

From: Peter Oakford, Deputy Leader and Cabinet Member for Finance,
Corporate and Traded Services

Zena Cooke, Corporate Director of Finance

To: Policy & Resources Cabinet Committee - 11th September 2020

Subject: Financial Update

Classification: Unrestricted

Summary:

This report provides an update on the financial impact of the Covid-19 pandemic and subsequent economic recession, including the additional funding provided by central Government, the Council's estimated costs for the emergency response, and the potential loss of income and delays to savings plans. These have been assessed and included in the amended 2020-21 revenue budget presented to County Council on 10th September together with other significant budget changes arising from the 2019-20 outturn not included in the original approved budget and from the first budget monitoring for 2020-21 reported to Cabinet on 20th July.

The overall assessment is that there is still a forecast shortfall in the emergency grant received to date and the impact of Covid-19 on the Council's additional spending requirements and income collection. The amended budget includes underspends that have been achieved during the first quarter, mainly as a result of the lockdown, to help offset this shortfall, and further restraint on non-essential spending during the remainder of the year to offset the impact of non Covid-19 adjustments. These ensure the Council continues to plan for a balanced budget in 2020-21.

The amended budget does not include any further drawdown from reserves (other than Covid-19 grants held temporarily in reserves, roll-forwards of 2019-20 underspends and use of Public Health reserve to maintain the ring-fencing of this service). This ensures that Council's financial resilience has not been reduced in the wake of the pandemic although the number and levels of uncertainties continues to pose a significant financial risk.

The outlook for 2021-22 and later years remains highly uncertain. The Chancellor of the Exchequer has set out the timetable for the Spending Review for future years' public spending plans. However, current forecasts indicate the Council faces the combination of increased spending growth demands and the spectre of reduced council tax and business rate tax base and substantial share of collection fund deficits from the current year. If these are not addressed in the Spending Review the Council would have to find ways to substantially reduce the forecast spending growth and identify significant further savings on current spending in order to maintain a balanced budget.

Recommendations:

- a) Policy and Resources Cabinet Committee is asked to note magnitude of changes to spending and income plans in the amended 2020-21 budget presented to County Council on 10th September
- b) Policy and Resources Cabinet Committee is asked to note that the position remains highly uncertain and could further change significantly during the Autumn
- c) Policy and Resources Cabinet Committee is asked to note that this uncertainty extends into 2021-22 and later years pending the Government's Comprehensive Spending Review, further analysis of the impact on local tax yields, and progress towards balancing 2021-22 budget.

1. Background

- 1.1 The 2020-21 revenue budget and 2020-23 capital programme were approved by County Council on 13th February 2020. The approved net revenue budget requirement was £1.064bn. This was funded £0.753bn from council tax¹, £0.252bn un-ring-fenced government grants, and £0.059bn retained business rates. The capital programme included planned spending of £1.014bn over the three years (£0.472bn in 2020-21) with £0.621bn funded from external sources and government grants, and £0.393bn from KCC resources and borrowing (with consequential financing impact on current and future revenue budgets).
- 1.2 On 11th March the Covid-19 outbreak was declared a pandemic. The Council had to act quickly in response to the pandemic and on 18th March staff were told to work from home wherever possible. This was in advance of announcements on 20th March closing schools, restaurants, pubs, indoor entertainment venues and leisure centres, and the more substantial lockdown imposed on 23rd March banning all non-essential travel and contact outside the home.
- 1.3 The Council's response has focussed on protecting the safety and wellbeing of all Kent residents, especially the most vulnerable as well as supporting its principal suppliers in line with government guidelines. Some of the main aspects of the response has included making additional payments to all residential, nursing, homecare and day care adult social care providers towards additional costs they are incurring during the emergency; procurement and distribution of additional personal protective equipment (PPE) to both staff and care providers; maintaining payments to early years and childcare providers even where they have had to close down; maintaining payments to bus companies and home to school transport providers to sustain the market during the slump in journeys during lockdown and school closures; securing additional temporary mortuary provision.

¹ based on estimated net band D equivalent tax base of 554,625.61 properties, band D tax charge of £1,351.26 (including £118.62 social care levy), and collection fund surplus

- 1.4 Inevitably some of the Council's own facilities have also had to close such as children's centres, country parks, libraries, waste disposal and recycling facilities, etc. In the main the Council has continued to incur contractual and staffing costs for these services even though facilities were closed, although some in-year underspends have now been identified and included in the first monitoring report to Cabinet on 20th July.
- 1.5 The amended revenue budget for 2020-21 has an increased net budget requirement of £1.1bn. Council tax precepts remain unchanged at £0.753bn (the council tax consequences of the recession will not impact on precepts and KCC's share of collection fund balances until 2021-22). The contribution from business rates has reduced to £0.056bn (largely due to anticipated impact on business rate pool). Government grants has increased to £0.291bn (largely due to additional un-ring-fenced Covid-19 grants).
- 1.6 It is important to emphasise that at this stage all forecasts are only an initial assessment of the potential impact of the Covid-19 outbreak on the council's revenue budget for 2020-21 based on the latest available information. 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. Furthermore, the forecasts can only be based on some high level assumptions about the impact of on-going social distancing requirements and other measures as we move into recovery phase and do not include any assumptions about a second wave of infections.

2. Government Funding Allocations

- 2.1 MHCLG has made £3.7 billion available to support local authorities through an Emergency Grant in three tranches in March (£1.6bn), May (£1.6bn) and July (£0.5bn). The Emergency Grant is un-ringfenced so is provided with no conditions attached and local authorities are free to spend according to local priorities. Each tranche has been allocated according to a different formula. The first tranche was heavily weighted towards authorities with social care responsibilities using the social care relative needs formula (RNF) with a small proportion allocated according to estimated population. The second tranche was allocated according to estimated population with 35% allocated to lower tier (district councils), 62% to upper tier (counties) and 3% to fire authorities in two tier areas. The third tranche was allocated according to a formula based on estimated population adjusted for area costs and deprivation, with 21.1% going to lower tier authorities (districts) and 78.9% upper tier (counties) in two tier areas. KCC's share of the three tranches of Emergency Grant amounts to £77.3m.
- 2.2 The government has also provided some grants which can be claimed on an actual cost basis. These include the following:

- £1.6bn NHS Hospital Discharge Grant. This is a share of the £5bn originally made available to the NHS to deal with the Covid-19 Pandemic in the March Budget. Local authorities will need to work with their local NHS authorities to agree joint bids to support the discharge of patients into care. This includes work undertaken to support hospital discharges by Public Health teams. The budget amendment includes an estimate of £5.8m for additional spending and assumed NHS discharge grant.
- £6m tranche 3 Emergency Grant. This is to be made available to a small number of authorities facing acute pressures from Unaccompanied Asylum Seeking Children (UASC). The budget amendment includes an estimate of £1.0m for additional spending and assumed DfE grant.
- Loss of income from sales, fees and charges (SFC). This will only be available for losses in excess of 5% of total budgeted income. Claims above this threshold will be compensated at 75% of the loss. At this stage KCC losses fall below the threshold and no additional grant has been included in the budget amendment.

2.3 The government has also provided a number of specific ring-fenced grants to be used for defined purposes. Details of these grants have been included for completeness although spending is offset by grant income in the Council's budget and have no impact on the net budget or the shortfall between unringfenced grant and additional spending/loss of income incurred by the Council. The specific grants include the following:

- £600m Social Care Infection Control Grant. Announced on 14th May, KCC's share is £18.9m. This grant is specifically aimed at preventing and controlling COVID-19 in all registered care homes. 75% of the grant must be paid to all registered providers as an amount per bed (irrespective of whether they have any KCC clients) and is subject to each home signing a grant agreement. The remaining 25% must also be passed onto care providers although the Council has some discretion over individual allocations.
- £300m Test and Trace Grant. Announced on 22nd May and paid 19th June, KCC's share is £6.3m. In 2-tier areas, this grant is conditional on upper tier authorities working closely with their lower tier partners and pay sufficient resources to lower tier authorities to enable them discharge functions expected of them.
- £63m Emergency Assistance Grant for Food and Essential Supplies. Announced on 11th June, KCC's share is £1.7m. This grant is to help authorities support families struggling with cost of food and other essentials during the crisis. We have paid £200k to Kent Community Foundation and allocated 50% of the remainder to 12 Kent districts, with the other 50% retained by KCC to fund additional claims through Kent Support and Assistance Service (KSAS).
- £40m Additional Dedicated Home to School and College Transport Grant. Announced on 11th August 2020, KCC's share is £1.6m. This grant is to be spent to ensure that pupils and students of compulsory school age and students aged 16-19 can get to school and college safely and on time for first autumn half term.

- £167m Bus Service Support Grant. Announced on 3rd April. The vast majority is paid directly to bus providers. KCC's share to date is £1.3m and is to be used to make additional payments to bus operators to maintain routes. It cannot be used to replace existing subsidies.
- £250m Emergency Active Travel Fund. Announced on 9th May, KCC's share of initial tranche of additional revenue funding £0.47m (plus a further £1.13m capital funding) to develop active travel schemes in response to Covid-19 emergency. Further tranches for non Covid-19 purposes to encourage active travel are due to be announced at a later date.

2.4 Table 1 provides a summary of all the additional grants un-ringfenced grants, specific grants and grants that can be claimed. The Government has also made 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 therefore do not constitute extra funding towards additional costs and loss of savings, they merely represent an advance to assist cashflow. The Council's share of these advances is £33.4m.

Table 1	Dept	Total £m
Government Grants		
Additional unringfenced grants		
Emergency Grant tranche 1	MHCLG	39.0
Emergency Grant tranche 2	MHCLG	27.9
Emergency Grant tranche 3	MHCLG	10.3
Total MHCLG unringfenced grants		77.3
Grants which are subject to claims		
NHS Hospital Discharge	DHSC	5.8
Compensation for loss of income	MHCLG	0.0
Emergency grant for authorities with significant Asylum costs	DfE	1.0
Total grant claims		6.8
Additional Specific Grants		
Social Care Infection Control Grant	DHSC	18.9
Test and Trace Grant	DHSC	6.3
Emergency Assistance Grant for Food and Essential Supplies	DEFRA	1.7
Additional School and College Transport Capacity funding	DfE	1.5
Covid Bus Services Support Grant	DfT	1.3
Emergency Active Travel Fund (Revenue grant)	DfT	0.5
Total Specific Grants		30.2
Advance of grants already in approved budget (only eases cashflow)		
<i>Business Rates Compensation Grant</i>	<i>MHCLG</i>	<i>12.7</i>
<i>Social Care Support Grant & Improved Better Care Fund</i>	<i>MHCLG</i>	<i>20.7</i>
Total Early Advances		33.4

3. Cost Estimates

- 3.1 As soon as the pandemic was announced arrangements were made to capture information about the additional costs the Council would incur. In March 2020 a total of £1.705m of additional spending and lost income associated with the Covid-19 response was accounted for within the final 2019-20 accounts. This included distress payments to bus providers, PPE purchases, and IT equipment and licences to support home working. The first tranche of Emergency Grant funding of £39m was received on 27th March, this was used to offset this expenditure with the remaining £37.3m transferred to a specific reserve to be drawn down to support spend in 2020-21.
- 3.2 Initially there was very little guidance on the expectations on local authorities. The Government did issue three Procurement Policy Notes (PPN) although these related to suspending aspects of procurement procedure rather than guidance on the type of expenditure the government anticipated local authorities would incur. The Council produced local guidance on the expenditure and income to be captured. This included:
- Additional costs incurred in response to the initial emergency e.g. temporary mortuary, procurement of PPE, etc.
 - Additional costs to support market sustainability e.g. payments to support social care providers in meeting Covid-19 related additional costs, payments to home to school transport providers even though no service has been provided due to closures, etc.
 - Future demand increases e.g. adult social care where the Council has to assume responsibility following hospital discharges, children's social care due to increased demand following the easing of lockdown restrictions etc.
 - Delays in delivering savings
 - Loss of income
 - Workforce pressures associated with demand increases
- 3.3 The Ministry of Housing, Communities and Local Government (MHCLG) has asked local councils to provide a monthly return setting out estimates of the impact of the Covid-19 pandemic. Four returns have been submitted to date setting out estimates of additional spending, delayed savings and potential lost income. The latest return was submitted on 31st July. The County Council report for 10th September included a summary of each return which has been reproduced in this report in the tables below.

Table 2 Grant Allocated & Impact	Monthly return			
	April £m	May £m	June £m	July £m
Emergency Grant Notified	39.0	66.9	66.9	77.3
Grant Allocated to Service Spend	38.2	66.3	66.9	77.3
Total forecasts				
Additional spending	106.1	100.4	96.6	92.8
Income losses	19.3	17.1	21.0	23.0
	125.5	117.5	117.6	115.9
Less grant notified	(39.0)	(66.9)	(66.9)	(77.3)
F'cast shortfall from Grant	86.5	50.5	50.7	38.6

Table3 Spending & Income Losses	Monthly return			
	April £m	May £m	June £m	July £m
Additional Spending				
Adult Social Care	56.6	49.8	45.1	44.2
Children's Services	6.0	8.1	8.1	7.2
Education	10.1	15.9	17.8	17.4
Highways & Transport	16.0	4.3	4.7	5.2
Public Health	1.0	0.7	0.7	0.8
Cultural & Related	-	0.2	0.2	-
Environment & Regulatory	11.7	4.3	3.5	3.3
Finance & Corporate	4.8	8.6	7.2	4.0
Other		8.5	9.2	10.8
Total	106.1	100.4	96.6	92.8
Income losses				
Sales Fees and Charges	8.5	-	-	-
Highways and Transport	-	2.9	3.8	5.6
Cultural and Related	-	0.2	0.2	2.9
Other	-	3.7	5.0	5.4
Sub Total Sales Fees and Charges	8.5	6.8	9.0	13.9
Commercial Income	5.0	5.0	6.0	4.0
Other Income	5.8	5.3	6.1	5.1
Total	19.3	17.1	21.0	23.0

3.4 Income losses for KCC do not include the impact of additional council tax discounts for households facing a decline in income, or collection losses for other households unable to pay, or losses on business rate collection for business not in receipt of additional Covid-19 reliefs. At this stage these

income losses will be borne by billing authorities (districts and boroughs in Kent) in 2020-21 with precepts for upper tier authorities unchanged from the amounts built into 2020-21 budget. The government has announced that collection fund losses can be written off over three years (rather than the usual one year) although there are no details at this stage how this will work in two-tier areas or whether the delayed write off will be backed by additional funding. The government has also announced that it is considering sharing the impact of irrecoverable council tax losses although again no details at this stage.

- 3.5 The first budget monitoring report setting out the overall financial position for 2020-21 revenue and capital budgets as the end of May was reported to Cabinet on 20th July. This report only includes forecast spending and income in 2020-21 and thus excludes the £1.7m of Covid-19 spending and lost income in 2019-20 and consequently identifies the balance of £65.2m of Emergency Grant in the Covid-19 Reserve available from tranches 1 and 2 to fund additional costs and income losses in 2020-21.
- 3.6 The budget monitoring report identified a forecast net revenue overspend in 2020-21 of £11.2m related to the shortfall in Covid-19 reserve and forecast £14.6m revenue overspend for non Covid-19 related issues. This report was prepared based on the third MHCLG return in June and before the tranche 3 Emergency Grant was announced.
- 3.7 The budget monitoring for 2020-21 includes a forecast of the additional revenue spending, delays in savings and income losses of £97.9m, and a forecast underspend £21.5m compared to base budget due to Covid-19 related issues. These underspends are not included in the MHCLG return which sought information on total additional spending and income losses related to Covid-19 and not whether any of the spending had base budget provision e.g. continuity payments to home to school transport providers. The MHCLG return also includes the £1.7m of spending in 2019-20 and £18m of potential financial risks which are not yet included in budget monitoring report. Table 4 shows the reconciliation between the 2020-21 budget monitoring and the total potential impact included in the MHCLG return.

Table 4 Reconciliation of MHCLG Covid-19 Return and KCC Budget Monitoring Report for May	KCC Monitoring		MHCLG
	2020-21	2019-20	Return
	£m	£m	£m
Potential Risks (not included in revenue monitoring at this stage)			18
Additional Spending	72.8	1.7	74.5
Delayed Savings	6.1		6.1
Total Additional Spending as per June MHCLG return	78.9	1.7	98.6
Loss of Income as per June MHCLG return	19		19
Gross Spending and Income	97.9	1.7	117.6
Base budget underspends (not in Covid-19 return)	-21.5		
Drawdown from Covid-19 Reserve	-65.2	-1.7	-66.9
Net Covid-19 Overspend	11.2		50.7

3.8 It is important to note that the cost estimates at this stage do not include any impact of a second wave of infections or changes in spending during the recovery phase. Costs and income losses will continue to be refined in light of further evidence.

4. 2020-21 Budget Amendment

4.1 Cabinet on 22nd June endorsed a recommendation for a review of the 2020-21 revenue budget in light of the significant changes since the budget was approved in February 2020. This review has resulted in the proposed amendment presented to County Council on 10th September.

4.2 Appendix A of the 10th September County Council report has been included in this report and identifies the detailed changes to spending plans by directorate. This is the equivalent to the one-year summary of the medium term financial plan (MTFP), section 3 of the Budget Book. The changes to the proposed budget include additional spending, losses of income, delays to the original savings plans, underspends achieved during the lockdown period and proposed management action to deliver a balanced budget. Table 5 shows a high level summary of the proposed changes between the original approved budget for 2020-21 and the amended proposed budget by directorate.

Table 5 High Level Summary	Total £m	Adult Social Care & Health £m	Children, Young People & Education £m	Growth Environ- ment & Transport £m	Strategic & Corporate Services £m	Financing & Unalloc- ated £m
Original Approved	1,099.9	402.4	282.0	173.8	89.9	151.9
Increase/ (decrease)	1,063.7	399.5	273.0	178.9	82.3	130.0
Total Change	36.3	3.0	9.0	-5.2	7.6	21.9
Gross impact of Changes						
Additional Spending Pressures	89.0	25.1	13.4	10.2	15.7	24.7
Income Losses	20.1	1.3	2.9	4.8	1.1	10.1
Undeliverable savings	7.6	3.4	1.3	0.2	0.7	2.0
Sub-total - total gross impact	116.7	29.7	17.5	15.2	17.5	36.7
How budget gets balanced						
Drawdown from reserves	-71.5	0.0	0.0	0.0	-0.1	-71.5
Changes Approved at Cabinet 20th July	27.9	0.0	0.0	0.0	0.0	27.9
Underspends, many due to Lockdown	-24.0	-3.5	-10.3	-7.8	-2.2	-0.2
Proposed Further Action	-12.8	0.0	0.0	-7.9	-0.5	-4.5
Total	36.3	26.2	7.2	-0.5	14.8	-11.5
tfr to unallocated	0.0	-23.2	1.8	-4.7	-7.2	33.4
Revised Total	36.3	3.0	9.0	-5.2	7.6	21.9

4.3 The £71.5m draw down from reserves in the budget amendment comprises of the balance of tranche 1 Emergency Grant after funding spending and lost income in 2019-20 (£37.3m), the tranche 2 grant agreed to paid into Covid-19 reserve by Cabinet on 22nd July (£27.9m), the roll forward of underspends from

2019-20 approved by Cabinet on 22nd July (£6.2m) and draw down from Public Health reserves (£0.1m) in order to preserve the ring-fencing for this service.

- 4.4 The analysis in appendix A also subdivides the proposed changes between those relating to the immediate response to the Covid-19 emergency, forecasts for the recovery phase during the remainder of this year and changes unrelated to the Covid-19 emergency. The analysis also identifies whether these are one-off issues for 2020-21 or recurring (impacting on the base for 2021-22 and later years). Table 6 shows a high-level summary by directorate.

Table 6 Further Analysis of Gross Impact		Total £m	Adult Social Care & Health £m	Children, Young People & Education £m	Growth Environ- ment & Transport £m	Strategic & Corporate Services £m	Financing & Unalloc- ated £m
One-off	83.8	26.5	10.7	14.2	9.9	22.5	
Recurring	32.8	3.2	6.9	1.0	7.6	14.2	
Total	116.7	29.7	17.5	15.2	17.5	36.7	
Covid v Non-Covid							
Covid	96.3	26.8	8.5	12.5	9.5	39.1	
Non-Covid	20.3	3.0	9.0	2.7	8.0	-2.3	
Total	116.7	29.7	17.5	15.2	17.5	36.7	
Covid split							
One-off	75.5	26.8	8.5	12.5	8.1	19.6	
Recurring	20.8	0.0	0.0	0.0	1.3	19.5	
Total	96.3	26.8	8.5	12.5	9.5	39.1	
Non-Covid split							
One-off	8.4	-0.3	2.1	1.7	1.8	3.0	
Recurring	12.0	3.2	6.9	1.0	6.2	-5.3	
Total	20.3	3.0	9.0	2.7	8.0	-2.3	

- 4.4 The balanced budget position has been achieved from a combination of additional specific grants which have enabled previous forecast costs to be funded at net nil impact on the net budget, revised forecasts for potential risk of future costs (compared to the earlier forecasts in the MHCLG returns set out in section 3 of this report) and proposed further management action. This has been a common approach in recent budgets where the solution has come from a combination of managing down what would otherwise have been spending growth and genuine spending reductions. As shown in table 6 all the proposed spending reductions from further management action are one-offs for 2020-21. The amended budget includes an additional £32.8m of net costs in 2020-21 which will be recurring in later years. These costs have been funded in 2020-21 from one-off funding sources and one-off underspends and savings and consequently will require a permanent solution in future years' budgets (either from additional sustainable funding, resisting costs or base budget savings).

- 4.5 The gross impact of Covid-19 on the Council's budget is £23.8m more than the emergency grant. The spending pressures include payments to providers during the lockdown period made under the provisions of the government's changes to Procurement Policy Notes (PPNs). We have included this expenditure as it was incurred in response to Covid-19 and in best value terms was expenditure for which no service was received.
- 4.6 It is important to identify the best value impact (and that such abortive spend should be funded from the emergency grant) even though some of that expenditure was already planned in the approved budget e.g. home to school transport. Effectively the underspends against the original approved budget help to offset the shortfall in government funding and have enabled a balanced budget to be proposed which does not detrimentally impact on the Council's reserves or financial resilience. The proposed further management action effectively balances the impact of non Covid-19 changes (after allowing for the £6.2m of additional planned spending funded from rollover of 2019-20 underspends).

5. Medium Term Impact

- 5.1 The medium term outlook remains highly uncertain. The Chancellor of the Exchequer has launched the 2020 Comprehensive Spending Review (CSR). The review aims to set departmental resource budgets for the years 2021-22 to 2023-24 and capital budgets for the years 2021-22 until 2024-25. This would usually include the overall spending for local government from central grants and the amounts expected to be raised locally through council tax and business rates. No firm date has been set when the review will be reported, and no overall spending envelope has been fixed. Submissions to inform the review need to be made by 24th September.
- 5.2 The Chancellor has been clear that given the impact Covid-19 has had on the economy there will need to be tough choices in areas of spending that are not among the Government's stated priorities. As part of the preparations for the CSR departments have been asked to identify opportunities to reprioritise spending and deliver savings. Departments will also be required to fulfil a series of conditions in their returns, including providing evidence they are delivering the government's priorities and focussing on delivery. The Government has already confirmed that reforms to local government funding for the move to 75% business rate retention and reforms to funding distribution through Fair Funding reform and reforms to business rate retention will not go ahead for next year.
- 5.3 As identified in paragraph 4.4 the recurring costs identified for 2020-21 in the budget amendment have only been funded by one-off solutions in the current year (emergency funding from government, underspends during the first part of the year during lock-down, and one-off future savings from action to defer spending). These recurring costs will need to be built into 2021-22 budget together with the more usual spending growth due to pay/prices and demography. There is also a high risk that there could be further spending

growth to deal with longer term consequences of Covid-19 pandemic and economic fall-out. If these spending growth pressures are not recognised in the CSR the predicted level of overall spending growth is likely to be unaffordable.

- 5.4 The recession could also affect council tax and business rates precepts. The County Council's share of council tax and retained business rates accounts for over $\frac{3}{4}$ of the total funding towards the net revenue budget requirement. Since the localisation of council tax benefit and the introduction of local business rate retention the Council is exposed to the economic consequences from a recession to a much greater extent.
- 5.5 Working age households on low incomes can claim discounts of up to 75% to 90% of the household council tax bill (the discount is determined by local schemes agreed individually by each district). If, as anticipated, the recession leads to higher levels of unemployment this would increase the number of council tax support claimants thus reducing the value of the collectable council tax. During April and May there has already been a 10% increase in the value of council tax support discounts compared to the estimate used for the 2020-21 precept. Since then the rate of increase in claimants has reduced but is still rising (as at the end of July, the latest information available, the increase stood at 11.9%).
- 5.6 Collection rates have also declined during the first four months of the current year. Collection rates represent the overall amount of collectable council tax i.e. after discounts have been applied, actually collected. Typically districts expect to collect between 97% to 99% of the collectable tax base. As with council tax support discounts there was an initial significant impact on collection in April compared to the previous year, but the rate of decline in collection rates has reduced in subsequent months. The average amount collected in April was 10.51% of the collectable base compared to 11.14% in April of the previous year i.e. a reduction of 0.63%. By July the total council tax collected was 37.41% compared to 38.72% in July of the previous year i.e. a reduction of 1.32%. In theory this under collection could be recovered later in the year but on current evidence this seems unlikely.
- 5.7 The combined impact of increase in council tax support claims and lower collection rates could result in KCC having to bear a substantial share of collection fund deficit and a reduction in the 2021-22 tax base. In recent years the Council has benefitted from a collection fund surplus and increasing tax base. These have been a significant factor in being able to set a balanced budget in previous years.
- 5.8 The combination of higher growth in spending than in previous years and the spectre of a potential collection fund deficit and reduced tax base would present a much greater threat to the Council's financial viability than the challenge we have faced over the last 10 years through austerity.

6. Capital Programme

- 6.1 The approved capital programme identifies £1,014m investment in infrastructure over the 3 years 2020-21 to 2022-23, this includes £121m of new schemes not included in previous programmes including a significant investment in highways asset management and priority remedial works. Capital investments are funded by a combination of government grants, developer contributions, external funding, capital receipts and borrowing. The approved programme included a preliminary figure for the 2019 schools commissioning plan together with assumed basic need grant but was still subject to confirmation at that time.
- 6.2 A fundamental review of the capital programme is being undertaken as the funding sources (borrowing, capital receipts, developer contributions, etc.) will also be impacted by Covid-19. It should be noted that avoiding borrowing would only reduce the revenue costs of borrowing and the Minimum Revenue Provision and would not impact until 2021-22. Capital receipts flexibility can still be used to support revenue transformation spending although our ability to attract receipts is limited in the current circumstances.

7. Recommendations

- a) Policy and Resources Cabinet Committee is asked to note magnitude of changes to spending and income plans in the amended 2020-21 budget presented to County Council on 10th September.
- b) Policy and Resources Cabinet Committee is asked to note that the position remains highly uncertain and could further change significantly during the Autumn.
- c) Policy and Resources Cabinet Committee is asked to note that this uncertainty extends into 2021-22 and later years pending the Government's Comprehensive Spending Review, further analysis of the impact on local tax yields, and progress towards balancing 2021-22 budget.

8. Background Documents

- 8.1 KCC's Budget webpage
<https://www.kent.gov.uk/about-the-council/finance-and-budget>
- 8.2 KCC's approved 2020-21 Budget
https://www.kent.gov.uk/_data/assets/pdf_file/0006/103758/Budget-Book-2020-21.pdf

9. Contact details

Report Authors

- Cath Head (Head of Finance Operations)
- Dave Shipton (Head of Finance Policy, Planning and Strategy)
- 03000 419418
- dave.shipton@kent.gov.uk

Relevant Corporate Director:

- Zena Cooke
- 03000 416854
- zena.cooke@kent.gov.uk