

COVID-19 FINANCIAL UPDATE – Quarter 1 2020

1. Background

- 1.1. This report provides Councillors with a further update on the emergency expenditure presented to Cabinet in June 2020 together with losses to income and delays to planned savings in 2020/21. The assumptions in the 3 modelled scenarios have been updated to reflect additional funding, new pressures and the reopening of services since the previous report.
- 1.2. As a Category 1 responder to the Covid-19 pandemic, MKC has been providing a wide range of support to vulnerable residents, businesses and partner organisations. This has required the Council to incur additional costs outside of our approved budget and take decisions in line with new government direction and guidance to ensure that essential services are able to continue in what is an extremely challenging situation.
- 1.3. The financial decisions approved by the Financial Authorisation Board and the Corporate Portfolio Board to date are summarised in Table 1. These amounts vary to the Covid-19 related impact to date shown in Annex A due to timing differences in processing payments.

TABLE 1 – COVID-19 Allocations – 2020/21

New Emergency Expenditure/ Loss of Income	2019/20 Actuals	2020/21 YTD Commitment	2020/21 Future Commitment	Total Allocation	Commentary
	£m's	£m's	£m's	£m's	
Expenditure Pressure					
Adults Social Care	0.000	1.576	0.422	1.998	Main items include costs to fund PPE, enhanced fees to care homes, continuation of payment to day care providers for which are currently closed (including additional support services such as supported living in the absence of day services).
Children's Services	0.000	(0.434)	0.200	(0.234)	Savings on home to school transport, potential cost of school deficits

Homelessness including Rough sleeping	0.000	0.246	0.000	0.246	Costs cover provision for Rough sleepers until 4th August 2020.
Cultural Related	0.000	0.080	0.040	0.120	3 months of support to leisure provider, up to £40k per month.
Environment & Regulatory Services	0.060	0.306	0.054	0.420	Additional mortuary capacity until 5/6/20. Facility now decommissioned. Increased contamination at MRF, and tonnages at RWTF in March, and costs of reinstating FGW and HWRC
Corporate	0.000	0.056	0.000	0.056	Foodbank xtra, discretionary grant
Democratic Services	0.000	0.000	0.005	0.005	Remote meeting software
Resources	0.000	0.018	0.153	0.171	WAN link, office 365 licences, discretionary grant software, discretionary grant payment
Env & Property	0.000	0.060	0.015	0.075	Reopening of Emberton Park, Food and Garden Waste,
Loss of Income					
ASC - Day Care	0.000	0.154	0.078	0.232	Loss off income on day care services
Parking Revenue	0.353	2.987	0.000	3.340	Actual shortfall in revenue until 31 June and reduced income in July
Planning	0.000	0.529	0.000	0.529	Loss of planning income
Other Transport income	0.000	0.142	0.000	0.142	3 months suspension of Community Transport service, gear change and Taxi MOT facility
Emberton Park	0.000	0.106	0.000	0.106	3 month closure of Emberton Park
Registrars	0.000	0.060	0.000	0.060	Loss of ceremony income
Children's Services	0.000	0.086	0.000	0.086	Loss of library, community centre income & schools £35k per month

Revenues - Court Income	0.000	0.178	0.000	0.178	Loss of Court Cost Income
Commercial Property	0.000	0.084	0.000	0.084	Loss of sponsorship income
Other	0.000	0.147	0.000	0.147	Loss of leisure income
Government Funding				(15.756)	Government grant funding
Balance	0.413	6.381	0.967	(7.995)	

2. Additional Government Funding Allocations

In addition to the £15.756m allocation, the council has been managing and accessing various other Government support funds. Table 2 shows the total grants received, and how these are being used.

TABLE 2 – Total Funding Allocations

	Allocation	Received to Date	Actual Spend to date (Qtr1)	Balance of Allocation Remaining
	£m's	£m's	£m's	£m's
LA Support Grant - Tranche 1 & 2	(13.505)	(13.505)	7.761	(5.744)
NEW LA Support Grant - Tranche 3 (£500m national)	(2.251)	0.000	0.000	(2.251)
Covid-19 Hardship Fund	(2.322)	(2.322)	1.870	(0.452)
Business Support Grant	(39.440)	(39.440)	39.040	(0.400)
LA Discretionary Grant Fund	(1.972)	(1.972)	0.965	(1.007)
Infection Control Fund	(2.012)	(1.006)	1.006	(1.006)
Rough Sleeping Contingency Fund	(0.026)	0.000	0.026	0.000
Bus Services Support Fund	(0.124)	(0.124)	0.124	0.000
Emergency Active Travel Fund	(0.228)	(0.228)	0.040	(0.188)
Test, track and trace funding	(1.065)	(1.065)	0.000	(1.065)
Reopening High Streets Safely Fund	(0.239)	0.000	0.000	(0.239)
Business Rates Retail Relief (MKC share 49%)	(73.656)	(73.656)	73.656	0.000
Food & Other Essentials (£63m national)	(0.268)	0.000	0.000	(0.268)
NHS Discharge Funding	(1.181)	0.000	1.181	0.000
NEW Income Support Scheme	TBC	0.000	0.000	TBC
NEW Support for Home to School Transport	(0.245)	0.000	0.000	(0.245)
	(138.534)	(133.318)	125.669	(12.865)

3. Financial Impact in 2020/21

3.1. Whilst the Council has spent and allocated £7.761m of the government funding provided to date, the financial impact will be significantly higher as this does not include any allowance for losses in Council Tax and Business Rates income and the real financial impact on other income and expenditure still to be felt beyond the end of June 2020. Grants to businesses, and business rates support in 2020/21 will soften the impact of the reduction in business rates income this financial year, with the full effect being seen in 2021/22. The scenarios presented to Cabinet in June have been updated to reflect the current position, and actual costs to date.

3.2. The key COVID-19 financial issues are set out below:

3.2.1. **Adult Social Care** – The impact of COVID-19 has been significant on the provider market, with a number of care homes known to have seen infections (316 suspected COVID-19 cases) and sadly some residents passing away. This has presented an immediate financial impact with some homes losing substantial private income, whilst also being unable to take new clients. There are currently 258 vacancies across the 48 Care Homes in MK. Of these, there are 20 Care Homes currently with bed vacancies totalling 213 (average of 28% vacant compared to a normal standard ranging from 5% to 8% or below).

3.2.2. The Council has supported providers through a number of measures by guaranteeing payments at pre-COVID-19 levels and providing a 10% top up payment for 12 weeks based upon the number of MKC funded placements at the end of March (in line with government advice). The additional cost of these measures for 3 months is £0.327m. It is expected that the position is likely to get worse before it improves and there is a significant risk this could last for an extended period of time and the future viability of the sector will be a concern moving forward.

3.2.3. New care packages and placements (and increases to existing care packages) across Adult Services are currently funded from the NHS hospital discharge funding and this is claimed in arrears. There is financial uncertainty as to the impact of this funding and the current demand levels – it has been assumed that funding will cease at the end of July 2020. There is currently no continuing healthcare (funded by the CCG) or individual financial assessments so we are unable to predict which packages of care will be fully funded by MKC long term. The service has taken the decision to re-commence these assessments from 1 August.

3.2.4. The government announced a £600m Infection Control Fund, which is given to LAs to ensure care homes can continue to halt the spread of the virus. 75% of the funding must be passed out to care homes based on the number of CQC beds and LAs have flexibility to allocate the remainder based on need and issues in the local area. Providers can only spend the money on certain areas and this must also go towards new costs - there are also a number of reporting requirements (at individual care home level). The second tranche of funding is dependent on compliance with grant conditions (including reporting) which is of concern given the number of care homes which have already challenged the additional burden of reporting during this time.

3.2.5. **Homelessness** – The Council in response to COVID-19 had to secure additional temporary accommodation for Rough sleepers in MK in response to government directives. The Council was able to secure provision but for this to be viable has had to guarantee a minimum payment to the provider. The existing agreement runs until 4th August 2020.

3.2.6. **Children's**– The impact of COVID 19 on children's services is difficult to predict at this stage and this will continue to be monitored in addition to reviewing the whole budget as part of the MTFP. There is a concern that when children begin to return to school, GP's and access other professional services there is likely to be an increase in referrals which will impact on services and could potentially lead to an increase in the number of looked after children. There is a significant risk that COVID 19 will have an impact on mental health issues and family breakdowns and any impact of this will continue to be reviewed. During April and June, £0.141m of additional placement costs have been incurred, directly in relation to COVID19 (placement breakdowns, carer availability etc.).

3.2.7. Some of this spend will be offset in 2020/21 by a temporary reduction in payments to **Home To School** providers as schools are not fully operating (£0.594m during April and June). However, it should be noted that in order to meet government safety guidelines there may be a requirement to provide additional capacity once schools return. Additional Government support has been announced however the value has yet to be confirmed.

3.2.8. The **Youth and Community** service receive income throughout the year from fees and charges. As a result of COVID-19 the children's centres, civic café, libraries and other services were closed or not offered in full. During Quarter 1, this resulted in a net loss of £0.085m after taking

account of the savings made on salaries and supplies as a result of these service not operating.

3.2.9. **Waste Management**– In response to the high level of staff absence, the Council agreed the temporary suspension of the Garden Waste Service between 6 April - 11 May 2020. Under government advice around social distancing the Council also closed the Household Waste Sites between 25 March - 18 May 2020. These services are now operating as normal, however, the impact of the lock down has seen a significant increase to the level of household waste that has needed to be collected and disposed of. Residual waste tonnages for the first quarter of 2020/21 are 450 tonnes per month greater than forecast volumes. If this level of waste tonnage continues, the cost of waste disposal through the Residual Waste Treatment Facility may increase by approx. £36k per month. Contamination of waste processed through the Material Recycling Factory also increased from 22% in 19/20 to an average of 25% for the first quarter of 2020/21. Continuation of these levels of contamination, will result an additional cost of £13k per month above the allocated budget provision. However, this could fluctuate greatly and if the country enters a recession during this financial year, then these costs could reduce significantly as household waste declines.

3.2.10. **Highways Maintenance** – To achieve greater certainty over costs, the service has responded to the pandemic by moving away from Target Cost to a Cost plus payment mechanism. This model better suits the uncertainty over the level of defect repair work in current pandemic.

3.2.11. **Revenues and Benefits** – The Revenues and Benefits service have completed an initial assessment of expected resource requirements for Qtr 2 and 3 of 2020-21. This resource will support stabilising the work outstanding and managing additional peaks in demand. Specialist officers are being recruited, where available to support increased demand across benefits administration alongside billing and recovery expertise. Additional costs in respect of automating large numbers of additional universal credit notifications have also been agreed, alongside technology to automate wider interactions with the service. The Service were already planning a number of projects to digitalise and automate processes and these are also being prioritised in Quarter 2. Funding for resource has been agreed with partners of the Revenues and Benefits partnership and these will either be funded by new burdens government funding or held as a cost against Covid-19. The service is aware an assessment is being made following its participation in a data sharing process with Government on work volumes and demand received over the period March to present. Risks remain over the period ahead and it is still hard to accurately forecast exact requirements. Also, the courts were suspended in

Quarter 1 therefore the service are working to re – establish broken arrangements for the recovery of all types of debts, including Council Tax, Business Rates, Housing Benefit Overpayments and Sundry Debtors. A continued delay to being able to take cases to court will leave little time to collect o/s balances for 2020-21 before the new year charges for Council Tax become due.

3.2.12. **Income** - Whilst the Council is facing cost pressures in a number of areas, this is dwarfed by the financial impact and risk around income. As with many businesses the Council does not only face the short-term impact with income either reducing or ceasing altogether, but the prospect that some of this may never recover to previous levels or take a significant amount of time to do so.

3.2.13. Aside from government grant funding the single biggest source of income is Council Tax. This provides £123.954m revenue to fund essential services.

3.2.14. The key risks the Council faces include:

- Increase to Council Tax Relief Claims reducing the Council Tax Base – in the first quarter of 2020/21 there was a 6% increase to caseload and together with the average cost rising, this will increase the cost to the Authority by circa £2m in 2020/21. The case load was steady in June but levels are expected to rise further as the government furlough scheme is withdrawn. The cost of providing this support is funded 100% locally through a reduced tax base so will impact ALL preceptors.
- Slower house completions due to the lockdown and economic impact of the emergency. Within the 2020/21 Council Tax base we have allowed for 1,590 new properties to be added in year generating £2.273m in additional Council Tax for MKC. By the end of June 500 (May - 400) had been added to the register. This was in part due to the VOA catching up with processing new registrations from 2019/20 and it won't be until later in the year we will understand the impact on the construction sector more fully.
- Collection Rate – In June we saw a further reduction of 1.03% (May - 0.85%) in the overall collection rate to 12 months ago. This translates to £1.621m (May - £1.336m). Recovery action has resumed from 22 June with initial contact being made with those who have been unable to make any payment, to confirm that they have claimed any help they may be entitled to, and/or entered into a payment arrangement. It is difficult at this very early stage to model the financial impact on the Council of collection rate but given the current emergency we would expect a significant reduction in collection rate in 2020/21 with uncertainty over the timing and level of recovery in this in 2021/22.

3.3.14 The other major source of income for the Council is Business Rates income, which for 2020/21 the Council was budgeting to retain a £54m share.

3.3.15 Key risks to this include:

- Increasing Empty Property Relief 3-6 months
- Lost growth – In the MTFP we have made provision for an annual growth level of £1m per annum. This is now at significant risk and may now not be realised.
- Collection Rate – as with Council Tax recovery action has also resumed. Analysing collection performance is more complicated than with Council Tax due to the number of changes to bills and reliefs. However, the current collection rate is 3.85% (May - 3.24%) below target which equates to £4.305m (May - £3.703m). We are expecting a continued reduction in collection with uncertainty over how quickly this might recover during the year.

3.3. Fees and Charges

3.3.1. The Council in its 2020/21 budget has income from fees and charges totalling £35.5m covering over 191 different budget lines. We have assessed the financial impact on all of these and summarise the key impact below:

3.3.2. Parking income - CMK parking showing a pressure of £2.99m as of Quarter 1 and we expect this to continue for most of the year. As people return to working in CMK, it is anticipated that income will gradually increase, however current estimates are for an in-year pressure of between £7.8m and £10.8m.

3.3.3. New Station Multi Storey Car Park – The funding of the new car park assumed that the costs of financing the build would be offset by parking income. There is a revenue pressure of between £0.380m and £0.480m this year depending on the income received once the car park is open.

3.3.4. Planning income – income in April, May and June was £0.492m lower than budget. The forecast is that this could be up to between £0.640m and £1m below budget in 20/21.

3.3.5. Adoptions – Highway adoption income in recent years has exceeded budget due to the development in the expansion areas. Whilst income up to June remained in line with budget, if there is a slow-down in the housing market, adoption income will fall.

3.4. Other income

3.4.1. Grant Income of £257m is forecast as budgeted, this includes areas such as DSG and other schools funding, rate support grant, social care funding, and housing subsidy, where we don't anticipate any immediate reduction due the nature of the income.

3.4.2. Other Income – the main other income source is contributions to day care services (£.12m pa), currently income is not being received for this area.

4. Financial Outlook – COVID-19 Impact

4.1. At this early stage the financial impact of the pandemic cannot be fully understood. The level of uncertainty over the wider economic and social impacts and behavioural changes are still to be felt.

4.2. We have modelled 3 different scenarios to illustrate the scale of the financial impact that the Council could face in 2020/21 and over the medium term.

4.3. For 2020/21 based on the current level of financial support provided by government these scenarios provide an estimated financial gap of between £0.978m underspend and £23.972m overspend.

Table 3 – Three Scenarios for 2020/21

	Low Impact £m	Medium Impact £m	High Impact £m
Additional Expenditure	4.283	8.598	12.378
Savings on running costs, suspended services	(2.177)	(2.730)	(3.105)
Loss of income	14.508	19.223	24.042
Delayed Savings	0.997	0.997	0.997
Government funding	(15.756)	(15.756)	(15.756)
Council Funding	6.700	13.400	22.100
Potential Income Support Scheme	(9.533)	(12.319)	(16.684)
Shortfall	(0.978)	11.413	23.972

4.4. In Table 4 we have set out the main assumptions used in each of these different scenarios for 2020/21.

Table 4 – Key Assumptions used in Scenarios

	Low Impact	Medium Impact	High Impact
Adult Social care	Assume additional Supported Living Care cost to cover for temporary closure of Day care during lockdown is reduced as Day Care is re-opened and extended from catering for 40% of current Service Users to 75% by Q3	Assume additional Supported Living Care cost to cover for temporary closure of Day care during lockdown is reduced as Day Care is re-opened and extended from catering for 30% of current Service Users to 50% by Q4	Assume additional Supported Living Care cost to cover for temporary closure of Day care during lockdown will continue for the full year as the partial re-opening of Day care is insufficient to extend to those currently receiving alternative care
	Assume that the additional costs of providing Home Care for Service Users who could not move on to Residential or Nursing Care are no longer incurred as the Care Home services are restored to capacity or bed occupancy levels of 95%+ with the lifting of lockdown	Assume that the additional costs of providing Home Care for Service Users who could not move on to Residential or Nursing Care continue for the remainder of the year but at a reduced level of 50% as Care Home services recover bed occupancy capacity to within 10%-15% of previous level.	Assume that the additional costs of providing Home Care for Service Users who could not move on to Residential or Nursing Care continue for the remainder of the year as Care Homes are as Care Homes continue to operate at occupancy levels of 20%+ below capacity
	Assume that charging for Continuing Healthcare (CHC) is recommenced from 1 August and the loss is contained to Q1 and July of Q2	Assume that charging for Continuing Healthcare (CHC) is recommenced from Q3 with a recovery of 50% in quarter and full recovery in Q4	Assume that charging for Continuing Healthcare (CHC) is not recommenced and the service loses a total of £0.750m
	Assume no further financial support is provided to the Care Home market	Assume that there is a second wave and / or winter spike requiring additional financial support to Care Home providers on the same scale as Q1	Assume that additional financial support to Care Home providers on the same scale as Q1 during Q2-Q4
	Assume that the service will continue to provide PPE support to Care Providers throughout the year	Assume that the service will provide PPE support to Care Providers during a second wave and / or winter spike during Q3	Assume that the service will continue to provide PPE support to Care Providers throughout the year

		and Q4	
Homelessness & Rough sleeping	Assume move into existing Supported Living provision - cost largely offset by Bed Fee Income (Housing Benefit)	Moving to low cost alternative accommodation	Continue at current Q1 level of support and cost for Rough Sleepers and TA
Children's	Assume HTST returns to 'normal' by September Current known placements School deficit projections £200k	Home to School Journey's to increase by 25% from September due to social distancing measures Allowance for additional £200k placement costs School deficit projections £200k	Home to School Journey's to increase by 50% from September due to social distancing measures Allowances for new high cost placements School deficit projections £200k
Waste	£120k household Recycling contamination enforcement costs. Increased contamination at MRF £150k, and tonnages at RWTF £275k	£120k household RC enforcement costs. Increased contamination at MRF £200k, and tonnages at RWTF £450k	£120k household RC enforcement costs. Increased contamination at MRF £200k, and tonnages at RWTF £652k
Parking Income	Based on a gradual increase each month and then back same as last year after December in 20/21. Offset by 3 month reduction in parking contract £330k	Based on a gradual increase each month but plateauing after December in 20/21. Offset by 3 month reduction in parking contract £330k	Assumes the peak has been reached in July and this continues with an income level of £300k each month in 20/21. Offset by 3 month reduction in parking contract £330k
Planning Income	Assumes income will be same as June for next 3 months and then back to normal levels of last year.	Assumes similar levels in July, Aug and Sept as achieved in June and then 75% of last years income for rest of year.	Assumes the levels reached in June continue for the rest of the year.
Leisure	3 months support offered to 1life and one	6 months support offered to 1life and one	12 months support offered to 1life and one

off other assistance	off other assistance	off other assistance
No swimming lessons 2 terms and all contractual income continues	no swimming lessons all year and 50% of contractual income	no swimming lessons all year and no contractual income

4.5. We have reviewed the planned savings in 2020/21 and 2021/22 to assess the impact of delivery against these. It has been assumed that due to both staff resources and the impact of COVID-19 on income streams these will be delayed until 2021/22.

5. Council Funding

5.1. In addition to service budget impacts, we are seeing an impact on funding streams and the impact on the Medium term funding position.

5.2. As covered earlier in this update we are anticipating a reduction to income levels from Council Tax and Business Rates as a direct consequence of COVID-19. The headline impacts are included in table 3, together with details of the assumptions made in Table 5.

5.3. The impact of reduced Council Tax and Business Rates income will be from 2021/22, as contributions are fixed a year in advance.

Table 5 – Funding Assumptions 2020/21

	Council Tax	Business Rates
High Impact	Council Tax Reduction (CTR) - 6,000 additional claims in 2020/21 and remaining at this level in future years.	Growth - Yr1 no growth in businesses, Yr2+ loss of growth £1m pa against the 20/21 assumptions
	Housing growth - yr1,500, yr2+ 1000	Empty Property Relief Cost increased by 75% on 2019/20 level.
	Reduced collection rate by 7.5%	Reduced collection Rate by 7.5%
Medium Impact	CTR- 4,000 additional claims - 20 % reduction 21/22+	Growth - zero growth in businesses
	Housing growth - Yr1 1250, Yr2+ 1500	Empty Property Relief – Yr1 33%, Yr2+ 20%
	Reduced collection rate by 5%	Reduced collection rate by 5%

Low Impact	CTR – 3,000 additional claims - 50% reduction 21/22 & 22/23 returning to pre-covid level in 22/23.	Growth per current MTFP (£1m pa)
	Housing growth - 1,500 pa	Empty Property Relief - Yr1 25%, Yr2+ 10%
	Reduced collection rate by 2.5%	Reduced collection rate by 2.5%

5.4. Budget scenarios over the medium term are detailed in the Medium Term Financial Outlook report also on this Cabinet agenda.

6. Housing Revenue Account

6.1. Key areas affected by COVID-19 are:

- Rent income (£55m) – about 61% of rent income is collected from Housing Benefit and Universal Credit, with the balance through Direct Debits, Standing Orders, and cash payments from tenants. Reductions are expected in payments from tenants affected by COVID-19 (job losses, furloughing, etc.). These will be offset to some extent by additional Universal Credit receipts but it is expected that overall rent collection will be lower as a result of the pandemic. Owing to the delays in Universal Credit payments, the net impact is not yet fully ascertainable

Current projections are for a reduction in the BVPI 66a metric for rent collection to c94% from last year's 96.0%, representing a potential loss due to the pandemic of c£0.800m for the full year.

The HRA's Provision For Bad Debt and Universal Credit reserves are expected to be adequate to absorb the 2020/21 impact; the Prudent Minimum Balance held by the HRA also includes provisions for rent losses and civil emergencies.

- Responsive Repairs (£10m) – the range of responsive repairs undertaken has been severely curtailed to reduce opportunities for COVID-19 transmission and so to protect the health of tenants and operatives. With the easing of the lockdown, repairs volumes are expected to return toward previous levels, and it is expected that most of the repairs not undertaken during the lockdown will now need to be addressed, resulting in slippage in costs to date rather than full year underspend. The issue could change if there is any future 'local lockdown' which puts us back on to minimal works.

6.2. An assessment on the rent income and repairs impact of COVID-19 on the HRA Budget and Business Plan will be reported at September's Cabinet meeting.

7. DSG

7.1. The overall DSG income budget is £252.396m. Most of the income and expenditure remains fixed within the DSG and at this stage there is no impact expected from COVID 19. There remains some uncertainty about Early Years funding as the income and expenditure in this area are based on take up which is likely to be affected. The DfE have confirmed they will review this and update in due course.

8. Recovery Planning

8.1. The Covid Recovery Framework was approved in a Delegated Decision on the 21st July which approved £3.4m of funding to enable Milton Keynes Council to work on recovery from the Covid-19 pandemic. The Economic Recovery Plan from this is reported separately on this agenda.

9. Next Steps

9.1. At a national level the Council is lobbying government to secure both immediate financial support and to gain commitment to a clear timeframe and assurances that the impact of COVID-19 beyond 2020/21 will be reflected in future funding settlements.

9.2. Finance are working closely with Directors to monitor progress with their finance action plans to ensure that spend is contained within existing budgets (allowing for COVID-19 impacts).

9.3. We will continue to update and remodel the financial scenarios in this report and ensure that these are used to inform the Councils Recovery Planning.