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**Health and Adult Social Care Scrutiny Committee**  
**4<sup>th</sup> November 2020**

**Report of the Director of Finance and Legal**

**Financial impact of the Covid-19 pandemic**

**Purpose**

1. To outline the latest forecast 2020/21 revenue outturn position including the financial impacts of the Covid-19 pandemic.

**Recommendations**

2. That the Committee notes and comments on the contents of the report.

**Background**

3. The Council's final accounts for the year ended 31<sup>st</sup> March 2020 have been completed, subject to audit. As at 31<sup>st</sup> March 2019 unringfenced revenue reserves as a proportion of net revenue spend were 20% (compared with the national average of 44%). As at 31<sup>st</sup> March 2020 Dudley's unringfenced reserves were 17% of net expenditure (comparisons for other councils are not yet available).

**Forecast revenue outturn 2020/21**

4. Since originally setting the budget in March, the Council's operations and finances have been significantly impacted by the Covid-19 pandemic. The forecasts in this report are made in the context of significant uncertainty about the path of the virus, the nature and duration of the public health measures and the severity of the economic impact, so the financial impact by the year end may in practice be greater. While the pandemic has been the most significant financial issue facing the Council during the current year, for completeness this report places the pandemic in the context of wider financial issues.

5. In response to Covid-19, the Government has directed significant additional funding to councils and the table in Appendix A shows the allocation to Dudley. Of the £150.8m forecast allocation, £25.9m is unringfenced (of which £0.8m was used to offset impacts in the last financial year and £25.1m remains to offset impacts in 2020/21). £124.9m of the additional funding is for specific purposes and is expected to be matched by specific increases in expenditure or reductions in income.
6. The forecast General Fund position after transfers from / to earmarked reserves is as follows. It is important to note that this table does not include forecast reductions in Business Rates and Council Tax income (see Collection Fund below) as these do not impact on the General Fund in the current year, but can be spread over future years.

Directorate	Latest Budget £m	Outturn £m	Variance £m
Chief Executive Other	0.7	0.8	0.1
Adult Social Care	96.8	102.6	5.8
Children's Services	68.9	76.7	7.8
Health and Wellbeing	7.2	7.3	0.1
Finance and Legal	3.7	4.0	0.3
Commercial and Customer Services	0.5	4.4	3.9
Housing	2.4	2.5	0.1
Public Realm	49.9	51.2	1.3
Regeneration and Enterprise	10.8	14.9	4.1
Corporate, Treasury and Levies	9.1	8.1	(1.0)
<b>Total Service Costs</b>	<b>250.0</b>	<b>272.5</b>	<b>22.5</b>
<b>Total Resources</b>	<b>(250.0)</b>	<b>(275.1)</b>	<b>(25.1)</b>
<b>Use of Balances</b>	<b>0.0</b>	<b>(2.6)</b>	<b>(2.6)</b>

7. Further detail is provided in Appendix B and the commentary in that appendix distinguishes between financial impacts arising from the pandemic and other financial impacts. In summary:

- We have included £19.7m of service pressures on returns to the Government identifying costs arising from Covid-19 and we are forecasting £25.1m of unringfenced Covid-19 funding for 2020/21 which will generate a net favourable variance of £5.4m. This does not include pressures on Business Rates and Council Tax income (see Collection Fund below).
- There are forecast other net pressures of £2.8m that we have not included on returns identifying costs related to the pandemic.

8. The impact of the forecast outturn shown above leaves the main unallocated General Fund Balance at 31<sup>st</sup> March 2021 as follows:

	Budget £m	Latest Position £m
Forecast balance 31 <sup>st</sup> March 2020	15.2	15.2
2019/20 outturn (as reported to July Cabinet)		+0.5
<b>Balance at 31<sup>st</sup> March 2020</b>	<b>15.2</b>	<b>15.7</b>
Forecast 20/21 outturn		+2.6
<b>General Fund Balance at 31<sup>st</sup> March 2021</b>		<b>18.3</b>

#### Other General Fund Reserves

9. Detail on other General Fund Reserves is provided within Appendix C.
10. There is a large forecast earmarked reserve of £45.2m in relation to Business Rates Section 31 grant. This is a technical item that mainly arises from the way in which we are required to account for relief on Business Rates for Retail, Hospitality, Leisure and Nurseries that has been granted to address the pressures on these businesses from the pandemic. In effect the government grant to support the relief is credited to the General Fund in the current year, but the deficit on income from businesses is debited to the General Fund in future years. The earmarked reserve is shown so as to bridge this timing difference and avoid distorting the main unallocated General Fund balance.

#### Collection Fund

11. The Collection Fund is maintained so as to account for variations in the collection of Council Tax and Business Rates and to apportion any surpluses or deficits to the Police, the Fire Authority and the Council. Accounting for these income streams is currently particularly difficult in light of the uncertain economic impact of Covid19.
12. In relation to Council Tax, based on forecast increases to Council Tax Reduction claimant numbers and potential losses on collection as a result of the pandemic, there is a forecast deficit of £5.4m. (Council Tax Reduction claimants are also entitled this year to an additional £150 in addition to the local scheme, but this will be funded separately from the Hardship Fund – see Appendix A.)
13. In relation to Business Rates, the Government introduced a new 100% Business Rates relief for Retail, Hospitality, Leisure and Nurseries due to the impact of the pandemic. This is forecast to cost £44.8m and the Council will be reimbursed by way of additional Section 31 grant.

14. Based on early collection rates, for those businesses not covered by the 100% relief, we have estimated a deficit of £4.5m. (We are currently analysing the potential for this to be partially offset by the “no detriment” arrangements within the West Midlands 100% Business Rate retention pilot<sup>1</sup> and will report back to a future meeting of Cabinet.)
15. The combined forecast £9.9m shortfall in tax receipts (compared to expected levels) leads to a deficit on the Collection Fund. The normal accounting treatment is to charge this deficit to the General Fund during the following financial year. However, in view of the impact of the pandemic, the government has proposed that deficits accrued during 2020/21 will be spread over a three year period (2021/22 to 2023/24) to reduce the immediate pressures on budgets.
16. Under current rules, any ongoing adverse impact on Council Tax and Business Rates income (offset by any income from the “no detriment” arrangements referred to above) will need to be budgeted for in 2021/22. This represents a significant risk to the Council’s Medium Term Financial Strategy.

### Outlook

17. Based on current forecasts, it appears that the General Fund reserve will not be called upon this year. However, future years will come under pressure as a result of this year’s Collection Fund losses being charged back to the General Fund. There are also likely to be ongoing financial effects of Covid-19 and other pressures in future years, such that the use of reserves could become unsustainable. This could happen as early as next year. This is highly dependent on the outcome of the Government’s Comprehensive Spending Review (CSR) and any announcements about additional resources or changes to accounting regulations. The timing of these announcements is uncertain, but they are likely to be later in the Autumn. Dependent on the outcome, it may be necessary to identify additional savings to ensure the sustainability of the Medium Term Financial Strategy in future years.

### Housing Revenue Account

18. The Housing Revenue Account is forecast to outturn a £0.2m in year deficit which represents a £0.1m favourable position to the original budget. Expected reductions in rental income resulting from Covid 19 are being offset

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<sup>1</sup> The 100% Business Rate Retention Pilot allows the Council to retain 99% of Business Rate growth against a baseline established when the system was set up (as opposed to the 49% retained by non-pilot councils). However, it also means that we would ordinarily suffer 99% of any reduction in Business Rates (rather than the 49% that would be suffered by non-pilot councils). The “no detriment” clause in the Memorandum of Understanding is intended to remedy this by ensuring that the Council is compensated for the difference between 99% reductions and 49% reductions. (The balancing 1% of Business Rates is retained by the Fire Authority.)

by vacancies and other savings. Wages continued to be incurred during lockdown but this is offset by slippage within the planned maintenance and capital programme. Further detail is provided in appendix D.

### External Audit

19. The External Auditors (Grant Thornton) have issued their Audit Findings Report. They anticipate giving an unqualified opinion on the Financial Statements. However, in view of concerns about financial sustainability, they anticipate giving an adverse qualified Value for Money conclusion and are considering whether further audit action is appropriate.

### Finance

20. This report is financial in nature and information is contained within the body of the report.

### Law

21. The Council's budget setting process is governed by the Local Government Finance Acts, 1988, 1992, and 2012, and the Local Government Act 2003.

### Equality Impact

22. The recommendations in this report comply with the Council's policy on Equality and Diversity.

### Human Resources / Organisational Development

23. There are no Human Resource or Organisational Development issues arising directly from this report.

### Commercial / Procurement

24. The financial impact of Covid-19 includes disruption to traded services as a result of the pandemic as well as supplier support to the care market.

## **Health, Wellbeing and Safety**

25. The financial impact of Covid-19 includes the forecast cost of Personal Protective Equipment required as a result of the pandemic.



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### **List of Background Papers**

Council Tax Setting report to Council on 2<sup>nd</sup> March 2020

## Funding provided by Government in response to Covid-19

Name	£m	Comment
General Covid-19 grant <sup>2</sup>	21.9	Unringfenced grant for increases in expenditure and reductions in income as a result of the pandemic
Compensation for sales, fees and charges	4.0	Latest estimate. Compensation at 75p in the £1 after a 5% deductible rate.
<b>Total Unringfenced</b>	<b>25.9</b>	
Hardship Fund	3.0	To fund additional relief of £150 for each Council Tax Reduction claimant
Hardship fund (2 <sup>nd</sup> round)	0.4	Food and essentials
Section 31	44.8	Compensates for Business Rates relief for retail, leisure, hospitality and nurseries
Business grants	66.6	Initial allocation to fund grants to businesses. Expected cost £59m
Infection control - Care Homes	2.9	Ringfenced. 75% to be distributed on a per bed basis, 25% discretionary
Infection Control round 2	2.6	80% to Care homes & CQC care providers, 20% discretionary
Reopening High Street fund	0.3	Eligible expenditure to be claimed
Test, Track and Isolate	1.9	Ringfenced
Enforcement and Compliance	0.2	Ringfenced to support compliance and enforcement
Emergency Active Travel	0.3	£50k Revenue, £235k capital. 2 <sup>nd</sup> tranche to be confirmed
Education - Catch up premium	1.9	Academic year grant DSG
<b>Total Ringfenced</b>	<b>124.9</b>	
CCG	TBC	Support hospital discharges, £1.1m claimed to date

<sup>2</sup> £0.8m of Covid-19 grant was credited to the General Fund in 2019/20 and the remainder will be credited in the current year

## General Fund Revenue Service Spend Summary 2020/21

	Budget £m	Outturn £m	Variance £m	Of which Covid £m	Of which Other £m	Comment
Chief Executives	0.7	0.8	0.1	0.0	0.1	Other - £0.1m Employee related costs of senior mgmt. posts
Adult Social Care	96.8	102.6	5.8	5.6	0.2	Covid – provider support £2.5m, £2.9m pressures on Dudley Disability Services and net £0.2m pressure on Domiciliary care which includes £0.3m of inflation uplifts  Other - £0.2m Successor
Children's Services	68.9	76.7	7.8	2.0	5.8	Covid – External CLA placements £0.5m, Traded Services £0.7m, Schools Trading accounts £0.8m.  Other - £3.3m CLA Placements, £1.3m Home to School Transport, £0.8m Successor, £0.5m consultants/agency, offset but (£0.1m) vacancies.
Health & Wellbeing	7.2	7.3	0.1	0.1	0.0	Covid – Foodbanks £0.1m
Finance and Legal	3.7	4.0	0.3	0.5	(0.2)	Covid - £0.5m loss of Summons income  Other - Elections follow year (£0.3m) saving partly offset additional Agency costs £0.1



	Budget £m	Outturn £m	Variance £m	Of which Covid £m	Of which Other £m	Comment
Commercial and Customer Services	0.5	4.4	3.9	3.7	0.2	Covid – PPE £2.0m, Regional Mortuary £0.6m, ICT £0.7m, CAPA events £0.2m, Registrars £0.2m  Other ICT £0.2m
Housing	2.4	2.5	0.1	0.1	0.0	Covid - £0.2m Homelessness
Public Realm	49.9	51.2	1.3	2.3	(1.0)	Covid – Waste collection and disposal £0.7m, loss of income (Permit scheme, s&4 notices, licensing, car parks) £1.4m  Other - £0.6m Mobilisation savings, £0.2m waste and recycling, Oak lane £0.2m offsetting £0.2m transport pressure
Regeneration and Enterprise	10.8	14.9	4.1	4.0	0.1	Covid – Leisure £1.8m, Catering £0.9m, Planning income £0.3m, Local Mortuary £0.2m, Himley and Halls £0.7m, other pressures £0.3m  Other - £0.3m unfunded regeneration costs incl. MIPIM offset by reduced expenditure on Adult and Community Learning £0.1m and from vacancies £0.2m
Corporate, Treasury and Levies	9.1	8.1	(1.0)	1.4	(2.4)	Covid – investment income impacted by Covid £1.4m  Other - Slippage in borrowing requirements (incl MRP) (£1.0m), (£2m) contingency released, pensions over

	Budget £m	Outturn £m	Variance £m	Of which Covid £m	Of which Other £m	Comment
						recovery (£0.4m), offset by additional 0.75% pay award £1.0m,
<b>Total Service Costs</b>	<b>250.0</b>	<b>272.5</b>	<b>22.5</b>	<b>19.7</b>	<b>2.8</b>	
Funding	(250.0)	(275.1)	(25.1)	(25.1)	0.0	£0.8m of grant funding used in 19/20. Includes £4.0m compensation for Sales, Fees and Charges
<b>Use of Balances</b>	<b>0.0</b>	<b>(2.6)</b>	<b>(2.6)</b>	<b>(5.4)</b>	<b>2.8</b>	

Appendix CGeneral Fund Reserves

	Opening Balance 31.3.20 £m	Forecast change in year £m	Forecast closing balance 31.3.21 £m
<b>General Fund Balance</b>	<b>15.7</b>	<b>2.6</b>	<b>18.3</b>
Business Rates Section 31	0.7	44.5	45.2
Insurance	5.2	(0.3)	4.9
DGFL / Paragon	3.6	(0.6)	3.0
Covid 19 grant	9.4	(9.4)	0
Impact project	0.9	0	0.9
Other	3.2	(2.4)	0.8
<b>Total Unringfenced</b>	<b>23.0</b>	<b>31.7</b>	<b>54.7</b>
Public Health	2.6	(1.9)	0.7
Schools delegated	9.1	0.0	9.1
Early Years	1.1	0.0	1.1
High Needs Block	(7.7)	(6.2)	(13.9)
Central Services Schools Block	0.4	0.0	0.4
Schools specific contingency	0.7	(0.5)	0.2
<b>Total DSG</b>	<b>3.6</b>	<b>(6.7)</b>	<b>(3.1)</b>
Schools Trading	1.7	0.0	1.7
<b>Total General Fund</b>	<b>46.6</b>	<b>25.8</b>	<b>72.4</b>

**HRA Forecast 2020/21 Outturn**

	<b>Original Budget 2020/21 £000s</b>	<b>Latest Forecast Outturn 2020/21 £000s</b>	<b>Latest Forecast Variance 2020/21 £000s</b>
<b><u>Income</u></b>			
Dwelling rents	-86,183	-84,913	1,270
Non-dwelling rents	-826	-635	191
Charges for services and facilities	-237	-200	37
Contributions towards expenditure	-923	-1,023	-100
Interest on balances	-59	-87	-28
<b>Total income</b>	<b>-88,228</b>	<b>-86,858</b>	<b>1,370</b>
<b><u>Expenditure</u></b>			
Management	19,538	18,862	-676
Responsive and cyclical repairs	23,742	24,047	305
Transfer to Major Repairs Reserve	24,638	24,090	-548
Interest payable	17,178	17,243	65
Revenue contrib'n to capital exp.	500	500	0
Other expenditure	2,893	2,298	-595
<b>Total expenditure</b>	<b>88,489</b>	<b>87,040</b>	<b>-1,449</b>
<b>(Surplus) / Deficit in year</b>	<b>261</b>	<b>182</b>	<b>-79</b>
<b>Surplus brought forward</b>		<b>-4,383</b>	
<b>Surplus carried forward</b>		<b>-4,201</b>	

The main reasons for variance include:

- Rental income forecast reduced owing to impact of Covid 19 on bad debt provision.
- Savings on management largely a result of vacancies.
- Reduction in projected transfer to major repairs reserve relates to accounting adjustments and valuation of properties.
- Other expenditure includes forecast savings on buildings insurance and council tax on empty properties.
- Repairs and maintenance: impact of loss of productivity during the period of lockdown and ongoing impact particularly for internal works in tenants' homes.