

Cabinet

22 June 2021

Finance report – outturn 2020/21

For Decision

Portfolio Holder: Cllr G Suttle, Finance, Commercial & Capital Strategy

Local Councillor(s): N/A

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status:

Public

Recommendation:

Cabinet is asked to

1. note the draft, unaudited outturn position for 2020/21; and
2. agree the reserves strategy statement and repurposing of reserves set out in this paper.

Reason for Recommendation:

Although this report does not seek formal approval from Cabinet for the reported outturn, the performance for the previous year is an important part of the financial management process as it marks the start of the medium-term financial planning (MTFP) and budget strategy process for 2022/23.

In addition to reporting outturn, with the financial performance for the year materially complete, it is important for Cabinet to review the risks the organisation now faces and the areas where it wishes to make strategic investments and to repurpose and prioritise its reserves to facilitate these aims

1. Executive Summary

This report comes to Cabinet to provide information about the Council's performance against its revenue budget in 2020/21 and the impact this has upon reserves, including the general fund.

The report also briefly covers the outturn against the capital budget.

This is the final report for the year to Cabinet, and it covers the impact of the Covid-19 pandemic on the Council's financial performance and position. The report should be read alongside the three, quarterly financial management reports reviewed by Cabinet in July 2020, November 2020 and January 2021.

2. Financial Implications

2.1 Financial implications are covered throughout this paper.

3. Well-being and Health Implications

3.1 None.

4. Climate implications

4.1 None.

5. Other Implications

5.1 None.

6. Risk Assessment

Current Risk: Low

Residual Risk: Medium

6.1 The year has ended and the work on the Council's outturn is materially complete. While work continues to produce the annual statement of accounts, the risk associated with the outturn itself is low.

6.2 However, the impact this has had on the Council's reserves needs to be understood clearly, alongside future risks. The strategy statement and repurposing of reserves has been developed as mitigation of risks and to provide for investment opportunities.

7. Equalities Impact Assessment

7.1 N/A.

8. Appendices

1 Financial support from government during the pandemic

2 Statement of reserves proposals

9. Background Papers

- Budget strategy report 2020/21
- Qtr1 financial management report 2020/21
- Qtr2 financial management report 2020/21
- Qtr3 financial management report 2020/21

10. Budget development

- 10.1 2020/21 was the second budget for Dorset Council. A small improvement in our financial settlement from Government and the release of resources from support services through reorganisation meant that considerable extra funding was added to budgets for front line services. The 2019/20 and 2020/21 budget papers have more details in the respective appendices on resource allocation and savings, so it is not repeated here.
- 10.2 The latter paper also outlines the process the Council adopted to develop the budget strategy for 2020/21 and many members will recall their involvement in the budget café event, scrutiny committees and other briefings that were held during the year. Members might also recall the 2021/22 briefings and scrutiny events which were built on the learning of the preceding year's budget scrutiny experience.
- 10.3 For 2020/21 Dorset Council set a net budget of £304m, funded from general grants (£5m), Business Rates (£47m) and Council tax (£252m) meaning a band D equivalent Council Tax charge of £1,694.79. When setting the budget, however, no-one could have foreseen the pandemic that was about to occur and the impact it would have on public service organisations and their budgets.

11. Context for financial performance

- 11.1 Dorset Council predicted an overspend from the outset of the pandemic. A combination of cost pressures, lost income from sales, fees and charges and potential shortfalls in council tax and business rates collection were the principal causes. During the financial year additional general grant from Government was announced as well as support for lost income. We also started to see a recovery in our income due to the easing of lockdown restrictions and we worked hard on all fronts to bring costs down.
- 11.2 Despite the protracted impact of subsequent lockdown arrangements, by the time the [Qtr.3 report](#) was produced, the impact on the council's budget was forecast to have reduced to £18.6m. This fell further in the January and February monthly forecast updates and whilst (at the time of writing) work is still in progress to finalise our outturn for the year, our assessment is that the impact of the pandemic on the council will have been in the region of £15m.
- 11.3 The outturn figures are still draft (and unaudited) as we continue work to close the accounts. The Audit & Governance Committee has delegated authority from Council to approve the accounts and a report on the outturn and accounts will also be going to that Committee in due course.
- 11.4 Members will also recall that the audit of the 2019/20 accounts is not yet complete, but the Auditor will be attending the next meeting of the Audit & Governance Committee to present the ISA260 report (*communication with those charged with governance*).

11.5 The timeline for the audit of the 2020/21 accounts has been agreed and the Council is scheduled to produce draft accounts ready for audit (and certified by the S151 Officer) by 31 July and for the audit to be completed and the accounts signed by 30 November, in line with current Regulations.

12. Financial support channelled to and through Dorset Council

- 12.1 Since the beginning of the pandemic, Government has distributed significant additional funding to support businesses and individuals to cope with the economic impacts. Large amounts of this funding were channelled through local authorities. The financial support that came to Councils was wide ranging, from extensions of business rates reliefs, to test and trace funding; from business support grants, to the control outbreak management fund (COMF).
- 12.2 In all, the Council received some £314m and will distribute the majority of this to business and individuals across the Dorset Council area (some is intended to support Council costs and lost income as explained earlier).
- 12.3 A specific briefing on the subject of grants and other support made through the pandemic has been requested by the Audit & Governance Committee and more context will therefore be available at that time. Previous Cabinet reports have also highlighted specific grant streams as they have become available and Appendix 1 sets out a summary of grants and other Government support received by the Council.

13. Performance for the year

Impact on the general fund

- 13.1 We have anticipated throughout the year that the Council will have to draw upon the general fund to support its financial performance, primarily to meet the financial costs of Covid. Dorset Council finished the year with a net charge of £15m to the general fund.

Movements at the end of the year

- 13.2 There is a consistency across Directorates of improvement in the outturn compared with the Qtr3 forecast. Many of the reasons for this are set out in the directorate analyses, below, but there are overriding themes of risk, volatility and prudent forecasting.
- 13.3 Members might recall that the Council was also forecasting financial support from the Government for losses from sales, fees and charges. This scheme provided for 75% compensation to local authorities after they absorbed the first 5% themselves. This amounted to £7.1m in 2020/21 for the Council. At Qtr3, this was all shown in a central budget line but in the outturn, it was allocated to the individual area of the Council where the shortfall occurred, causing a further change in Directorate numbers between Qtr3 and the draft outturn.
- 13.4 None of the Council's financial management processes had been stress-tested for a pandemic and managers were uncertain how to forecast for

eventualities that were outside of their control. Additional financial support was received from Government during the year, but this was never intended to cover all losses and was not known much in advance of being received. Indeed, several areas of significant variance between the outturn and the Qtr3 forecast were things that arose very close to the year-end that could not have been forecast in advance.

- 13.5 Such was the volatility around planning and forecasting assumptions, that with the benefit of hindsight, most of the Council's forecasts were pessimistic. This is natural in an environment like the one we were living through, where managers tried to raise the risks and potential financial impacts as early as possible to avoid adverse variances arising at year end. As it turns out, it was mainly positive variances that arose.
- 13.6 The result of this is an outturn which is better across the Council than had been predicted. Although this does present us with some learning around data and methods for forecasting, it is worth reiterating the point that forecasting will never be an exact science in the turbulence and volatility which was witnessed during the year.

Overall performance

- 13.7 The overall performance chargeable to the general fund is summarised in the table below.

Directorate	Net Budget	Draft Outturn	(Overspend)/ Underspend	
	£k	£k	£k	%
People - Adults	122,616	130,200	(7,584)	(6.19%)
People - Children's	77,776	85,614	(7,839)	(10.08%)
Place	60,853	65,918	(5,065)	(8.32%)
Corporate Development	27,402	26,202	1,200	4.38%
Legal & Democratic Services	6,193	7,061	(869)	(14.03%)
Public Health	(10,806)	(10,806)	0	(0.00%)
Total Service Budgets	284,034	304,191	(20,157)	(7.10%)
Central Finance	(325,727)	(330,891)	5,164	(1.59%)
Whole Authority	(41,693)	(26,700)	(14,993)	

- 13.8 Directorate-specific narrative on variances and changes is set out in the following paragraphs.

Children's Services

- 13.9 Children's Services outturn was £85.614m compared with a budget of £77.776m, an overspend of £7.839mm (10.08%).
- 13.10 The February forecast indicated a £9.013m overspend, so there was an improvement of £1.175m at the end of the year. This narrative will concentrate on the five main areas that have been reported during the year as having had a material impact on Children's Services budgets.

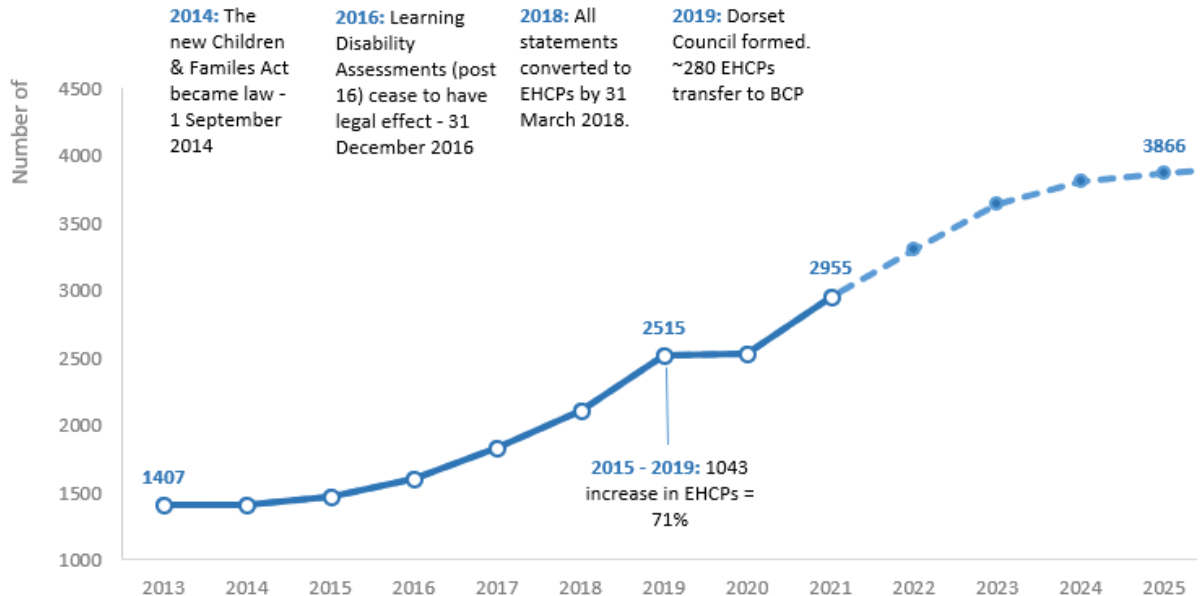
- (i) External placements

- 13.11 The number of children placed in externally purchased services has been the main pressure on the Care & Protection budget. The 2020/21 budget allowed for 177 children in care to be placed externally and at the end of March there were 180. In-year cost and volume pressures have resulted in an overspend of £6.36m in this area.
- 13.12 There have been several positive placement changes during the year, including the reduction of seven placements in high-cost, supported accommodation and no children requiring a secure accommodation placement during the year.
- 13.13 During 2021/22, there will an increase in focus on long-term profiling and modelling to understand future funding requirements.
- (ii) SEN Transport
- 13.14 Like areas within the Dedicated Schools Grant (DSG), Special Educational Needs (SEN) transport is also impacted by the increasing number of children and young people with an Education, Health and Care Plan (EHCP). SEN home to school transport is the responsibility of the local authority.
- 13.15 From Dorset's SEN2 return, between the period January 2020 and January 2021, the number of EHCPs increased by 423 to 2,955. The overspend for SEN Transport was £1.8m.
- 13.16 Not all children and young people with an EHCP require school transport, but the majority do. This budget also supports children, who may not have an EHCP, who attend a Learning Centre.
- 13.17 During the Covid-19 lockdown periods a decision was made to pay our transport contracts in full in order to support the local economy, ensure supplier viability and sustainability and to continue to ensure transport was provided for those who really did have to travel. Under normal circumstances contracts are generally paid slightly below full rate, due to child sickness, bank holidays and inset days.
- 13.18 SEN Transport has seen continued pressure over the previous financial years. The table below summarises this.

Financial Year	Total expenditure (£m)
2018/19	9.09 (Pre LGR)
2019/20	9.23
2020/21	10.18

- 13.19 Based on modelling undertaken in February 2021, a forecast increase in the number of children and young people with an EHCP is expected. The majority will require school transport, causing continuing budget pressure.

Number of Statements / EHCPs over time



(iii) Trading

- 13.20 Covid-19 has had a significant impact on trading within Children's Services. Through the Government's Sales, Fees and Charges compensation scheme, £0.54m was been claimed. However not all lost income was a consequence of the pandemic.
- 13.21 During the year, a new model for delivering Children's Services in Dorset was successfully launched (September 2020). The model brought together Early Help, Children's Social Care, Educational Psychology, SEND (Special Educational Needs and/or Disabilities) and Inclusion services under the leadership of Heads of Locality and Strategy into six integrated locality teams across Dorset.
- 13.22 Coupled with improving inclusion in mainstream schools, Dorset Council has invested in early intervention, inclusion, and outreach services to schools. This has included deploying specialist teachers, educational psychologists, and inclusion officers to support schools in identifying needs and putting in place tools and strategies to support mainstream settings.
- 13.23 This is a fundamental change from the previous operating models that heavily involved trading services, namely with schools, consequently most of the lost trading income is attributable to the move to early identification and intervention strategies (through the new operating

model) to avoid expensive specialist provision. This does not mean trading has ceased but will take a different form.

(iv) The impact of Covid-19

- 13.24 Within the context of Dorset Council, there was relatively little recorded as Covid-19 expenditure within the Directorate (£0.726m). Covid-19 expenditure included additional payroll costs to support children and families, this included pay costs at The Cherries. The majority of the other COVID-19 expenditure was additional support for our foster families.

(v) Savings

- 13.25 A £0.4m pressure from under recovery of contributions towards placements from partner agencies was recorded in the financial year. This is not a given and depends upon children and the support they require. However, a project is in place to work with partner agencies to ensure contributions are recorded and paid in a timely and appropriately.
- 13.26 Areas of significant savings during the year were made through vacancy management (>£0.8m) ahead, and after the introduction of the localities model.

Dedicated Schools Grant

- 13.27 The DSG is a ring fenced grant of which the majority is used to fund individual school budgets in local authority maintained schools and academies in Dorset, early years nursery entitlement and provision for pupils with high needs, including those with Education Health & Care Plans (EHCPs) in special schools, special provision and mainstream schools in Dorset and out of county. Part of the DSG, the Central Services Schools Block (CSSB) provides funding for Dorset Council to carry out central functions on behalf of pupils in state-funded maintained schools and academies in England.
- 13.28 Dorset's final DSG allocation totalled £259.6m and actual expenditure was £276.9m, resulting in an overspend of £17.189m. The cumulative DSG deficit as at 1 April 2020 totalled £21.9m, therefore as 31 March 2021 this had increased to £39.1m.
- 13.29 The DSG is split into four blocks, £16.5m of the overspend is within the High Needs Block (HNB) and £0.7m in the Early Years Block (EYB). The other two blocks (Schools Block and CSSB) were very close to budget.
- 13.30 On the 6 November 2020, the secretary of state for the Ministry of Housing, Communities and Local Government laid before Parliament a statutory instrument to amend The Local Authorities (Capital Finance and Accounting) Regulations. The new accounting practice has the effect of separating schools' budget deficits from local authorities' general funds for a period of three financial years. The £39.1m DSG deficit will not be part of Dorset Council's general fund but this remains a risk for the future as

there is a lack of clarity about where any accumulated deficit sits when the statutory instrument's impact ceases.

DSG High Needs Block (HNB)

- 13.31 The growth in the number of children and young people requiring an EHCP continues to be one of the main drivers for the HNB overspend.
- 13.32 From Dorset's SEN2 return, between the period January 2020 and January 2021, there was an increase of 423 EHCPs, with the total number of Dorset funded EHCPs reaching 2,955.
- 13.33 The Department for Education met with the Local Area the on 11 January 2021 to discuss progress against the Local Area's Accelerated Progress Plan. In response to the progress made by the Local Area, the Department for Education stated that:

"We are reassured that the strength and commitment of current leaders within the LA and CCG will continue improvements across the SEND system throughout Dorset."

"Based on the evidence provided, the Department and NHS England have concluded that you have demonstrated clear and sustained progress. This means that Dorset no longer requires formal monitoring of its SEND system."

- 13.34 Extensive work was undertaken in 2020/21 to establish a DSG model that shows the HNB returning to a balanced position in 2025/26, based on forecast EHCP growth and a three key aims:

Robust monitoring of HNB spend

Collaborating with schools forum to reduce non-statutory spend in such a way that does not adversely impact the need for early intervention. Working alongside Health to ensure joint funding is secured (such as for continuing healthcare placements).

Increase sufficiency

The council's SEND Capital Strategy sets out a path to create up to 513 new places to target need in particular age brackets and primary need.

Early intervention and inclusion

Deploying early identification and intervention strategies to improve outcomes for children and young people and reduce the likelihood that a child or young person will require a specialist placement as they grow older. Collaboration with our schools to ensure they are supporting children and young people through the notional SEN budget and ensure more children and young people can be supported in a mainstream setting.

Adults Services & Housing

- 13.35 Adults' Services & Housing outturn was £130.2m compared with a budget of £122.616m, an overspend of £7.584m (6.19%).
- 13.36 The February forecast had anticipated a higher outturn, an overspend of £14.421m meaning a very welcome reduction.
- 13.37 Adult Care Packages ended the year with an overspend of £6.631m, a £4.45m improvement over the February forecast. During the pandemic Adult Social Care became the lead commissioner for anyone discharged from hospital from the period of 18th March through to the 31st March for both Hospital Discharge Programme (HDP) 1 & 2. This meant Dorset Council was responsible not only for Dorset Council funded clients but all self-funders and health-funded clients.
- 13.38 The HDPs are complex and funding arrangements are challenging to agree and carry significant volatility and risk, so contingencies were built into the forecast. Firstly, around additional contributions from the Council itself to the Hospital Discharge Programme and secondly around the assessments of individuals from Scheme 1.
- 13.39 All clients were to be assessed and removed from Scheme 1 funding by 31 March 2021. The forecasting assumption was that these clients would be assessed and phased out from the 1st December 2020. In reality the majority of these people remained on Covid-19 funding until the 31 March, meaning costs were lower by £1.3m.
- 13.40 £0.916m of the Winter Pressures settlement also accrued to the Adult Service User budget which supported programmes of work as well as care interventions.
- 13.41 It was anticipated that there would be an overspend on transitions cases transferring from Children's Services into Adults of £1.5m but the outturn was £351k lower.
- 13.42 The remaining movement represents 1.5% improvement on the gross expenditure on Adult Social Care Packages.
- 13.43 Adult Care Operations ended the year with a £1.231m underspend. A movement from of £406k since the February forecast. The Directorate had a number of vacancies throughout the year which were anticipated to be filled. An additional £150k Winter Pressures funding was allocated to teams supporting the programmes of work. In addition to this there was a favourable movement within Learning and Development of £190k due to the impact of Covid-19. However, many training courses were held online at a reduced cost.
- 13.44 Commissioning and Improvement ended the year with an underspend of £173k. Positive movements from February include the equipment for living stock adjustment of £237k which is calculated at year end. Additional workforce development funding to support providers to access grants was also received.

- 13.45 Housing closed the year with an overspend of £1.67m, £0.5m better than had been forecast. £955k of the overspend relates to additional Covid-19 costs for B&Bs and security costs to support the *everyone in* initiative. The remainder is the overspend on housing subsidy shortfall. The movement from February relates to additional £50k domestic abuse grant, £100k improvements on B&B and Covid-19 costs as a result of reducing security during March. There was a further £300k improvement on income for B&B costs recovered and direct leasing income of £229k.
- 13.46 Directorate-wide budgets were £688k overspent. This included the additional staffing costs across the Directorate supporting Covid-19. There was an improvement at year end of around £0.5m due to the better care fund (BCF) uplift which was agreed with the CCG in February. Winter Pressures funding of £134k was also allocated to this area.
- 13.47 The Directorate is entering the 2021/22 financial year with a projected overspend of £9.8m. £3.8m of this relates to ongoing legacy costs from the HDP1 & 2 schemes. This is due to increased numbers of clients receiving care following hospital admission as well as the increased costs associated to increased need as people are discharged from Hospital sooner. £3.4m is estimated to be the cost of operating the HDP programme in year including package costs as well as staff time to support the programme. £2m risk around the red savings identified and £600k Housing and Staffing Pressures.
- 13.48 The Directorate priorities now are:
- ensure consistency and proper control of access to Council funded services via both hospital discharge and community routes to ensure that people remain independent for as long as possible
 - re-establish the disciplines of the Dorset Care Framework and control the variance in the rates being paid for some bed-based and domiciliary care services.
 - tightening the relationship between commissioning and finance to give better visibility of spend and more confident forecasting.
 - working with the 42 budget holders in ASC&H to both support and hold them to account in delivering services within budget.

Place

- 13.49 Place Services outturn was £65.918m compared with a budget of £60.853m, an overspend of £5.065m (8.32%).
- 13.50 The February forecast was for an overspend of £12.562m, however this did not include the £5.852m of sales, fees and charges (SFC) grant from Government. When the February forecast is adjusted to allow for this, the final outturn position is around £1.7m better than was predicted.

- 13.51 The effects of Covid-19/national lockdown on the Directorate's finances were complex to assess in many areas, as was Government's policy on compensating grant. The overall result of this was that (with the benefit of hindsight) forecasts were pessimistic. An example of a late change in circumstances was the release of funds from the National Leisure Recovery Fund (£342k) meaning that claims from our contracted-out leisure centres were reduced.
- 13.52 Assets and Property ended the year with a £1.765m overspend, broadly in line with the predictions that had been in place for most of the year. The most significant issue was the lack of capital activity and being unable to charge staff costs to capital as result (£1.8m). Commercial estate income also suffered, and additional costs were incurred in relation to Covid-19 compliance for buildings (perspex screens, PPE, building alterations). Some savings were made to partially offset these extra costs, such as utility savings at County Hall and South Walks House, savings in postage, and some vacancies held open in the run up to the staffing restructure.
- 13.53 Highways (including Parking Services) outturn was an adverse variance of £1.284m. The single biggest issue here was the lost parking income, which was forecast all year.
- 13.54 The Planning Service outturn was an adverse variance of £299k. As forecast all year, general income levels were lower in the pandemic.
- 13.55 The Travel outturn was an underspend of £340k. The previous forecasts of overspend did not materialise due to a refund from a contractor, general reductions in expenditure under the ongoing lockdown and the effect of Covid-19 grants.
- 13.56 The Environment and Wellbeing service ended the year with an overspend of £1.331m, due to Covid-19, primarily in respect of lost income. The major service areas impacted were Leisure Services outturn was a £544k overspend, Outdoor Education Service was a £419k overspend, and Coast and Greenspaces with a £304k overspend.
- 13.57 The Waste (Commercial and Strategy) outturn was a £587k overspend, broadly as predicted. The reasons for the overspend include significant impacts on income from the garden waste and trade waste service due to the pandemic, as well as some adverse variances in relation to the tonnages of waste arising.
- 13.58 Customer Services, Libraries and Archives ended the year with a £669k underspend. Spend on resources during the year has been significantly reduced, due to libraries and customer contact being reduced/closed during lockdowns.

Public Health

- 13.59 The public health grant for 2020/21 for BCP council was £19.766m and for Dorset council was £14.072m. Agreed local authority contributions for 2020/21 gave a shared service budget of £28.748m.

- 13.60 Final outturn was £27.742m, after £1m of anticipated underspend was returned to local authorities in 2020/21. The remaining £1m underspend has been added to reserves.
- 13.61 Covid-19 meant it was difficult to provide an accurate forecast through the year. Changes in the outturn compared to previous forecast reflect:
- very limited recovery of activity within our community health improvement services
 - greater pick-up of additional public health team Covid-19 response costs through COMF funding
 - some additional costs around mental health support to the Dorset system.

Corporate Development

- 13.62 Corporate Development outturn was £26.202m compared with a budget of £27.402m, an underspend of £1.2m (4.38%).
- 13.63 The February forecast was an underspend of £0.38m, so there was a movement of around £0.8m in the final month.
- 13.64 Finance and Commercial services were £0.61m underspent, predominantly through savings on converging budgets, vacancies and early achievement of tactical savings.
- 13.65 Human Resources and Organisation Development finished with a £0.25m underspend which was through early achievement of savings, increased income and vacancy management throughout the year.
- 13.66 Digital and Change's outturn was an underspend of £0.18m which was achieved through vacancies and reduced costs of supplies and services.
- 13.67 ICT Operations had a final outturn of £0.09m underspend which was through convergence of budgets but offset with income budget pressure from the Council's print strategy as a result of Covid-19 (benefit realised in other services through non charging).
- 13.68 Community Grants final outturn was an overspend of £0.53m, this was mainly related to Covid-19 (Shielding and DEFRA funding). Excluding the impacts of Covid-19, there was a small overspend within the area as a result of planning grants being paid whereas the budget sits within the Place Directorate.
- 13.69 Minor underspends were achieved in Business Intelligence (£0.02m), Communication and Engagement (£0.07m), Dorset Care Record (£0.06m) and Chief Executives Office (£0.06) which were achieved through vacancy management, early achievement of savings and slight increases in income.

Legal & Democratic Services

- 13.70 Legal & Democratic Services outturn was £7.061m compared with a budget of £6.193m, an overspend of £0.869m (14%).
- 13.71 The February forecast was for an overspend of £1.88m, so an improved position of £1.0m.
- 13.72 Assurance final outturn was £1.35m overspent. The service incurred the costs (£1.39m) of the temporary mortuaries in response to Covid-19 and this was partially offset by a reduction in team costs through Covid-19 (less travel) and reduced contributions through convergence.
- 13.73 Democratic and Election Services final outturn was £0.43m underspent. A significant part of this was through the use of virtual meetings in response to Covid-19 and reduced travel costs and facilities-related expenses. An element of the underspend was also related to convergence of budgets.
- 13.74 Land Charges outturn was an underspend of £0.11m, which was achieved through increased income (increased volumes of searches) but partially offset by related expenditure to deliver the service.

Central budgets

- 13.75 Central budgets overall were £5.164m underspent, principally due to Covid-19 general grant received from Central Government. This is held centrally but should be seen as offsetting many of the Covid-19-related overspends in Directorates.
- 13.76 Capital Financing was £5.25m underspent at the Year End. £4.2m relates to Minimum Revenue Provision (MRP) charges and £1.3m in net borrowing costs (£1.8m underspent in interest payable offset by £0.5m shortfall in interest receivable).
- 13.77 There was an underspend of £4.7m on the contingency budget, most of which had been predicted in the forecast.
- 13.78 The Central Finance line covers the Council's main funding through Council Tax and Business Rates. The actual performance was £3.8m below budget due to lower collection rates, higher arrears and a therefore, a higher provision for bad debts. However, in addition to this calculated shortfall for the year, the Cabinet is recommended to set aside a further £11m to cover potential collection fund issues, particularly in 2021/22 and 2022/23. More information on this and other reserves is provided below and at Appendix 2. The performance for the year is also after setting aside other reserves Cabinet has approved during the year for items such as the Dorset Workplace Strategy and the Property Strategy investment fund.
- 13.79 £6.0m of savings for transformation and better contract management were not achieved (impacted by Covid-19).

14. Impact on reserves and the general fund

- 14.1 As mentioned above, the impact of Covid-19 on the Council meant a net charge to the general fund of nearly £15m in 2020/21. However, it is important to remember that when Dorset Council was established, it inherited a positive reserves position from its predecessor councils. The published accounts for the first year of Dorset Council saw an opening balance of earmarked reserves of £107m and reference has been made during the year, in updates to Cabinet, that an overspend would need to be funded from reserves. This is therefore no surprise.
- 14.2 A strategic review of reserves had been scheduled for 2020, but this was postponed due to the pandemic. It would not have been straight forward to carry out the review at the time when resources were being deployed to deal with other priorities and it would have been challenging to understand what the starting balance of reserves would be. However, timing is now right to for the review.
- 14.3 The general fund started the year at £28.2m and the impact of the year's activities was £15m. In approving the budget for 2021/22, Cabinet agreed to raise the level of the general fund to £31.5m. This needs to be done as part of closing the accounts for 2020/21, and as the starting point of the review of reserves because this funding of £18.3m needs to be found.

	£
General fund opening balance (as at 1/4/2020	28,198,706
Funding required in year	<u>(14,993,217)</u>
General fund interim balance	13,205,489
Transfer from other reserves	<u>18,300,078</u>
Closing general fund balance (as at 31/3/2021)	<u>31,505,567</u>

15. Strategy statement and repurposing of reserves

- 15.1 Local authorities have two types of reserves, usable and unusable. Unusable reserves are those which are established for specific accounting or regulatory purposes, such as the revaluation reserve or the capital adjustment account. Their purposes are clearly prescribed, and they are not available for the Council to use.
- 15.2 Usable reserves, however, are available for the Council to use for purposes such as supporting service delivery, mitigating risk, or to provide for future investment or other expenditure. These reserves fall into two broad categories, earmarked reserves and the general fund.
- 15.3 The Council's strategy for its usable reserves is in three parts:
- setting a balanced budget
 - alignment with risks
 - allowing opportunity for investment.
- 15.4 The first element of the Council's strategy is not to use any of its reserves to balance its budget strategy. The in-year budget must be sustainable

and balanced without using one-off sources of finance. Reserves can only be spent once and if used, consideration will need to be given to how they are replenished.

- 15.5 The second part of the strategy is to align reserves with strategic risks and the general risk of unforeseen and pressing activity causing short-term budget pressures. To a certain extent, this latter part is what the general fund is for, but other earmarked reserves are established for specific risk mitigation – insurance being the most commonly quoted example – and more detail is given in appendix 2.
- 15.6 The third part of strategy is establishing a fund which the Council can use to invest. There are many opportunities for investment and the Council will need to consider carefully how and in what ways it wishes to invest. This could be as simple as a piece of treasury management activity, or a more complex project where the Council invests in spend-to-save initiatives because it will have a positive impact on the revenue base budget. Parameters for potential investment decisions are not considered here, only the establishment of the fund.

Earmarked reserves

- 15.7 Earmarked reserves are set aside for specific purposes and each of these is summarised in appendix 2(ii). Responsibility for advising Council on the adequacy of reserves rests with the S151 Officer. The level of earmarked reserves is reviewed at least twice each financial year; once during closedown/accounts production and once during budget setting.
- 15.8 The S151 Officer is required to give an assessment of the adequacy of reserves as part of the assurance work around the budget each year and this review and proposed repurposing of some reserves starts to build the assurance required to make that statement, now.
- 15.9 In addition to this summary, an analysis of reserves that the S151 Officer recommends for repurposing, in order to achieve the reserves strategy is also shown (Appendix 2(i)). These are principally reserves that were carried forward from predecessor councils and are no longer needed for their original purposes as they do not fit with the revised approach, or are available for consolidation in order to manage continuing risk or investment ambitions for the unitary council.
- 15.10 Cabinet should note that there are no further reserves beyond these, that are available for the Council to use so the strategy outlined above must be resourced from the total available in appendix 2.

General fund

- 15.11 The general fund is unearmarked and is therefore available for any purpose that the Council deems appropriate. Councils will generally establish for themselves, a lower limit on their general fund as well as an upper limit, and by default, therefore, an operating range that is somewhere in between these.

15.12 Dorset Council's strategy is to set its lower limit at 5% of the budget requirement and its upper limit at 10%. For 2021/22, the budget requirement was £312.4m and Cabinet agreed to a lower limit of £15.7m and an upper limit of £31.5m. The Council closed the year ended 31 March 2020 with a balance of £28.2m on the general fund and this must be increased in line with the strategy set out above and agreed by Council in the budget strategy for 2021/22.

16. Capital budget and outturn

16.1 The approved capital programme for the year was £136.3m, including carry-in of slippage from previous years. Perhaps unsurprisingly, given the pandemic, the total spend was significantly less, at £60.2m.

16.2 The slippage against individual projects, and the detailed financing arrangements are currently being reviewed as part of the closedown process and production of the accounts. Around £70m of the total programme is financed externally through grants and other contributions.

16.3 The Council-funded capital spend was £30m. This is financed through minimum revenue provision (MRP) and borrowing, though for 2020/21, the Council had sufficient cash balances to avoid additional borrowing specifically for the capital programme.

16.4 More detail on specific projects will be available once current review work is complete and the accounts are certified.

17. Financial planning and future budget strategy

17.1 The pandemic also provided real challenge to the budget setting process for 2021/22. The long-term impact of Covid-19 on the Council's services was extremely difficult to model in terms of demand and cost, and despite £8.6m of unringfenced Government grant this year, there is still a significant amount of risk to some of our key budget deliverables.

17.2 Early forecasts are suggesting that there are some continuing pressures in 2021/22 and a fuller update on the latest performance will come to the July Cabinet meeting and will include a review of the ambitious savings programme that the Council set out to deliver as part of its budget strategy.

17.3 The depth and length of the pandemic's impact is still difficult to quantify but the Council will shortly start to update the MTFP model for 2022/23 and will be sharing the budget timetable, planning assumptions and contexts as part of the July report.

18. Financial resilience

18.1 Each year, following submission of the RO forms, the Chartered Institute of Public Finance & Accountancy (CIPFA) produces a set of resilience indicators for local authorities. CIPFA's Financial Resilience Index is a comparative, analytical tool designed to support and improve discussions

- surrounding local authority financial resilience. The index shows councils' performance against a range of measures associated with financial risk.
- 18.2 The most recent data is for the year 2019/20 and therefore provides a pre-COVID baseline to show the resilience of authorities as they entered the pandemic. The indicators show that Dorset is not an outlier for any particular measure and that although there are areas where we will want to focus when we prepare the budget strategy and MTFP for 2022/23, there are no areas of specific concern.
 - 18.3 Comparison with prior years is not possible as 2019/20 was Dorset Council's first year of operation, but in setting financial strategy for future years, the Council will want to give consideration to the indicators of financial stress in order to improve those where resilience is relatively lower, or perhaps take a different approach where it is higher.
 - 18.4 In preparing for the calculation of the 2020/21 indicators, the Council is giving consideration to its reserves strategy as well as addressing its in-year position and the sustainability of its longer-term plans. This is difficult to do without a longer-term national funding strategy for local government, but this does emphasise the need for resilience to underpin an uncertain future and the repurposing of reserves and the strategy proposed is for just that purpose.

19. Summary

- 19.1 2020/21 was an extremely challenging year financially with Covid-19 impacting on income, expenditure, and in particular the collection fund.
- 19.2 Financial support from Government has been gratefully received but has not fully covered the financial consequences of the pandemic. The Council has reprofiled its remaining reserves to prepare for any further financial and economic shocks.
- 19.3 The medium term is of concern, as the service and financial consequences of Covid-19 will be felt for years to come in services such as the increase in demand for children's social care, and in the downturn in business rate collection.
- 19.4 During the pandemic the Government provided unprecedented levels of support for Dorset's economy. Dorset Council has passed on grants and support worth over £250M since the pandemic started. We hope this will have sustained businesses through the lockdown, and that the local and national economy will start to pick up again soon.

Aidan Dunn

Executive Director of Corporate Development

Footnote:

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

Appendix 1

Summary of Govt support during the Covid-19 pandemic

Name of grant	Amount
Local Restrictions Support Grants (lockdown Dec 20)	£9,378,252
Additional restriction grant (20/21 % 21/22)	£7,570,160
LRSO open 2 Dec to 19 Dec	£2,367,946
LRSO closed 2 Dec to 19 Dec	£79,993
LRSO - Christmas support package	£249,600
LRSO open 20 Dec to 04 Jan	£1,729,649
LRSO closed 20 Dec to 04 Jan	£974,260
LRSO - Christmas support package top up	£153,600
Council Tax Hardship awards (additional council tax support)	£2,647,793
NNDR S31 grant: Business rates relief	£54,594,063
ARG top up payment	£3,362,306
closed business lockdown payment	£28,125,000
closed addendum payment (lockdown 3 - part 1)	£14,067,378
closed addendum payment (lockdown 3 - part 2)	£14,737,253
Covid 19 Winter Grant	£1,234,288
CEV Grant	£220,000
Holiday Activities and Food Programme (HAF)	£99,480
Local Authority Assistance Grant for Food and Essential Supplies	£341,000
Business Rates Grant (Retail, hospitality and leisure as well as includes discretionary element)	£113,050,550
New Burdens (SBG, RHLG, DBG) up to end Sept 20	£275,000
New burdens 2- LRSO	£123,750
Infection Control Grant	£9,424,000
Everyone in initiative	£13,500
Test and Trace Service Support Grant	£1,287,650
Test and Trace payment scheme standard scheme	£134,000
Test and Trace payment scheme disc scheme	£80,503
Test and Trace payment scheme disc top up 1	£4,497
Test and Trace payment scheme disc top up 2	£36,500
Test and Trace payment (main, discretionary and admin March and April 2021)	£185,420
New burdens funding for test and trace scheme	£39,939
Local Authority compliance and enforcement grant	£160,901
School Transport Grant	£1,206,072
Public Transport Grant	£387,066
Travel Demand Management	£64,500
CBSSG Restart - Public Transport	£214,672
Sales, Fees and Charges	£5,414,856
Covid Grant	£25,134,510
Recovery to support high streets	£335,426
Emergency Active Travel Fund	£567,386
Outbreak Management Fund	£3,028,064
Outbreak Management Fund	£3,001,028
Outbreak Management Fund - December	£757,016
Outbreak Management Fund - March 2021	£1,946,613
Community Testing Grant	£605,291
Community Testing Grant	£1,210,583
Covid Fixed Penalty Notice	£18,290
National Leisure Recovery Fund	£341,000
Rough Sleepers	£306,713
Rapid Testing Grant	£1,236,940
Workforce capacity fund for adult social care	£853,377
Unaccompanied Asylum Seeking Children	£102,978
Welcome Back Fund	£400,426
LA Practical Support Grant	£71,228
Magnox Covid Grant	£14,000
Next Steps to Accommodation	£624,000
Total grant income	£314,590,266

Appendix 2 (i)

Summary of reserves recommended for repurposing

	£
Performance for the year	14,993,217
General fund opening balance	<u>(28,198,706)</u>
General fund interim balance	<u>(13,205,489)</u>
Transfer from other reserves	<u>(18,300,078)</u>
Closing general fund balance	<u><u>(31,505,567)</u></u>
General fund unallocated	8,333,863
Available for one-off projects	85,806
Grants not drawn from reserves but spent	440,262
Contingency minor projects	1,249,000
Elections	<u>(175,000)</u>
Emergency measures (inc winter maintenance)	<u>(393,212)</u>
NNDR Business Rate Equalisation	763,699
Ex districts GF reserves	796,646
EDDC GF revenue reserve	1,934,211
Invest to save reserve	346,466
Corporate projects reserve	3,308,452
TCA	292,436
MTFP equalisation reserve	<u>1,317,449</u>
Transfer back to general fund	<u><u>18,300,078</u></u>

Appendix 2 (ii)

Summary of closing earmarked reserves

	31/03/2021	31/03/2020
	£	£
Risk mitigation/alignment	<u>(56,658,247)</u>	<u>(59,339,128)</u>
Deferred grants	<u>(25,301,197)</u>	<u>(21,009,312)</u>
For investing/service provision	<u>(15,043,927)</u>	<u>(9,813,221)</u>
Accounting requirements	<u>(29,409,224)</u>	<u>(621,191)</u>
Funding (restrictions) (eg S278)	<u>(9,241,567)</u>	<u>(8,198,026)</u>
PFI reserves	<u>(8,356,778)</u>	<u>(5,835,245)</u>
Partnerships/joint reserves	<u>(2,386,249)</u>	<u>(2,036,245)</u>
Traded services	<u>(414,841)</u>	<u>(365,504)</u>
Total	<u><u>(146,812,029)</u></u>	<u><u>(107,217,871)</u></u>

Appendix 2 (iii)

Examples from within summary figures

<u>Risk</u>	£
CT collection fund	(6,000,000)
NNDR collection fund	(5,000,000)
Sponsored academy conversions	(2,487,990)
Organisational restructure	(2,500,000)
Emergency measures (inc winter maintenance)	(1,000,000)
MTFP equalisation reserve	(29,693,551)
General insurance reserve	(6,097,010)
<u>Investment</u>	
St Mary's Centre of Excellence	(1,000,000)
ICT & equipment - Covid response fund	(50,000)
Future Dorset workplace	(1,060,000)
Property strategy investment fund	(250,000)
Commercialisation training & support	(50,000)
Transformation investment fund	(3,600,000)
Corporate projects reserve	(853,594)
<u>Accounting</u>	
Elections	(251,350)
NNDR S31 adjustment	(29,225,991)
<u>Grants</u>	
Pupil growth reserve	(1,117,402)
Green homes grant	(429,700)
Contol Outbreak Management Fund	(8,340,733)
Test & Trace	(1,135,376)
<u>Jointly held</u>	
Heathlands	(171,990)
Coastal forum	(156,042)
AONB	(590,045)
Dorset Care Record	(1,180,599)
<u>Traded services</u>	
Music service	(259,881)