

## **Meeting of the Cabinet – 6<sup>th</sup> July 2020**

### **Joint Report of the Chief Executive and Director of Finance and Legal Services**

### **Revenue Outturn 2019/20 and Medium Term Financial Strategy**

#### **Purpose**

1. To report the provisional revenue outturn position for 2019/20 and provide an update to 2020/21 forecasts.

#### **Recommendations**

2. That Cabinet:
  - Notes the draft General Fund and Housing Revenue Account (HRA) outturns for 2019/20.
  - Notes the effect of the General Fund outturn on General Balances at 31<sup>st</sup> March 2020.
  - Notes the position on General Fund earmarked reserves at 31<sup>st</sup> March 2020.
  - Notes the forecast impact of Covid-19 and other impacts on the forecast for 2020/21 and risks to the Medium Term Financial Strategy.

#### **Background**

3. The Council's final accounts for the year ended 31<sup>st</sup> March 2020 have been completed, subject to audit.
4. The final audited accounts will be presented to Audit and Standards Committee in September. If there are any changes to the draft outturn set out in this report, these will be reported to Cabinet in October.

## General Fund Revenue Outturn 2019/20

5. The provisional General Fund position after transfers from / to earmarked reserves is as follows.

| Directorate                      | Latest Budget<br>£m | Outturn<br>£m | Variance<br>£m |
|----------------------------------|---------------------|---------------|----------------|
| Chief Executive Other            | 0.5                 | 0.4           | -0.1           |
| Adult Social Care                | 95.4                | 96.7          | 1.3            |
| Children's Services              | 68.1                | 70.2          | 2.1            |
| Health and Wellbeing             | 7.8                 | 7.6           | -0.2           |
| Finance and Legal                | 3.8                 | 3.7           | -0.1           |
| Commercial and Customer Services | 0.5                 | 0.9           | 0.4            |
| Housing                          | 2.4                 | 2.4           | 0.0            |
| Public Realm                     | 45.8                | 46.3          | 0.5            |
| Regeneration and Enterprise      | 8.4                 | 9.0           | 0.6            |
| Corporate, Treasury and Levies   | 7.7                 | 10.4          | -1.6           |
| <b>Total Service Costs</b>       | <b>240.4</b>        | <b>243.3</b>  | <b>2.9</b>     |
| <b>Total Resources</b>           | <b>-235.4</b>       | <b>-236.4</b> | <b>-1.0</b>    |
| <b>Use of Balances</b>           | <b>5.0</b>          | <b>6.9</b>    | <b>1.9</b>     |

6. Further detail is provided in Appendix A. The impact of the outturn shown above leaves the General Fund Balance at 31<sup>st</sup> March 2020 as follows.

|   | Budget<br>£m | Outturn<br>£m |
|---|--------------|---------------|
| <b>Balance at 31<sup>st</sup> March 2019</b>              | <b>22.6</b>  | <b>22.6</b>   |
| Budgeted use of balances                                  | -5.0         | -5.0          |
| Variance against budget                                   |              | -1.9          |
| <b>General Fund Balance at 31<sup>st</sup> March 2020</b> | <b>17.6</b>  | <b>15.7</b>   |

7. This represents a favourable movement of £0.5m since reporting to March Council. The significant changes are as follows:

- Children's Services further adverse variance of £1.0m arising from Children Looked After placements and Home to School transport.
- Improvements of £0.8m in corporate budgets arising from further slippage of capital programme, further review of provisions, surplus from NNDR pooling, redistribution of Levy surplus and adjustment to three-year pension contribution.
- Regeneration and Enterprise favourable variance of £0.5m, mainly arising from Regeneration and Skills.

- Other favourable variances of £0.2m, mainly arising from vacancies within Health & Wellbeing and Chief Executive's.
  - Pressures of £0.8m from the impact of Covid-19 at the end of 2019/20, offset by £0.8m of grant.
8. Unringfenced earmarked reserves at the year end are £23.0m, compared with £13.5m forecast at March Council. The main change is the inclusion of a reserve of £9.4m representing the unused balance of Covid-19 funding received before the year end. Further detail is provided within Appendix B which also includes details of ringfenced (Public Health and Schools) reserves.
9. 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).

### Collection Fund

10. 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. The draft outturn for 2019/20 makes prudent allowance for the potential impact on recovery:
- In relation to Council Tax, the Bad Debt provision has been increased to reflect a working assumption that we will only be able to collect half of the outstanding cash required to hit our target of 99% recovery.
  - In relation to Business Rates, the Bad Debt provision has been increased from 60% to 80%.
11. Based on the assumptions outlined above, the Council's share of Collection Fund balances at 31<sup>st</sup> March 2020 is as follows.

|                                  | <b>Forecast<br/>£m</b> | <b>Outturn<br/>£m</b> | <b>Variance<br/>£m</b> |
|----------------------------------|------------------------|-----------------------|------------------------|
| Council Tax surplus / (deficit)  | 0.772                  | (0.965)               | (1.737)                |
| Business Rates (deficit)         | (0.427)                | (1.876)               | (1.449)                |
| <b>Total surplus / (deficit)</b> | <b>0.345</b>           | <b>(2.841)</b>        | <b>(3.186)</b>         |

12. There is ongoing uncertainty about the impact of Covid-19 on the collection of Council Tax and Business Rates in 2020/21. The first two months of the year have seen the number of Council Tax Reduction awards increase by 1,759 and this is expected to increase further. Our current forecast is for an overall deficit on collection of £8.3m. This is included in the overall estimate of the impact of Covid-19 set out in Appendix C.

13. Under current accounting rules, we will need to review the Collection Fund later in the year and take account of any estimated deficit in setting the budget for 2021/22. This, together with any ongoing adverse impact on Council Tax and Business Rate income, represents a significant risk to the Council's Medium Term Financial Strategy.

#### 2020/21 General Fund Revenue Budget

14. Since originally setting the budget in March, the Council's operations and finances have been significantly impacted by the Covid-19 pandemic. In response, the Government has directed significant additional funding to councils and the table below shows the allocation to Dudley. With the exception of the first item, all of these grants are for specific purposes and are expected to be matched by specific increases in expenditure or reductions in income.

| <b>Name</b>                    | <b>£m</b>    | <b>Comment</b>   |
|--------------------------------|--------------|--|
| General Covid-19 grant         | 19.1         | Unringfenced grant for increases in expenditure and reductions in income as a result of the pandemic |
| Hardship Fund                  | 3.0          | To fund additional relief of £150 for each Council Tax Reduction claimant                            |
| Section 31                     | 47.0         | Compensates for Business Rates relief for retail, leisure, hospitality and nurseries                 |
| Business grants                | 66.6         | Initial allocation to fund grants to businesses  |
| Infection control - Care Homes | 2.9          | Ringfenced. 75% to be distributed on a per bed basis, 25% discretionary                              |
| Reopening High Street fund     | 0.3          | Eligible expenditure to be claimed   |
| Test, Track and Isolate        | 1.9          | Ringfenced   |
| <b>Total</b>                   | <b>140.8</b> |  |
| Additional hardship funding    | TBC          | £63m nationally for food and essentials  |
| CCG                            | TBC          | Support hospital discharges, £0.3m claimed to date   |

15. Appendix C sets out the forecast financial impact on the Council's operations which is intended to be met from the general Covid-19 grant. The current estimate of the pressure on service expenditure and income is £19.2m. This estimate has been 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 may in practice be greater than this. The overall forecast effect of service cost increases and income reductions (to be charged to the General Fund in the current year) and Collection Fund deficits (to be charged to the General Fund next year) exceeds the Covid-19 grant by £8.4m.

16. The current Medium Term Financial Strategy, as agreed at March Council, included provision for a 2% staff pay award. The latest employer offer was 2.75% and this has been rejected. The outcome of negotiations remains uncertain. The impact of a 3% pay award would be an additional cost of £1.3m in the current year and ongoing.
17. There are significant pressures within Children's Services on Children Looked After placements and costs of Home to School transport. While efforts will be made to manage these pressures, the impact is likely to amount to £2.9m during 20/21.
18. There is an underlying pressure within Adult Social Care of £3.5m. For 2020/21 this has been included as a cost pressure against Covid-19 funding. No allowance has been made to fund this pressure for future years.
19. In view of the unprecedented degree of uncertainty surrounding the forecasts set out above, it is not proposed to amend budgets at this time. Based on current forecasts, there is a high risk that we will need to use reserves in the current year and that this reliance on reserves could become unsustainable in future years and as early as next year. We will continue to review the financial position and any announcements from the Government about additional resources or changes to accounting regulations and make further reports to Cabinet in September and October (or earlier if this is required). 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 (HRA)

20. The actual outturn shows a HRA surplus of £4.4m, a positive variance of £3.0m since last reported to Council. Further detail is shown within Appendix D. Main reasons for the change include:
  - Additional income £1.1m mainly from dwelling rents and leaseholder repairs
  - Reduced take up of Discretionary Housing Payments £0.4m
  - Slippage on Repairs and Maintenance works £0.7m
  - Other favourable variances £0.8m including vacancies
21. In addition to HRA revenue reserves, Public Sector Housing capital reserves carried forward at 31.3.20 amounted to £18.5m compared with £20.4m at 31.3.19.

#### **Finance**

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

## **Law**

23. 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**

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

## **Human Resources / Organisational Development**

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

## **Commercial / Procurement**

26. 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**

27. 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

Draft Statement of Accounts for the year ended 31<sup>st</sup> March 2020

## Appendix A

### General Fund Revenue Service Spend Summary 2019/20

|                                  | Latest Budget<br>£'m | Latest Outturn<br>£'m | Variance<br>£'m | Comment  |
|----------------------------------|----------------------|-----------------------|-----------------|--|
| CEX                              | 0.5                  | 0.4                   | -0.1            | HR (0.1m)  |
| Adult Social Care                | 95.4                 | 96.7                  | 1.3             | Pressure in; Dudley Disability Service £1.3m, Assessment & Independence £1.1m, partially offset by savings in; Access & Prevention (0.4m), Mental Health (£0.4m), and Commissioning (0.4m)     |
| Children's Services              | 67.5                 | 69.6                  | 2.1             | Placements £2.3m, Home to School Transport £1.0m, offset by utilising TF grant £0.6m, vacancies £0.4m, other savings £0.2m   |
| Health and Wellbeing             | 7.8                  | 7.6                   | -0.2            | Vacancy savings (£0.1m) and other savings (£0.1m)  |
| Finance and Legal Services       | 3.8                  | 3.7                   | -0.1            | Savings arising from vacancies and contracts (£0.1m)   |
| Commercial and Customer Services | 0.5                  | 0.9                   | 0.4             | £0.2m ICT pressures (laptops and staffing), £0.2m Customer services pressures (Digital autopsies and Traded Services income)   |
| Housing                          | 2.3                  | 2.3                   | 0.0             |  |
| Public Realm                     | 42.3                 | 42.8                  | 0.5             | Pressures arising in Waste Services £0.6m, Transport £0.4m, partially offset by savings within Street and Green care (£0.5m)   |
| Regeneration and Enterprise      | 8.3                  | 8.9                   | 0.6             | Pressures arising in Leisure £0.6m, CLS £0.2m, Catering £0.6m. Partially offset by savings in Regen (£0.4m), and Planning (£0.4m),   |
| Corporate & Treasury             | 12.0                 | 10.4                  | -1.6            | Adjustment to 3 year upfront pension prepayment £0.8m, offset by (£1.1m) review of employment status provision, (£0.2m) NNDR pooling, (£0.5m) redundancy reserve, capital and treasury (£0.6m) |
| <b>Total Service Costs</b>       | <b>240.4</b>         | <b>243.3</b>          | <b>2.9</b>      |  |

|                        | <b>Latest Budget<br/>£'m</b> | <b>Latest Outturn<br/>£'m</b> | <b>Variance<br/>£'m</b> | <b>Comment</b>   |
|------------------------|------------------------------|-------------------------------|-------------------------|--|
| Covid grant            | 0.0                          | -0.8                          | -0.8                    | Laptops £170k, Catering £430k, leisure centres £100k, Waste Services £60k, PPE £30k, Foodbank £20k, ASC £30k |
| Other Funding          | -235.4                       | -235.6                        | -0.2                    | £0.2m Business Rates levy surplus.   |
| <b>Use of Balances</b> | <b>5.0</b>                   | <b>6.9</b>                    | <b>1.9</b>              |  |

**Appendix B****General Fund Earmarked Reserves**

|  | <b>31.3.20</b> | <b>31.3.19</b> |
|--|----------------|----------------|
|  | <b>£m</b>      | <b>£m</b>      |
| <b>Insurance</b> - maintained at a level consistent with the insurable risks borne by the Council, including those residual risks relating to the Council's interest in Municipal Mutual Insurance and will fluctuate accordingly.   | 5.2            | 5.6            |
| <b>Transformation</b> - to support the implementation of the transformation for the future programme   | 0.2            | 0.9            |
| <b>Social Care ICT</b> - contributes to the replacement of the Social Care ICT system to address performance issues including those identified as part of the OFSTED inspection of Children's Services                               | 0.5            | 1.9            |
| <b>Other Adult Social Care</b> – earmarked for Supplementary improved Better Care Fund (SiBCF) projects.   | 0.8            | 4.5            |
| <b>Business Rates</b> - carries forward grant funding towards various reliefs, to offset the impact of those reliefs when charged to the General Fund in future years as a result of statutory Business Rate accounting arrangements | 0.7            | 1.8            |
| <b>Covid 19</b> – balance of 1 <sup>st</sup> tranche of unringfenced funding   | 9.4            | 0.0            |
| <b>Other Corporate Reserves</b> – balance at 31.3.20 comprises Community Forums, Schools in difficulty, together with other one-off costs and resources carried forward in respect of unspent grants.                                | 2.6            | 4.6            |
| <b>Dudley Grid for Learning and Paragon Equalisation</b> - represent Government revenue support for these PFI schemes received early in the projects, which will be expended over their remaining life.                              | 3.6            | 4.1            |
| <b>Total Unringfenced</b>  | <b>23.0</b>    | <b>23.4</b>    |

|  |             |             |
|--|-------------|-------------|
| <b>Public Health</b> - to carry forward ringfenced funding pursuant to the Council's Public Health functions.  | 2.6         | 4.3         |
| <b>Local Management of Schools</b> - relate to preserved funds of schools for use in future years, under the terms of Dudley's budget delegation scheme. | 9.1         | 9.7         |
| <b>Other Schools</b> - include reserves relating to community and extended use activities, etc.  | 1.7         | 2.0         |
| <b>Central Dedicated Schools Grant</b> - reflects the roll forward of unspent grant  | (5.5)       | 0.1         |
| <b>Total Ringfenced General Fund</b>   | <b>7.9</b>  | <b>16.1</b> |
| <b>Grand Total General Fund Earmarked Reserves</b>   | <b>30.9</b> | <b>39.5</b> |

## Financial Pressures arising from Covid 19

| Directorate                      | £m          | Comments   |
|----------------------------------|-------------|--|
| Adult Social Care                | 6.0         | Provider support £2.5m, Domiciliary care uplift £0.3m, budget pressure £3.2m           |
| Children's Services              | 1.8         | Extensions to CLA placements, Education and Schools Traded services income shortfalls. |
| Health & Wellbeing               | 0.1         | Foodbanks  |
| Commercial and Customer Services | 2.1         | ICT and additional Mortuary provision, Events.   |
| Housing GF                       | 0.2         | Homelessness   |
| Public Realm                     | 1.2         | Waste collection and loss of income across services                                    |
| Regeneration and Enterprise      | 4.6         | Loss of income (Leisure centres, catering, Himley, and Travelodge)                     |
| Corporate, Treasury, Unallocated | 3.2         | Includes £2m PPE   |
| <b>Total Service Pressures</b>   | <b>19.2</b> |  |
|                                  |             |  |
| Council Tax                      | 6.8         | Increase in Council Tax Relief claimants and bad debt provision                        |
| Business Rates                   | 1.5         | Increase in bad debt provision   |
|                                  |             |  |
| <b>Total estimated pressures</b> | <b>27.5</b> |  |
| <b>Total funding</b>             | <b>19.1</b> |  |
|                                  |             |  |
| <b>Variance over / (under)</b>   | <b>8.4</b>  |  |

Under current accounting rules:

- £0.8m of service pressures were charged to the General Fund in 2019/20 and the remaining forecast pressures will be charged in the current year.
- £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.
- Reduced Council Tax and Business Rates income will impact on the General Fund in 2021/22.

## Appendix D

## Housing Revenue Account 2019/20 Outturn

|                                      | Latest Budget<br>£m | Outturn<br>£m  | Variance<br>£m |
|--------------------------------------|---------------------|----------------|----------------|
| <b>Income</b>                        |                     |                |                |
| Dwelling rents                       | -82,596             | -83,345        | -749           |
| Non-dwelling rents                   | -817                | -821           | -4             |
| Charges for services and facilities  | -243                | -262           | -19            |
| Contributions towards expenditure    | -913                | -1,873         | -960           |
| Interest on balances                 | -90                 | -109           | -19            |
| <b>Total income</b>                  | <b>-84,659</b>      | <b>-86,410</b> | <b>-1,751</b>  |
| <b>Expenditure</b>                   |                     |                |                |
| Management                           | 17,970              | 17,558         | -412           |
| Responsive and cyclical repairs      | 23,266              | 22,598         | -668           |
| Transfer to Major Repairs Reserve    | 23,431              | 24,118         | 687            |
| Interest payable                     | 17,305              | 17,277         | -28            |
| Revenue contribution to capital exp. | 1,000               | 1,000          | 0              |
| Other expenditure                    | 2,437               | 1,646          | -791           |
| <b>Total expenditure</b>             | <b>85,409</b>       | <b>84,197</b>  | <b>-1,212</b>  |
|                                      |                     |                |                |
| <b>Surplus / Deficit in year</b>     | <b>750</b>          | <b>-2,213</b>  | <b>-2,963</b>  |
| <b>Surplus brought forward</b>       | <b>-1,821</b>       | <b>-2,170</b>  | <b>-349</b>    |
| <b>Surplus carried forward</b>       | <b>-1,071</b>       | <b>-4,383</b>  | <b>-3,312</b>  |

Main reasons for the variances shown above include:

- Rent income is higher than forecast: the required bad debt provision was lower than forecast as arrears have reduced, representing excellent performance in rent collection, maximising use of direct debits and system improvements.
- Additional contributions to expenditure have been received from works undertaken on leasehold properties, where the leaseholder contributes towards the cost, and from other income received such as income from aerials on high rise blocks, tenants' rechargeable repairs and grants.
- Savings on management costs relate largely to staffing vacancies.
- Savings on responsive repair costs include savings from the outsourcing of the stores function. Feasibility studies for flatted estate development are also included under this heading. Spend reduced in March owing to the impact of Covid 19.
- The transfer to the Major Repairs Reserve is higher than projected, reflecting the annual revaluation of the housing stock.
- Other expenditure is lower than budgeted owing mainly to lower demand for Discretionary Housing Payments for council tenants.

£1.1m of the surplus carried forward represents reserves earmarked for specific improvement projects. The balance will be invested to support post-Covid service recovery, future stock improvement work and continuing support for tenants, in the context of welfare reforms, particularly the anticipated managed migration to Universal Credit.