

HAMPSHIRE COUNTY COUNCIL

Decision Report

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| Decision Maker: | Cabinet |
| Date: | 29 September 2020 |
| Title: | Financial Update |
| Report From: | Deputy Chief Executive and Director of Corporate Resources |

Contact name: Carolyn Williamson

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

Section A: Purpose of this Report

1. The purpose of this report is to provide a further update on the financial position for the County Council in view of the impact of the Covid-19 pandemic. It provides a snapshot of the latest position compared to that reported to Cabinet and County Council in July as part of the update of the Medium Term Financial Strategy (MTFS).
2. It also updates Cabinet on a number of government announcements in respect of funding and a Comprehensive Spending Review (CSR) now due to take place later this year.

Section B: Recommendation(s)

It is recommended that Cabinet:

3. Notes, with concern, the latest Covid-19 financial position compared to that reported to Cabinet in July.
4. Notes the additional urgent decision taken in respect of a second temporary mortuary as outlined in paragraph 24.
5. Delegates authority to the Deputy Chief Executive and Director of Corporate Resources in consultation with the Leader and Chief Executive to allocate the additional £7.6m of grant funding as appropriate, together with any other future funding that may be announced.

Section C: Executive Summary

6. Members will be fully aware of the significant financial impact locally, nationally and globally of the Covid-19 pandemic, not least due to the level of spend that has already been necessary to respond to the crisis and support the economy but also as a result of the long term impact on the economy and public finances going forward.
7. The Medium Term Financial Strategy (MTFS) Update reported to Cabinet and County Council in July 2020 sought to assess the medium term impact of Covid-19 on the financial sustainability of the County Council. It concluded that in three out of the four scenarios considered that the County Council was not financial sustainable. In the only scenario where the Council was considered to be financially sustainable this required further government funding of £52.4m to be received.
8. At the time the report was released for publication, the Government announced a further tranche of funding which is guaranteed to provide Hampshire with £7.6m of additional funding with the potential for it to also benefit from a sales, fees and charges reimbursement scheme and the Government taking a share of council tax and business rate losses. Initial estimates of what may be received from the income reimbursement to the end of July are included in this report, but no further information is yet available on the support available for council tax and business rate losses.
9. The Government has announced a consultation in respect of the next Comprehensive Spending Review (CSR), to be held in the autumn, which will cover three years for revenue and four for capital. Whilst this announcement is welcomed in terms of understanding our medium term financial prospects, there is concern that a rushed review may not be to the benefit of local government.
10. The latest return to the Ministry for Housing Communities and Local Government (MHCLG) shows a net increase in response costs and losses, mainly as a result of the inclusion of gross costs relating to Government grants, offset by reductions in some cost areas which are based on actual rather than forecast figures. Increased grant from the Government, together with additional savings identified across departments means that the overall position returned to the MHCLG has improved by £20.1m compared to the position presented in July.
11. Whilst the direction of travel appears positive, the MHCLG return focuses primarily on the immediate impact of the Covid-19 pandemic and indications are that there could be further increases in demand costs within adults' social care and income losses within Communities, Culture and Business Services (CCBS) may not return to normal levels next year as previously predicted. In addition, figures from other authorities on council tax losses also indicate potential total losses of up to 8% of income in the current financial year compared to the 5% allowed for in our current forecasts. An extra 3% loss

would add £20m to these forecasts and could have a longer term impact going forward if the council tax base is affected.

12. The financial scenarios outlined in the MTFs Update report, forecast that at least £52.4m of additional government support would be needed before the County Council could be considered to be financially sustainable in the medium term. Even under this best case scenario, the County Council remained very vulnerable to any further financial shocks.
13. Taking into account the full financial consequences of the Covid-19 pandemic the latest indications if anything are that the likely overall position will be worse than that reported to Cabinet and County Council in July and without significant additional funding from the Government in response to the Covid-19 crisis and social care pressures, going forward the County Council is not financially sustainable in the medium term.

Section D: Contextual Information

14. The financial strategy which the County Council has been successfully following since 2010 works on the basis of a two year cycle of delivering departmental savings targets to close the anticipated budget gap. This provides the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Budget Bridging Reserve (BBR) and with any early delivery of resources retained by departments to use for cost of change purposes or to cash flow delivery and offset service pressures.
15. The model has served the authority well to date and the County Council's strategy placed it in a very strong position to produce a 'steady state' budget for 2020/21 and safely implement the next phase of changes through the Transformation to 2021 (Tt2021) Programme to deliver further savings totalling £80m.
16. The outturn position for 2019/20, which was set out in the 2019/20 - End of Year Financial Report, which was reported to Cabinet in July, highlighted the strong financial performance across the County Council with the achievement of a net saving against the budget of £19.1m; despite having taken a further £140m of savings from the budget that year.
17. Both the Transformation to 2019 (Tt2019) and Tt2021 Programmes were progressing to plan and there were clear signs that the strategies being applied in the more complex areas of adults' and children's social care were having an impact on controlling demand. This is particularly true for Children Looked After (CLA) where reductions in the overall number of children in care have been achieved against the trends nationally and our own experience of increasing demand.
18. This successful strategy has meant that our reserves position remains strong and whilst the majority of this funding is earmarked for a specific purpose, it

does give the County Council flexibility and options in the use of those reserves if required.

19. However, since the budget was set in February an unprecedented national crisis, in the shape of the Covid-19 pandemic has demanded a similarly unprecedented set of responses from across the public sector, most notably the NHS, but also local government. The County Council's response to the Covid-19 crisis has been wide ranging both in terms of its own service provision and in supporting a number of partners both directly and through the Local Resilience Forum (LRF).
20. Throughout the Covid-19 crisis, regular updates have been provided to Cabinet on the financial implications for the County Council. In the early stages of the virus it was difficult to predict what the detailed impact might be, but over time it has been possible to refine forecasts based on what costs and losses have been incurred and the anticipated recovery and demand costs arising from the first peak of the virus.
21. Despite this, forecasting the financial impact still remains a difficult task and successive financial returns to Ministry for Housing Communities and Local Government (MHCLG) have seen wide variations in what has been reported, based on the differing assumptions and scenarios that have been provided by the Government and locally by Public Health colleagues.
22. At this stage, the forecasts in this report and those presented in the MTFS Update in July assume that there will not be a significant second peak, that requires the sort of response from the County Council as seen earlier in the year, and at the moment it is assumed that any significant local outbreaks will be managed through the County Council's new responsibilities as outlined in the separate report to Cabinet in July.
23. The situation continues to be ever changing and as highlighted in previous reports, the latest figures presented here are only a snapshot and are based on the figures returned to MHCLG on 31 August.
24. In most areas, decision making processes through Cabinet and Executive Members have returned to normal with limited use of urgent decision making powers. However, there has been one further urgent decision taken since July relating to the provision of a second temporary mortuary, which was required in order to quickly agree the lease terms for a new site following the de-commissioning of the airport facility. The total cost of the new site, including running costs, is expected to be in the region of £455,000 and Hampshire's share is around £313,000.

Section E: 2 July Funding Announcement and Comprehensive Spending Review

25. On 2 July 2020, the Government announced what it described as a 'comprehensive package' of measures to assist local government. A further tranche of un-ringfenced grant totalling £500m was announced and the County Council's share is around £7.6m. This is at the lower end of what we expected and is the result of the allocation methodology being weighted towards Unitary and Metropolitan Councils.
26. This report requests delegated authority for the Deputy Chief Executive and Director of Corporate Resources in consultation with the Leader and the Chief Executive to allocate this additional funding as appropriate and also requests the same delegated authority for any further tranches of funding that may be received.
27. In reality, all of the grant funding announced to date (£61.6m) will be required to meet response and recovery costs and to offset income losses as set out in Section F below.
28. The announcement also contained two further items, both related to lost income. The first is designed to partially compensate authorities for lost sales, fees and charges income and the second allows local authorities to spread current year council tax and business rate collection fund deficits over a three year period rather than the usual one. Importantly, the Government also suggests that it will share in council tax and business rate losses; but the exact details have not yet been announced.
29. The reimbursement methodology for Sales, Fees and Charges (SFC) is based on an initial 5% deductible amount followed by a reimbursement of 75p for every further pound lost. The draft guidance suggested that the deductible amount would be set at 5% of all budgeted SFC for the year, however following lobbying from the sector, this has been amended to cover only those service areas where a reimbursement is being sought.
30. In light of the guidance, the County Council has also reviewed its income losses to distinguish between SFC that meet the definition and those that do not. This is reflected in the figures reported later in this report and forms the basis of the calculation for what reimbursement may be received.
31. Given the uncertainties around income levels going forward (particularly in respect of school meal provision) a detailed estimate of the potential reimbursement to the end of July only has been undertaken. Based on these initial calculations, it is estimated that we could receive around £2.4m from the reimbursement scheme for that period, subject to our return being approved by the Government. The first return is due at the end of September.
32. The Government have been very specific around the fact that the scheme is designed to reimburse lost SFC income as a result of the impact of Covid-19. It does not cover lost investment income and in particular, there is no support for

those authorities that have entered into direct property investments against past government guidance.

33. The announcement that council tax and business rates collection fund deficits from the current financial year can be spread over three years rather than just one does not provide any additional funding and therefore does not improve the position as set out in the MTFS Update report, since our strategy is already to use one off funding over a number of years to try to bridge the gap.
34. The press release also indicated that some funding for these losses will be announced in the next Comprehensive Spending Review (CSR), in which the government will agree an apportionment of irrecoverable council tax and business rates losses between central and local government for 2020/21. Whilst this is welcome, our best case scenario outlined in the MTFS Update assumes that the Government will meet all of the £34.6m losses currently predicted, albeit these are based on very high level assumptions at this stage.
35. On 17 September, the Government also announced £546m of extra funding for the Infection Control Fund, which has also been extended to March 2021. The fund helps care providers with items such as paying staff full wages when they are self-isolating and enabling staff to work in only one care home, reducing the risk of spreading the infection. Allocations have yet to be confirmed but based on the distribution methodology previously applied Hampshire County Council's share is estimated to be in the region of £16.5m. However, this funding is passported to providers and so whilst welcome will not address our funding gap.

Comprehensive Spending Review

36. On 21 July, the Government announced a consultation on the next CSR which will cover the three financial years to 2023/24 for revenue and four financial years for capital allocations.
37. Whilst this is welcome from a financial planning point of view it raises concerns that a rushed CSR may not be the right thing for local government, especially if proposals under Business Rate Retention and the Fair Funding Review continue to be put on hold. Since the announcement however, the Chancellor has also suggested that the CSR could be postponed if Britain is hit by a big second wave of Covid-19 and recent discussions with other County Council CFO's suggest that a single year settlement is more and more likely.
38. Irrespective of when the CSR takes place, from the County Council's perspective, beyond any announcements related to Covid-19 the key issues that need to be addressed going forward remain the same, irrespective of when the CSR takes place, namely:
 - A long term sustainable solution to the increasing complexity and demand for Adults Social Care. Year on year increases in funding are required to keep pace with inflation and demand pressures.

- Additional year on year funding for children's social care growth which reflects the actual financial need across all authorities not just the relative need.
 - A review of the eligibility for Special Educational Needs (SEN) and year on year increases in grant through the Dedicated Schools Grant (DSG) to meet the growing demand.
 - Freedoms and flexibilities to charge for some services, for example, a nominal Household Waste Recycling Centre (HWRC) gate fee and concessionary travel flat fee per journey.
 - Greater freedoms for council tax setting.
39. The County Council will make its own direct submission to the consultation and will also contribute through its various networks such as the Society of County Treasurers and the County Council's Network.

Section F: August MHCLG Return and Assumptions

40. Previous reports to Cabinet have highlighted the complexities of producing any sort of accurate forecasts for Covid-19 particularly in the earlier months when it was unclear how long the initial response period would be. Although the position remains fluid, we now have a more stable position on which to build based upon the following factors:
- The response costs for the initial peak are better understood.
 - We have detailed monitoring information available for the first three months of the year, which is important in areas such as income losses and potential savings.
 - We have been able to make assessments about direct recovery costs that may be required.
 - We have undertaken some work on future demand costs, albeit this remains our weakest area of forecasting.
41. Building on this position, we have produced forecasts for the end of August return to the MHCLG based on the following assumptions:
- Monitoring information and normal forecasting to be used to assess costs and losses rather than assuming a pre-defined response and recovery period as in previous returns.
 - No significant second peak with any outbreaks being managed through our local outbreak plans.
 - No further significant response costs for the remainder of the year.
 - No further lockdowns that would impact on income losses and costs.
 - Inclusion of gross costs in line with the guidance that are supported by Government grant (e.g. Infection Control Grant).

Financial Summary

42. The following table shows a summary of the last reported figures for June compared to the August returns broken down over the key areas requested by MHCLG:

| | June £'000 | August £'000 | Change £'000 |
|---|-----------------------|-------------------------|-------------------------|
| Response and Recovery Costs | 71,805 | 85,035 | 13,230 |
| Lost Savings – 2020/21 only | 9,996 | 9,996 | 0 |
| Business Rate / Council Tax Losses – 2020/21 only | 34,600 | 34,600 | 0 |
| Lost Sales Fees and Charges Income | 11,474 | 15,862 | 4,388 |
| Commercial / Other Income | 9,182 | 13,787 | 4,605 |
| | 137,057 | 159,280 | 22,223 |

43. The main differences between the figures for the Income and Commercial Losses are explained in the paragraphs below. For the response and recovery costs, the net increase is made up of the addition of gross costs totalling £24.2m in respect of spend associated with additional Government Grants, offset by reductions in response costs such as Personal and Protective Equipment (PPE), temporary mortuary provision and payments made to care providers, which are now based on actual costs rather than the five month response period that was assumed in previous returns.
44. There has been a re-classification of income following the release of the Government's guidance for reimbursement of Sales, Fees and Charges, which means that the June and August figures are not directly comparable. This has been done to better highlight the value of lost income that may be eligible under the scheme.
45. In total terms, there has been an increase of £9.2m in income losses which have increased based on the monitoring information from the first quarter and the predicted knock on impact to receipts for the remainder of the year. The biggest increase relates to changed assumptions within HC3S, the County Council's catering service, which alone accounts for £4.1m of the total variance. The figures for June were based on the assumption that schools would be returning in full from September and that no social distancing measures would be in place.
46. The August return was based on the assumption that there may be restrictions on the number of pupils that could be served at any one time or that there may be limited take up of school meals if parents are concerned about the return to school arrangements. Early indications are that meal provision is circa 30% down on last year's level, but it is difficult to predict whether this is a temporary

or long term position. A further review of the financial impact will take place when more data is available.

47. Other large increases relate to outdoor centres and the countryside service which account for a further £2.5m of the variance and have seen a continuation of lost income despite the easing of lockdown over recent months; mainly as a result of the requirement to keep social distancing measures in place.

Unfunded Costs and Losses

48. In order to complete the financial snapshot using the same methodology as previously reported to Cabinet we need to include Market Underwriting costs (which have increased by £1.6m to just over £24.9m) and the second two years of savings programme losses (approaching £27.8m). This increases gross losses to more than £212.0m, which are offset by grants, budgets and other savings as outlined in the following table:

| | June | August | Change |
|---|-----------------|------------------|-----------------|
| | £'000 | £'000 | £'000 |
| Total Costs and Losses | 188,187 | 212,010 | 23,823 |
| Service Specific Funding (CCG's and Government) | (4,392) | (6,819) | (2,427) |
| Covid-19 Grant Allocations | (53,968) | (61,610) | (7,642) |
| Track and Test, Infection Control and Emergency Assistance Grants | 0 | (24,174) | (24,174) |
| Income Reimbursement | 0 | (2,400) | (2,400) |
| Forecast Savings | (3,600) | (9,279) | (5,679) |
| Market Underwriting (budgeted) | (23,355) | (24,955) | (1,600) |
| Total Savings and Funding | (85,315) | (129,237) | (43,922) |
| Net Unfunded Costs and Losses | 102,872 | 82,773 | (20,099) |

49. The table shows that compared to June the overall picture has improved by £20.1m, the main reasons for which are summarised below:
- We have included further funding from the CCG's for continued payments towards the hospital discharges actioned at the beginning of the crisis.
 - Funding of £1.1m has been received in respect of the first terms additional cost of Home to School Transport.
 - Over £10m relates to other additional government funding, albeit that the income reimbursement is only to the end of July and needs to be submitted and agreed by Government.

- Net savings of £2.5m in respect of waste disposal costs based on the first quarter monitoring, which have not previously been included.
- Savings of just over £3m within highways maintenance in response to expected additional costs in this area. The Director has agreed to try to manage the increased costs by reducing the level of work done, albeit that additional Government funding of £19.8m for pot holes has also been received which will limit the overall impact on the service provided.

Section G: Medium Term Financial Position

50. Whilst the direction of travel in terms of the overall unfunded costs and losses highlighted in the above section is positive at this stage, it needs to be considered in the context of the medium term forecasts outlined in the July report to Cabinet and County Council.

51. Members will recall that in addition to the unfunded costs and losses detailed above, further assessments were made for departmental pressures (mainly social care costs and increased social worker capacity), the ongoing impact of council tax and business rate losses and other pressures such as investment losses and also SEN administration pressures (which was not Covid-19 related).

52. Combining all of these factors gave a base case for costs, losses and pressures across the years as follows:

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

53. Four scenarios were then applied to the base case for total costs, losses and pressures as follows:

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

income for the current year's losses (£34.6m). Additional government funding totalling £52.4m.

4. A reasonable worst case scenario in respect of costs and losses, but with the additional funding levels assumed in scenario 3.
54. A financial response package was put in place to try to balance the impact of Covid-19 in each of the scenarios detailed above. In summary terms it was assessed that the County Council was not financially sustainable in the medium term in all but Scenario 3. Even under this scenario, it was highlighted that the County Council remained very vulnerable to any further financial shocks.
55. Based on the net improvement of £20.1m detailed in paragraph 47, this still falls well short of the additional £52.4m assumed within Scenario 3 and indications are that there could be further increases in demand costs within adults' social care and income losses within Communities, Culture and Business Services (CCBS) may not return to normal levels next year as previously predicted.
56. In addition, figures from other authorities on council tax losses indicate potential total losses of up to 8% of income in the current financial year compared to the 5% allowed for in the forecasts above. An extra 3% loss would add £20m to the above forecasts and could have a longer term impact going forward if the council tax base is affected.
57. At this stage it is difficult for billing authorities to predict the likely losses due to the furlough scheme and other Government support being in place, but once this ends and more households and companies start to run into financial difficulties this could increase financial stress and redundancies along with the national and global impact of a recession. Detailed information has been requested from billing authorities on forecasts for council tax losses and will be included in future updates to Cabinet, albeit that some Chief Financial Officers are suggesting that the full impact may not be known until after the end of the financial year.
58. Furthermore, there are clear indications that the Coroner's Service is facing additional pressure and coronial staff are handling a much higher volume of cases than normal. At this stage it is uncertain how much of this is due to the impact of Covid-19 and, while further investigation is underway, additional resource has been directed to provide immediate support.
59. Taking all of these factors together would indicate that if anything the likely overall position will be worse than that reported to Cabinet and County Council in July and without significant additional funding from the Government in response to Covid-19 and social care pressures going forward, the County Council is not financially sustainable in the medium term.
60. However, what has changed since the July report is that the Government have announced a three year CSR, assuming we do not enter into another peak in infections over the coming months, which should mean that the County Council

will understand its detailed medium term financial settlement in December this year, together with any further announcements on Covid-19 funding, which will enable it to fully update the MTFS when the budget for 2021/22 is set in February next year. Failing this, the County Council will once again be in the position of setting a one year budget with little information available beyond that.

61. As outlined in the MTFS Update in July, the County Council has sufficient firepower to meet the initial unfunded costs and losses resulting from Covid-19, which will provide the time and capacity to fully understand our medium term financial prospects following the announcement of the CSR later this year.

Section H: Next Steps

62. It is anticipated that a further update on the Covid-19 position will be provided to Cabinet in November this year, which will also start to consider some of the factors that will need to be taken into account for the 2021/22 budget and council tax setting process.
63. This may include some high level announcements arising from the CSR, but at this stage the timing of this cannot be guaranteed. In any event, it is highly unlikely that we will receive any detailed settlement figures until mid to late December making timescales extremely tight for agreeing final figures for budget setting.
64. This report will also include an update on the business as usual financial position in respect of the current financial year and set out the process and framework for the setting of the 2021/22 budget.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Other Significant Links

| Links to previous Member decisions: | |
|---|---|
| | <u>Date</u> |
| Medium Term Financial Strategy Update https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=134&MId=6499&Ver=4 | Cabinet – 14 July 2020 County Council – 16 July 2020 |
| Direct links to specific legislation or Government Directives | |
| <u>Title</u> | <u>Date</u> |
| Section 100 D - Local Government Act 1972 - background documents | |
| <p>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</p> | |
| <u>Document</u> | <u>Location</u> |
| None | |

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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