

From: Peter Oakford, Deputy Leader & Cabinet Member for Finance

To: Scrutiny Committee

Subject: Impact of Covid-19 Outbreak on 2020-21 and 2021-22 Budgets

Classification: Unrestricted

Summary:

This paper provides an update on the council's revenue budget in the wake of the Covid-19 outbreak and subsequent economic impact. The paper sets out the initial estimate of additional costs, deliverability of savings within the 2020-21 approved budget, and potential reductions in income. These have been compared to the emergency grant allocations from MHCLG.

The paper also includes an overall Kent wide picture based on the information compiled by Kent districts and Medway Council which highlight potential reductions in council tax and business rates receipts due to higher discounts/losses on collection. These will impact on the county council budget in 2021-22 when we would need to factor any collection fund deficits/reductions in the estimated tax base.

Cabinet is keeping the 2020-21 budget under review and will receive an update on 22nd June. This will include the plans for reviewing and recasting the budget for consideration and approval by full Council in September. The scale of change required will be dependent on the level of further government funding and may need to include the use of reserves.

Recommendations:

To note the report and the proposed actions set out in section 4 Conclusion and Next Steps

1. Introduction

- 1.1 This report is intended to provide Scrutiny Committee members with an initial assessment of the potential impact of the Covid-19 outbreak on the council's revenue and capital budgets for 2020-21 and 2021-22 based on the latest available information. It is important to emphasise that this is a unique situation and whilst the council has responded incredibly well, there remains a significant amount of uncertainty that makes financial planning far more challenging than would usually be the case. A key part of the uncertainty is how much funding the government will provide and whether this will cover all the costs incurred by the council as well as the losses in income.

2. Funding from Central Government

- 2.1 The Ministry of Housing Communities and Local Government (MHCLG) has made £3.2 billion available to support local authorities through an emergency grant. This funding is un-ringfenced on the basis that councils are best placed to determine the specific needs of their local communities. The emergency grant has been paid in two tranches in March and May which total £66.9m for the council. Initially the government stated that costs incurred by councils would be reimbursed in full, however more recently the government have referred to funding the costs of those activities the government has asked councils

to deliver in response to the emergency. The government has subsequently written to all authorities on 28th May setting out more detail of the service areas which Ministers have signalled councils should prioritise. The detail provided is still relatively high level and it is not clear yet if and how an assessment of spend will be undertaken and whether the whole cost for those service areas will be reimbursed. It should be noted that the two tranches of emergency grant funding were distributed using different methodologies which meant that the council received significantly less in the second tranche of funding than the first.

2.2 The government also announced advance payments of social care grants and grants to compensate for existing business rate discounts before the additional discounts announced since the covid-19 outbreak. These grants were already built into the Council's 2020-21 budget and thus do not constitute extra funding towards additional costs and loss of saving, they merely represent an advance to assist cashflow. The council's share of these grants is £33.4m.

2.3 On 13th May the government announced an additional grant to be paid to adult social care authorities to help manage infection control in care homes. This is in addition to the emergency grant and advance of existing grants outlined in paragraphs 2.1 and 2.2. This grant is specifically aimed at preventing and controlling COVID-19 in all registered care homes. It is included for completeness but is assumed will be spent on additional payments to all care homes (including those with no KCC clients) and is not included in the additional spending analysis.

2.4 Details of the funding announcements for KCC are set out in table 1.

Table 1 Government Grant allocations	£000s	Comments
Additional Grants		
Emergency Grant tranche 1	39,012	KCC's share of the additional £1.6bn first announced in 11th March Budget and paid on 27th March
Emergency Grant tranche 2	27,934	KCC's share of the further additional £1.6bn announced 18th April and to be paid on 14th May
Total Emergency Grant	66,946	
Adult Social Care Infection Control Grant	18,878	KCC share of additional £0.6bn announced on 13th May
Advance of Grants already in Settlement and Approved Budget (not new money, only eases cashflow)		
Business Rate Compensation Grant	12,662	Grant we would normally have received in monthly instalments throughout 2020-21 and already built into 2020-21 budget but paid in full on 27th March
Social Care Support Grant and Improved Better Care Fund	20,728	Grants we would normally have received in monthly instalments throughout 2020-21 and already built into 2020-21 budget. 1/4 of the grant was paid in April and the remaining 3/4 to be paid in nine monthly instalments from July
Total Early Advances	33,390	

3. KCC additional spending, delay of savings and loss of income

3.1 MHCLG have asked local councils to provide monthly returns detailing estimates of spend relating to the Covid 19 response against the emergency grant allocations. Two returns have been completed to date, one for April and one for May. The returns to MHCLG have identified estimated additional costs, delays to savings built into 2020-21 revenue budget, and estimated reductions in income. In total these could amount to over £117m, as set out in table 2 below.

Table 2 KCC Spend and Income Estimates	Total Spend Actual and Forecast £m
Emergency Grant from Government	66.9
KCC Forecast Spend & Lost Income	
<i>Adult Social Care including:</i>	49.8
*Additional payments to support sustainability of providers	
*Additional cost of care packages for clients transferred from health	
*Workforce demand	
* Procurement of stocks of Personal Protective Equipment (PPE)	
*Exceptional additional costs on systems and supplies	
<i>Children's Services including:</i>	24.0
*Care packages for emergency placements and unaccompanied asylum seeking children	
*Sustainability and capacity payments for home to school transport providers	
*Sustainability payments for early years and childcare providers	
*Workforce demand	
<i>Growth Environment and Transport including:</i>	8.8
*Emergency mortuary provision and dealing with excess deaths	
*Sustainability payments for bus companies for loss of concessionary fare reimbursement and fares on subsidised routes	
*Sustainability payments to Highways and Waste Contractors	
<i>Public Health</i>	0.7
<i>Strategic & Corporate Services including</i>	8.6
*Additional capacity in Contact Centre and Cantium Business Solutions	
*IT equipment and home working	
*Compensation for capital programme delays and additional capital costs	
<i>Other including</i>	1.3
* non adult social care PPE	
* shielding vulnerable residents	
<i>Delayed savings</i>	7.1
Total net additional costs	100.3
Reductions in Income	17.1
Shortfall in Grant	50.5

3.2 The table above shows the shortfall compared to the emergency grant is £50.5m. The estimates will continue to be refined and changed as actual expenditure is recorded and more information becomes available. The shortfall in funding has significant implications for the council's budget for 2020-21 and 2021-22. Concerns regarding the funding

shortfall have been put in writing and raised with MHCLG directly by the council and through Kent Leaders, the Kent Finance Officers' Group, the County Council's Network and the Society of County Treasurers.

4. Whole Kent Summary

- 4.1 The Kent wide position based on the MHCLG submissions including the county council, district/borough councils and Medway Council has been collated, which shows a huge funding shortfall of just under £250m primarily due to income losses. The overall picture is shown in table 3. The district/borough council figures include the losses on business rates and council tax for all authorities including the County and Fire and Rescue Authority shares. Initially the collection authorities will bear these losses in 2020-21 as the upper tier authorities will still receive the original precepts based on tax estimates before the Covid-19 outbreak. Unless the government provides additional compensation in either 2020-21 or 2021-22 the majority of the loss would fall on the council through its share of collection fund balances which would need to be built into 2021-22 budget.

Table 3	Additional Spending	Loss of Income	Grant Funding	Shortfall
Kent County Council	£100.3m	£17.1m	£66.9m	£50.5m
District Councils	£12.4m	£157.9m	£15.1m	£155.2m
Medway Council	£17.1m	£37.1m	£14.2m	£40.0m
Total	£129.8m	£212.1m	£96.2m	£245.7m

- 4.2 A more detailed breakdown of the estimated income losses across Kent is shown in table 4.

Table 4 – Forecast Income	
Losses on business rates (excluding additional Covid-19 reliefs)	£26.1m
Losses on council tax	£110.1m
Losses on housing revenue	£6.6m
Losses on sales, fees and charges	£47.0m
Losses on commercial income	£13.2m
Losses on other income	£9.1m
Total income losses	£212.1m

- 4.3 The table above shows that over half of the estimated income losses relate to Council Tax. Council tax losses are likely to accrue from a combination of additional claimants for council tax support under Local Council Tax Reduction Schemes (LCTRS) and an increase in the number of households that can't or don't pay their council tax.

5. Conclusion and Next Steps

- 5.1 The balanced budget approved at Full Council in February this year was a net revenue requirement of £1,063.654m for 2020-21. The budget was set pre-Covid 19 and included a number of elements that will now need to be reviewed and revised in order to ensure the budget remains balanced and takes account of future funding pressures.

- 5.2 At this stage the early indications are that all Kent authorities face significant shortfalls in 2020-21 between grant funding and forecast additional spending/ loss of income. We will continue to review and update the cost estimates and income losses arising from the Covid-19 response and the costs associated with supporting recovery to inform the overall budget position for the council for both 2020-21 and 2021-22. Lobbying for full compensation will continue to ensure there is minimal impact on the Council's reserves and financial resilience. However, if sufficient government funding is not forthcoming, it will be necessary to utilise a proportion of general reserves to balance the budget in the current year. The funding drawn down from reserves will need to be replenished as part of the following year's budget to avoid a negative impact on the council's future financial resilience.
- 5.3 The next steps will be a report to Cabinet on 22 June setting out the high level financial planning scenarios and associated implications for the budget for 2020-21 and 2021-22. The report will set out the actions that will be required to review and recast the 2020-21 revenue and capital budgets for consideration and approval by full Council in September.