibility to renegotiate loans should the County Council’s long-term plans change is a secondary objective.

27. 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 external borrowing. In line with this strategy, £10.0m of PWLB loans were allowed to mature without refinancing and a further £3.4m of other borrowing was repaid, predominantly related to the repayment of borrowing from the Solent LEP for the Solent Economic Zone (Daedalus) Phase 1 programme.

28. This borrowing strategy has been monitored with the assistance of Arlingclose and has enabled the County Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

29. The County Council also continues to hold £20m 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 in the year.

Treasury Investment Activity

30. The County Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the County Council's investment balances ranged between £336m and £611m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4.

Table 4: Treasury investment position	**31/03/2020 Balance £m**	**Net movement £m**	**31/03/2021 balance £m**	**31/03/21 Income return %**	**31/03/21 Weighted average maturity (years)**
Short term investments					
- Banks and Building Societies:					
- Unsecured	26.3	43.2	69.5	0.04	0.04
- Secured	15.0	(4.4)	10.7	0.31	0.78
- Money Market Funds	175.3	(97.3)	78.0	0.04	0.00
- Local Authorities	80.5	58.5	139.0	0.34	0.34
- Cash Plus funds	10.0	-	10.0	0.93	-
Total	**307.1**	**-**	**307.1**	**0.21**	**0.19**
Long term investments					
- Banks and Building Societies:					
- Secured	33.2	(13.2)	20.0	0.35	1.84
- Local Authorities	40.0	(5.0)	35.0	1.28	1.24

Table 4: Treasury investment position	**31/03/2020 Balance £m**	**Net movement £m**	**31/03/2021 balance £m**	**31/03/21 Income return %**	**31/03/21 Weighted average maturity (years)**
Total	**73.2**	**(18.2)**	**55.0**	**0.94**	**1.46**
Long term investments – higher yielding strategy					
- Local Authorities					
- Fixed deposits	20.2	1.5	21.7	4.32	12.49
- Fixed bonds	10.0	(10.0)	-	-	-
- Pooled Funds					
- Pooled property*	75.0	-	75.0	4.03	N/A
- Pooled equity*	50.0	-	50.0	6.45	N/A
- Pooled multi-asset*	40.0	8.0	48.0	4.53	N/A
Total	**195.2**	**(0.5)**	**194.7**	**4.80**	**12.49**
Total investments	**575.5**	**(18.7)**	**556.8**	**1.89**	**0.76**
Thames Basin Heaths pooled fund investments	6.0	4.2	10.2		
Total	**581.5**	**(14.5)**	**567.0**		

* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 March 2021 based on the market value of investments at the start of the year.

Note: the figures in Table 4 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.

31. The County Council made a payment of £226.7m on 1 April 2020 to prepay its employer's LGPS pension contributions. By making this payment in advance the County Council was able to generate an estimated saving of £9m over 3 years on its pension contributions, which will be added to the Budget Bridging Reserve.

32. Investment balances have subsequently increased and were £14.5m lower at 31 March 2021 than immediately prior to the pension prepayment. This is in part explained by the County Council not having to make monthly employer's pension contributions throughout 2020/21 (having already paid in advance) but also represents the impact of departmental underspends in 2020/21 and the balance of grants received but not yet applied. The impact of the coronavirus pandemic has created significant uncertainty, resulting in the need for significant assumptions within financial forecasts and a difference in timing between income and expenditure, both in terms of the direct response to the pandemic and in carrying out regular service delivery plans.

33. 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 alongside managing the risk of receiving unsuitably low investment income. The County Council's Treasury Management Strategy Statement (TMSS) sets out how it will manage and mitigate these risks.

34. The security of investments has been maintained by following the counterparty policy and investment limits within the TMSS, taking advice from Arlingclose on changes in counterparty credit worthiness, and making use of secured investment products that provide collateral. The County Council invests in liquid investments to ensure money is available when required to meet its financial obligations, spreading these investments across a number of counterparties to mitigate operational risk.

35. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was cut to 0.10% in March 2020 in response to the coronavirus pandemic. It has remained at this rate throughout the year, having an impact on rates across the market. Returns had been at or around 0% for liquid investment options such as Money Market Funds (MMFs), bank call accounts and the UK Government's Debt Management Account Deposit Facility (DMADF) and have not been significantly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. Investment income has therefore largely come from investments arranged at fixed rates of interest prior to the pandemic and through the County Council's investments in pooled funds.

36. The County Council benchmarks the performance of its internally managed investments against that of other Arlingclose clients. Internally managed investments include all investments except externally managed pooled funds but do include MMFs. The performance of these investments against relevant measures of security, liquidity and yield are shown in Table 5, providing data for the quarter ended 31 March 2021 and at the same date in 2020 for comparison.

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%
31.03.2021	AA-	40%	393	0.50%
Similar LAs	AA-	39%	983	0.42%
All LAs	A+	63%	14	0.15%

37. Table 5 shows the average credit rating of the portfolio was lower at 31 March 2021 than at the same time the previous year, largely as a result of the impact

of the pandemic on credit ratings across the market, including that of the UK Government. Bail-in exposure was lower than at the same time in 2020, as the County Council held a greater investment balance with other local authorities, who are not subject to bail-in risk, while the weighted average maturity of investments was lower as the County Council held lower long-term balances and sold at a gain £10m of very long term bonds, reinvesting the money in externally managed pooled funds. In addition there were timing differences between receiving and spending of Covid grants. The average rate of return (0.5%) was lower than at 31 March 2020, but with the benefit of higher rates for fixed investments made prior to the pandemic helping to offset returns at or close to 0% for many investments across the market. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics.

Externally managed pooled funds

38. In 2019 the County Council agreed to increase the amount of its cash balances earmarked for investments targeting higher yields of around 4% to £235m. This allocation was recently increased to £250m as part of the Capital and Investment Strategy for 2021/22 and the approach to investing this allocation was most recently set out in the Treasury Management Strategy Statement for 2021/22.

39. Approximately £205m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.4m invested on behalf of the Thames Basin Heaths Joint Strategic Partnership Board (TBH JSPB), where the County Council acts as the administrative body. Any investments made from cash held on behalf of the TBH JSPB are made with the agreement that the TBH JSPB has received its own financial advice and assumes all risks associated with these investments.

40. The CIPFA Code requires the County Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest yield. As a result, the County Council's investments targeting higher yields have been made from its most stable balances and with the intention that they will be held for at least the medium term. This means that the initial costs of any investment and any periods of falling capital values can be overcome and mitigates the risk of having to sell an asset for liquidity purposes, helping to ensure the long-term security of the County Council's investments.

41. The County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets but have since recovered well. These investments are now worth marginally more in aggregate than the initial sums invested, as shown in Table 6, demonstrating the importance of taking a longer term approach and being able to ride out periods of market volatility, ensuring the County Council is not a forced seller at the bottom of the market. The table also shows the County Council's investments in fixed deposits, which include long term loans to other local authorities and as part of

the Manydown programme.

Table 6 – Higher yielding investments – market value performance	Amount invested*	Market value at 31/03/21	Gain/(fall) in capital value	
			Since purchase	2020/21
	£m	£m	£m	£m
Pooled property funds	75.0	75.0	0.0	0.2
Pooled equity funds	50.0	49.5	(0.5)	12.0
Pooled multi-asset funds	48.0	48.7	0.7	1.3
Total pooled funds	**173.0**	**173.2**	**0.2**	**13.5**
Fixed deposits**	21.7	21.7	0.0	0.0
Total higher yielding	**194.7**	**194.9**	**0.2**	**13.5**

* excludes £10.4m invested on behalf of Thames Basin Heaths JSPB

42. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.41% pa (per annum) since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 17.5%.

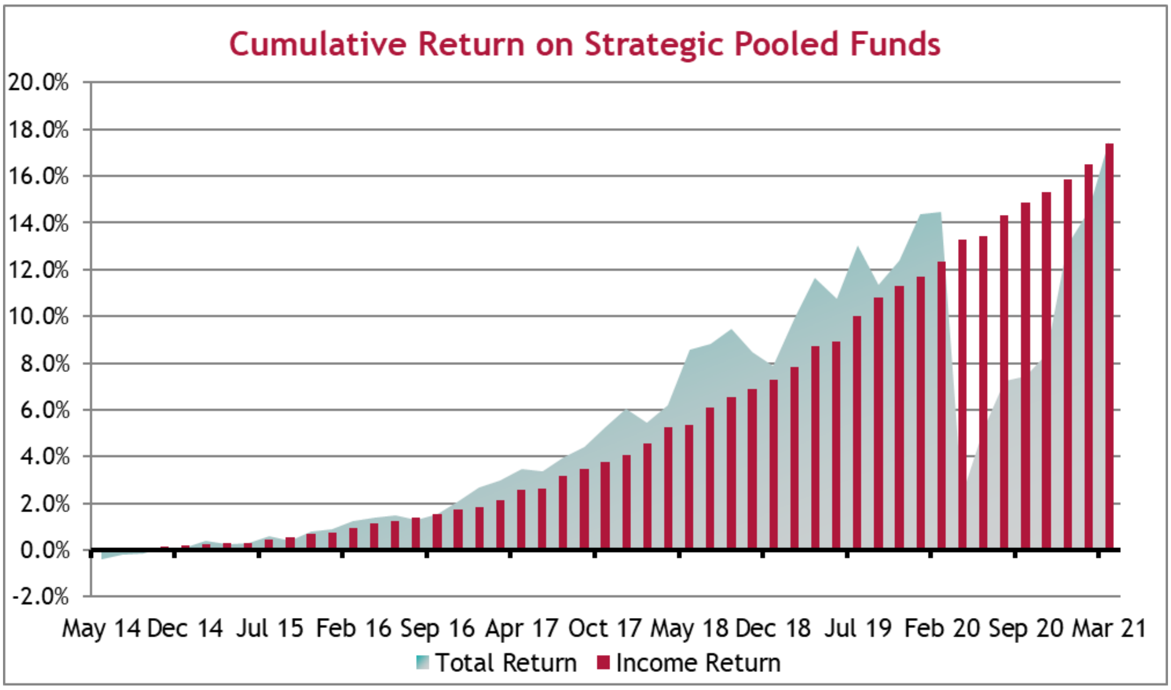
Table 7 – Higher yielding investments – income and total returns since purchase	Annualised income return	Total return
	%	%
Pooled property funds	4.16	20.0
Pooled equity funds	5.02	18.4
Pooled multi-asset funds	4.19	12.6
Total pooled funds	**4.41**	**17.5**

Note: excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB

43. Following advice from Arlingclose, the County Council made prudent income forecasts for 2020/21 to reflect the impact of the pandemic and the challenging market conditions being faced by the investment managers of its pooled funds, identifying that any shortfall at the end of the year to budgeted income would be met from the Covid-19 financial response package. Actual income returns from pooled fund investments were more positive than this prudent forecast resulting in income of £7.1m, which was about 10% lower than in 2019/20. This is compared with the 25% to 30% reduction that could reasonably have been anticipated given the pandemic's impact on property rental income, company dividends and bond yields.

44. The County Council's pooled fund investments continue to deliver income returns far in excess of what could be generated from cash investments and in line with the County Council's agreed objective of targeting income of 4% pa from its higher yielding strategy.

45. The cumulative total return from the County Council's investments in pooled equity, property and multi-asset funds since purchase is shown in the following graph. This highlights that the County Council has benefited from strong and steady income returns over time and the way that capital values have recovered since March 2020.



Note: the graph above excludes the performance related to £10.4m invested on behalf of Thames Basin Heaths JSPB

46. The County Council is aware of the risks involved with investing in pooled funds that hold underlying investments in bonds, equities, property and other financial instruments. As a result, when the County Council began to specifically target higher returns from a proportion of its investments, it also established an Investment Risk Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently approximately £5m and it is proposed to increase this to £6.25m. This equates to 2.5 % of the total earmark of £250m (in line with the recommendation to hold reserves of 2.5% for the general fund balance).

47. In addition to the risk of realising a capital loss, the IFRS 9 accounting standard that was introduced in 2018/19 means that annual movements in the capital values of investments need to be reflected in the revenue account on an annual

basis, although a five year statutory override was put in place for local authorities that exempts them from complying with this requirement.

48. Pooled fund 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.

Financial Implications

49. The outturn for debt interest paid in 2020/21 was £13.0m against a budgeted £13.2m on an average debt portfolio of £267.4m.

50. The outturn for investment income received in 2020/21 was £13.17m. Excluding the £2.9m gain made by the County Council from the sale of bonds from its portfolio of investments targeting higher yields the investment income was £10.23m on an average investment portfolio of £485m giving a yield of 2.11%. By comparison, investment income received in 2019/20 was £13.4m on an average portfolio of £617m with a yield of 2.17%.

Non-Treasury Investments

51. 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 Ministry of Housing, Communities & Local Government's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

52. 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.

53. The County Council's existing non-treasury investments are listed in Table 8.

Table 8 – Non-treasury investments	31/03/21 Asset value £m	31/03/21 Rate %
Loans to Hampshire based business	9.5	4.00
Joint venture recruitment agency	0.2	5.00
Total	9.7	4.02

Compliance Report

54. The County Council confirms compliance of all treasury management activities undertaken during 2020/21 with the CIPFA Code of Practice and the County Council's approved Treasury Management Strategy.

55. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

Table 9 – Debt limits	**2020/21 Maximum £m**	**31/03/21 Actual £m**	**2020/21 Operational Boundary £m**	**2020/21 Authorised Limit £m**	**Complied?**
Borrowing	279	258	730	800	✓
PFI and Finance Leases	150	141	150	180	✓
Total debt	**429**	**399**	**880**	**980**	✓

Treasury Management Indicators

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

Interest rate exposures

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

Table 10 – Interest rate risk indicator	**31/03/21 Actual**	**Impact of +/-1% interest rate change**
Sums subject to variable interest rates		
Investment	£262m	+/- £2.6m
Borrowing	£2m	+/-£0.0m

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

58. 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 11 – Refinancing rate risk indicator	**31/03/21 Actual**	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	3%	50%	0%	✓
12 months and within 24 months	3%	50%	0%	✓
24 months and within 5 years	11%	50%	0%	✓
5 years and within 10 years	21%	75%	0%	✓
10 years and within 20 years	52%	75%	0%	✓
20 years and within 30 years	9%	75%	0%	✓
30 years and above	0%	100%	0%	✓

59. 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 duration to maturity of 13 years (minimum 6 years; maximum 24 years).

Principal sums invested for periods longer than a year

60. 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 12 – Price risk indicator	**2020/21**	**2021/22**	**2022/23**
Actual principal invested beyond year end	£260m	£215m	£205m
Limit on principal invested beyond year end	£340m	£330m	£330m
Complied?	✓	✓	✓

61. The table includes investments in strategic pooled funds of £183m as although these can usually be redeemed at short notice, the County Council intends to hold these investments for at least the medium-term.

Other

CIPFA consultations

62. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the

Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.

63. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, such as recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.

64. Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for MiFID II professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16

65. CIPFA/LASAAC has proposed delaying the implementation of the new IFRS 16 Leases accounting standard for a further year to 2022/23.

Capital Spending and Financing 2020/21

Introduction

1. This Appendix reports that:
    - capital schemes costing £235.2m were started during 2020/21 from the approved capital programme for the year of £359.4
    - this left £99.7m for named projects not started by 31 March 2021 which will be carried forward to 2021/22, subject to Cabinet's approval
    - capital payments of £214.1m were incurred in 2020/21 and this can be financed within available resources
    - it is proposed that, under the Prudential Code for Capital Finance, new prudential borrowing of £28.5m is used in 2020/21 to fund previously approved schemes.
    - repayments of prudential borrowing from capital receipts and other sources total £18.7m in 2020/21
    - £3.6m of resources will be drawn down from the capital reserve in 2020/21 for use in funding payments incurred in 2020/21
    - capital receipts of £3.9m were achieved from the sale of assets in 2020/21.

Capital Programme for 2020/21

2. Table 1 below shows that 65.4% of the Capital Programme for 2020/21 was started in the year.

Table 1 - Capital Schemes Committed in 2020/21

	£'000	%
Approved value of the Capital Programme for 2020/21	359,458	100.0
Schemes committed in 2020/21	235,221	65.4
Balance of Cash Limit at 31 March 2021	**124,237**	**34.6**
Schemes for which approval to carry forward to 2021/22 is now requested	99,747	27.8
Schemes previously approved for carry forward	24,490	6.8
Total Cash Limit to be Carried Forward to 2021/22	**124,237**	**34.6**

3. An analysis by service of the figures in Table 1 is included in Annex 1.

Carry Forward of Schemes not Committed by 31 March 2021

4. The approval of Cabinet is required for proposals to carry forward schemes not started at 31 March 2021. The total value of such schemes is £99.7m. This excludes £0.9m of Adults, £8.4m of Children's Services and £15.2m of Culture, Communities and Business Services schemes for which approval to carry forward to 2021/22 has previously been given during 2020/21. These amounts are largely committed against named projects.

5. As Table 2 shows, the value of the 2020/21 programme committed in the year, at £235.2m, is higher than the level achieved in 2019/20 of £217.4m. Steady progress is being made given the significant size of the overall Capital Programme.

Table 2 – Percentage of Capital Programme Committed

	2019/20 £m	**2020/21 £m**
Value of Projects		
- Committed	217.4	235.2
- Carried forward	157.2	124.2
Total Programme	**374.6**	**359.4**
Percentage Committed	58.1%	65.4%

6. Individually, most of the schemes and provisions to be carried forward are relatively small amounts. The larger schemes include:

- Adults with Disability – Accommodation Strategy (£3.8m) – A capital grants programme has been approved and is progressing
- Extra care housing transformation (£3.1m) – the remaining projects within this programme are being considered
- Improvements in SEND resource provision for Hampshire SEND pupils – Plans have been approved and are progressing (£4.6m)
- Improvements to Schools (£5.7m) and Children's Services contingency provision to cover future projects and pressures on the capital programme (£4.2m)
- Structural maintenance of roads and bridges – Future projects planned which are linked to the outcome of funding bids (£20.1m)
- LED replacement programme (£3.2m) – Plans are progressing
- Decarbonisation projects, Countywide (£29.3m) – schemes are progressing

- Strategic Land purchases (£15.0m) – Provision required to enable quick action should advantageous land appear in the market.

Capital Expenditure and Financing 2020/21

7. Total expenditure actually incurred in 2020/21, arising from the Capital Programme for 2020/21 and earlier years, was £214.1m. This is £22.1m or 9.3% lower than the revised estimate for 2020/21. The timing of capital expenditure flows between financial years is often difficult to predict. The delays in committing a fair proportion of the Capital Programme for 2020/21, as shown in Table 2, will have reduced the level of payments in the year.
8. An analysis of the expenditure of £214.1m by service and type is included in Annex 2.
9. The proposed method of financing this expenditure is summarised in Table 3:

Table 3 – Capital Financing 2020/21

Funding	**Adjusted Revised Estimate £'000**	**Actuals £'000**	**Variation £'000**
Prudential borrowing			
- for capital schemes	40,994	28,462	(12,532)
- repayments of specific schemes	(7,256)	(18,725)	(11,469)
Government capital grants	139,699	118,315	(21,384)
Contributions from developers and outside agencies	34,350	64,389	30,039
Capital receipts	92	3,970	3,878
Revenue contributions			
- general corporate provision	9,935	12,915	2,980
Total Capital Resources	**217,814**	**209,326**	**(8,488)**
Transfers from /(to) reserves			
- planned use of capital reserve to fund payments	18,322	3,633	(14,689)
- Revenue reserves	0	1,114	1,114
Total funding for payments in 2020/21	**236,136**	**214,073**	**(22,063)**

10. In addition to this spend, during 2020/21, the Enterprise M3 Local Enterprise Partnership (LEP) invested £37.6m in Capital projects within the M3 corridor.

This spend is included in the annual accounts, as the Council is the Accountable Body for the LEP.

Borrowing

11. Since 1 April 2004, local authorities have been permitted to borrow for capital purposes without specific approval from the Government, provided their actions meet the requirements of the Prudential Code for Capital Finance introduced by the Local Government Act 2003. This is known as ‘prudential borrowing’. It does not attract any support from the Government towards the repayment and interest costs, which fall wholly on the County Council’s own resources.
12. Cabinet agreed criteria for the use of prudential borrowing in November 2003, with revisions in February 2006. Since then, its use has been agreed for a number of capital schemes, primarily on an invest-to-save basis. It is proposed that a total of £28.4m is borrowed in 2020/21 for these schemes, in accordance with the approved criteria.
13. Prudential borrowing of £18.7m has been repaid in 2020/21 from the use of capital receipts, developer and other contributions.
14. The Prudential Code includes a number of indicators intended to illustrate whether local authorities are acting prudently. The County Council’s latest position on these prudential indicators following the 2020/21 outturn is summarised in Appendix 2. It shows that the County Council continues to be in full compliance with the requirements of the Code.

Capital receipts

15. Capital receipts from the sale of land and property in 2020/21 were £4.0m in total. This has been used to fund capital expenditure in the year.
16. Services’ proposed shares of capital receipts in 2020/21 are summarised in Annex 3. The County Council’s policy allows services to retain 25% of capital receipts from the sale of their assets, with up to 100% for approved rationalisation schemes.
17. In line with this policy, services are entitled to £1.2m of the £4.0m received in 2020/21. Cabinet has previously approved the addition of most of this amount to services’ capital programmes, leaving a total of £113k for which approval is now required for allocation to services, as set out in Annex 3.

Analysis of Capital Programme 2020/21 and Requests by Services to Carry Forward Capital Schemes to 2021/22

	(1) Approved Value of Programme	(2) Schemes Committed in 2020/21	(3) Schemes for Which Approval to Carry Forward is Requested	(4) Schemes Already Approved for Carry Forward	Total Cash Limit Carried Forward to 2021/22 (Columns 3+4)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Adults' Services	26,231	18,196	7,180	855	8,035
Children's Services	76,064	51,812	15,875	8,377	24,252
Economy, Transport and Environment	131,307	105,399	25,908	0	25,908
Culture, Communities and Business Services	125,856	59,814	50,784	15,258	66,042
Total	**359,458**	**235,221**	**99,747**	**24,490**	**124,237**
	100.0%	65.4%	27.8%	6.8%	34.6%

The amounts to be carried forward are largely committed against named projects

<u>Summary of Capital Expenditure in 2020/21</u>

Analysis by Service

	£’000	%
Adults’ Services	18,638	8.7
Children’s Services	56,877	26.5
Economy, Transport and Environment	104,177	48.7
Culture, Communities and Business Services	34,381	16.1
	214,073	**100.0**

Analysis by Type of Expenditure

	£’000	%
Land	1,597	0.7
Construction work	152,179	71.1
Fees and salaries	28,329	13.2
Furniture, equipment and vehicles	6,998	3.3
Grants	14,970	7.0
Pooled Property Fund	10,000	4.7
	214,073	**100.0**

Analysis of Capital Receipts 2020/21

	Capital Receipts	Costs of Sales	Shares from in/out and Other Schemes		25% Share of Qualifying Receipts Now Due to Services
			Previously Added to Programme	Now Available to be Added to Programme	
	£'000	£'000	£'000	£'000	£'000
Adults' Services	345	6	345	0	0
Children's Services	0	0	0	0	0
Economy, Transport and Environment	375	0	0	25	88
Culture, Communities and Business Services	3,250	8	723	0	0
	3,970	**14**	**1,068**	**25**	**88**

Total Now to be Added to Services' Programmes **113**