County Councils Network

Analysing the impact of COVID-19 on County Authority Finances

12 June 2020

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We have pleasure in enclosing our final report (the Report) for the attention of the County Council's Network (CCN). The Report has been prepared by Grant Thornton UK LLP (Grant Thornton) for CCN in connection with the Analysis of county authority MHCLG COVID-19 returns engagement (the Purpose) under our letter of engagement dated 4 May 2020.

We agree that CCN may disclose our Report to its professional advisers in relation to the Purpose, or as required by law or regulation, the rules or order of a stock exchange, court or supervisory, regulatory, governmental or judicial authority without our prior written consent but in each case strictly on the basis that prior to disclosure CCN informs such parties that (i) disclosure by them is not permitted without our prior written consent, and (ii) to the fullest extent permitted by law we accept no responsibility or liability to them or to any person other than CCN. We have already received and approved such permission from CCN to share the Report with the Ministry of Housing, Communities & Local Government (MHCLG), Her Majesties Treasury (HM Treasury) and Society of County Treasurers (SCT) members representing CCN member councils, in addition to Bedford Borough Council and Cheshire West and Chester Council who are members of SCT but not CCN, on the basis that the Report is confidential and that we accept no responsibility or liability to anyone other than CCN. We stress that this Report is confidential to CCN and SCT members noted above.

The Report should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, such consent will only be given after full consideration of the circumstances at the time. These requirements do not apply to any information, which is, or becomes, publicly available or is shown to have been made so available (otherwise than through a breach of a confidentiality obligation).

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than CCN for our work, our Report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the Report by CCN for any purpose other than in relation to the Purpose.

The data used in the provision of our services to you and incorporated into the Report has been provided by third parties. We will not verify the accuracy or completeness of any such data. There may therefore be errors in such data which could impact on the content of the Report. No warranty or representation as to the accuracy or completeness of any such data or of the content of the Report relating to such data is given nor can any responsibility be accepted for any loss arising therefrom.

Scope of work and limitations

Our work focused on the areas set out in our engagement letter dated 4 May 2020.

The scope of our work has been limited both in terms of the areas of the business and operations which we have assessed and the extent to which we have assessed them. There may be matters, other than those noted in the Report, which might be relevant in the context of the Purpose and which a wider scope assessment might uncover.

For your convenience, the Report may have been made available to you in electronic as well as hard copy format, multiple copies and versions of the Report may therefore exist in different media and in the case of any discrepancy the final signed hard copy should be regarded as definitive.

General

The Report is issued on the understanding that the management of the CCN have drawn our attention to all matters, financial or otherwise, of which they are aware which may have an impact on the Report up to the date of signature of the Report. Events and circumstances occurring after the date of the Report will, in due course, render the Report out of date and, accordingly, we will not accept a duty of care nor assume a responsibility for decisions and actions which are based upon such an out of date Report. Additionally, we have no responsibility to update the Report for events and circumstances occurring after this date.

Notwithstanding the scope of this engagement, responsibility for management decisions will remain solely with CCN and not Grant Thornton. CCN should perform a credible review of the guidance as articulated in the document.

Contacts

If there are any matters upon which you require clarification or further information please contact the engagement partner Phil Woolley.

Yours faithfully

Grant Thornton UK LLP

Grant Thornton UK LLP

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Executive Summary

Introduction

Grant Thornton's role

The County Councils Network (CCN) has engaged Grant Thornton to develop benchmarking and provide analysis of the data from Delta 1 (April) and 2 (May) returns provided to MHCLG relating to COVID-19 financial pressures. The Society of County Treasurers (SCT) are a key stakeholder in supporting this work. For the avoidance of doubt, this analysis does not represent formal advice from Grant Thornton to individual councils. Financial decisions in regard to managing the coronavirus pandemic (COVID-19) pressures or completing Delta returns remains the responsibility of S151 Officers.

The purpose of this analysis

This analysis captures the results of the benchmarking and workshop discussions. CCN commissioned Grant Thornton to provide analysis on the financial impact of COVID-19 and to inform the ongoing dialogue with MHCLG.

- In the first phase, this exercise was intended to help inform the preparation of the May Delta 2 returns for CCN and SCT members. It comprised two workshops centred around benchmarking of the April Delta 1 return data. Over 80 county finance officers attended. Key principles and decision points arising from the discussion were circulated prior to the deadline for the Delta 2 return.
- In the second phase, the benchmarking analysis was updated to reflect the May returns, and three further workshops, with over 60 county authority finance officers attending, were held to discuss the results, to further develop mutual understanding of the challenges faced by each council and to consider the broader financial implications of COVID-19 in the medium term.

Limitations of the analysis

The data used in this report is subject to the limitations of the information available to councils at the time that the May Delta 2 return was compiled and the short window of time available for analysis following our engagement by CCN. We have not audited or otherwise validated the data used in the analysis.

The underlying data used for the benchmarking and the foresight analysis is based on the content of the Delta 2 returns provided by county authorities, and also uses published information submitted by councils to the Ministry of Housing Communities and Local Government in the form of Revenue Outturn (RO) data for 2018/19 and Revenue Account (RA) budget data for 2020/21. We have also included a financial projection using our Foresight methodology, which applies a number of assumptions to this data to provide a high-level financial projection of the emerging funding shortfall for county authorities. This projection is indicative, based on the available data and the assumptions are based on information gathered in the workshops and subsequently discussed and agreed with CCN and the SCT executive.

Confidentiality

The content of this report is confidential for use by CCN with the expectation that it will be shared with CCN members, as represented by members of SCT. This report uses confidential information that CCN and SCT members have agreed to share on the basis that it is not distributed outside the approved CCN and SCT member group. Wider distribution outside of member organisations will be subject to written consent from Grant Thornton UKLLP and CCN.

Headline findings

Key messages from the analysis of Delta 2 returns to MHCLG and workshop discussion of the benchmarking results with county authorities are as follows:

1. The local response to COVID-19 and the indirect effect of the lockdown mean that **there are unprecedented levels of additional unplanned COVID-19 related cost pressures and lost income for county authorities**. The precise financial impact is uncertain, however the Delta returns provide early insight into the financial risks.
2. Prior to COVID-19, county authorities were already managing significant funding shortfalls, including £1.3bn in 2020/21 based on previous CCN analysis*. Some of the **existing savings plans to manage pre-existing deficits are no longer possible to deliver as a result of the increased demand on council resources**.
3. Based on full year financial data from the Delta returns and excluding council tax and business rates, an additional funding shortfall of **£752m** is forecast across the 39 county authorities included in this analysis for 2020/21 (see Appendix A). **This equates to just over £19m per county authority for 2020/21**. Further scenarios based on the April actual data from the Delta returns indicate the full year impact could be as high as **£1.9bn**.
4. The **government COVID-19 support funding to date has reduced the funding gap, but has not been sufficient to fully close it**. The gap identified in 2020/21 is net of government emergency support funding provided to date, primarily the **£1.2bn** share of emergency funding provided to county authorities.
5. In addition to this, significant losses in council tax and business rate income are predicted by county authorities, which could cause large deficits in the collection fund impacting on 2021/22 budgets. It should be noted that such deficits may have to be provided for in the current year and would be part of any consideration to make service cost reductions or issue a section 114 notice during 2020/21. The funding shortfall is likely to be increased by continuing COVID-19 related cost pressures, particularly in social care. The scale of this is uncertain, but based on the initial high-level forecast, **the funding shortfall caused by COVID-19 could be in the region of £1.79bn in 2021/22 - an average of £46m per county authority**. Further scenarios based on the April outturn data from the Delta returns indicate the impact could be as high as **£2.6bn**.
6. The longer-term economic consequences of COVID-19 are not yet clear. However, communities may face a period of slow recovery and prolonged unemployment. The Delta returns and workshop discussions indicate that county authorities expect that this will have a significant impact on local tax revenues. If the predicted reduction in the tax base is not addressed in 2021/22, there will be a compounding effect where future increases in council tax rates will apply to a lower base, resulting in a unrecoverable loss. Taking standard service cost inflation into account, **a gradual economic recovery, that starts to restore growth in local tax revenues to pre COVID-19 levels during 2021/22, may not be sufficient to close the resulting funding gap within the next 5 years**. This could lead to a cumulative aggregate 5-year funding gap of **£6.8bn**, and possibly as high as **£9.2bn** under a more challenging scenario. A sharp economic recovery would help to close the gap at a faster rate but in the mean time, councils would face a significant funding shortfall.
7. The **projected funding gaps in 2020/21 and 2021/22 would be beyond the ability of a significant number of county authorities to manage within their existing resources**, even if measures were taken to reduce costs. The projections show total aggregated unallocated general fund reserves for county authorities could be fully depleted by 2021/22, making it likely that a significant number of councils would be unable to set a balanced budget for that financial year.
8. In summary, these projections indicate **there is a risk that a significant number of county authorities could be forced to enact large scale reductions to service and provider costs, draw down on all available reserves and, as a last resort, to issue a Section 114 notice in the current year**, on the grounds that they will be unable to meet the statutory duty to deliver a balanced budget in 2020/21 or to set one for 2021/22.

**CCN Analysis: Local Government Funding Forecast Update 2020-25 (Feb 2020).*

The pre COVID-19 financial landscape

CCN and county authorities

CCN is a membership organisation for 36 county councils and unitary councils who identity as county areas (collectively referred to as county authorities). CCN works closely with SCT who represent 39 county councils and unitary authorities. Appendix A includes a list of the councils included in this analysis.

Financial pressures facing county authorities up to 2020/21

Prior to coronavirus pandemic (COVID-19) local government has had to adapt to significant reductions in funding during the period of austerity. According to the latest funding forecast* commissioned by CCN, after annual council tax rises, it is estimated that county authorities faced a £1.3bn funding gap in 2020/21 before COVID-19, with a cumulative shortfall of £7.7bn up to 2024/25. In broad terms, county authorities managed during austerity by driving out efficiency savings and significantly reducing discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services.

In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach. However, as a result of this, councils are exposed to a greater level of financial risk than has traditionally been the case.

This means that county authorities entered the pandemic with reduced financial resilience and fewer options available to absorb the significant increased costs and income reductions caused by COVID-19.

*CCN Analysis: Local Government Funding Forecast Update 2020-25 (Feb 2020).

Existing financial uncertainty

The period immediately before the COVID-19 crisis moved into its acute phase was one of considerable uncertainty. A lack of multi-year funding settlements already made it hard for councils to develop longer term financial plans. The key areas were:

- Funding for adult social care was already a major challenge, with many councils projecting a significant growth in demand alongside increasing complexity of need and a fragile provider market which was in need of additional investment. Government had started to address this in the form of ad-hoc, though significant, funding allocations but the longer-term solution had yet to emerge, along with the anticipated social care green paper.
- It had been recognised by government that the current system for calculating business rate allocations was also in need of review, and while different levels of retention had been piloted there had not been a definitive decision on the longer term. The system for calculating rateable values was also due for review at a time when the value of a business was increasingly removed from the value of premises.
- The system for calculating relative needs and the allocation of central government disbursements was also due to be revised. The ‘Fair Funding Review’ has been delayed a number of times.
- The future for specific grants, such as New Homes Bonus.

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

Looking to a post COVID-19 future

The extent of the challenge posed by COVID-19

Public services have been at the forefront of the emergency response to COVID-19, including local government. Councils have needed to introduce new services while providing additional financial support to existing service areas, such as adult social care.

Local government is still in the process of understanding the short, medium and long terms impact that COVID-19 will have on councils. The main mechanism for this so far has been a monthly data collection exercise via Delta returns. The Delta returns collect data on the use of government support funding, key financial pressures (cost and income) and reserves. The purpose of this is to enable MHCLG to obtain a reliable estimate of the financial challenge caused by COVID-19 at local level. The government funding provided so far has focussed on alleviating financial pressures created by COVID-19, with ongoing debate on what funding and support the government may provide in relation to ongoing COVID-19 financial pressures. The funding has focussed on COVID-19 related expenditure, and arguably has had limited focus on the indirect consequences of the pandemic, in particular lost income and the ability to deliver planned savings.

The recovery phase

This stark financial context that arises as the immediate lockdown subsides will have implications for county authorities. The longer term economic consequences of COVID-19 are not yet clear, however communities may face a period of slow recovery and prolonged unemployment. The Delta returns and workshop discussion indicate that county authorities expect that COVID-19 will have a significant impact on local tax revenues over the next few years.

As they start to move from the emergency response stage to the recovery planning stage of COVID-19 they will need to consider:

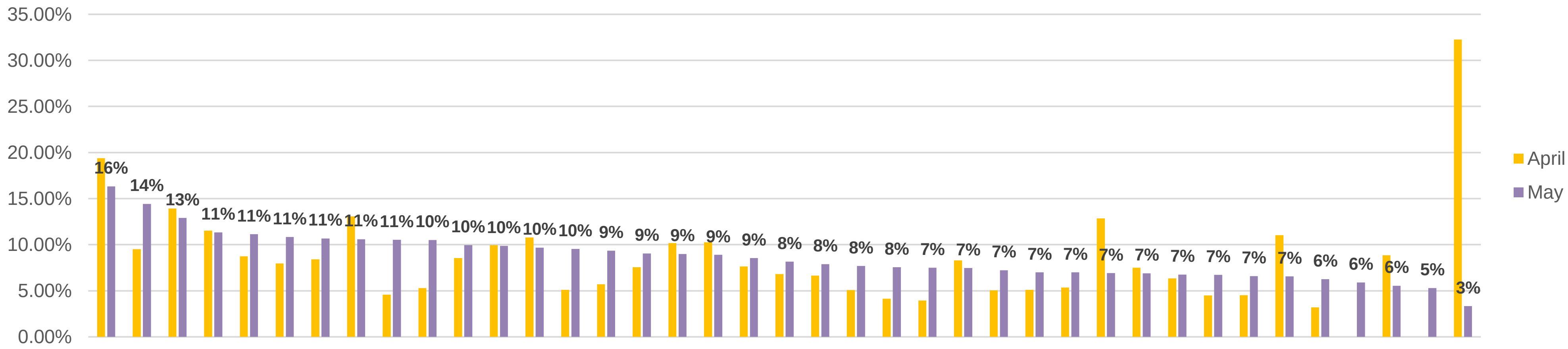
- how they re-mobilise reduced services, the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules.
- the impact on local markets for services such as social care and transport, and the implications of market and supply chain failure.
- how service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models and assumptions.
- how the economic shock of COVID-19 will impact on service need and on the demand for income generating services.
- whether existing services will need to reduce or cease to manage the funding gap and whether closed facilities should be re-opened.
- County unitary councils face additional pressure on district level services such as culture, leisure and housing.

The Delta 2 Return (May 2020)

There was a significant improvement in the consistency of the data provided between Delta 1 in April and Delta 2 in May, with the exception of council tax and business rate returns which remained inconsistent, and as a result have been excluded from the analysis below. The improvement follows the workshops conducted during phase 1a of this project and the issue of a note to county authorities that set out the consensus reached on addressing each point in the return.

Though outliers are still evident in this chart, there is far less deviation from the average. Additionally, there is a balanced split of county councils and unitary authorities, confirming large differences in the method of calculating projected council tax and business rates loss. **On average, total projected cost pressures and income losses (excl. business rates and council tax) is £50.2m per council, 8.3% of gross spend (excluding education).** The equivalent percentages reported in the April Delta return have been included (as orange bars) to identify any improvements in consistency. Standard deviation has more than halved, decreasing from 0.054 in April to 0.026 in May, implying that councils are projecting total cost pressures and income losses (excl. BR and CT) on a much more consistent basis.

Figure 1: Total projected cost pressures and income loss (excl. business rates and council tax) as a % of 2018/19 total spend (gross)

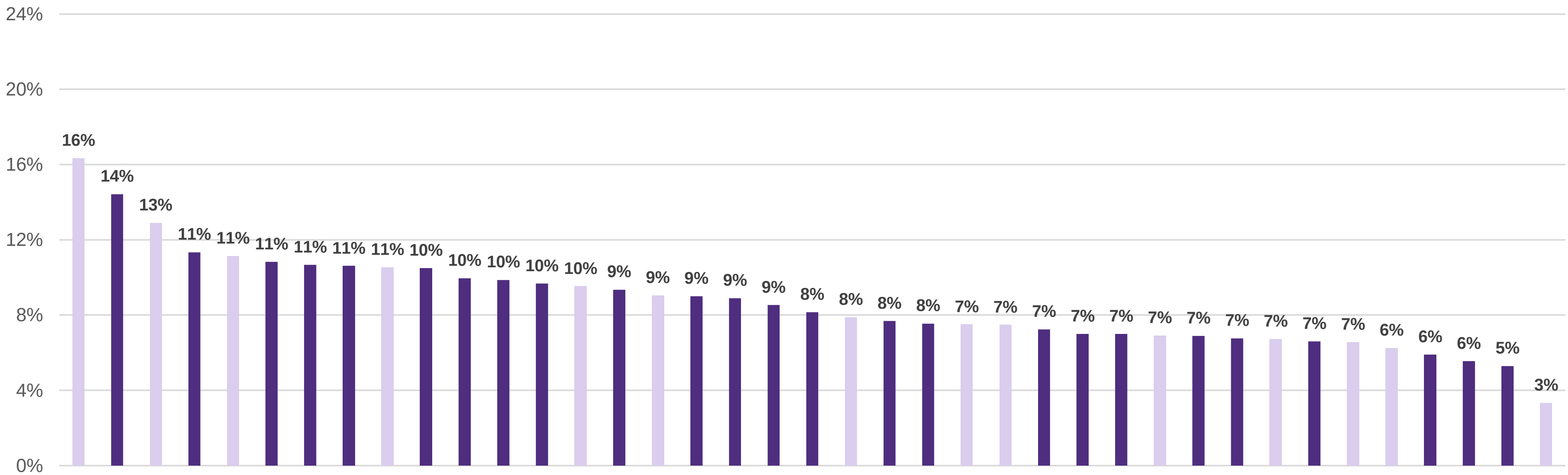


Source: Delta 2 Return, MHCLG 2018/19 RO

Delta 2 - total cost and income pressures

The following chart shows the total pressures and income losses across all 39 councils ranked in order of % value. In order to provide a fair comparison, council tax and business rate pressure have been excluded from this analysis as the data returned in Delta 2 is incomplete and inconsistent. **On average, total projected cost pressures and income losses (excluding business rates and council tax) is 8.3% of gross spend. Approximately 90% of county authorities reported costs within a range of 5% and 11% of the gross cost of services (excluding education).**

Figure 2: Total projected cost pressures and income loss (excl. business rates and council tax) as a % of 2018/19 total spend (gross)



Source: Delta 2 Return, MHCLG 2018/19 RO

Cost pressures reported in Delta 2

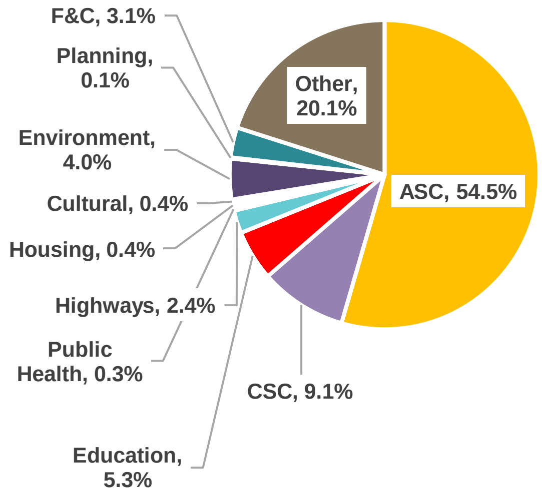
The table below gives a summary of cost pressures by service line, split by county councils and county unitary councils. The monetary value represents the average projected cost pressure for 2020/21. The percentage represents the cost pressure as a weighted proportion of service line gross spend from the 2018/19 RO. For example, county councils project an average £26.4m of cost pressures within Adult Social Care, which is equivalent to 7.87% of the average gross spend on Adult Social Care services, by county councils, in 2018/19.

The pie-charts to the right illustrate the breakdown of total cost pressures by service line. Note that under the guidance on the Delta 2 return, Other Services includes all unachieved savings.

Table 1: Service Line Costs	County Council Average		Unitary Average	
	Loss	%	Loss	%
Adult Social Care	£26.4m	**7.87%**	£8.1m	**5.54%**
Children Social Care	£4.4m	**3.52%**	£1.7m	**3.07%**
Education	£2.6m	**0.54%**	£1.3m	**0.72%**
Highways	£1.2m	**1.76%**	£0.4m	**1.32%**
Public Health	£0.2m	**0.44%**	£0.1m	**0.59%**
Housing	£0.2m	**6.09%**	£0.8m	**8.73%**
Cultural	£0.2m	**1.29%**	£1.0m	**5.49%**
Environmental & Regulation	£2.1m	**4.07%**	£1.4m	**4.00%**
Planning & Development	£0.1m	**0.76%**	£0.3m	**2.14%**
Finance & Corporate*	£1.5m	**-**	£1.0m	**-**
Other Services*	£9.8m	**-**	£4.8m	**-**

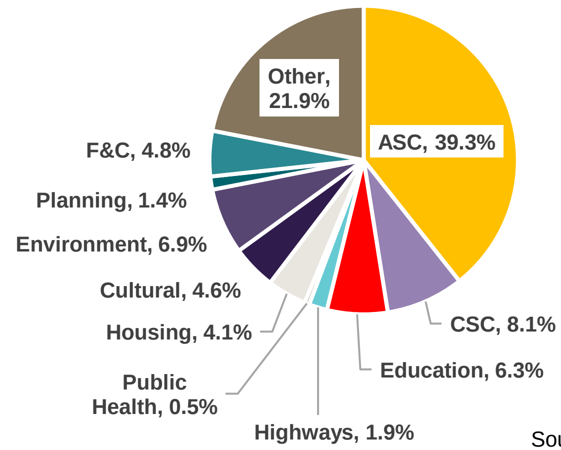
Source: Delta 2 Return, MHCLG 2018/19 RO
*Finance & Corporate and Other Services don't have individual service lines within the RO, therefore a percentage hasn't been calculated.

Figure 3a: County councils cost pressures



Source: Delta 2 Return

Figure 3b: County unitary councils cost pressures



Source: Delta 2 Return

Income losses reports in Delta 2

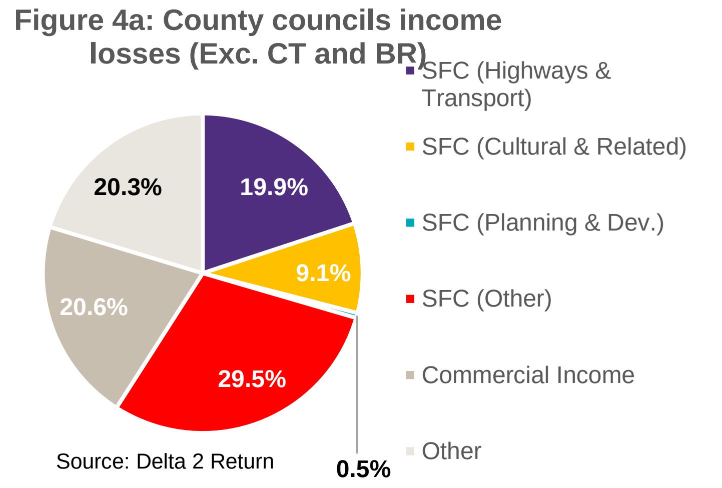
This table below gives a high-level summary of income losses by revenue stream, split by county councils and county unitary councils. The monetary value represents the average income loss for 2020/21. The percentage represents the loss of income as a weighted proportion of revenue stream income from the 2018/19 RO. Please note that, given the lack of data available to, or provided by, county councils for council tax and business rates losses, averages here are based on only on the councils who were able to provide data.

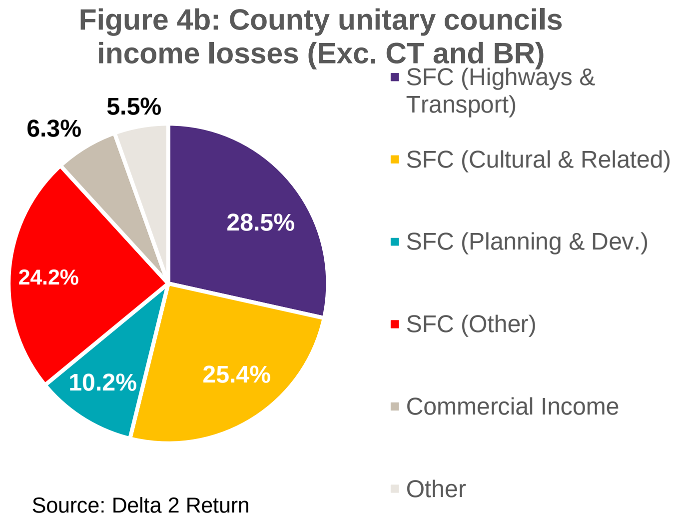
There remains significant inconsistency in the Delta 2 data for council tax and business rates which was acknowledged in the workshops. It is therefore not possible to draw reliable conclusions from this element of the data.

The pie-charts to the right illustrate the breakdown of total income losses from fees, charges and other. Council tax and business rates are not included due to the inconsistent approach taken by councils.

Table 2: Income Stream	County Council Average		Unitary Average	
	Loss	%	Loss	%
Council Tax	£13.3m	**4.00%**	£9.8m	**5.14%**
Business Rates	£3.4m	**3.21%**	£26.2m	**39.84%**
Fees, Charges and Other	£11.4m	**4.84%**	£12.1m	**8.08%**

Source: Delta 2 Return, MHCLG 2018/19 RO





Financial implications for the medium-term

The medium-term financial outlook – Base Case (Scenario 1)

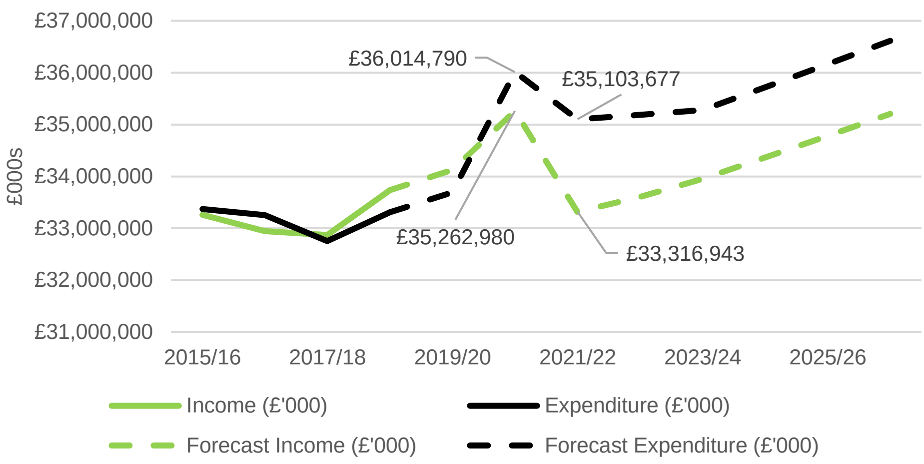
It is useful to understand the potential financial implications of COVID-19 in the medium term, by forecasting financial pressures over time.

A high level forward financial projection had been developed using the Grant Thornton Financial Foresight methodology. The basis for the inputs and assumptions were the Delta 2 returns provided by county authorities. Where the returns did not provide consistent or complete data, additional assumptions were developed from workshop discussions and dialogue with CCN and the SCT Executive.

There is significant uncertainty about the extent of the collection fund deficit that could arise, however discussion with SCT and in the workshops suggests an average projected net impact of 6% cash equivalent of annual council tax would be reasonable. The position on business rates is complex, however for this projection a net cash equivalent reduction of 10% of business rate revenues in 2020/21 has been assumed, impacting in 2021/22 (see assumptions narrative on pages 61 to 63).

To isolate the impact of COVID-19, this projection assumes that aside from undelivered savings, Medium-Term Financial Strategy (MTFS) measures to close existing funding gaps will be delivered. The base case forecast indicates that a £752m funding shortfall could arise in 2020/21, after government funding already provided is taken into account. This is likely to be overshadowed by a much greater income shortfall in 2021/22 of £1.787bn. This would be due primarily to a collection fund deficit arising from shortfalls in council tax and business rates in 2020/21 and residual ongoing cost and income pressures arising from the response to COVID-19. It should be noted that this may need to be provided for in year, and would be part of the consideration of a section 114 notice during 2020/21.

Figure 5: COVID - including government funding



Source: Grant Thornton Financial Foresight

It should also be noted that taking standard service cost inflation into account, a gradual economic recovery which restores growth in local tax revenues to pre COVID-19 levels during 2021/22 may not be sufficient to close the resulting funding gap within the next 5 years.

Taking into account the emergency funding already provided by central government, there remains a material projected shortfall between the income and expenditure of county authorities. This will add to any existing in year deficits that were already being managed through savings plans and use of reserves. This position is not likely to be sustainable in the short to medium term.

Alternative forecast scenarios

Two additional scenarios were developed based on an extrapolation of April outturn data provided in the Delta 2 return. These scenarios relate to an extrapolation of 100% of April pressures up to the end of July 2020, and a proportion of these pressures thereafter (50% and 75% per month respectively). Council tax and business rate assumptions remain the same as for the base case. Note that due to the concern raised in workshops that Children's Services and Home to School Transport are likely to be understated in April, the full year projections data in these cases have been used. The alternative scenarios indicate that, if the April actuals give a better indication of the accumulating cost and income pressures than the full year estimates provided by county authorities, the COVID-19 funding gap could be significantly larger than the base case.

Scenario*	2020/21 COVID-19 related gap after emergency funding (£'000)	2021/22 COVID-19 related gap after lost council tax and business rates (£000)***	Cumulative COVID-19 related gap (2020/21 – 2024/25) (£'000)
Scenario 1 (Base Case) **	(751,810)	**(1,786,735)**	(6,803,601)
Scenario 2 (50% post July)	(1,301,544)	(2,358,975)	(7,963,710)
Scenario 3 (75% post July)	(1,872,144)	(2,644,275)	(9,210,245)

Figure 5a: Delta 2 April actuals - Scenario 2

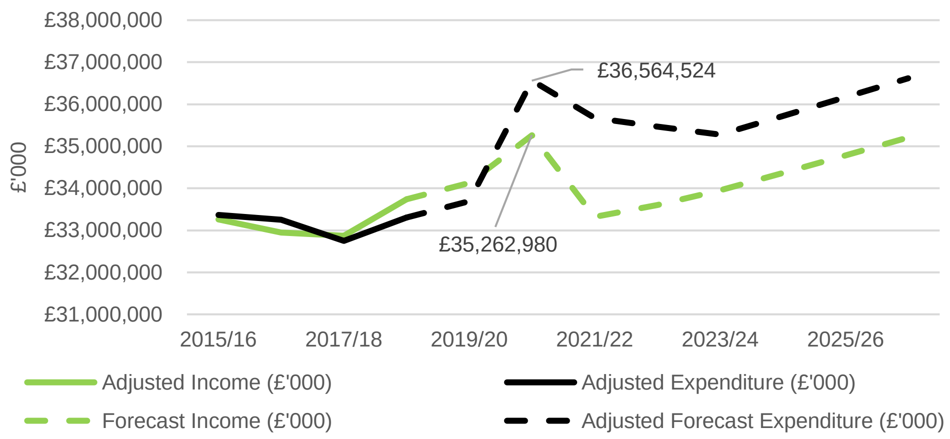
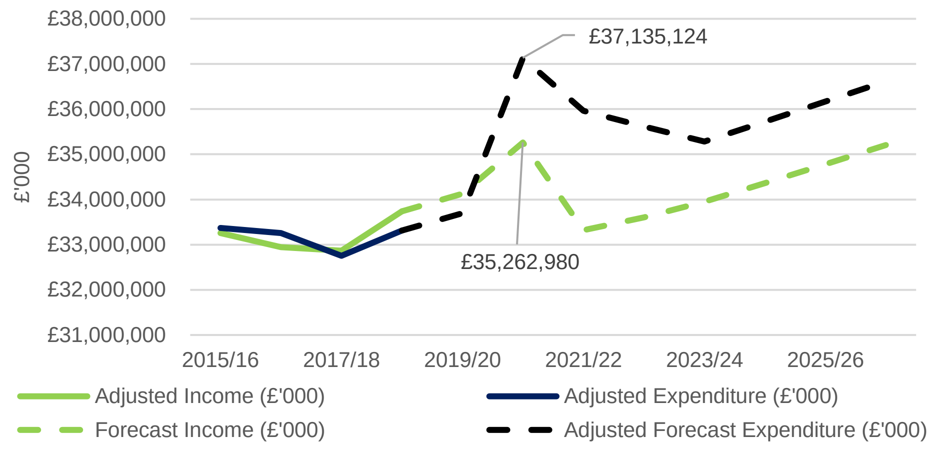


Figure 5b: Delta 2 April actuals - Scenario 3



** For all scenarios the baseline position in 2020/21 and subsequent years presumes expenditure and income net off, notwithstanding the pre-existing funding deficits that county authorities are addressing through their MTFS. This enables the COVID-19 related funding gap to be highlighted, including the impact of planned savings that are no longer deliverable.*
*** Full year data from Delta 2 returns used, with the exception of the impact on business rates and council tax that impacts from 2021/22 onwards and is based on general assumptions.*
**** Includes the continuing residual COVID-19 cost pressures and lost income from 202021 - see pages 62 and 63 for full list of assumptions.*

Financial implications for reserves

Impact on Reserves – Base Case

Figure 5a sets out the impact that the projected outturn under the base case scenario would have on total aggregated unallocated general fund reserves, estimated to be £1.738bn.

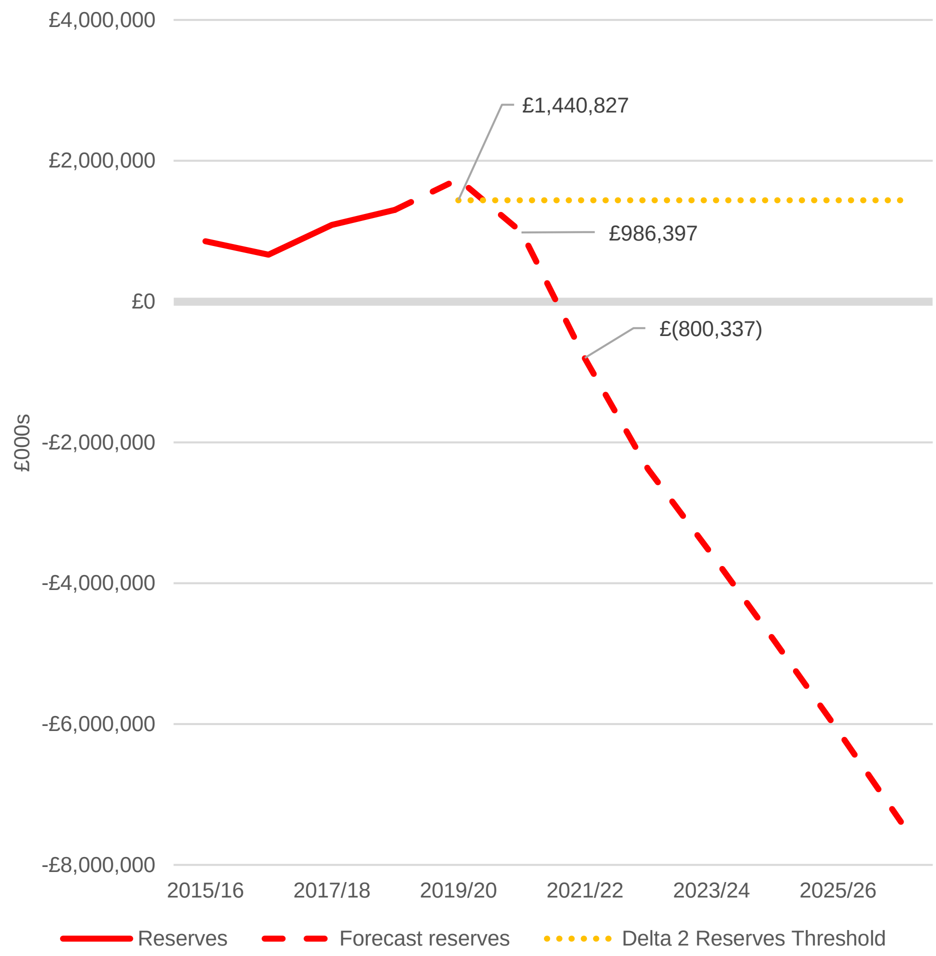
The element of reserves that county authorities indicated could be re-purposed to absorb COVID-19 related cost pressures, was reported in the Delta 2 return as a much smaller figure (£297m).

Unallocated general fund reserves provide the primary financial buffer against financial shocks, such as that caused by COVID-19. There was consensus from workshop feedback that earmarked reserves would not generally be available for use as they were required to existing manage financial risks or to fund commitments that would be difficult to break away from.

On the current projected trajectory, without further intervention or action taken by councils to reduce costs, the total aggregated unallocated general fund reserves for county authorities would be fully depleted by 2021/22, with a significant number of councils unable to deliver a balanced budget for 2020/21.

Note that under the alternative scenarios, the depletion of reserves would be marginally faster.

Figure 5c: Reserves Forecast - including government funding



Implications for financial resilience

Council Statutory obligations under the Local Government Act

For a significant number of county authorities, these projected financial pressures are not sustainable within their available financial resources and, if not addressed, will prevent these county authorities from fulfilling their statutory duty to set and deliver a balanced budget, either in 2020/21 or 2021/22.

Under the Local Government Act 1972 and 1988, councils have a legal statutory duty to set an annual balanced budget (including the use of those statutory usable reserves) . If that is at risk then section 114 of the Act requires the chief finance officer (CFO) to formally report this to all the local authority's members, in consultation with the monitoring officer and head of paid service.

The personal responsibility to make this decision rests with the CFO (referred to as the Section 151 Officer in the Act). Section 115 of the Local Government Finance Act 1988 requires members to consider this notice at full Council within 21 days and take appropriate action which may include setting an emergency budget. The Act requires that consideration of a section 114 notice should also look at the longer-term going concern, something that is tested annually by external auditors.

The expectation is that before issuing a Section 114 notice, a CFO would have exhausted all other measures available to set a balanced budget, including robust savings, reducing services (e.g. to the statutory minimum), additional income and the use of reserves. In addition, the CFO would be expected to engage with elected members and other key stakeholders such as MHCLG.

The likelihood of S114 notices issued due to COVID-19 pressures

The COVID-19 pressures identified by county authorities in the Delta returns and further explored in this report, may lead to a significant number of councils being forced to consider whether a S114 notice is required, and has the potential for a significant number to do so during 2020/21. The focus of their consideration will cover a number of factors:

- The financial resilience of the council – what level of reserves and other one-off resources a council has to address a shortfall. For a number of county authorities their financial resilience was already under severe pressure prior to COVID-19. The ability to build up reserves in county councils is likely to be less than other authorities due to the limited nature of their services.
- Vulnerability to reductions in local taxation – county councils generally have higher reliance on council tax obtained through precept as a proportion of total funding.
- Ability to make further savings – A decade of real terms funding reductions has left most councils with significantly fewer options to drive out further efficiency or to make cuts to front line services. This is made more difficult by the need to cover the additional costs to social care, which is the largest area of spend, and the difficulty in raising additional sources of income during a recession.
- Political will – against a backdrop of financial hardship in the community politicians will be facing tough political choices in the absence of short to medium term funding certainty.

Support from government

Direct support from government that reflects additional funding

In order to help mitigate the financial impact in-year, county authorities received a share of the following sums from government to help mitigate the emerging financial pressures. It should be noted that the Delta returns required that these amounts were not to be netted off against the gross cost pressures identified.

- The government has provided £3.2bn of non-ringfenced emergency funding to help cover additional costs accrued as a result of the COVID-19 response, including additional adult social care costs. The share of funding for the 39 county and unitary authorities analysed in this report is £1.2bn.
- Council Tax Hardship funding of £0.5bn to support increased levels of council tax relief.
- A number of smaller sources of funding for county unitary councils for areas such as homelessness and the reopening of highstreets.

Other financial support from government

The findings from discussion with stakeholders was that there were some elements of the government support packages that did not reflect additional funding and therefore would not be included as cost pressures or as additional funding. This included:

- Section 31 grants to assist cashflow and replace business rates income forgone for qualifying businesses who continue to trade.

These are part of a range of other measures that government have taken to support the economy and for specific purposes. These amounts do not directly support council funding pressures highlighted in the Delta 2 returns and include:

- Infection control fund to support contract track and tracing and other measures.
- Support to businesses, including the furlough scheme.
- Support to social housing residents
- Further cashflow support in terms of the deferral of £2.6bn in business rate payments to government and the advance of £850m in social care grants.

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The way forward

Observations on potential areas for CCN to discuss with MHCLG

The current financial outlook for county authorities in the face of COVID-19 pressures is highly challenging, based on the information available from the Delta returns and the initial thinking emerging from workshop discussions. The Financial Foresight projection indicates potential challenges at a scale that is likely to be beyond the ability of at least some and potentially many councils to manage within their current available resources.

It is necessary that the government consider further financial support and flexibilities as part of a wider medium-term plan to ensure councils are adequately funded in the future. CCN will need to work closely with government to achieve a suitable outcome, including the avoidance of perverse incentives.

Measures to support county authorities could include:

- Further packages of funding support to councils from central government, targeted on COVID-19 specific cost pressures which acknowledges the full year forecast.
- A solution to address reductions in income, including the council tax and business rate base, that could cause a recurrent funding gap in future years, including consideration of an income guarantee.
- Consideration of funding controls, such as a requirement to account for the use of funds received.
- Early confirmation of the funding settlement for 2021/22, and for the medium term.
- The need for clarity on multi-year funding intentions to help councils manage their medium-term financial planning.
- Extending the period that Collection Fund deficits need to be brought back in balance.
- Greater clarity over the progress, timing and objectives of the forthcoming Spending Review.
- Access to additional funding for transformation plans and capital programmes (e.g. revenue and capital investment funds).
- Greater clarity on the policy towards commercial income and investments that councils may be expected to cover at their own risk.
- Further guidance on the policy towards arrears collection for council tax and business rates against a backdrop of financial hardship in the community. This should include consideration of the distinction between deferrals that will be recovered from debtors in due course, the funding of arrears that become non-recoverable as a result of COVID-19 conditions and the impact of residents who move into the Local Council Tax Support (LCTS) scheme.
- Some county authorities have raised the issue of the potential need to access general fund reserves at the end of 2019/20 to reflect material SEND deficits. This needs to be resolved, as it reduces the reserves available to manage COVID-19 pressures.

The way forward (continued)

Observations on the options open to CCN

CCN has taken a collaborative, transparent and co-operative approach to discourse with local government and has been proactive in putting forward potential solutions, such as an income guarantee for service level revenues.

There are a number of areas that could be considered in regard to COVID-19 financial pressures, these include:

- Maintaining and updating this COVID-19 impact financial analysis on an on-going basis, as new data emerges and the situation develops, in order to maintain robust financial insights across county authorities.
- Sponsoring on-going collaboration, potentially through some form of shared learning hub for county authorities, as councils frame recovery solutions through the next phase of the COVID-19 pandemic response.
- Continued close scrutiny of budget management, savings plan delivery (including alternative additional savings) and effective cost controls.
- How authorities re-activate closed services, understand the impact of COVID-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules.
- How service delivery may need to change as a result of learning from COVID-19 and how long-lasting cultural and behavioural changes will impact on their operating models.
- The impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure.
- How the economic impact of COVID-19 will impact on service need and on the demand for income generating services.
- Whether certain services will need to reduce or cease, in order to manage the funding gap, before consideration of the issue of a Section 114 notice.
- Exploration of opportunities for more radical change that may have arisen from COVID-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Context and approach

The approach to benchmarking

The benchmarking analysis in this report has been produced on the following basis:

- The data on COVID-19 cost pressures and income is primarily based on the collated responses to sections B and C of the May Delta 2 return to MHCLG. The benchmarking uses the data provided for the full year financial impact.
- In order to provide a basis for comparison between councils, the cost and income pressures reported in the returns were calculated as a percentage of the gross cost of services (excluding education) and the gross income from sales, fees and charges that councils reported in their 2018/19 RO forms returned to MHCLG.
- The 2018/19 RO was considered to be the most reliable and consistent information available on service costs and income for county authorities that could be obtained within the timeframe available. RA net budget data was considered to be less reliable and consistent as it did not reflect actual outturn and they have not been based on audited data. In addition, it did not provide the gross income and expenditure analysis detail that was required.
- Statistical analysis of the 2018/19 RO and 2019/20 RA confirms very strong correlation between the two, implying that any differences in benchmarking against the two returns is statistically insignificant.
- Note that where possible, costs expressed in the Delta return have been calculated as a proportion of the specific RO gross cost of the specific service to which they relate, for example, adult social care (ASC) cost pressures have been calculated using the gross cost of service for ASC in the RO.
- Furthermore, there was correlation between the benchmarking outcomes and the percentage of annual budget information included in the May Delta 2 return (which was primarily based on 2019/20 RA data) to confirm that these were materially consistent.
- To further aid comparison, benchmarking data for county councils and unitary authorities has been prepared separately.
- Note that the majority of data in the April and May returns is red or amber rated, reflecting uncertainty over the numbers provided at that stage.
- It was confirmed at the workshop that the authorities had not accounted for the possibility of a second peak in their calculations and therefore this assumption underpins the following analysis.

Collating the evidence base

Preliminary review of the April Delta 1 Returns

The initial draft benchmarking data based on the April Delta 1 return was the focus of two structured workshops held for CCN members on Tuesday 12th May.

Attendees representing 38 of the 39 SCT member councils attended these workshops., with over 80 senior finance officers attending.

This exercise was intended to get an initial overview of the approach taken and the challenges faced by authorities in responding to the request and to help inform the preparation of the May Delta 2 return.

Following the initial workshops, a summary of the key discussion points was issued to members to inform the completion of the May Delta 2 return.

Where possible a consensus was sought across both workshops, but where this was not achieved this was referred to in the summary document.

CCN and the SCT Executive approved the summary, and in some cases made a judgement where there was a lack of consistency between the two workshops.

Review of the May Delta 2 Returns

Following this initial phase, the benchmarking was updated to reflect the May returns.

The summary information provided to members following the initial workshops, and the more comprehensive nature of the May Delta 2 request form itself, contributed to more consistent data being submitted in the second return.

Comparison between the two returns indicated a moderate increase in total financial pressures for the year. Although there was some movement of costs between categories to reflect the expanded requirements of the new form and the consensus reached in the first workshops. The key difference was the consistent inclusion of pressures caused by savings plans that had become undeliverable in year (see Table 4 overleaf).

Three further workshops were held to discuss the May return, with over 60 senior finance officers attending. These workshops helped to develop thinking on the medium-term impact of COVID-19 on financial plans, beyond the data for 2020/21 that was captured in the Delta return. The key points arising from these workshops have been reflected in the detailed findings section of this report. Attendance at the workshops was very high with in excess of 95% of the 39 CCN and SCT member councils attending at least one workshop.

Comparison of values in Delta 1 and Delta 2

This represents a high-level summary of the total cost pressures and income losses projected by the 39 councils. Pressures and losses as reported in the April Delta returns are included purely for comparative purposes. **Note that it is widely acknowledged by county authorities that the council tax and business rate figure in the Delta returns remain inconsistent, and incomplete as the majority of county councils provided a nil return in line with MHCLG guidance.**

Table 3: Cost Pressures and Income Losses	April Return	May Return
TOTAL COST PRESSURES	**£1,287m**	**£1,502m**
Adult Social Care	*£760m*	*£773m*
Children Social Care	*£134m*	*£134m*
Education	*£31m*	*£82m*
Highways	*£76m*	*£34m*
Public Health	*£13m*	*£6m*
Housing	*£20m*	*£17m*
Cultural	*£14m*	*£18m*
Environmental & Regulation	*£92m*	*£71m*
Planning & Development	*£5m*	*£5m*
Finance & Corporate	*£52m*	*£52m*
Other Services	*£89m*	*£309m*
TOTAL INCOME LOSS	**£748m**	**£1,068m**
Council Tax	*£214m*	*£230m*
Business Rates	*£88m*	*£384m*
Fees, Charges and Other	*£446m*	*£454m*
TOTAL INCOME LOSS & COST PRESSURES	**£2,035m**	**£2,570m**
TOTAL INCOME LOSS & COST PRESSURES (excl. CT & BR)	**£1,733m**	**£1,956m**

Source: Delta Returns

Observations on the Delta returns data

Improvements in the consistency of data in the delta returns

There was significant improvement in the consistency, quality and utility of the data between the April Delta 1 and May Delta 2 returns. This was partly attributable to the Phase 1 workshops, which established key principles through CCN and SCT member consensus, and partly due to the additional granularity and clarity of guidance in the Delta 2 return:

The key changes notable from the workshop discussion were the decision to include lockdown recovery costs post July 2020 and the agreement that undeliverable savings should be included.

Key changes observed between Delta 1 (April) and Delta 2 (May)

The key changes between the returns included:

- Cost pressures reported by county authorities, excluding council tax and business rates, have increased from £1.73m to £1.96m. Cost pressures now total a full year estimate £1.46bn.
- Overall, 15 councils saw their estimates decrease by a total of £231m and 21 council estimates increased by a total of £336m. This reflected a general levelling out of cost and income losses as a percentage of 2018/19 outturn.
- On average, the standard deviation between benchmarked councils, indicating the level of variance, has reduced significantly
- 90% of county authorities reported an average total cost pressure of between 5% and 11% of the 2018/19 gross cost of services, excluding council tax and business rates.
- Importantly, the Delta 2 return also provides actual outturn data on COVID-19 pressures for the first month of the financial year.

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Detailed findings: Overview of data from the Delta 2 returns

Analysis of the Delta 2 returns

Overview of the financial position reflected in the May Delta 2 returns

County authorities have reported significant additional financial pressures for the financial year 2020/21 as a direct result of COVID-19 in the May Delta 2 return.

- The May Delta 2 returns indicate a total adverse financial pressure for county authorities of £2.57bn in 2020/21.
- As previously noted, there remains significant uncertainty around the impact on council tax and business rate income. There remains significant inconsistency in the Delta 2 data for council tax and business rates which was acknowledged in the workshops. It is therefore not possible to draw reliable conclusions from this element of the data.
- If this element is set aside, there is a residual financial pressure of £1.96bn. Note that most county councils did not return data for council tax and business rates, as requested in the instructions because they are precepting authorities.
- Emergency funding of £1.2bn has been received by county councils to help fund these pressures, however this is not sufficient to cover the projected funding gap leaving a funding shortfall £752m on aggregate, an average of approximately £19m per county authority.

Table 4: Cost pressures and Income loss	May Delta 2 Return
TOTAL COST PRESSURES	**£1,502m**
Adult Social Care	*£774m*
Children Social Care	*£134m*
Education	*£82m*
Highways	*£34m*
Public Health	*£6m*
Housing	*£17m*
Cultural	*£18m*
Environmental & Regulation	*£71m*
Planning & Development	*£5m*
Finance & Corporate	*£52m*
Other Services	*£309m*
TOTAL INCOME LOSS	**£1,068m**
Council Tax	*£230m*
Business Rates	*£384m*
Fees, Charges and Other	*£454m*
TOTAL INCOME LOSS & COST PRESSURES	**£2,570m**
TOTAL INCOME LOSS & COST PRESSURES (excl. CT & BR)	**£1,956m**

Delta 2 – Summary cost pressures

This represents a summary of the cost pressures by service line, split by county councils and unitary councils. The figures represent average cost pressures for 2020/21, as a percentage of the service line gross spend for 2018/19. **On average, total projected cost pressures is £38.5m, 6.5% of gross spend.** Cost pressures as reported in the April Delta returns are included for comparative purposes.

Table 5: Cost Pressures	County Council Average		Unitary Average	
	April Return	**May Return**	April Return	**May Return**
Adult Social Care	7.42%	**7.87%**	7.93%	**5.54%**
Children Social Care	3.52%	**3.52%**	3.00%	**3.07%**
Education	0.25%	**0.54%**	0.19%	**0.72%**
Highways	4.53%	**1.76%**	2.60%	**1.32%**
Public Health	1.25%	**0.44%**	0.41%	**0.59%**
Housing	4.31%	**6.09%**	12.04%	**8.73%**
Cultural	0.99%	**1.29%**	6.57%	**5.49%**
Environmental & Regulation	5.06%	**4.07%**	9.42%	**4.00%**
Planning & Development	1.96%	**0.76%**	2.15%	**2.14%**
Finance & Corporate*	0.12%	**0.13%**	0.23%	**0.17%**
Other Services*	0.26%	**0.82%**	0.30%	**0.76%**

Source: Delta Returns, MHCLG 2018/19 RO

*Note that Finance & Corporate and Other Services don't have individual service lines in the RO, therefore they are calculated as an average of total gross spend for 2018/19.

Delta 2 – Summary income loss

This represents a high-level summary of income losses by revenue stream, split by county councils and county unitary councils. The figures represent the average income loss for 2020/21, as a percentage of income for 2018/19. For instance, the council tax percentage loss is the expected loss from council tax in 2020/21, divided by the total income from council tax for 2018/19. For clarity, Fees, Charges and Other includes Commercial Income. Given the lack of data returned by county councils for council tax and business rates losses, averages here and those relevant throughout the report are based only on councils who provided data.

Income losses as reported in the April Delta returns are included for comparative purposes.

Table 6: Income Stream	County Council Average		Unitary Average	
	April Return	**May Return**	April Return	**May Return**
Council Tax	2.70%	**4.00%**	4.78%	**5.14%**
Business Rates	3.92%	**3.21%**	9.13%	**39.84%**
Fees, Charges and Other	4.10%	**4.84%**	12.24%	**8.08%**

Source: Delta Returns, MHCLG 2018/19 RO

Detailed findings: COVID-19 cost pressures

Adult Social Care

Impact in financial year 2020/21

County authorities have reported Adult Social Care as the area facing the largest cost pressures as a result of COVID-19 (£773m for 2020/21 at an average of £19.8m for each county authority). Within this, unit cost pressures (market rate) for in house and commissioned services is the highest singe area, followed by increased demand and the additional cost of personal protective equipment (PPE).

There are a number of cost drivers that authorities identified in the workshops, including:

- Increased demand from the acceleration of patients transferred from NHS care into various social care settings.
- Significant cost of providing PPE across all social care settings.
- Reduced income from new adult social care self-funders and fee payers coming into the system.
- Payments to private and third sector providers delivering day care and respite where this income loss having to be compensated to support the market but where no service is being delivered.
- The need to increase unit prices paid to providers to enable them to cover their additional costs.
- Additional staffing costs to cover illness and enable social distancing measures, in addition to security and deep cleaning.
- Material increases in insurance premiums for providers has also been reported, again resulting in pressure on unit costs.

Impact in 2021/22 and the medium term

Feedback from the workshops indicates that a return to a “normal” social care environment is unlikely. Plans to re-configure care delivery and invest in infrastructure have been paused until the new landscape is better understood. A number of issues were raised that could drive additional pressures in the medium term - these remain hard to quantify and will vary in degree and impact in different localities:

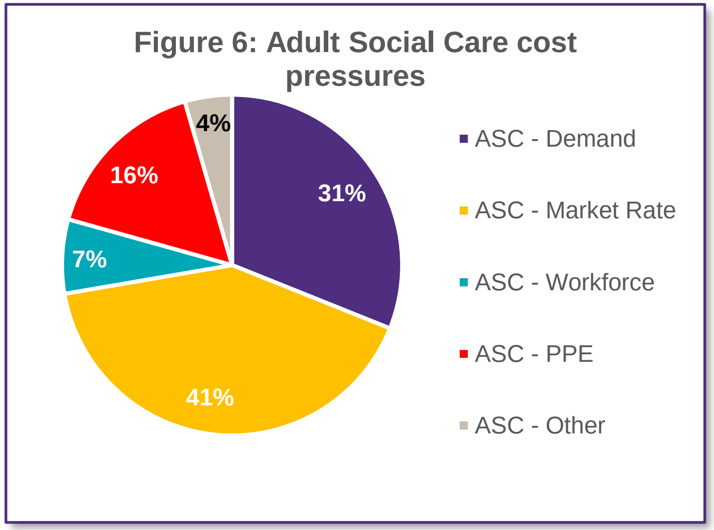
- County authorities have indicated that costs associated with PPE, shielding and social distancing are expected to become embedded.
- Under occupancy of residential care places reported as a risk by some authorities, with a corresponding shift towards domiciliary and other care settings. This is attributed to COVID-19 making traditional forms of residential care less attractive to new clients, particularly in regard to self-funders who may have a broader choice of options.
- While this could boost efforts to shift demand away from residential care to potentially less expensive settings such as domiciliary or day care, any benefit is likely to be offset by the increased complexity of needs, some of which may be directly related to COVID-19 (e.g. additional vulnerability that will need to be mitigated and an increased reluctance to seek hospital care in the early stages of illness).
- Some authorities indicated a potential longer-term issue in the buoyancy of the residential market. Many providers and in-house services are dependent on the rate at which new self-funders take up residential care places which cross-subsidises the prices paid by councils. A structural reduction in demand for residential care for self-funders triggered by COVID-19 is likely to impact the viability of providers and drive up unit costs.

Adult Social Care - analysis

County Councils

- Cost pressures within Adult Social Care services constitute over 50% of all cost pressures.
- The pie-chart breaks down cost pressures within Adult Social Care. The key pressure areas are from additional demand (31%) and a further need to support the market (41%).
- On average, counties are projecting Adult Social Care cost pressures equivalent to 7.87% of their 2018/19 gross spend on ASC services. Note that just 1% of variation (i.e. 1% of the average 2018/19 ASC gross spend by county councils) is equivalent to £3.1m.

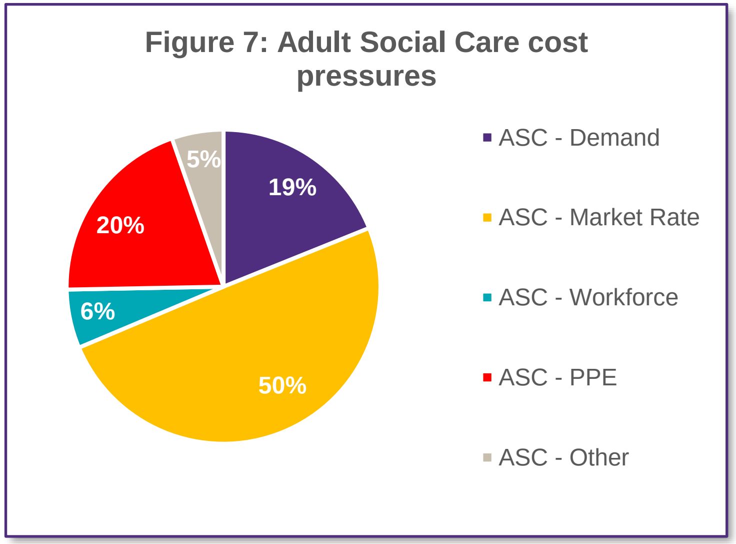
Cost pressure	Total	Average	% of Spend	St. deviation
Adult Social Care	£660m	£26.4m	7.87%	0.03



Unitary Councils

- Cost pressures within Adult Social Care services constitute over 50% of all cost pressures.
- On average, unitary councils are projecting Adult Social Care cost pressures that are equivalent to 7.93% of their 2018/19 gross spend on ASC services. However, a large number of counties expect cost pressures to well exceed this average.
- 1% of variation (i.e. 1% of the unitary average 18/19 ASC gross spend) is equivalent to £1.8m.

Cost pressure	Total	Average	% of Spend	St. deviation
Adult Social Care	£113m	£8.1m	5.21%	0.03



Source: Delta 2 Return, MHCLG 2018/19 RO

Children's Social Care

Impact in financial year 2020/21

County authorities have also flagged children's social care as another key area of additional cost. The total reported impact of cost pressures was £133m at an average of £3.4m per council.

The key cost drivers identified from the workshops were:

- Early years providers, both private and third sector, are not able to generate income so county authorities are having to underwrite their income to protect the market, resulting in a significant cost pressure.
- Increased costs to providers and in-house services leading to increased unit price. Areas such as PPE, social distancing, shielding and deep cleaning of facilities all reported.
- Many authorities experiencing a lower than expected level of referrals during lockdown period, but this is expected to rise sharply after lockdown ends and when children return to school. This has the potential to cause capacity related pressures, despite delivering short term underspends on budget.
- Expectation that lockdown will exacerbate current challenges for some families (e.g. increased domestic violence), leading to additional demand.
- Many councils reporting a downturn in the supply of fostering places and an increase in placement breakdowns, with carers increasingly unwilling or unable to take on cases. This is considered likely to have an inflationary effect on the unit cost for foster care.

Impact in 2021/22 and the medium term

Feedback from the workshops flagged a number of potential longer-term financial pressures:

- COVID-19 is likely to exacerbate the current shortage of foster care placements in some areas, driving authorities towards more expensive care options.
- Any increase in demand caused by COVID-19 reflects a longer-term commitment to these children over several years which will have to be funded.
- **There was acknowledgement that the longer-term changes to demand and the provider market are very difficult to predict and quantify at present, but there was consensus that this is likely to mean that children's social care costs are under-represented as a key area of risk that is not reflected in the Delta returns**.

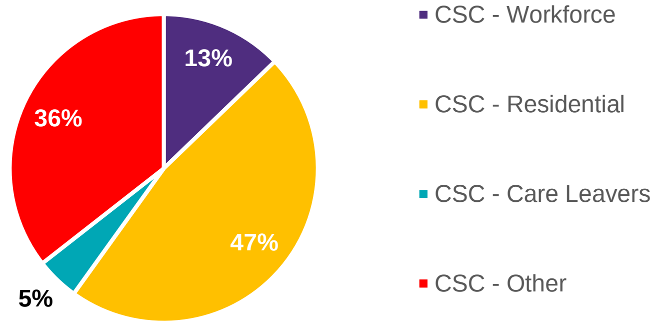
Children Social Care - analysis

County Councils

- Cost pressures from within Children Social Care services represent 9.1% of all cost pressures.
- The pie-chart breaks down cost pressures within Children Social Care. The key pressure area is around increased residential placements (47%).
- On average, counties are projecting Children Social Care cost pressures that are equivalent to 3.52% of their 2018/19 gross spend on CSC services. 1% of variation (i.e. 1% of the average 2018/19 CSC gross spend by county councils) is equivalent to £1.2m.

Cost pressure	Total	Average	% of Spend	St. Deviation
Children Social Care	£110m	£4.4m	3.52%	0.03

Figure 8: Children Social Care cost pressures



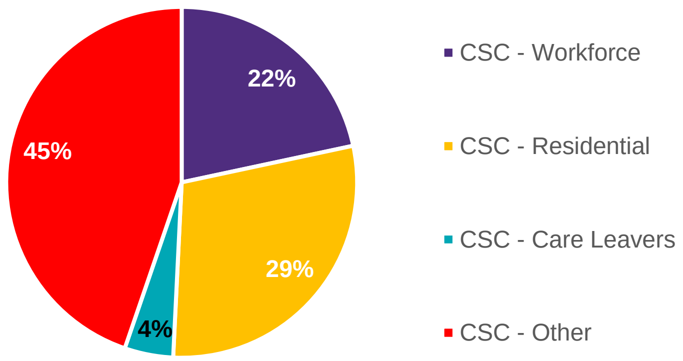
Source: Delta 2 Return, MHCLG 2018/19 RO

Unitary Councils

- Cost pressures from within Children Social Care services represent 8.1% of all cost pressures.
- On average, county unitary councils are projecting Children Social Care cost pressures that are equivalent to 3.07% of their 2018/19 gross spend on CSC services.
- 1% of variation (i.e. 1% of the unitary average 18/19 CSC gross spend) is equivalent to an average £0.7m.

Cost pressure	Total	Average	% of Spend	St. deviation
Children Social Care	£23.4m	£1.7m	3.07%	0.04

Figure 9: Children Social Care cost pressures



Education (Home to School Transport)

Impact in financial year 2020/21

The primary area of risk reported under Education is in regard to home to school transport, for both county councils and county unitary councils. The total cost pressure for 2020/21 reported in the May Delta 2 return was £82.1m at an average of £2.1m per council.

- Discussion in the workshops indicated that home to school transport was a key pressure for all councils. The cost pressure arises from having to implement social distancing and deep cleaning measures to some degree at additional cost, in addition to supporting local providers during school closures from current budgets.
- It was notable that this cost was reported as significant for the majority of councils in the delta returns, but that a significant minority had provided conservative estimates or nil returns. During the workshops it was established that this was due to uncertainty over how to estimate the cost rather than because a limited impact was expected.
- It was also pointed out that the availability of transport assets to enable the policy would be a limiting factor in most areas.

Impact in 2021/22 and the medium term

If home to school transport were to be required to observe some form of COVID-19 protective measures, it was agreed in workshop discussion that these costs would be carried forward into to 2021/22.

It is likely that costs associated with home to school transport are significantly understated in the short to medium term, if current expectations around social distancing and other measures were to be applied.

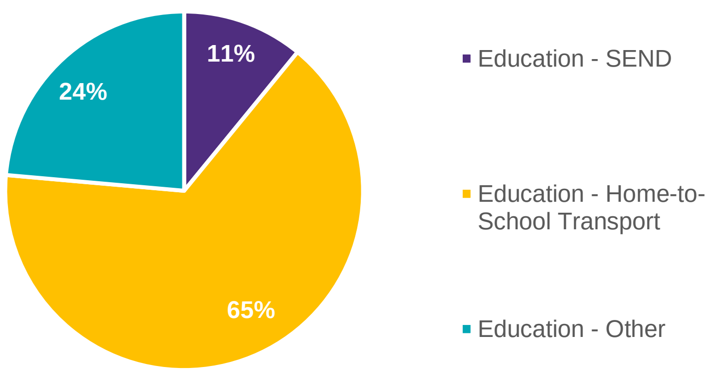
Education - analysis

County Councils

- Cost pressures from within Education services represent 5.3% of all cost pressures.
- The pie-chart breaks down cost pressures within Education. The key pressure area is Home-to-School transport (65%).
- On average, counties are projecting Education cost pressures that are equivalent to 0.54% of their 2018/19 gross spend on Education services. 1% of variation (i.e. 1% of the average 2018/19 Education gross spend by county councils) is equivalent to £4.4m.

Cost pressure	Total	Average	% of Spend	St. deviation
Education	£63.9m	£2.6m	0.54%	0.01

Figure 10: Education cost pressures

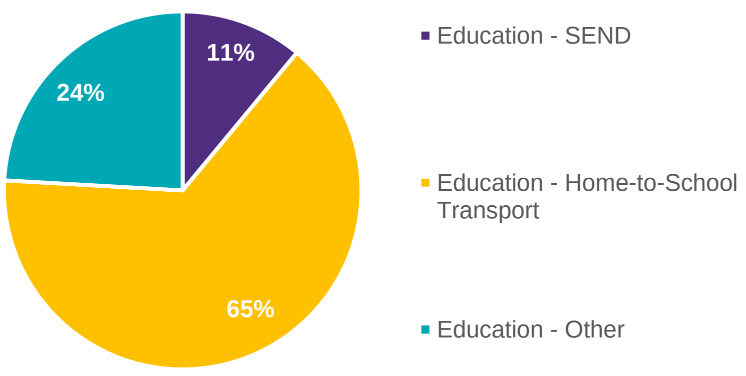


Unitary Councils

- Cost pressures from within Education services represent 6.3% of all cost pressures.
- On average, unitary councils are projecting Education cost pressures that are equivalent to 0.72% of their 2018/19 gross spend on Education services.
- 1% of variation (i.e. 1% of the unitary average 18/19 Education gross spend) is equivalent to an average £2.6m.

Cost pressure	Total	Average	% of Spend	St. deviation
Education	£18.2m	£1.3m	0.72%	0.02

Figure 11: Education cost pressures



Source: Delta 2 Return, MHCLG 2018/19 RO

Place based service cost pressures

Impact in financial year 2020/21

There were a range of different cost pressures relating to other core service areas. Discussion at the workshops indicated these areas were sensitive to local issues rather than reflecting generic themes.

- **Highways and transport** cost pressures were reported by just over half of councils and amounted to £35m in year. Key drivers identified in the workshops included the revenue impact of capital projects being delayed or cancelled and/or costs that could no longer be capitalised and needed to be recognised as revenue.
- **Housing and homeless** was primarily and issue for unitary councils although there were some county led homelessness schemes. These amounted to £17m of in year pressures.
- **Environment and regulatory** costs were relatively significant for most county authorities amounting to £71m in year. Waste costs included the need to fund reductions in income from commercial waste, and a corresponding increase in domestic waste. The other key area was crematorium capacity and temporary places of rest.
- **Finance and corporate** amounted to £51.8m primarily categorised as investment in ICT to support remote working. Discussion at the workshops indicated that that a significant driver for ‘other’ corporate costs was local community response expenditure.
- **Other service cost pressures** were reported in public health, cultural and related, and planning and development that were not significant for the majority of county authorities but did have implications for specific localities.

Impact in 2021/22 and the medium term

The key long-term impact identified during the workshop discussions was the cost implications of operating place-based services while complying with COVID-19 protection measures over the medium term (e.g. supply of PPE and social distancing measures). County authorities had not generally been able to develop reliable estimates of these costs for inclusion in the Delta returns, but the consensus was that this could be a significant additional cost pressure in the longer term.

It is likely that the cost pressures reported to date are significantly understated for placed based services.

Highways & Transport – analysis

County Councils

- Cost pressures from within Highways & Transport services represent 2.4% of all cost pressures.
- On average, counties are projecting Highways & Transport cost pressures that are equivalent to 1.76% of their 2018/19 gross spend on Highways & Transport services.
- There is still significant variation in projected cost pressures for Highways & Transport services. 1% of variation (i.e. 1% of the average 2018/19 Highways gross spend by county councils) is equivalent to £0.6m.

Cost pressure	Total	Average	% of Spend	Standard deviation
Highways & Transport	£29.0m	£1.2m	1.76%	0.02

Unitary Councils

- Cost pressures from within Highways & Transport services represent 1.9% of all cost pressures.
- On average, unitary councils are projecting Highways & Transport cost pressures that are equivalent to 1.32% of their 2018/19 gross spend on Highways & Transport services.
- 1% of variation (i.e. 1% of the unitary average 18/19 Highways gross spend) is equivalent to an average £0.4m.

Cost pressure	Total	Average	% of Gross spend	Standard deviation
Highways & Transport	£5.5m	£0.4m	1.32%	0.02

Source: Delta 2 Return, MHCLG 2018/19 RO

Housing & Homelessness – analysis

County Councils

- Cost pressures from within Housing services represent 0.4% of all cost pressures.
- Of all service lines, there is greatest variation in Housing data returns. This is likely to do with inconsistent approaches to calculations rather than councils being affected incongruously.
- A large number of county councils didn't return Housing cost pressures. 1% of variation (i.e. 1% of the average 2018/19 Housing gross spend by county councils) is equivalent to £0.03m.

Cost pressure	Total	Average	% of Gross spend	Standard deviation
Housing & Homelessness	£5.2m	£0.2m	6.09%	0.01

Unitary Councils

- Cost pressures from within Housing services represent 4.1% of all cost pressures.
- On average, unitary councils are projecting Housing cost pressures that are equivalent to 8.73% of their 2018/19 gross spend on Housing services.
- Of all service lines, there is greatest variation in Housing data returns. This is likely to do with inconsistent approaches to data entry rather than councils being affected incongruously. 1% of variation (i.e. 1% of the unitary average 18/19 Housing gross spend) is equivalent to an average £0.1m.

Cost pressure	Total	Average	% of Gross spend	Standard deviation
Housing & Homelessness	£11.8m	£0.8m	8.73%	0.79

Source: Delta 2 Return, MHCLG 2018/19 RO

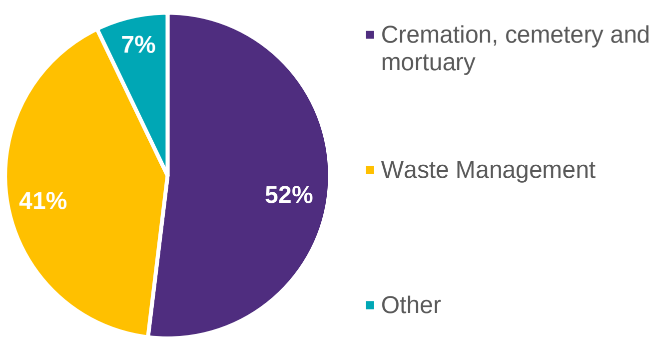
Environment & Regulatory – analysis

County Councils

- Cost pressures from within Environmental services represent 4.2% of all cost pressures.
- The pie-chart breaks down cost pressures within Environment & Regulation. The key pressure areas are from Cremation, Cemetery and Mortuary (52%) and Waste Management (41%).
- On average, counties are projecting Environmental cost pressures that are equivalent to 4.07% of their 2018/19 gross spend on Environmental services. There is large variation is projected cost pressures. A 1% of variation (i.e. 1% of the average 2018/19 Environmental gross spend by county councils) is equivalent to £0.5m.

Cost pressure	Total	Average	% of Spend	St. Deviation
Environment & Regulation	£51.4m	£2.1m	4.07%	0.04

Figure 12: Environmental cost pressures

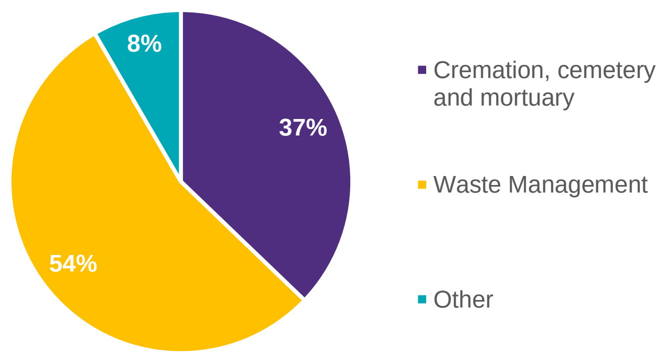


Unitary Councils

- Cost pressures from within Environmental services represent 6.9% of all cost pressures.
- On average, unitary councils are projecting Environmental cost pressures that are equivalent to 4.00% of their 2018/19 gross spend on Environmental services.
- 1% of variation (i.e. 1% of the unitary average 18/19 Environmental & Regulation gross spend) is equivalent to an average £0.4m.

Cost pressure	Total	Average	% of Spend	St. Deviation
Environment & Regulation	£19.9m	£1.4m	4.00%	0.03

Figure 13: Environmental cost pressures



Source: Delta 2 Return, MHCLG 2018/19 RO

Finance & Corporate – analysis

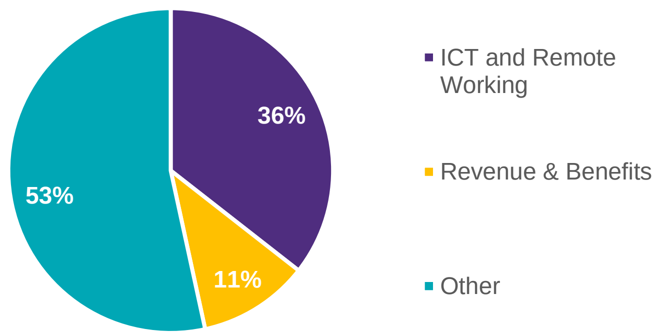
County Councils

- Cost pressures from within Finance & Corporate represent 3.1% of all cost pressures.
- The pie-chart breaks down cost pressures within Finance & Corporate. The key pressure areas are from ICT and Remote Working (36%) and Other (53%).
- ‘Other’ includes a sustained increase in PR costs, along with the distribution of grants.

***Note that costs pressures are presented here as a percentage of total gross spend (rather than service line spend).**

Cost pressure	Total	Average	% of Total Spend	St. Deviation
Finance & Corporate	£38.1m	£1.5m	0.13%	0.002

Figure 14: F&C cost pressures

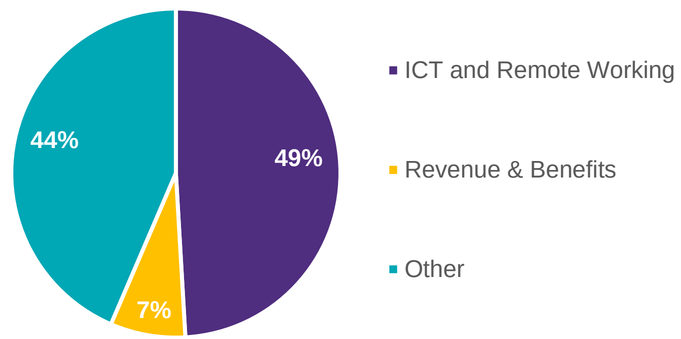


Unitary Councils

- Cost pressures from within Finance & Corporate represent 4.8% of all cost pressures.
- Note that costs pressures are presented here as a percentage of total gross spend (rather than service line spend).

Cost pressure	Total	Average	% of Total Spend	St. Deviation
Finance & Corporate	£13.7m	£1.0m	0.17%	0.03

Figure 15: F&C cost pressures



Source: Delta 2 Return; MHCLG 2018/19 RO

Impact on saving plans and other costs

Impact in financial year 2020/21

The Delta 2 return requested that councils record cost pressures arising from delayed or cancelled savings plans as 'Other' costs, along with costs from delayed or stopped projects, all PPE related spend (excluding that recorded under Adult Social Care) and Shielding. The county authorities generally followed this guidance and reported £309m of cost pressures under this heading.

- The overwhelming majority of costs under this heading related to undelivered savings, equivalent to £221m (72% of the total).
- Following the initial workshop SCT members representing county authorities agreed the principle that each authority would review it savings plans line by line to identify specific items that were rendered non-deliverable by COVID-19 emergency. A number of councils who had excluded these costs from the April Delta 1 return included them in Delta 2.
- Discussion in subsequent workshops indicated that where this had occurred it was generally either because underlying assumptions had changed or because there was a lack of capacity to revise or progress them.
- A common theme arising in discussion was in regard to transformational activity, particularly in adults and children's social care where assumptions about future demand across various points of delivery, the potential for generating income and the implications for unit cost would have to be rethought (e.g. plans to invest in in-house residential care would need to be reconsidered).

Impact in 2021/22 and the medium term

A number of financial implications for the medium to long term were identified:

- Where councils had multi-year savings projects underway, it was likely that delays to the first phase would also delay the completion in phases in future years of the MTFS, which in turn would be likely to have significant consequences for financial resilience.
- This would be particularly acute where councils were under pressure to use reserves to help fund other COVID-19 related cost pressures.
- Some concerns were expressed that some previously agreed elements of the MTFS savings plans, may no longer be viable or acceptable to elected members against a backdrop of recession and financial hardship in the community.
- However, it was also pointed out that in the longer term, there may be opportunities to push a more radical transformation agenda than had previously been politically acceptable. For example, a chance to accelerate the process of reducing residential care provision in favour of domiciliary arrangements that could be more cost effective and benefit the end user.

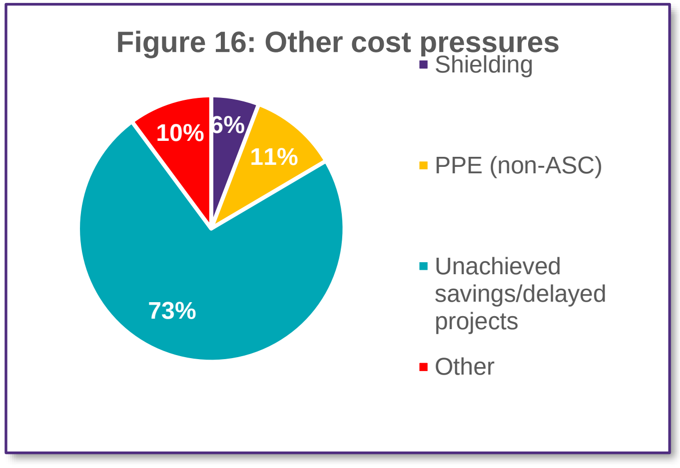
Other Services – analysis

County Councils

- Cost pressures from within Other services represent 20.1% of all cost pressures.
- The pie-chart breaks down cost pressures within Other Services. The key pressure area is from Unachieved Savings and Delayed Projects (73%).

Cost pressure	Total	Average	% of Total Spend	St. Deviation
Other Services	£245m	£9.8m	0.82%	0.005

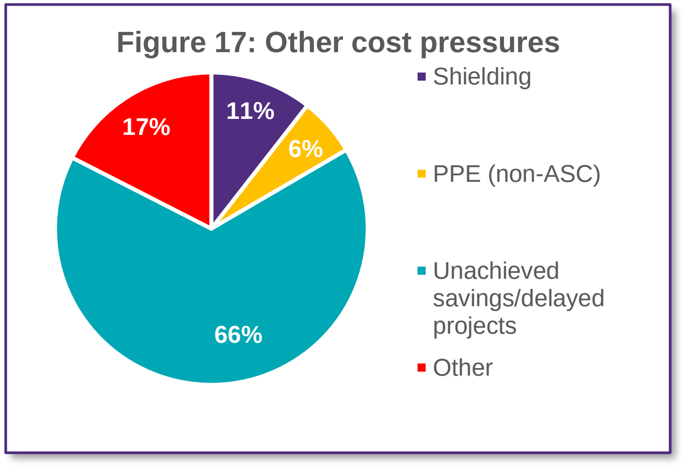
***Note that costs pressures are presented here as a percentage of total gross spend (rather than service line spend).**



Unitary Councils

- Cost pressures from within Finance & Corporate represent 21.9% of all cost pressures.
- The pie-chart breaks down cost pressures within Other Services. The key pressure area is from Unachieved Savings and Delayed Projects (66%).
- There is little variance in projected cost pressures, though on average counties are facing an additional £4.5m of cost pressures from this service.

Cost pressure	Total	Average	% of Total Spend	St. deviation
Other Services	£63.5m	£4.5m	0.76%	0.01



Source: Delta 2 Return, MHCLG 2018/19 RO

Detailed findings: COVID-19 income pressures

Council tax

Impact in financial year 2020/21

The Delta 2 returns did not provide a complete picture of the potential pressure on income arising from COVID-19 and were likely to be understated. Discussion at the workshops indicated that unitary authorities were still working through the implications and did not yet have sufficient evidence on which to base their assumptions. County councils receiving precepts from district councils were requested to provide a nil return.

- During the workshops it was acknowledged that due to the way that council tax was managed through the collection fund, there should be no direct in year impact with accumulated deficits managed in the 2021/22 budget setting process.
- However, a number of councils pointed out that the prospect of material deficits accumulating should be provided for in year.
- Furthermore, it was agreed that under the Local Government Act a material collection fund deficit would need to be considered as part of the S151 officers statutory duty to issue a section 114 notice in 2020/21, if it became apparent that the council would be unable to set a balanced budget for 2021/22 and that this judgement would be closely monitored by the external auditors.
- The discussions identified two key drivers that would influence council tax income in year; a reduction in the tax base due to a greater number of residents not paying council tax via the Local Council Tax Support scheme (LCTS), and; a reduction in the rate of council tax collection and a corresponding increase in arrears, which may be politically difficult for the council to recover in the context of recession and financial hardship in the community.

Impact in 2021/22 and the medium term

There are significant medium-term implications for council tax income that were identified during the workshops.

- If accumulated collection fund deficits do manifest as income pressures in 2021/22 this will present a significant financial challenge. This will be particularly acute where councils are already carrying collection fund deficits.
- There is also likely to be a significant impact on MTFS forecasts relating to reduced growth, both in the council tax base from housing development and business rates increases from economic growth. This will serve to widen projected deficits.
- Reductions in the council tax base due to increased numbers of residents qualifying for LCTS, will represent an in-year loss that cannot be recovered, and the impact will be compounded by the fact that future increases in the Council Tax rate will be applied to a lower base figure.
- The likelihood that councils may not be in a position to raise council tax at the full 1.99% permitted without a referendum was discussed. It was recognised that it may be politically difficult for the council to do this in the context of recession and financial hardship in the community, but that the failure to utilise the opportunity to increase local taxation could be a contributory factor to triggering a S114 notice and therefore it was unlikely to occur.

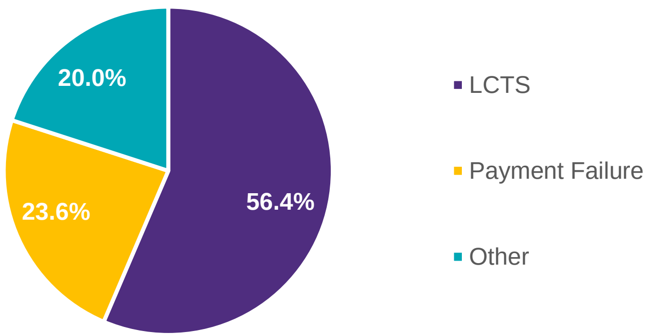
Council Tax – analysis

County Councils

- The projected loss of council tax income for 2020/21 as a proportion of council tax income from 2018/19. For all counties, the loss of income from reduced council tax collection represents an average 4% of their 2018/19 council tax income. However, this average is based on only those councils who provided data around projected council tax losses.
- The pie-chart breaks down income losses from Council Tax. The key pressure areas is from LCTS (56.4%).
- A large standard deviation can be attributed to two causes; either councils income streams are affected in very different ways, or there is inconsistency in the way councils are entering returns.

Income Stream	Total	Average	% of Revenue	Standard deviation
Council Tax	£93m	£13.3m	4.00%	0.02

Figure 18: Council Tax income loss



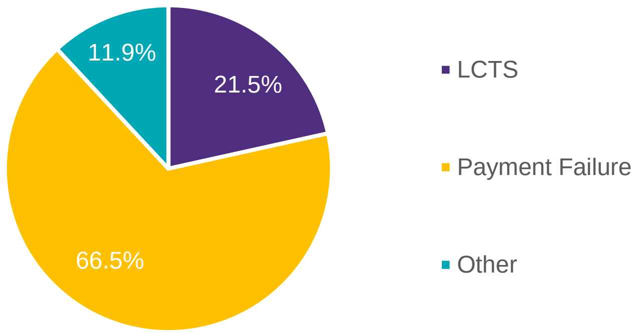
Source: Delta 2 Return, MHCLG 2018/19 RO

Unitary Councils

- The pie-chart breaks down income losses from Council Tax. The key pressure areas is from assumed payment failure (66.5%).
- The projected loss of council tax income for 2020/21 as a proportion of council tax income from 2018/19. For all unitary councils, the loss of income from council tax makes up, on average, 5.18% of their 2018/19 council tax income.

Income Stream	Total	Average	% of Revenue	Standard deviation
Council Tax	£137m	£9.7m	5.14%	0.04

Figure 19: Council Tax income loss



Business rates

Impact in financial year 2020/21

As with council tax, the Delta 2 returns did not provide a complete picture of the potential pressure on business rate. Unitary authorities were still working through the implications and county councils were requested to provide a nil return.

As with council tax, business rate deficits would be accumulated in the collection fund during 2020/21 and the overall deficit would need to be addressed within the 2021/22 budget. The benchmarking shows significant variance in the expected impact projected by unitary councils, who as billing authorities have direct access to collection data (note that as precepting authorities, county councils were requested to provide nil returns by MHCLG). During the workshops the following consensus emerged:

- It was still too early to estimate the impact of business rate shortfalls with accuracy as sufficient data was not yet available for unitary as well as county councils. This has led to considerable variance in the level of impact projected.
- It is likely that a projected material shortfall in business rate collection would need to be provided for in 2020/21 in order to demonstrate ongoing financial resilience.
- It was assumed that S31 grants for business rate relief on qualifying businesses will be honoured for 2020/21.
- However, it was also pointed out that even with business rate relief and other government support, such as the furlough scheme, a number of businesses would fail and these would not be covered by S31 grants.
- It was suggested that a significant economic downturn on the scale currently predicted, would see many councils hitting the business rates safety net of 92.5% of planned retained business rate receipts.
- Some councils highlighted a potential reduction in councils willingness to enter into pooled business rate arrangements as a result of reductions in income collection, reducing the benefits of these arrangements.
- Some councils also facing the closure or reduction of receipts from large scale, anchor businesses which would create a disproportionately large decrease in income in their own right.

Impact in 2021/22 and the medium term

A number of longer-term financial consequences emerged from discussions in the workshops.

- As with council tax, any shortfall in business rate income, would emerge as part of the collection fund deficit which would need to be addressed in the financial planning for 2021/22.
- Growth in business rates from 2020/21 onwards would be from a lower base due to the likelihood of business failures.
- Growth in business rates from 2020/21 onwards would be affected by the projected economic downturn, and would be less than had been planned for in a council's MTFS, widening the gap between costs and funding.

Business Rates – analysis

County Councils

- Only a small number of county councils populated their business rates returns.
- For all counties, the loss of income from reduced business rates collection represents an average 3.2% of their 2018/19 business rates income. However, this average is based on only the small number of councils who provided data around projected business rates losses.

Income Stream	Total	Average	% of Revenue	Standard deviation
Business Rates	£17.1m	£3.4m	3.21%	0.01

Unitary Councils

- Most unitary councils who returned their forecast reductions in business rates project relatively large impact in terms of their total business rates income.
- On average income loss from business rates makes up over 40% of business rates revenue in 2018/19.
- The high standard deviation implies large variation in the approach to calculating this figure across unitary councils.

Income Stream	Total	Average	% of Revenue	Standard deviation
Business Rates	£367m	£26.2m	39.84%	0.4

Source: Delta 2 Return, MHCLG 2018/19 RO

Other sources of income

Impact in financial year 2020/21

The Delta 2 return provided additional detail on the types of income that would be affected, in comparison to Delta 1. Loss of income to services from sales, fees and charges, and commercial income was projected to be a major contributor to COVID-19 funding pressures, which was particularly acute during the period of lockdown (estimated to cease at the end of July 2020 in the Delta 2 requirements). The total value of lost service level income in 2020/21 was reported as £454m at an average of £12m per county authority. The key areas of income loss were:

- **Highways and Transport** – parking and enforcement income losses.
- **Culture and leisure** – reduction in income from leisure centres, parks and other assets.
- **Planning and development** – this can be a significant income loss pressure for some unitary councils, such as planning fees and developer funding.
- **Other service income** – included a wide range of items, such as supplementary income for schools and traded services to schools, treasury income foregone, trade waste, ASC self-funders and other traded services that support statutory services.
- **Commercial income** – commercial rents and other investments formed a larger component of county council losses, than for county unitary authorities in the delta return. In the workshops there was an emerging consensus that commercial income was accepted as being at the authorities risk and pressures should be managed within the councils existing resources.

A distinction was made to define commercial income as primarily focused on income generation or relating to out of borough investments, rather than traded services used to offset the cost of statutory services or elements that were integral parts of regeneration projects.

Impact in 2021/22 and the medium term

Discussion at the workshops confirmed that a significant proportion of the income pressures were directly associated with lockdown and the gradual process of releasing restrictions over the remainder of the year. However, a number of income pressures that could have implications in the medium term were identified:

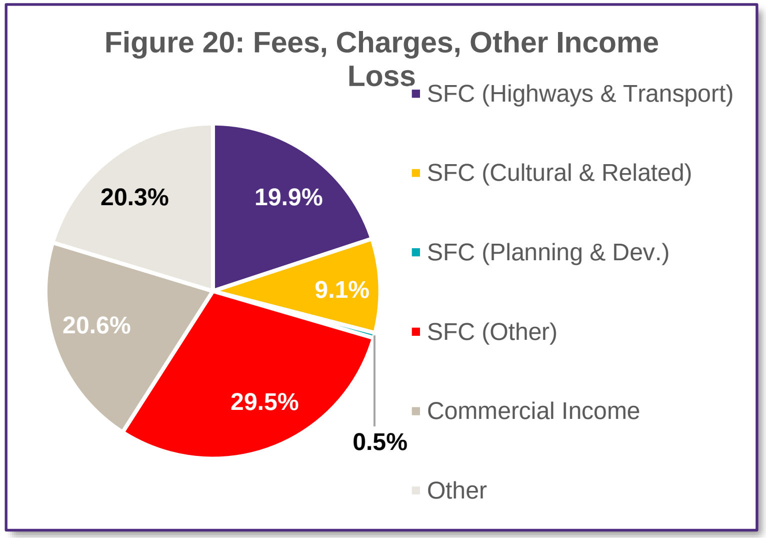
- Income from parking and enforcement particularly in town centres, would be affected by any extended downturn in footfall due to changes in shopping behaviour and ongoing restrictions on retail, food and drink and entertainment outlets, as well as the indirect effects of financial hardship during recession.
- Culture and leisure income would be affected by the need to observe social distancing in leisure and culture facilities, and would also be impacted by any longer changes in customer behaviour – e.g. continued avoidance of confined spaces.

Other sources of income – analysis

County Councils

- This revenue stream represents the greatest proportion of projected income loss.
- The pie-chart breaks down income losses from within Fees, Charges, Other. The key pressure area is from a projected loss in sales, fees and charges (SFC), the combination of service line SFC losses makes up 59.1% of the total.
- 95% of councils project a loss equivalent to 2% and 8% of their 2018/19 income from fees, charges, and other.

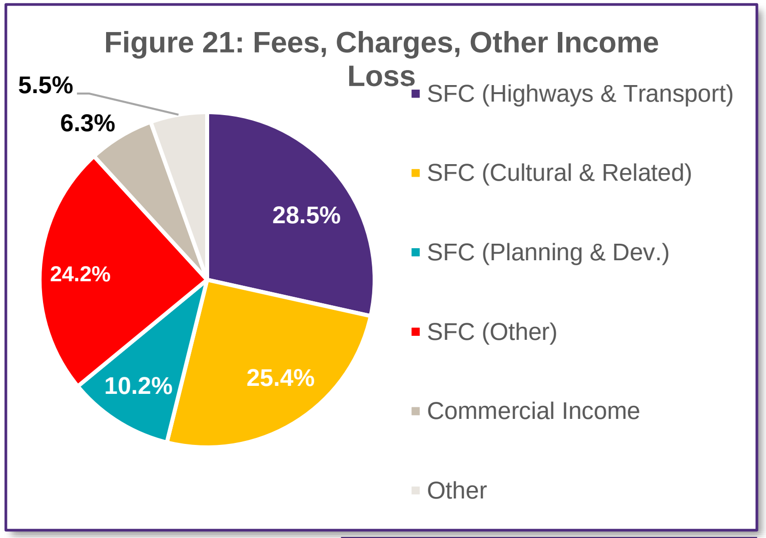
Income Stream	Total	Average	% of Revenue	St. Deviation
Fees, charges, other	£285m	£11.4m	4.84%	0.02



Unitary Councils

- This income stream represents the greatest proportion of projected income loss.
- On average, income loss from fees, charges and other makes up over 8% of the revenue stream from 2018/19.
- On average, unitary councils are losing over £12m from this income stream, with 88% of this attributable to a loss in sales, fees and charges.
- The pie-chart provides a breakdown the losses from sales, fees and charges (SFC) further.

Income Stream	Total	Average	% of Revenue	St. Deviation
Fees, charges, other	£169m	£12.1m	8.08%	0.03



Source: Delta 2 Return, MHCLG 2018/19 RO

Detailed findings: Reserves

Use of reserves to mitigate pressures

Feedback from the workshops

The Delta 2 return asked councils to indicate the level of reserves that could be made available to help mitigate financial pressures. During the initial workshops a consensus was reached that county authorities would put forward those reserves that could be used in the May returns in the interests of transparency.

Analysis of the May returns indicated that although not all councils felt able to put forward reserves, a total of £297m was disclosed.

In subsequent workshops, the county authorities agreed that it would be essential that MHCLG fully understood the implications for ongoing financial resilience, specifically:

- The majority of reserves put forward reflected all or part of the council's general fund. Councils are legally required to maintain a level of unallocated reserves which adequately reflects the financial risk they face and this is subject to review from external auditors. Any reserves expended would need to be replaced as part of the 2021/22 budget and therefore would reflect a temporary solution.
- Use of general fund reserves would also significantly impair the councils ability to deal with further financial shocks, such as a second wave of COVID-19 response, emerging issues in Children's social care or the unexpected failure of a major care provider, or Brexit related risks.
- In regard to earmarked reserves, the consequence would be to delay or cancel the projects for which the funds had been earmarked which could have significant cost or service delivery implications and/or reduce the councils ability to manage slippage on transformation or savings plans.

Impact of the use of reserves reported in the delta 2 return narrative

In regard to the use of *unallocated* reserves (general fund), county authorities indicated the following:

- 12 authorities said they couldn't deploy any unallocated reserves
- 93% of authorities who could deploy unallocated reserves would be required to replace these reserves in 2021/22.
- 48% of authorities who could deploy unallocated reserves would face delays in savings / improvement plans.
- 28% of authorities indicated that they were already at minimum reserve levels, and thus would be exposed to significant financial and sustainability risks. This will have major repercussions in the ability to set and support budgets for 2021/22.

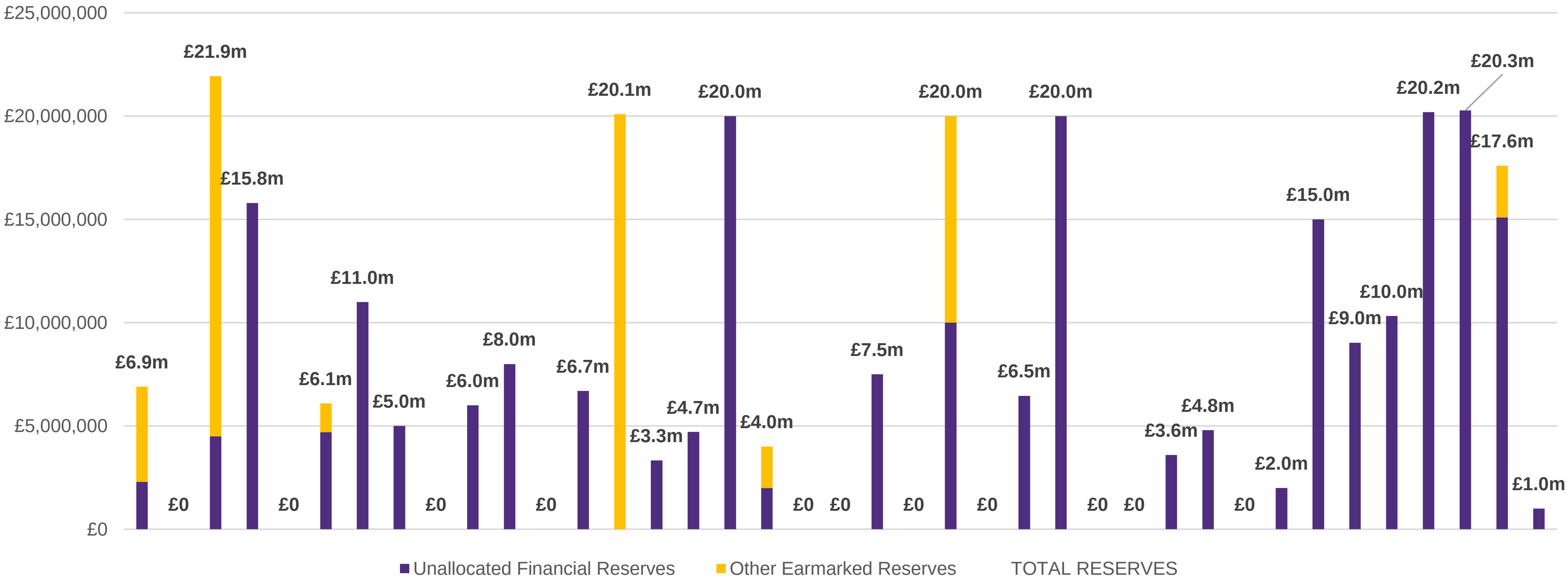
In regard to the release and use of earmarked reserves, county authorities indicated the following:

- 32 authorities said they couldn't deploy any earmarked reserves
- For the 7 authorities who could deploy earmarked reserves, 6 would be required to replace these reserves in 2021/22 as well as facing delays to planned savings, and improvement and transformation plans.
- Only 1 authority had created additional earmarked reserves for COVID-19 purposes at the end of 19/20.
- 15 authorities didn't include any earmarked reserves because of commitments to specific projects, e.g. investment funds, self-insurance, PFI sinking funds.

Reserve levels reported in the Delta return

This represents a high-level view of the reserves available to councils for COVID-19 purposes, split by unallocated financial and earmarked. 11 councils don't have any available reserves. Earmarked reserves make up just 20% of all available reserves.

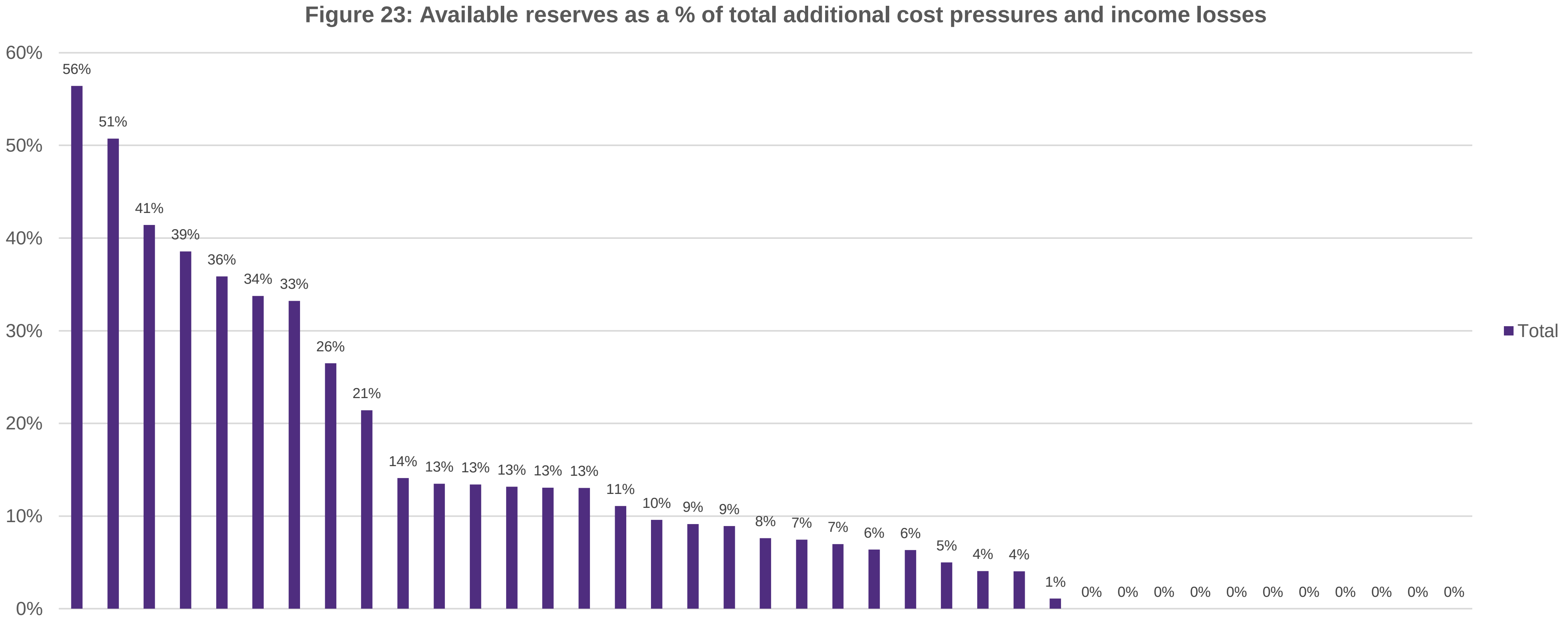
Figure 22: Available Reserves



Source: Delta 2 Return

Reserves as a percentage of total losses

The bar chart below represents a view of the available reserves as a percentage of total additional cost pressures and income losses. Only two councils have the reserves available to cover half of all additional pressures and losses. **On average, available reserves represent just 13% of all additional cost pressures and income losses.**



Source: Delta 2 Return

Detailed findings : Projected financial impact on county authorities

Foresight: Projected COVID-19 impact

Forecast COVID-19 Pressures over the medium term

This high-level forecast was created using Financial Foresight methodology, to illustrate how the financial pressures identified in the Delta 2 returns could influence the medium-term financial position of county authorities. Note that due to issues with the completeness and consistency of Delta return data on council tax and business rates, general assumptions have been applied to these categories.

The Financial Foresight analysis overlays pressures onto a baseline projection, building on historic outturn from the Revenue Outturn (RO) submissions from councils to MHCLG. A set of basic assumptions has been developed from workshop discussions with county authorities and these are set out on pages 61-63 of this report.

While this does not constitute a precise prediction of financial outturn, it does illustrate the nature and scale of the potential challenge faced by county authorities.

Overview of the Foresight projection

The Delta 2 returns for May identify COVID-19 pressure of £1.956bn for 2020/21. Additional government funding of £1.204bn reduces this gap between income and expenditure in 2020/21 to £0.752bn. The impact of a reduced business rates and council tax base on the collection fund is not realised until 2021/22. Under these conditions, a further net shortfall of £1.787bn is forecast for 2021/22, including residual COVID-19 pressures in social care services and lost income.

Because service unit costs and demand will continue to inflate over the next 5 years, a return to pre COVID-19 levels of growth in the local tax base by 2022/23 (including a 1.99% annual increase in the Council tax rate) is not likely to be sufficient to close this gap within the next 5 years.

Figure 24: COVID - excluding government funding

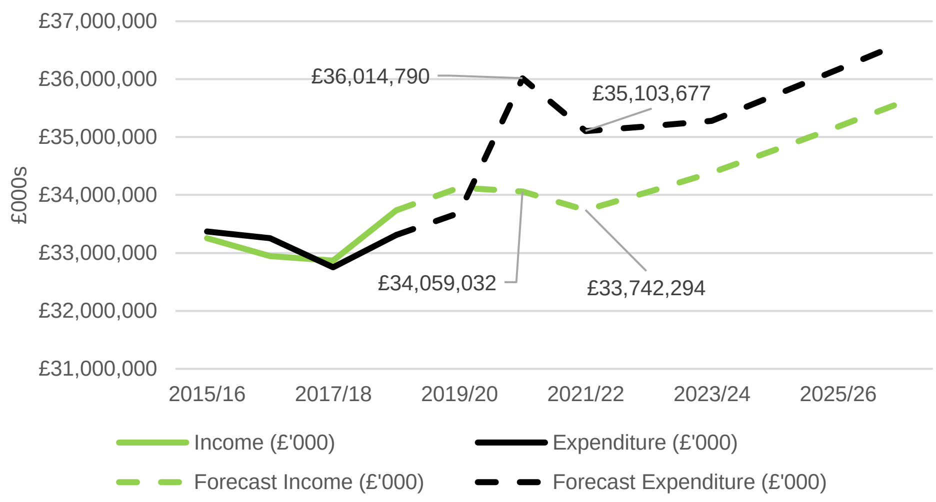
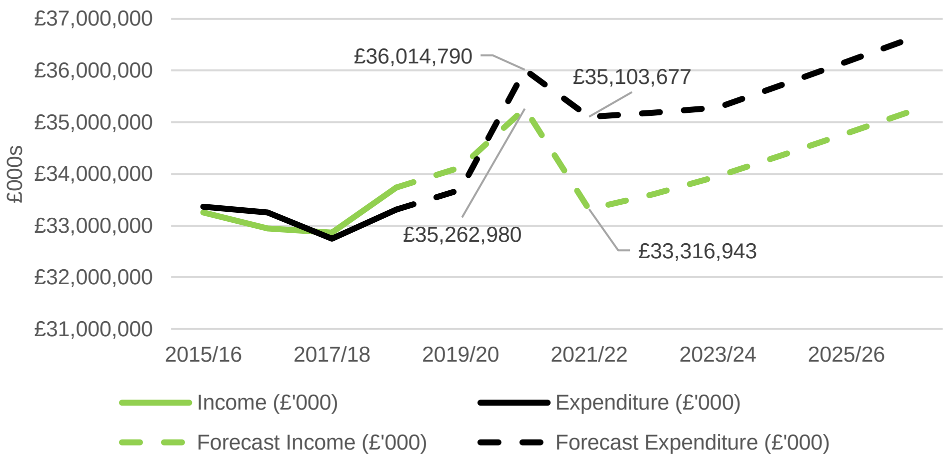


Figure 25: COVID - including government funding



Foresight: Depletion of reserves

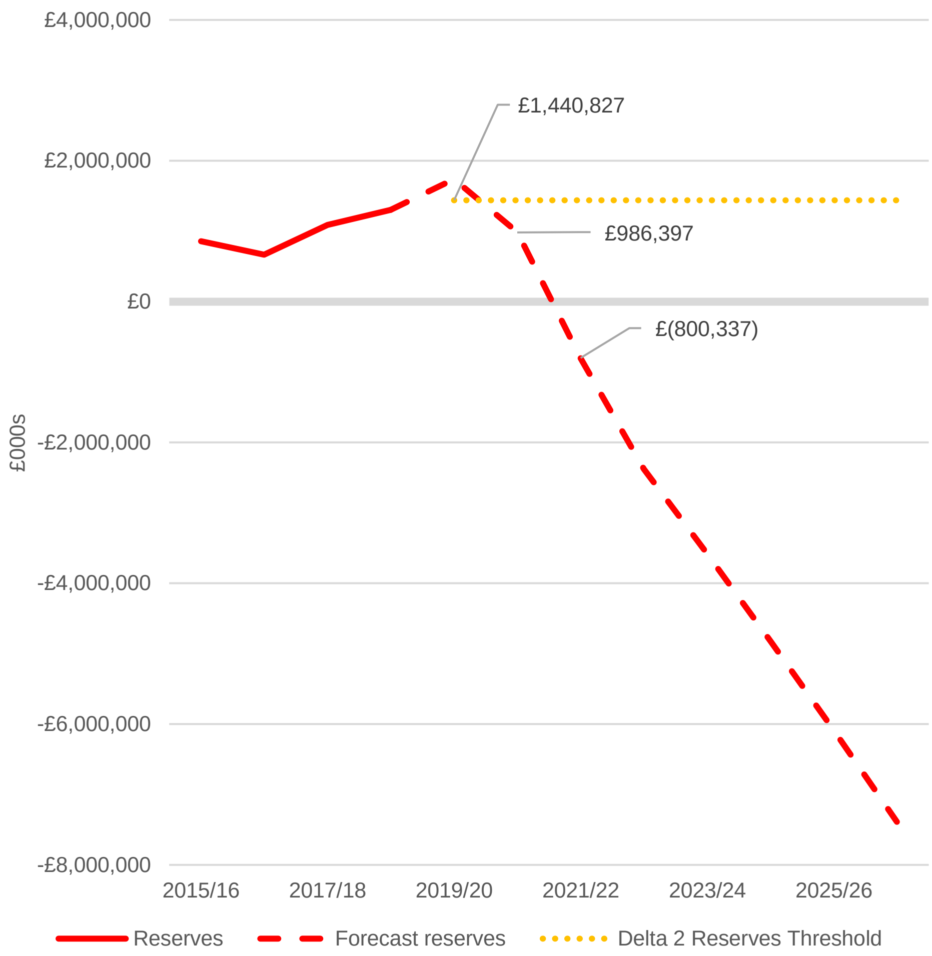
The Delta 2 returns identified total reserves available to address COVID-19 pressures of £0.297bn – represented in Figure 28 by an amber line. This figure was subtracted from the unallocated general fund reserves level projected by the Financial Foresight forecast for 2020/21. This gives a threshold for reserves of £1.441bn that, if COVID-19 impacts caused reserves to fall below this level, would threaten the financial sustainability of a significant number of local authorities. Even before this level is reached, councils would face significant difficulty and it would be necessary to replace these reserves in the following year to restore financial resilience.

Earmarked reserves have been excluded. There was consensus from the workshop feedback that earmarked reserves were set aside in order to manage specific financial risks or to fund key strategic projects, and therefore were not generally available to be redeployed to fund COVID 19 pressures.

The identified gap in 2020/21 between income and expenditure due to COVID-19 of £0.752bn reduces the aggregate reserve level from £1.738bn to £0.986bn, thereby breaching the identified reserves threshold, taking into account the additional support already provided by central government. The forecast ongoing gap between income and expenditure further depletes reserves moving forward over the forecast period.

On the current projected trajectory, without further intervention or action taken by councils to reduce costs, the total aggregated general fund reserves for county authorities would be fully depleted by 2021/22, with a significant number of councils unable to deliver a balanced budget for 2020/21.

Figure 26: Reserves Forecast - including government funding



Foresight: Other scenarios

Alternative scenarios

Based on the actual figures for April disclosed in the Delta 2 returns two further scenarios for 2020/21 COVID-19 impacts have been prepared. These scenarios are:

Scenario 2 - Actual pressures reported for April will continue at 100% for May, June and July. These costs and lost income will continue to be incurred at 50% of April actuals for the remainder of 2020/21.

Scenario 3 - Actual pressures reported for April will continue at 100% for May, June and July. These costs and lost income will continue to be incurred at 75% of April actuals for the remainder of 2020/21. This could indicate what the pressures might look like if there were a second peak and further lockdowns imposed in 2020/21.

Due to limitations in the Delta 2 data, council tax and business rates have been calculated in the same way as for Scenario 1. Different assumptions have also been applied to these scenarios for Home to School Transport and Children's Social Care – the average annual cost pressure has been extrapolated where nil returns have been made. This reflects workshop feedback that the April figure are not reflective of the cost pressures in these areas that are expected to impact later in the year, after lockdown is lifted. These scenarios project net deficits after government funding as follows:

Scenario 2 - Expenditure exceeds income by £1.301bn in 2020/21 and £2.359bn in 2021/22.

Scenario 3 - Expenditure exceeds income by £1.872bn in 2020/21 and £2.644bn in 2021/22.

Note that there are significant recurrent deficits after 2022/23.

Figure 27: Delta 2 April actuals - Scenario 2

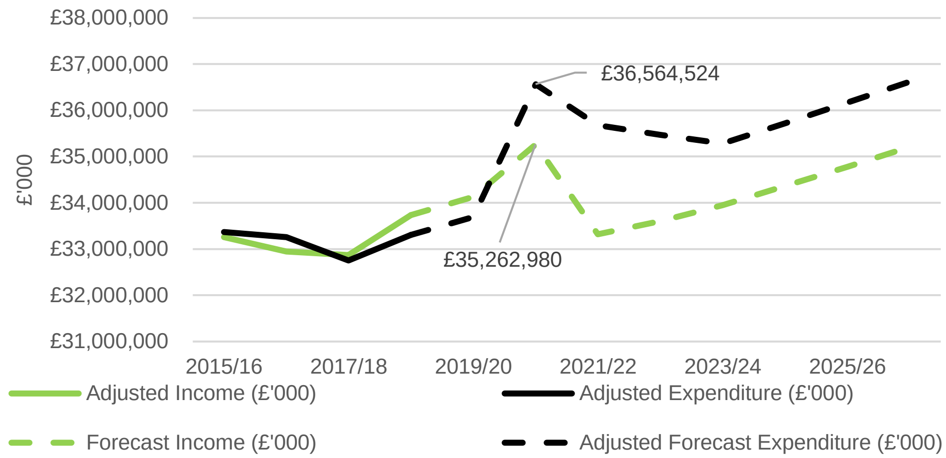
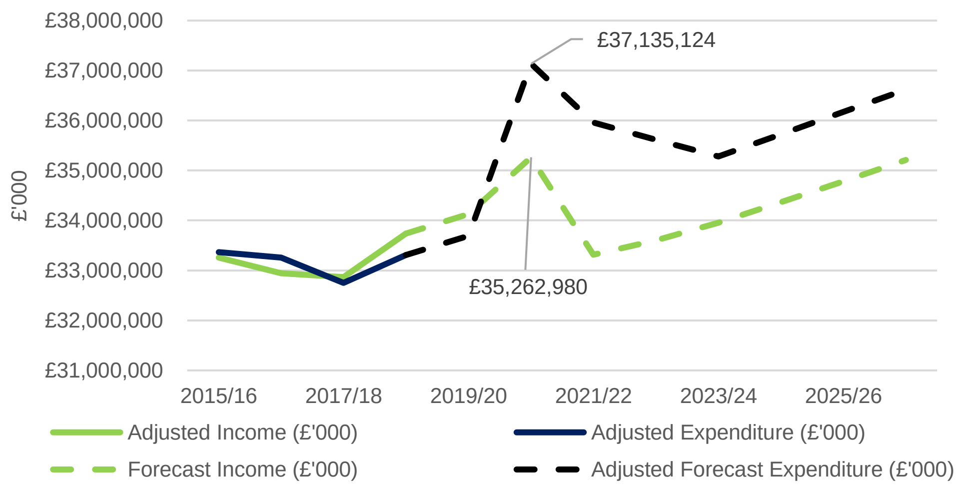


Figure 28: Delta 2 April actuals - Scenario 3



Scenario 1 - Impact of assumptions

The following table shows the impact of the data from the Delta 2 returns, additional government funding and the COVID-19 assumptions on the baseline foresight projection:

Table 7: Impact of assumptions – Scenario 1

Assumption	20/21 (£'000)	21/22 (£'000)	22/23 (£'000)	23/24 (£'000)	24/25 (£'000)	Cumulative (£'000)
Business Rates lost income – from baseline	-	(426,489)	(451,307)	(451,702)	(451,596)	**(1,781,095)**
Council Tax lost income – from baseline*	-	(716,763)	(787,415)	(876,351)	(906,432)	**(3,286,961)**
Tranche 1 funding	679,132	-	-	-	-	**679,132**
Tranche 2 funding	524,816	-	-	-	-	**524,816**
Council Tax Hardship Fund	-	37,023	-	-	-	**37,023**
Lost Income from COVID-19	(454,087)	(227,044)	(113,522)	-	-	**(2,181,863)**
Additional costs due to COVID-19	(1,501,671)	(453,462)	(226,731)	-	-	**(794,653)**
Net COVID-19 impact	**(751,810)**	**(1,786,735)**	**(1,578,975)**	**(1,328,053)**	**(1,358,028)**	**(6,803,601)**

* Increase in lost Council Tax is due to the compounding effect of the annual council tax rate increase being applied to a lower baseline than the pre-COVID-19 baseline and lower growth in the base, and being accounted for as a collection fund deficit the year after it was incurred.

Scenario 2 - Impact of assumptions

The following table shows the impact of the actual data from April as per he Delta 2 returns, continuing at 50% from July, including assumptions around Home to School transport and Children's Social Care.

Table 8: Impact of assumptions – Scenario 2

Assumption	20/21 (£'000)	21/22 (£'000)	22/23 (£'000)	23/24 (£'000)	24/25 (£'000)	Cumulative
Business Rates lost income – from baseline	-	(426,489)	(451,307)	(451,702)	(451,596)	**(1,781,095)**
Council Tax lost income – from baseline	-	(716,763)	(787,415)	(876,351)	(906,432)	**(3,286,961)**
Tranche 1 funding	679,132	-	-	-	-	**679,132**
Tranche 2 funding	524,816	-	-	-	-	**524,816**
Council Tax Hardship Fund	-	37,023	-	-	-	**37,023**
Lost Income from COVID-19	(634,400)	(317,200)	(158,600)	-	-	**(1,110,200)**
Additional costs due to COVID-19	(1,871,092)	(935,546)	(467,773)	-	-	**(3,274,411)**
Net COVID-19 impact	**(1,301,544)**	**(2,358,975)**	**(1,865,095)**	**(1,328,053)**	**(1,358,028)**	**(7,963,710)**

* Increase in lost Council Tax is due to the compounding effect of the annual council tax rate increase being applied to a lower baseline than the pre-COVID-19 baseline and lower growth in the base, and being accounted for as a collection fund deficit the year after it was incurred.

Scenario 3 - Impact of assumptions

The following table shows the impact of the actual data from April as per he Delta 2 returns, continuing at 75% from July, including assumptions around Home to School transport and Children's Social Care.

Table 9: Impact of assumptions – Scenario 3

Assumption	20/21 (£'000)	21/22 (£'000)	22/23 (£'000)	23/24 (£'000)	24/25 (£'000)	Cumulative
Business Rates lost income – from baseline	-	(426,489)	(451,307)	(451,702)	(451,596)	**(1,781,095)**
Council Tax lost income – from baseline*	-	(716,763)	(787,415)	(876,351)	(906,432)	**(3,286,961)**
Tranche 1 funding	679,132	-	-	-	-	**679,132**
Tranche 2 funding	524,816	-	-	-	-	**524,816**
Council Tax Hardship Fund	-	37,023	-	-	-	**37,023**
Lost Income from COVID-19	(793,000)	(396,500)	(198,250)	-	-	**(1,387,750)**
Additional costs due to COVID-19	(2,283,092)	(1,141,546)	(570,773)	-	-	**(3,995,411)**
Net COVID-19 impact	**(1,872,144)**	**(2,644,275)**	**(2,007,745)**	**(1,328,053)**	**(1,358,028)**	**(9,210,245)**

* Increase in lost Council Tax is due to the compounding effect of the annual council tax rate increase being applied to a lower baseline than the pre-COVID-19 baseline and lower growth in the base, and being accounted for as a collection fund deficit the year after it was incurred.

Assumptions

The following assumptions have been used to generate the financial forecasts shown in the charts. The Foresight projection methodology applies a set of assumptions to baseline data from the annual RO returns to MHCLG in order to project a future financial position. These assumptions have been developed in discussion with CCN and SCT.

Baseline Foresight assumptions

The baseline assumptions for annual inflationary increases in expenditure are applied to cost data within the Foresight model.

Table 10: Baseline assumptions – cost inflation

Expenditure area	Annual uplift assumption
Adult Social Care	2.10%
Children's Social Care	2.00%
Housing	2.00%
Non-demand led services	1.00%

Planned savings and income from the MTFS are assumed to be delivered so that a balanced budget is forecast, except for the identified COVID-19 pressures. It is also assumed that SEND deficits will not need to be offset against general fund reserves. The projection does therefore not include the pre-existing aggregate forecast funding gap for county authorities.

COVID-19 assumptions – Base case (Scenario 1)

Cost pressures: figures included as per the Delta 2 returns for 2020/21 from 39 county authorities within scope of this work.

Loss of income (fees, charges and commercial income): Figures included as per Delta 2 returns for 2020/21. This appears in the net expenditure line within the foresight projection.

The Delta returns did not provide a reliable basis on which to develop an assumption for the net loss in cash terms for council tax and business rates – the following high level assumptions therefore draw on discussions during the workshops and with the SCT executive.

Council tax – Base case (Scenario 1)

The council tax base is assumed to reduce by a 6% cash equivalent reduction in 2020/21 on a Council Tax base of £12.56bn as per Foresight forecast. This is as result of increased numbers eligible for council tax support and reduced collection that cannot subsequently be recovered.

CCN and the SCT Executive have reviewed the assumption in the light of a separate review of collection fund pressures and deemed it to be consistent with this. This is broadly consistent with the reduction projected by unitary councils in the Delta 2 returns.

It is assumed that the 2020/21 council tax annual increase is already factored into the 6% reduction in the base and will impact as a collection fund deficit in the following year (2021/22). Council tax base growth will increase by 0.3% in 2022/23 based on assumption that under a gradual economic recovery, conditions, half of the projected pre COVID-19 rate of housing growth is reasonable, returning to pre COVID-19 annual base growth of 0.7% in subsequent years.

In all other years the forecast assumes a maximum annual increase of 1.99% in the rate, in line with maximum increase without holding a referendum and that this will net off against an equivalent non-COVID cost pressure inflationary assumptions.

Assumptions (continued)

Business rates – Base case (Scenario 1)

The impact on business rates is particularly difficult to project, therefore for the purposes of this forecast the assumption is a 10% cash equivalent reduction in the business rate base (£3.84bn as per Foresight forecast for 2020/21). This is consistent with the lower end of the range of pressures reported in the Delta return.

CCN and the SCT Executive have reviewed the assumption in the light of a separate ongoing review of collection fund pressures and deemed it to be consistent with this.

This assumes that the safety net facility will limit the shortfall and that top-up grant under the 2020/21 funding settlement will still apply.

Due to the way in which the collection fund is accounted for it is assumed that reductions will impact the following year. It has been assumed that following the initial contraction in business rates, they will then increase at a rate of 0.5% in 2022/23 and then return to pre-COVID annual base growth of 1.2% per annum to reflect a gradual economic recovery following a period of recession.

Post COVID-19 Economic recovery

For the purposes of this forecast, economic recovery post COVID-19 is assumed to be gradual over the next 5 years with a prolonged period of unemployment affecting the rate at which local tax revenues will recover in county communities. The forecast assumes that growth in the council tax and business rate base will start to recover from 2021/22, returning to pre COVID-19 levels of growth from 2022/23. Note that accelerated economic growth from 2021/22 onwards would close the funding gap at a faster rate.

Other assumptions – Base case (Scenario 1)

In order to isolate the impact of COVID-19 pressures the assumption has been made that aside from the impact of COVID-19, MTFS plans will be delivered such that income and expenditure net to zero. In order to reflect this in the projection, an adjustment has been made to equalise standard cost inflation with projected income growth including an assumed annual council tax increase of 1.99%. The COVID-19 pressures for each of the scenarios were then built into this baseline position. This assumption has been carried forward through the forecast period.

The assumption is that in 2021/22 there will be a residual impact of the COVID-19 loss of income and cost pressures for county authorities. The assumption is that 50% of the costs and pressures from 2020/21 will impact upon 2021/22 and 25% upon 2022/23. This is a broad assumption to reflect COVID-19 impacts on income and expenditure are likely to be felt beyond 2020/21. This has been applied specifically to Adult Social Care, Children's Social Care and lost income figures. All other increased costs, for example increased waste management costs, are assumed to elapse at the end of 2020/21.

The Council Tax Hardship Fund has been factored in for 2021/22 due to the way in which the collection fund is accounted for. It has only been factored in for unitary councils in receipt of an allocation as it was not provided to county councils as precepting authorities.

Assumptions (continued)

Alternative scenarios

Scenarios 2 and 3 differ from the Base case (Scenario 1) in that rather than being based on the full year pressures reported in Delta 2 they are primarily based on extrapolating the April Actual figures presented in the Delta 2 return for the whole of 2020/21 as follows:

- 100% of April costs to the end of July (both scenarios)
- 50% (Scenario 2) for the remainder of 2020/21
- 75% (scenario 3) for the remainder of 2020/21.

However, due to limitations in the data, council tax and business rates have been calculated on the same basis as for Scenario 1 and the following also applies:

- Home to School Transport – the assumption has been made that the average full year costs from local authorities that did make a return Delta 2 forms can be applied to those local authorities that returned no costs for Home to School Transport. This assumption has been made to reflect the expected increase in demand as lockdown ends.
- Children's Social Care – the assumption has been made that the full year estimated costs for Children's Social Care can be applied to these scenarios to reflect the expected increase in demand once lockdown ends and releases pent up demand. This is based on feedback received that the actual figures for April disclosed in the Delta 2 returns are likely to underestimated the costs that increased demand post-lockdown will lead to.

From 2021/22 onwards, the same assumptions have been applied as for the base case (Scenario 1), the difference being that these are applied to the April extrapolated figures for 2020/21, rather than the full year actuals.

Appendix A – List of county authorities included in the Delta returns

County authorities included in the analysis

Bedford Council
Buckinghamshire Council
Cambridgeshire County Council
Central Bedfordshire Council
Cheshire East Council
Cheshire West and Chester Council
Cornwall County Council
Cumbria County Council
Derbyshire County Council
Devon County Council
Dorset Council
Durham County
East Riding of Yorkshire Council
East Sussex County Council
Essex County Council
Gloucestershire County Council
Hampshire County Council
Herefordshire Council
Hertfordshire County Council

Isle of Wight Council
Kent County Council
Lancashire County Council
Leicestershire County Council
Lincolnshire County Council
Norfolk County Council
North Yorkshire County Council
Northamptonshire County Council
Northumberland County Council
Nottinghamshire County Council
Oxfordshire County Council
Shropshire County Council
Somerset County Council
Staffordshire County Council
Suffolk County Council
Surrey County Council
Warwickshire County Council
West Sussex County Council
Wiltshire Council
Worcestershire County Council

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