

Name of meeting: Cabinet
Date: 29 January 2019

Title of report: Council Budget Report 2019-22; incorporating Capital, Treasury Management, General Fund Revenue and Housing Revenue Account

Purpose of the report

The purpose of this report is for Cabinet to receive information to enable them to recommend a budget to Council for Capital, General Fund revenue and Housing Revenue Account (HRA), and approve the Council Treasury Management strategy.

Key decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Key decision - Is it in the Council's Forward Plan (key decisions and forward reports) ?	Yes
Is it eligible for "call in" by Scrutiny?	No
Date signed off by Strategic Director and name	Jacqui Gedman – 21 Jan 19
Is it also signed off by the Service Director for Finance?	Eamonn Croston - 21 Jan 19
Is it also signed off by the Service Director – Legal, Governance & Commissioning?	Julie Muscroft – 21 Jan 19
Cabinet member portfolio - Corporate	Cllr Graham Turner

Electoral [wards](#) affected: All

Ward Councillors consulted: All

Public or private: Public

Have you considered GDPR: Yes – there is no personal data within the budget details and calculations set out in this report and accompanying Appendices

RESTRICTIONS ON VOTING

Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992, which applies to members where –

- (a) they are present at a meeting of the Council, the Cabinet or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months, and
- (b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

In these circumstances, any such members shall at the meeting and as soon as practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter in (b) above. It should be noted that such members are not debarred from speaking on these matters.

Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

1. Summary

1.1 The structure of this report begins with an executive summary followed by a range of appendices. The reader will need to review these in conjunction with the Appendices in order to be informed of the overall consequences and implications.

The Appendices are as follows:

A	General Fund & HRA Medium Term Financial Plan 2019-22 - revenue and capital budget book
B	Supplementary Tables – Revenue
C	Financial Resilience Test Index – CIPFA Summary Commentary
D	General Fund Revenue Sensitivity Analysis
E	Treasury Management Strategy 2019-20 (appended report)
F	Flexible Capital Receipts Strategy
G	Capital Strategy including Prudential Indicators
H	Corporate Risk Matrix Summary
I	Motion to Council
J	Budget Consultation exercise – summary
K	Business Rates Pool – new arrangements for 2019-20

Equality Impact Assessments

- 1.2 Key revenue budget proposals make explicit reference to accompanying evidence available to members; namely officer led equality impact assessments (EIA's) which have been undertaken on a range of budget proposals. This is to ensure that decision makers have due regard to the Council's equalities duties on key decisions taken through the budget process.

Members' attention is drawn to the information and advice in paragraph 3.3.25 of this report which makes reference to the Council's Public Sector Equality Duty.

1.3 The report will:-

- (i) review the general fund revenue budget strategies over the medium term financial plan (MTFP), and budget proposals to achieve a balanced general fund revenue budget in 2019-20, and indicative revenue budget forecasts for the following two years;
- (ii) incorporate the Government's announcement on the Local Government Finance Settlement for 2019-20, and consider the level of general fund revenue budget needed for Treasury Management and Central Contingencies;
- (iii) review the current levels of general fund revenue reserves and balances and make recommendations on the level of reserves;
- (iv) incorporate Housing Revenue Account (HRA) budget proposals to achieve a balanced HRA in 2019-20, and indicative revenue budget plan for the following two years, informed by the HRA 30 year business plan;
- (v) review the current levels of Housing Revenue Account reserves, and make recommendations on the level of reserves;
- (vi) review the multi-year plan for Capital Investment. The Cabinet is required under Financial Procedure Rules to recommend to the Council a multi-year Plan for Capital Investment;
- (vii) review and approve the 2019-20 Treasury Management Strategy, Investment Strategy and Capital Strategy, which the Council must consider before the start of the financial year to comply both with the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code, and with the Ministry of Housing & Local Government (MHCLG) statutory guidance;
- (viii) make recommendations on the Council tax requirement for 2019-20; and
- (ix) incorporate a statement of assurance from the Council's statutory s151 officer in relation to the robustness of budget estimates and adequacy of General fund and HRA reserves.

2. Information required to make a decision

2.1 SUMMARY GENERAL FUND BUDGET PLANS

2.1.1 The overarching context for the Council in determining its annual resource allocations has been national government policy over successive Parliaments from 2010 onwards, resulting in significant reductions in Government funding over the period. The Local Government Association (LGA) estimate that between 2010 and 2020, councils including Kirklees will have lost almost 60p in every £1 of central government funding.

2.1.2 At the same time, Councils, in particular those with statutory social services responsibilities like Kirklees, have also faced significant and increasing service pressures; in particular in Children's and Adult Services, and these pressures are set to increase over future years. The LGA has predicted that the scale of the funding gap across English Councils just to 'stand still' is estimated to be just under £8 billion by 2025.

2.1.3 Broader concerns about the financial sustainability and resilience of Local Government have been highlighted extensively in the national press, including the well reported financial difficulties at Northamptonshire County Council. The National Audit Office (NAO), who scrutinise public spending on behalf of Parliament, set out its own concerns through the publication of its 2018 local government financial sustainability report; link to the report provided below.

[NAO - Financial Sustainability of Local Authorities 2018](#)

2.1.4 This Council remains one of the lowest funded Councils; second lowest of the 36 metropolitan authorities and in the lower quartile nationally. This statistic takes the Government's own spending power benchmark calculation, based on most current data available (2019-20), and expresses it as spend per head of the population.

2.1.5 The combined impact of national funding reductions and service pressures on the Council has resulted in a cumulative revenue savings requirement of £199m over the 2010-2019 period, with upto a further £35m forecast savings required by 2022.

2.1.6 The Council's current Corporate Plan 2018-20 acknowledges the scale of financial challenges to date, and the tough decisions that have had to be taken to balance the books while protecting frontline services and our most vulnerable residents. It also recognises that to support this approach, it has also required the development of a different type of organisation with new and innovative ways of doing things, changing the way that we work with communities, keeping vulnerable people safe and in control of their own lives, and focusing on the things that only the Council can do.

2.1.7 The Corporate Plan also makes reference to Councillors' changing roles, and that in representing and serving the people and places of Kirklees, Councillors'

roles are growing – they are community leaders and at the heart of democratically elected local government.

The link to the Council's current Corporate Plan is shown below:

[2018-20 Council Corporate Plan \(Agenda Item 9\)](#)

- 2.1.8 The Corporate Plan sets out a vision; *“a district which combines a strong, sustainable economy with a great quality of life – leading to thriving communities, growing businesses, high prosperity and low inequality where people enjoy better health throughout their lives.”* The current Corporate Plan is being updated and will be reported to full Council in March 2019. It is anticipated that it will build on the level of ambition already set out in the current Plan across the 7 key outcomes.
- 2.1.9 To deliver the Council's vision, the intention is to move into the next phase of developing the Council to be one that focuses on achieving the seven key outcomes for the District's residents set out in the Corporate Plan, by working with people rather than doing to them, working with partners, and recognising the importance of local identity and how needs differ in different places.
- 2.1.10 The Council's updated revenue budget plans for 2019-22 and updated capital plans 2019-24, include significant new investment in particular in supporting the District's most vulnerable children and adults, investment in regeneration and economic growth, clean and green, and achievement agendas, as well as effective and efficient corporate capacity and capability to support the overall approach and Council ambition for the District's residents.
- 2.1.11 At the same time, this continues to be balanced against medium term budget risks and ensuring the Council can continue to deliver within its means for the foreseeable future.
- 2.1.12 Budget risks include further potential pressures on High Needs pupils, Social Care pressures, current lack of national funding certainty from Government post-2020, and potential impacts of the UK's withdrawal from the European Union, scheduled for 29 March 2019. These are also incorporated into the Council's updated summary corporate risk register set out at Appendix H.
- 2.1.13 Table 1 below sets out the updated summary general fund revenue budget plans for 2019-22, which incorporate key funding and spending changes, existing savings proposals rolled forward, and new savings proposals:

Table 1 – Summary General Fund budget plans 2019-22:

Summary General fund revenue position	MTFP 2019-20 £000	MTFP 2021-21 £000	MTFP 2021-22 £000
Funding Available (2018-20 MTFP)	(284.3)	(309.5)	(309.5)
Funding changes	(10.4)	(4.4)	(6.6)
Funding Available (2019-22 MTFP)	(294.7)	(313.9)	(316.1)
Spending Plans (2018-20 MTFP)	299.3	324.7	324.7
Central Adjustments	(10.2)	0.5	6.0
Service Pressures	7.5	15.8	20.8
Service Investment	1.4	1.4	2.2
Existing Planned savings	(8.5)	(12.1)	(14.7)
New Planned Savings 2019-20	(2.4)	(2.4)	(2.4)
Spending Plans (2019-22 MTFP)	287.1	327.9	336.6
Transfer to Reserves	7.6	-	-
Balanced Budget (2019-20) / Budget Gap years 2 & 3	-	14.0	20.5

2.1.14 The updated budget plans summarised above build on the financial planning framework set out in the Council Budget Strategy Update report 2019-22, which was reported to Council on 10 October 2018. The link to this report is set out below.

[Budget Strategy Update Report 2019-22 to Council, 10 October 2018 \(Item 8\)](#)

2.1.15 Service pressures in particular reflect demand pressures, net of any service specific external funding allocations; in particular in Children Services with regard to Special Educational Needs & Disabilities (SEND) pupil requirements, and vulnerable Adults demand pressures.

2.1.16 Service investments to support Council reflect additional corporate capacity and capability to support the wider organisation, acknowledging that updated plans will continue to develop and re-shape over the medium term to better align with the Council's ambitions set out in the Council's Corporate Plan.

2.1.17 A reconciliation of funding changes, service pressures, service investment and central adjustments, as summarised in Table 1 above, is also included at Appendix B i) for information.

2.1.18 Planned savings set out at Table 1 above total £10.9m in 2019-20. These include existing planned savings totalling £8.5m rolled forward from 2018-20 approved budget plans, plus a further £2.4m new savings in 2019-20. The balance of planned savings of £6.2m over the 2020-22 period also reflect existing planned savings from 2018-20 approved budget plans re-profiled over the 2020-22 period.

2.1.19 Planned savings over the 2019-22 period are set out in more detail at Appendix A, including risks and impacts. Appendix A also sets out overall proposed revenue

resource allocations in 2019-20, and indicative resource allocations over the following 2 years across Strategic Director Portfolios and Central Budgets.

- 2.1.20 The net effect of the changes set out at Table 1 above is a general fund revenue balanced budget in 2019-20 without the requirement to drawdown from reserves. The proposals in fact allow for the planned transfer to general fund revenue reserves of £7.6m in 2019-20, to support further Council developments and also Council financial resilience over the medium term (see also Reserves Strategy - Section 2.15).
- 2.1.21 Updated budget forecasts for the following 2 years reflect an updated budget gap of **£14.0m** in 2020-21 and **£6.5m** in 2021-22 (cumulative £20.5m over the 2020-22 period) which would need to be addressed to deliver a balanced budget in these years. However, as noted earlier at paragraphs 2.1.2 - 2.1.3, there remain concerns expressed at a national level regarding the financial sustainability of local government post-2020; most marked in relation to the 150 Councils with statutory Education and Social Care responsibilities, including Kirklees.
- 2.1.22 To illustrate the current level of budget risk post-2020, the budget sensitivity analysis included in Section 2.16 later in this report highlights the range of potential budget forecast variations and risks relative to Council baseline forecast assumptions underpinning 2019-22 budget plans; in particular over the 2020-22 period.
- 2.1.23 Budget forecasts beyond 2019-20 are heavily dependent on Government clarity; including the 2019 Spending Review which will set out the extent of the continuation of austerity measures on local government, the impact of UK's withdrawal from the European Union, and the impact of Government proposals for a more transparent and 'fair' re-set of baseline Council funding, 'fiscally neutral' at a national level, from 2020 onwards.
- 2.1.24 Key baseline funding and spend assumptions underpinning Council 2019-20 budget proposals to deliver a balanced budget, and indicative budget forecasts for the following 2 years, are described in more detail in the following sections in this report.

FUNDING ASSUMPTIONS

2.2 Local Government Funding Landscape post-2020

- 2.2.1 While the 2018 Autumn Budget and subsequent provisional finance settlement confirmed national funding allocations for the 2019-20 period (year 4 of the 2016-20 multi-year settlement), there is no current Government indication regarding the national funding landscape for Local Government beyond 2020, nor is there likely to be before the next Spending Review, due sometime in 2019. In light of current national funding uncertainties beyond 2019-20, years 2 and 3 at this stage prudently assume some continued further national funding reductions in the region of £3.2m per annum (equivalent to 2.5%) over the 2020-22 period.

2.2.2 Government remains committed to reform in the local government finance system from 2020-21 including a more robust and transparent distribution methodology to re-set baseline Council funding levels. As such, two separate consultations were released alongside the provisional finance settlement; 'Review of local authorities' relative needs and resources', and 'Business rates retention reform'. The closing date for responses for both consultations is 21 February 2019.

Consultation - 'Review of local authorities' relative needs and resources'

2.2.3 Government is committed to a Fair Funding Review of Local Government Funding. As part of the national implementation of the 50% business rates retention scheme in April 2013, Government calculated Council baseline funding allocations at the point of implementation. The data underpinning Government assumptions on baseline Council funding, at that time, was informed by existing and complex Government formula calculations on Councils' relative needs and resources.

2.2.4 These calculations have not been reviewed since, and Government acknowledges that the baseline funding assumptions set in 2013 do not appropriately reflect the changing characteristics of Councils over subsequent years e.g. with regard to population changes and demographic trends. The consultation seeks views on the approach to measuring the relative needs and resources of local authorities and may result in a re-distribution of existing funding between Councils. Under Government principles of fiscal neutrality at an overall national level, there would be 'winners and losers' and, most likely, extended transitional protection arrangements.

Consultation - 'Business Rates retention reform'

2.2.5 This consultation seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system.

2.2.6 It is the Government's aim to introduce 75% business rate retention in 2020 in a way that is fiscally neutral. This is allowable within existing legislation. To compensate for the additional business rates income to be retained locally, it is anticipated that this will also involve a transfer of current Government funding responsibilities for Public Health at the same time.

2.2.7 This means that Council spending plans will increase by about £25m from 2020-21 onwards, because the Public Health specific grant contribution from Government will cease at this point. There will instead be a corresponding increase in business rates income retained locally, to compensate; 'net nil' overall budget impact. The consultation does not indicate if current Public Health specific grant conditions setting out eligible spend against the grant, and monitored by Public Health England, will continue in some guise, from 2020-21 onwards.

2.2.8 Following the release of the above consultations, the intention is for officers to report back to members through the year, as the technical detail behind both proposals become more fully developed and modelled, in preparation for April 2020 implementation.

2.3 Council Tax

- 2.3.1 Funding adjustments factored into Council budget plans for 2019-20 incorporate the 2019-20 Council Tax Base (CTB) which was approved at full Council on 16 January 2019.
- 2.3.2 The CTB reflects assumed growth of 700 properties in 2019-20 and a further 1,000 properties per annum thereafter (Band D equivalent). The latter targets reflect net housing growth indicative forecasts over the period, and assume the timely adoption of the Council Local Plan in 2019, and rollout of the longer term Council ambition for housing growth.
- 2.3.3 Future year CTB forecasts will be subject to regular review, acknowledging as well the potential for external factors such as the UK's intended withdrawal from the EU and consequential impact on the UK economy, including the housing construction and house buying markets. The assumed CTB bad debt provision requirement is 1.48% based on current year forecast collection rates.
- 2.3.4 The local Council Tax Reduction (CTR) scheme is means tested and works so that those not "protected" are required to pay at least 20% of their full council tax liability. The local scheme only applies to those of working age. The national pension age scheme means there is no such minimum payment and many pensioners are assessed as having to pay nothing. CTB forecasts reflect the continuation of the current local CTR based on 20% for those not protected in 2019-20 and future years.
- 2.3.5 Government has made provision to allow Councils local discretion to implement 100% empty property premium charge after 12 months, increasing to 200% after 24 months and 300% after 36 months. There is currently a 50% premium charged on properties still empty after 24 months. The updated CTB for 2019-20 takes account of increases relating to the Council implementing the above property premium rates, anticipated to generate approximately £360k additional income in 2019-20.
- 2.3.6 It is acknowledged that this national policy change is intended to incentivise occupancy in currently empty properties over time, and at this stage a prudent view has been taken with regard to any further income gain beyond 2019-20. This will be reviewed in due course following an officer assessment of the local impact of the empty property premium changes, which were approved at full Council on 16 January 2019.

Council Tax Referendum Principles

- 2.3.7 Government's Council tax referendum principles are set out in the 2019-20 provisional finance settlement, and allow for a 3% council tax uplift in 2019-20, consistent with the referendum limit set in 2018-19. Council updated budget plans reflect a proposed 2.99% Council Tax uplift in 2019-20 (excluding precepts); equivalent to £5.2m additional funding. It is assumed at this stage that Government Council tax referendum principles will revert to 2% from 2020-21 onwards, and

that the Council tax uplift would therefore be 1.99% in 2020-21 and 1.99% in 2021-22.

- 2.3.8 In addition to allowable council tax uplifts within Government's referendum principles, Government also allowed Councils with Social Care responsibilities local discretion to uplift Council tax over the 2017-20 period upto a maximum of a further 6% (no more than 3% allowable in any one year).
- 2.3.9 This was allowable through a specific adult social care precept, and the funding raised from the precept had to be used entirely to fund additional adult social care spend over the period. This Council chose to implement the maximum precept uplift of 6% over the 2017-19 period (3% uplift per annum), and as a result, there will be no further adult social care precept increase in 2019-20.
- 2.3.10 At Band A level, 2.99% Council Tax uplift in 2019-20 is equivalent to an increase of £29.21; from £977.18 in 2018-19 to £1,006.39 in 2019-20 (before fire, police and parish council precepts). Government has confirmed that the referendum principles will not apply to Parish Councils in 2019-20, but will continue to keep this area under active review.
- 2.3.11 Charges to the general fund each year from the Council (the billing authority) for council tax and business rates, and to the major precepting authorities (Fire & Rescue Authority, Office of Police & Crime Commissioner) are based on estimates of CTB. Actual income collected year on year will vary. These timing differences result in actual surpluses or deficits which are rolled forward year on year through the collection fund, and 'settled' over following years, through relevant payment adjustments to the general fund/major precepting authorities.
- 2.3.12 Due to timing issues set out at paragraph 2.3.9 above, there is an overall planned repayment of £1.2m from the general fund to the collection fund in 2019-20.

2.4 Business Rates

- 2.4.1 Officers have reviewed the impact of the new appeals system implemented from April 2017 onward, which is designed to be more stringent than the previous appeals system. The new appeals system relates to appeals against the 2015 Rating List, and volumes of new appeals are significantly less than the volume of appeals against the 2010 and 2005 rating lists.
- 2.4.2 As a result, the annual appeals bad debt provision requirement has been reduced by £1.3m, effectively adding an equivalent amount back into business rates baseline from 2019-20 onwards. Other than the above adjustment, no other net growth assumptions have been built into future year business rates income projections, in light of continuing challenging economic conditions. This is considered to be a prudent approach at this stage.
- 2.4.3 The Council holds a current prudent £11.5m bad debt provision for historical appeals valuations outstanding (largely relating to the 2010 rating list). A recent officer assessment suggests that this requirement can now be revised downwards

in-year. This mainly reflects the impact of many long standing appeals being either withdrawn or settled. This includes the recent withdrawal of a national appeal by Virgin Media which if successful would have cost the Council £2m in backdated rates adjustments to 2010.

- 2.4.4 Also, the number of appeals emerging with respect to the current year has not been at the level anticipated for reasons set out at paragraph 2.4.1 -2.4.2 above. The overall impact is a repayment of £6.9m to the general fund from the collection fund in 2019-20 which has also been factored into updated budget plans (see also Appendix B iv).

North & West Yorkshire Business Rates Pool: 2019-20

- 2.4.5 Leeds City Region (LCR), of which Kirklees is a member, made a joint bid with North Yorkshire for a 75% business rates pilot for 2019-20. The finance settlement 2019-20 confirmed the success of this bid. The financial model underpinning the North & West Yorkshire 75% business rates Pool estimated a potential overall gain to the combined Pool in the region of £24m. The current 2018-19 LCR Pool will be dissolved at 31 March 2018.
- 2.4.6 Pool income will be shared out so that member authorities receive two thirds of the additional income generated through the 75% pilot, with the remaining third of additional income being retained by the pool. This retained funding will be redistributed to projects that meet the pool's strategic aims; Reducing Digital Isolation, Inclusive Growth, Culture, Sport and Major Events, Business Support, Trade and Investment and Enabling Housing Growth.
- 2.4.7 A "one-off" gain of £2m in 2019-20 has been built into Council budget plans to reflect our individual share of the growth. Governance of the 2019-20 Pool will be similar to the existing 2018-19 LCR Pooled arrangement, through a Joint Committee, but with an expanded membership to ensure all member authorities are properly represented.
- 2.4.8 A report prepared by Leeds City Council Chief Officer – Financial Services, to its Executive Board on 13 February 2019 recommends their member approval for the City Solicitor to be given delegated authority to seek the formal agreement of the other 13 members to the new Pool arrangements for 2019-20. Appendix K attached sets out the new arrangements for the North & West Yorkshire Pool for 2019-20, including terms of reference for the Pool's Joint Committee. This report asks Cabinet to formally agree the new arrangements in principal for the 2019-20 Pool as set out at Appendix K, and to delegate authority to the Council's Monitoring Officer in conjunction with the Councils Service Director – Finance, to finalise the new arrangements with Leeds City Council's City solicitor.

2.5 Un-ringfenced grants

- 2.5.1 While these grants are separately identifiable, the Council can apply this funding flexibly to meet overall Council spend priorities. Budget plans for 2019-22 reflect

annual allocations set out in the Government provisional 2019-20 finance settlement. These are set out in more detail at Appendix Biii).

- 2.5.2 The main funding change in 2019-20 relates to Business Rates (section 31) grants, with an anticipated £2m one off gain anticipated as a result of the successful Leeds City Region and North Yorkshire 75% pilot bid.
- 2.5.3 Elsewhere, the New Homes Bonus (NHB) Grant allocation for 2019-20 has been confirmed, based on updated national net housing growth data used by Government to calculate individual Council grant allocations. The £3.9m 2019-20 NHB grant allocation is broadly in line with previous budgetary estimates.

2.6 Adult Social Care Funding

- 2.6.1 Demand led volume and cost pressures and demographic trends are having a continuing and significant impact on already stretched Council budgets and this has been well documented both nationally and at a local level over recent years.
- 2.6.2 These pressures have largely been contained over the 2016-20 period through a combination of Adult Social Care precept uplifts and additional Better Care Funding (BCF) allocations; albeit about half the 'additional' BCF has been funded from a national top-slice of pre-existing Council resources (New Homes Bonus), re-directed to BCF. Updated budget plans reflect the cumulative impact of the above funding measures, which has added £27.9m funding to Adults annual base budget by 2019-20 compared to 2015-16, such has been the scale of increasing service pressures over the period.
- 2.6.3 In 2018-19, Government confirmed a national in-year £240m package of social care funding to ease pressure on the NHS over the winter months. Kirklees' share of this additional in-year funding was £1.86m. The funding must be spent on providing adult social care services, and be in addition to existing planned spending.
- 2.6.4 The Autumn Budget announcement on 29 October 2018 and subsequent 2019-20 finance settlement confirmed the continuation of this funding in 2019-20, alongside a further £410m national funding allocation for adults and children's social care. This new Social Care Support Grant equates to £3.2m for Kirklees in 2019-20 and it is at the discretion of individual local authorities as to how they intend to allocate it between Children's and Adults elements.
- 2.6.5 The £3.2m allocation to Kirklees includes the continuing provision for the £1.2m adult social care grant originally announced late by Government in March 2018 as a one-off grant for 2018-19. The balance of £2m additional funding has been applied in 2019-20 to offset high need pupil service pressures at £1.3m, and other Children's pressures at £0.7m.
- 2.6.6 Government has made no formal announcement about continuing the Winter Pressures and Social Care Support Grant into future years, but in light of continuing and significant pressures on Adult and Children's Social care budgets,

updated budget forecasts assume that Government will maintain these funding allocations post-2020.

- 2.6.7 Updated budget plans from 2020-21 factor in further Government grant funding to support Councils with social care responsibilities; an additional £3.6m grant funding in 2020-21, increasing to £7.2m by 2021-22. These funding assumptions are considered relatively prudent at this stage, in the absence of any more detailed proposals from Government post-2020.
- 2.6.8 There is national Government acknowledgement that beyond 2020, increasing adult social care pressures will be beyond the means of existing Council budgets to be able to contain over the longer term, and that a national funding solution is required. Government has committed to a Green Paper on the future of adult social care.
- 2.6.9 There have been recent national announcements about proposals for £20.5 billion additional baseline funding for the NHS by 2024, and a subsequent further Government release of an NHS 10 year plan. These announcements clearly have implications for the continuing social care/health integration agenda that has been a feature of national Government policy since 2016. However, the expected release of the adult social care green paper alongside these NHS announcements, has been delayed by Government.

2.7 Schools Funding

- 2.7.1 Government introduced a revised National Funding Formula (NFF) for schools from April 2018. The NFF determines the amount of core revenue funding that goes directly to mainstream schools. However, because the current funding arrangements for each local authority are the result of a complex combination of historical national and local funding decisions, the move to a National Funding Formula has produced significantly different outcomes for local schools and academies.
- 2.7.2 The NFF for Kirklees maintained schools and academies is less generous than the previous system but the NFF contains protections to mitigate most of the reductions delivered by the pure application of the new formula. This includes a Government minimum uplift of 0.5% in both 2018-19 and 2019-20 for the funding allocation per pupil within the overall Schools Block allocation.
- 2.7.3 The NFF for schools is being introduced in a 'soft' format across funding years 2018-19 to 2020-21. The NFF will be used to calculate the bottom-line Schools Block allocation to local authorities with local discretion over its distribution then to be agreed following consultation via the local Schools Forum. Government intention is to implement a 'hard' format from funding year 2021-22, which will mean that Schools block funding allocations from that point will be calculated directly by the Education & Skills Funding Agency.

- 2.7.4 The other three funding blocks within the Dedicated Schools Grant or DSG (High Needs, Central School Services and Early Years) will continue to be the responsibility of the Council to manage and allocate as appropriate.
- 2.7.5 The Council's baseline Schools Block funding in 2019-20 is £295.3m, and represents an increase of 2.4% from 2018-19. The High Needs block is £37.0m; an increase of 6.35% from 2018-19. The Early Years block £28.1m; a decrease of 2.1% from 2018-19, and the Central School Services block £2.3m; a decrease of 1.7% from 2018-19.
- 2.7.6 The High Needs block calculation under the new NFF acknowledges the level of previous under-funding, and Government intention is to increase the annual allocation by £7m from pre-existing £34m to £41m; the second largest increase calculated nationally under the revised NFF. However, due to transitional arrangements, this will be phased over a seven year period, at £1m per annum. The 2019-20 allocation reflects the incremental uplift of £1m.
- 2.7.7 The forecast budget pressure against High Needs pupil activity is anticipated to be just over £8m in 2019-20 in excess of available DSG (high needs) funding. Government transitional funding arrangements will not be able to address this current service pressure in a timely manner.
- 2.7.8 The issue of high needs pupil pressures on Council budgets has been the subject of significantly increased recent national media coverage, and broader sectoral lobbying. The 2019-20 finance settlement includes a supplementary national high needs funding allocation totalling £125m to offset current year pressures. Government has confirmed a similar allocation in 2019-20.
- 2.7.9 The Council's share of this is £1.04m in each year. This funding will help offset service high needs pressures in 2018-19 and 2019-20. Budget forecasts assume the continuation of this additional annual funding post-2020.
- 2.7.10 There is a separate report on this Cabinet agenda which sets out in more detail, Kirklees School Funding arrangements for 2019-20.

Key revenue spending assumptions 2019-22

2.8 Current year financial performance

- 2.8.1 Organisational intelligence informing 2019-22 budget plans includes consideration of current year financial performance. The most recent quarter 2 financial monitoring report was presented to Cabinet on 13 November 2018. The link to this report is shown below.

[Corporate Financial Monitoring Report Quarter 2, 2018-19](#) (Item 10)

- 2.8.2 Quarter 2 monitoring indicated significant overall progress towards the delivery of £16.2m net savings requirement in-year. Forecast planned savings were projected to be £12.6m; equivalent to 78% delivery. Elsewhere, there were other

unplanned overspends but with largely compensating underspends, with an overall forecast overspend of £4.8m; equivalent to 1.7% against a revised budget of £290.8m.

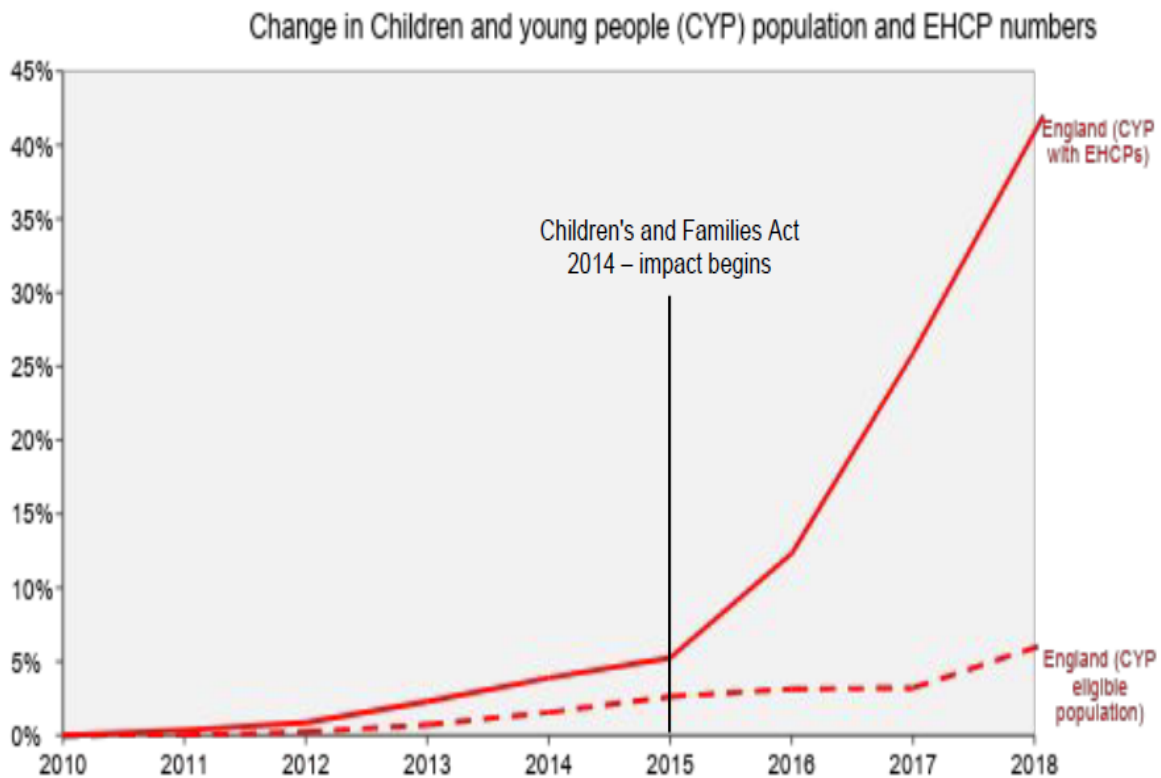
- 2.8.3 Within the overall forecast position, there were some significant underlying current pressures and risks subsequently considered in formulating updated budget plans for 2019-22; in particular in relation to the significant unbudgeted pressure in the region of £8m in relation to Special Educational Needs & Disabilities (SEND)/high needs activity (see also, paragraph 2.7.7 earlier and Section 2.9 further below).
- 2.8.4 The Council's Collection Fund was also forecast to have an overall surplus of £0.8m by current year end.
- 2.8.5 Subsequent to Quarter 2 monitoring, the most up to date in-year monthly monitoring projections (month 8) now estimate a year end forecast overspend of £2.1m; a reduction of £2.7m compared to Quarter 2 financial monitoring. This factors in the additional £1.04m High Needs funding allocation for 2018-19 announced as part of the 2019-20 provisional finance settlement.
- 2.8.6 Government also confirmed as part of the 2019-20 finance settlement, an unexpected "one-off" business rates levy rebate to all Councils in 2018-19. The Council's share of the national £180m re-distribution is £1.2m, also factored into month 8 monitoring.
- 2.8.7 Month 8 monitoring also now reflects an overall forecast year end Collection Fund surplus of £5.75m as a result in particular of the appeals bad debt provision adjustment (see paragraphs 2.3.10 and 2.4.4 earlier). Updated budget plans reflect the re-payment of this surplus to the general fund in 2019-20. The month 8 Collection Fund forecast is summarised at Appendix Biv).
- 2.8.8 Month 8 monitoring also includes a current estimate of year end reserves, forecast at about £79m (excluding statutory schools reserves). This forecast factors in specific reserves proposals approved as part of the budget strategy update report approved at Council on 10 October 2018. The Reserves section later in this report (Section 2.15) considers Council reserves strategy in more detail, including further proposals to increase Council general fund reserves over the medium term.
- 2.8.9 The following sections set out in more detail, updated spend assumptions across Strategic Director Portfolios which have informed updated budget plans.

Strategic Director Portfolios

2.9 Children & Families – Learning, Skills & Early Support

- 2.9.1 The 2017-18 financial outturn report to Council on 11 July 2018 highlighted an underlying net service pressure on special educational needs activity, totalling £4.2m.
- 2.9.2 This pressure has continued and increased through 2018-19, and based on Month 8 financial monitoring projection the forecast in-year position is spend in excess of school (high needs) funding available, of approximately £8m. This is before applying the additional £1.04m funding allocation announced as part of the provisional finance settlement, as per paragraph 2.7.9 above. The pressure includes a projected overspend of £3.6m in respect of placements of Kirklees children in independent and other local authority specialist provisions.
- 2.9.3 The average number of active placements in independent specialist education provision has significantly increased over the last few years, moving from an average of 88 active placements in 2016-17 to a forecast 2018-19 average of 125 pupils; an increase of 42%. An increase is also evident over the same period in the annual average number of children placed in other local authority specialist provision, moving from an average of 20 pupils in 2016-17 to a forecast 2018-19 average of 34 pupils.
- 2.9.4 The balance of High Needs pressure is mainly made up of £1.6m for support funding payments for high needs students in the local further education sector, £1.4m in respect of top-up funding to support rising numbers of increasingly complex need children within the mainstream schools sector, and £1.6m additional funding commitment in the special schools sector.
- 2.9.5 As noted earlier at paragraph 2.7.8, there has been significant recent national sectoral lobbying of Government to acknowledge this is a growing pressure on high needs increasingly beyond the means of Councils to be able to self-contain within available Dedicated Schools Grant ring-fenced funding..
- 2.9.6 London Councils recently produced an overall national trend analysis. Graph 1 below shows that since 2010-11, the number of children and young people with an Education, Health and Care Plan (EHCP)/Statement has increased by 40%. This largely drives high needs costs. Over the same period, the eligible child population increase was 3%. The latter drives annual Government funding adjustments to the High Needs Block of the Dedicated Schools Grant. In particular, the rapid growth in EHCP appears to correspond to the implementation of the Children & Families Act 2014.

Graph 1 – national trends over 2010-2018 period; EHCP/Statement numbers and children & young people population



Source: ONS (MYE and SNPP) estimates; DfE (SEN2 data)

- 2.9.7 In 2014, Kirklees Council had about 1,900 EHCP/Statements. By 2022, this is expected to rise to 3,300 based on current trends; over 70% increase over the period. As noted previously at paragraph 2.7.6. the NFF acknowledges that Kirklees is currently significantly under-funded on high needs, but that due to Government transitional funding arrangements, the Council will not get the full benefit of the extra £7m high needs funding allocated to it from 2018-19, for a full 7 years.
- 2.9.8 Councils have limited flexibility to divert resources from the main schools funding block, and this puts further strain on stretched schools budgets. The only other alternative is to divert general fund resources to support the Council's statutory high needs responsibilities. This is not considered to be a sustainable longer term position for Councils like Kirklees that are already under significant financial pressure from austerity measures that have reduced our general fund grant funding by upto 60% since 2010.
- 2.9.9 Updated Council budget plans reflect a continuation of the £8m current year high needs pressure in 2019-20 , and the partial netting off from incremental Government High Needs Block Grant uplifts of £1m per annum A further £1.04m funding declared in the 2019-20 finance settlement has also been added into budget plans from 2019-20 onwards. As noted above (paras 2.6.4 and 2.6.5)

£3.2m of new Social Care Support Grant funding has been announced, of which £1.3m has been applied in 2019-20 to offset high need pupils service pressures.

- 2.9.10 In conjunction with the above, it is also anticipated that future year growth pressures can to some extent be mitigated through a range of other measures. However, there is acknowledged to be a continued element of budget risk on high needs pressures over the medium term.
- 2.9.11 A District wide High Needs Strategic Review was reported to Cabinet on 20 February 2018. The link to this report is shown below:

[Summary of findings from the Special Educational Needs and/or Disabilities \(SEND\) High Needs Strategic Review \(Item 14\)](#)

- 2.9.12 The Council is working with key education partners across the District on a comprehensive action plan that came from the above referenced report. To support increased District sufficiency provision for specialist educational support, there is also significant new capital investment proposed totaling £25m which has been factored into updated capital plans (see also section 2.19.7 of this report)
- 2.9.13 Updated budget plans include increased annual revenue investment of £700k in the Special Educational Needs & Disabilities Assessment and Commissioning Team (SENACT). This will support staffing, work force development and strategic development to achieve the necessary improvements set out in paragraph 2.9.11 above.
- 2.9.14 In addition, there is further investment of £420k in Learning Services reflecting increased demand (increase of free nursery entitlement), and the increased provision of Early Intervention processes (Portage support to parents). This further investment will support managing the needs of children as early as possible, which will hopefully prevent needs becoming more complex and potentially resulting in more expensive support packages in the future (for example via Education Health and Care Plans).

2.10 Children & Families – Child protection & safeguarding

- 2.10.1 Existing 2018-20 budget plans include £5.5m sustainable investment in Child Protection & Family Support from 2018-19 onwards, alongside a fundamental review and re-shape of service budgets to align with the Children Improvement Plan; the latter based on a Partnership with Leeds Council.
- 2.10.2 The Council continues to make very good progress in the delivery of significant improvements in outcomes of children, and meeting the recommendations set out in the original inadequate rated OFSTED report in November 2016.
- 2.10.3 These improvements include measures to reduce the number of children placed outside the District, with existing planned savings of just over £3m over the 2018-

21 period. These improvements are ongoing, and the planned savings associated with out of area placements have been further re-profiled now over the 2019-22 period to reflect a more realistic timescale for delivery.

- 2.10.4 Planned improvements also include service investment in a restorative practice team at £600k from 2019-20 onwards. This additional capacity is currently funded through a one-off Government grant in 2018-19. Also, following the recent implementation of a new caseload management system within service, Liquid Logic, there is an identified further ongoing investment requirement to support and maintain the system, at £240k.
- 2.10.5 As noted above (paras 2.6.4 and 2.6.5) £3.2m of new Social Care Support Grant funding has been announced, of which £0.7m has been applied in 2019-20 to offset service pressures.
- 2.10.6 To support the Council's ambition to improve outcomes for the District's most vulnerable Children, there is also significant new capital investment proposed totaling £10m for residential accommodation, disability and youth services (see also section 2.19.12).

2.11 Adults & Health

- 2.11.1 Existing budget plans include additional base budget resources of £9.7m 2018-19 and a further £3.2m in 2019-20 for demand led volume pressures, over 65's demographic pressures, and provider cost pressures; the latter relating to social care external provider costs impacted on by a 4.6% national living wage uplift in 2018-19. As noted earlier in Section 2.6, these pressures continue to be met by a range of current grant funding sources.
- 2.11.2 Alongside the above, there is a further £0.5m service revenue investment into early intervention/preventive mental health services, and also a specific amount of £1.4m set aside in reserves to support and promote a range of Place based mental health initiatives across the District; includes £0.4m for measures to combat domestic abuse.
- 2.11.3 Updated budget plans for 2019-20 take account of further £6m service pressure in relation to demographic growth and inflationary pressure on contracts with providers; includes the impact of the 4.9% increase in the National Living Wage in 2019-20, as well as inflation levels on other key cost elements. The Council recognises that the social care provider market locally and nationally is under significant pressure and provides support in kind to providers as well as through fees.
- 2.11.4 Demand and cost increases over the 2020-22 period are modelled to increase by a further £13m in total, net of assumed partial funding offsets over the period. Budget assumptions will continue to be subject to ongoing service review. Future projections will also be informed by the shape, direction and impact of Government's national social care and health integration agenda, applied locally.

2.11.5 The service is also proposing significant new capital investment in dementia and day services totalling £21m (see also, section 2.19.12).

2.12 Economy & Infrastructure

2.12.1 Existing budget plans include £10k base budget allocation activity per ward; £230k in total, plus one-off resources totalling £706k for ward committed expenditure, rolled forward through Council earmarked revenue reserves. In addition, Council earmarked reserves includes approved revenue rollover of just over £1.5m for Public Realm works.

2.12.2 Updated budget plans include a commitment to double the annual base budget allocation for ward based activity from £10k current to £20k per ward from 2019-20 onwards. The doubling of the allocation per ward has been resourced from existing 2018-20 budgeted resources set aside for Place based activity, currently held within the Office of Chief Executive's Transformation Fund budget.

2.12.3 Existing budget plans also include £250k recurrent investment in a District wide 'ward squad' to complement the Public Realm investment and District ward activity budgets.

2.12.4 Updated budget plans include £1.4m to offset current unfunded service schools transport service pressures; in particular impacted on by Special Educational Needs and Disability demand pressures on schools transport service. An additional pressure factored into updated budget plans is the financial impact of the loss of the driver training police contract at £500k. A recent officer review of health and safety and fire safety organisational compliance requirements also identified a service investment need of £310k.

2.12.5 The Council's ambitions for Sustainable Economy include significant existing capital investment in town centre vibrancy, and plans for housing development and growth over the 2018-24 period. These ambitions require increased technical and officer project capacity, and an additional investment need of £300k has been identified. In addition, £4m has also been made available within existing earmarked revenue reserves to address the likely scale of other "one-off" associated development costs over the 2018-24 period.

2.12.6 Updated budget plans also factor in service investment in infrastructure growth, at £350k in 2019-20, and incremental increases of £250k per annum over the following two years. This is in recognition of the increased demands placed on front line 'universal' services over time, through general increases in population, and associated impact on infrastructure across District.

2.12.7 The Council's current Private Finance Initiative (PFI) Waste Contract ends in 2022-23, and work is ongoing to review options for 2023-24 onwards. It is anticipated that there will be a significant overall increase in revenue cost requirement from current, as well as significant future capital investment in waste management activity of up to £33m, reflected in updated Council capital plans (see also, section 2.19.12).

2.12.8 Future revenue implications include the fallout of a current annual PFI Government grant allocation of £3.2m which ends on 31 March 2023. As well, officer proposals for emerging capital and revenue requirements will also be informed by Government's recent national Resources & Waste Strategy announcement on 18 December 2018, which represents the first comprehensive national Government update for more than a decade.

2.13 Corporate Services

2.13.1 Existing budget plans include £3m additional capital investment in the Council's Digital transformation programme, in recognition of the scale of transformation required. The Council's IT service has existing savings of £1.2m in 2018-19, and a further £1.3m in 2019-20. Planned 2019-20 savings have now been deferred to 2020-21, to allow more time to review organisational IT requirements and capacity going forward.

2.13.2 Corporate capacity has also been reviewed, in particular in light of more stringent General Data Protection Regulation (GDPR) requirements, and additional investment of £200k per annum incorporated from 2019-20 onwards, alongside additional revenue investment of £130k per annum in corporate business intelligence.

2.13.3 Updated budget plans include a drawdown of Public Health reserves of £823k in both 2019-20 and 2020-21. This resource is being used to allow continued investment at the current level in substance misuse and sexual health activities over the short term. These services would otherwise have been subject to savings of £823k in 2019-20, as per existing 2018-20 budgets. The savings have been deferred to 2021-22 in the refreshed budget plans.

2.14 Central budgets

2.14.1 Contingency inflation assumptions have been updated to ensure pay provision requirements for the 2018-20 national pay award are fully met. Also factored in are assumed pay awards of 2% in both 2020-21 and 2021-22.

2.14.2 Price inflation is zero over existing 2018-20 budget plans. Updated budget forecasts over the 2020-22 period include a continuation of this assumption, with Strategic Director portfolios continuing to operate within cash limit budgets over the 2020-22 period. The only exceptions relate to energy and waste contract inflation.

2.14.3 Income inflation is assumed at 2% per annum, other than acknowledgement of ongoing pressures on car parking and markets income, which will continue to have zero inflation.

2.14.4 Contingency budget requirements have also been updated to accommodate annual £300k PFI repayment costs relating to schools, for which an earmarked

reserve had previously been set aside. Existing budget plans had assumed £1m annual surplus in the Council's Insurance fund from 2018-19 onwards. However, updated service and external insurance provider premia requirements have now adjusted this downwards to a break-even position from 2019-20 onwards.

- 2.14.5 The next 3 yearly (tri-ennial) actuarial review of employer contributions to the West Yorkshire Pension Fund (WYPF) will be undertaken in preparation for 2020-23 period. Updated budget plans assume a prudent 1% increase in employer contributions from current 16.1% to 17.1%, from 2020-21 onwards; equivalent to £1.6m per annum.
- 2.14.6 The Council's contribution to the West Yorkshire Combined Authority (WYCA) has reduced by £0.2m in 2019-20, and reflects WYCA's commitment to passport a range of efficiency savings over the period, through reduced levy contribution requirements.

Treasury Management

- 2.14.7 Updated Treasury management budgets assume a relatively modest 0.25% uplift in bank of England base rate to 1.0% in 2019-20, increasing to 1.25% in 2020-21 and 1.5% in 2021-22.
- 2.14.8 Council on 12 December 2018 approved the inclusion of the Local Authority Property Fund as part of the Council's treasury management specified investment portfolio, with a potential investment of between £5m and £10m. Officers will continue to explore this option. Updated treasury management budgets assume up to £10m invested during 2019-20, with an anticipated net yield of £150k (part year), increasing to £300k in subsequent years.
- 2.14.9 Treasury management budgets also take account of updated capital plan borrowing requirements, and associated annual revenue resources to be set aside to service Council debt. A 40% slippage factor has also been applied to borrowing specifically on strategic priority schemes over the updated 2018-24 capital plan. This is considered a reasonable assumption, given the nature and scale of strategic priority investment, and potential range of factors that can cause such programmes/schemes to slip over such a protracted timeline.
- 2.14.10 A key prudential indicator set out in the Capital Strategy attached at Appendix G shows the Council's forecast annual debt costs, as a proportion of annual net revenue funding over the 2018-24 period. The forecast indicator is anticipated to be 10.3% by 2024 (including PFI).
- 2.14.11 To put this into context, the equivalent Council indicator in 2014 was 12.9% and by 2028, the forecast indicator would be 13%; broadly at the same level as 2014. The 2019-22 Treasury Management budget set out in this report indicates a net increase in revenue resource requirement of £2m to support the additional borrowing over the next 3 years. Longer term, this is expected to increase further by about £1m per year, to 2028.

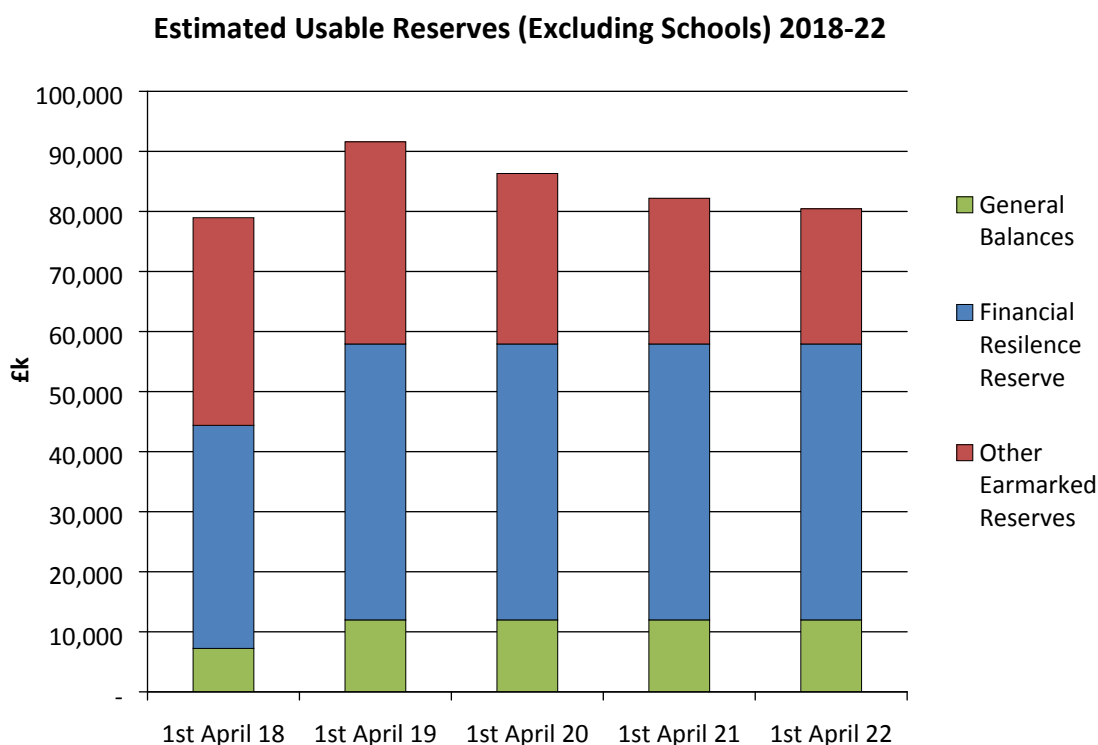
Minimum Revenue Provision (MRP)

- 2.14.12 Existing Treasury Management budgets reflect changes to the Council's policy on minimum revenue provision (annual revenue resources set aside for repayment of debt, also known as MRP), implemented from 2017-18 onwards.
- 2.14.13 This policy change resulted in a calculated over-provision of £91m MRP backdated to 2008. Approved budget plans last year agreed an 'unwind' of this over-provision at £9.1m per annum, over a 10 year period, from 2017-18 onwards.
- 2.14.14 The intention was for base budget resources freed up by the policy change to be retained within Treasury Management budgets, and applied flexibly over the unwind period to support organisational flexibility and financial resilience. This included the transfer in 2017-18 of £9.1m revenue resources freed up, to the Council's financial resilience reserves.
- 2.14.15 Current year, £5m of the £9.1m MRP base budget 'flexibility' has been applied to help offset current unfunded service pressures relating to Special Educational Needs and Disabilities/high needs activity. Updated budget plans assume the continued application of this £5m flexibility to support high needs pressures in 2019-20, but reducing thereafter by £1m each year; with an equivalent Government uplift in Dedicated Schools Grant funding to offset this.
- 2.14.15 A further £1.4m MRP base budget 'flexibility' in 2019-20 will be transferred to reserves to support £1.4m Place based mental health initiatives. The balance of £2.7m base budget 'flexibility' is equivalent to just under 1% of annual net general fund revenue budget, and will be held as a central contingency provision, in light of the overall continuing financial challenges and budget risks set out elsewhere in this report.
- 2.14.16 The accompanying Treasury Management strategy report at Appendix E sets out a proposal for a further re-profiling of annual MRP payments within allowable Ministry of Housing, Communities & Local Government (MHCLG) guidelines. This will free up a further £4.4m base budget in both 2018-19 and 2019-20.
- 2.14.17 It is intended that the additional £8.8m freed up will be ring-fenced for transfer to Financial Resilience reserves. This proposal aligns with the Council's updated medium term budget risk strategy, which is set out in the following section.

2.15 General Fund Reserves

- 2.15.1 A modelled high level forecast of general fund revenue reserves over the 2018-22 period is shown graphically below. These reserves are set out in more detail at Appendix B ii) together with a summary explanation of each reserve held:

Graph 2 - Forecast usable reserves (including general balances) over the 2018-22 period



- 2.15.2 The reserves summarised above and in more detail at Appendix Bii) largely reflect changes made as part of the Budget Strategy Update report to Council on 9 October 2018. These include the creation of a Strategic Investment and Support Reserve at £4m to support a range of Council regeneration and capital investment developments and a severe weather reserve at £3m to support unpredictable severe weather events.
- 2.15.3 A further specific loan reserve of £3m was also established to support Council compliance with new accounting code requirements from 2018-19, intended to strengthen balance sheet transparency. This includes a potential set aside or provision requirement against the potential risk of future loan default.
- 2.15.4 General balances are unallocated reserves set aside to support day to day working capital requirements. These were also reviewed, and the minimum level of balances uplifted from £5m to £10m, which was deemed more appropriate for a Council with a net annual revenue budget of just under £300m. The reserves adjustments set out in the October 2018 Budget Strategy Update report were accommodated by a review and release of a number of pre-existing other earmarked reserves.
- 2.15.5 Updated budget plans include a number of further earmarked reserves adjustments. This includes a new Business Rates reserve at £2m; includes set aside of £1m potential backdated payment regarding a recent national ATM cash machine business rates appeal, currently disputed by the Valuation Office. The

balance of this reserve has been set aside to resource the Council's approved business start up and retention policy.

- 2.15.6 A further £1.4m reserve has also been set aside to pilot a number of local area based mental health initiatives, including £0.4m specifically for domestic abuse. In addition, £0.5m has been set aside to accommodate potential local and national election costs in excess of current base budget provision. These further reserves requirements have been accommodated through the use of some of the proposed £7.6m transfer to reserves from the general fund in 2019-20.
- 2.15.7 Financial resilience reserves at 1 April 2018 were £37.1m. As a result of the further MRP over-payment 'unwind' proposal (paragraph 2.14.16 earlier), it is proposed that a further £8.8m is added to financial resilience reserves by 1st April 2019; £4.4m relating to 2018-19 and an equivalent amount at the start of 2019-20. This gives a revised Financial Resilience Reserve balance of £45.9m at 1 April 2019.
- 2.15.8 Under Section 25 of the Local Government act (2003), in setting annual budgets there is a statutory requirement for the Council's s151 officer to give a positive assurance statement in relation to the robustness of budget estimates and the adequacy of reserves and balances.
- 2.15.9 There is no prescriptive guidance on the adequacy of reserves and balances. Most recent sectoral guidance comes from a joint CIPFA/Local Authority Accounting Panel paper in 2014, which states that in assessing the appropriate level of reserves, a well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances.
- 2.15.10 CIPFA, who are the leading accountancy body for public services, have developed a Financial Resilience Index to attempt to objectively measure Councils' relative financial resilience, noting that "with local government facing unprecedented financial challenges and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest" (Rob Whiteman, CIPFA Chief Executive, 4 December 2018).
- 2.15.11 This index will sit alongside CIPFA's planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances. It is intended that the finalised Index will be published online in November 2019, alongside the publication of a new Financial Management Code.
- 2.15.12 A key aim of the Financial Resilience Index is also to support Council s151 officers in their annual report to the Council presenting the proposed budget for the coming year and the medium term financial strategy.
- 2.15.13 CIPFA released a 'beta' test version of the resilience index to local authority s151 Officers at the end of 2018, acknowledging that the new indicators will remain

under review and subject to further feedback from Chief Finance Officers prior to official publication.

- 2.15.14 The test index is based on a suite of indicators and include a red, amber, green (RAG) alert. CIPFA has highlighted broad support from the sector for the creation of the index, and its view that there was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern.
- 2.15.15 The index is broken down into Counties, Unitaries, London Boroughs, Metropolitan Authorities and District Councils as relevant comparator groups, and is designed to allow authorities to view their relative positions on a range of measures related to financial risk. For the purposes of the test index, comparator Councils within each authority's test group aren't named.
- 2.15.16 Appendix C attached to this report highlights one of the key CIPFA Resilience Indicators. Based on 2017-18 actual data, it identifies that Kirklees Council's general fund reserves as at 31 March 2018 (excluding schools and public health reserves) represented 27.8% of its annual net revenue budget. To put this into context, this would be the equivalent of just over 3 month's general fund net revenue spend. In relative terms, the Council ranked overall, 14th lowest in terms of reserves held of the 36 metropolitan authorities in the comparator group; albeit within a cluster of 20 authorities with reserves between the range 25% and 40%.
- 2.15.17 The Council faces continuing and significant financial challenges and service pressures over the medium term. The national funding landscape post-2020 is uncertain, and there is potential increased financial volatility from a range of risks recorded on the Council's updated corporate risk register (see Appendix H), including the potential impact from the United Kingdom's planned withdrawal from the European Union on 29 March 2019. There are also a number of well documented national media reports regarding increasing numbers of Councils potentially at the brink of financial crisis.
- 2.15.18 Financial resilience reserves remain a key element of the Council's budget strategy in terms of Council financial resilience to manage unbudgeted risks and pressures over the 2019-22 period, and gives a level of underpinning confidence and assurance that the Council's ambition to invest, transform and change will not be de-stabilised over the short term as a result of current national context uncertainties in particular.
- 2.15.19 The Council's s151 Officer recommends that the existing £37.1m financial resilience reserves are increased to £45.9m, through a further re-profiling of MRP provision requirements as set out elsewhere in this report. This would improve the CIPFA % indicator referred to at Appendix C, by the equivalent of about 3%, all things being equal, to just under 31% at the start of 2019-20.
- 2.15.20 A further assessment of reserves requirements will be undertaken as part of the 2018-19 final accounts process, and will be reported as part of the financial outturn and rollover report later in 2019.

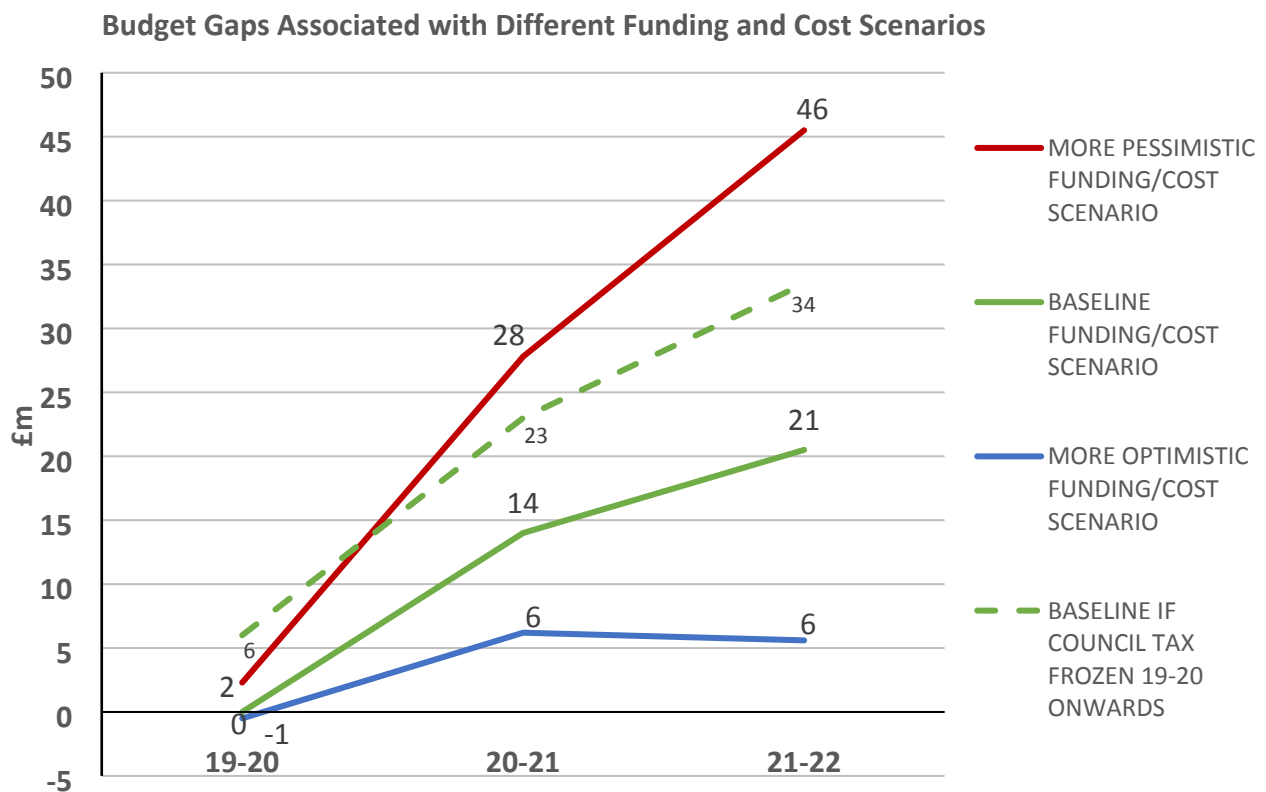
2.15.21 The following section includes a range of budget sensitivity analysis. The range of sensitivities reflects marginal changes to a number of key assumptions, and reflect the extent of potential volatility of medium term budget forecasts, in particular post-2020.

2.16 BUDGET FORECASTS – SENSITIVITY ANALYSIS

2.16.1 Included at Appendix D are a range of potential sensitivities on baseline budget assumptions as set out in this report. While these sensitivities are illustrative, and there can be different combinations, in broad terms they represent relatively minor changes to a number of key baseline budget forecast assumptions, and the cumulative impact of these over time.

2.16.2 The impact of these budget forecast sensitivities are summarised in Graph 3 below.

Graph 3 – Budget Forecast Sensitivities



2.16.3 Illustratively here, the forecast budget gap in 2020-21 could be in the actual range £6m to £28m, and to a large extent this reflects the extent of both Council funding uncertainty post-2020, and the potential impact of the highlighted headline corporate risks, compared to baseline budget forecast assumptions.

2.16.4 Also included in the sensitivity analysis for illustrative purposes is the cumulative impact on current baseline budget gap assumptions over the 2019-22 period, if

the Council decided to maintain council tax at 2018-19 levels over the next 3 years. The cumulative impact would be a further £13m budget pressure by 2021-22.

2.17 Flexible Capital Receipts Strategy

- 2.17.1 The current flexible capital receipts strategy which covers the period 2016-22, was approved as part of the Council Budget Strategy Update report 2019-22 at Council on 10 October 2018. This strategy allows for the annual capitalisation of transformation related revenue costs over the 2016-22 period, which can instead be funded from available in-year capital receipts, and is included at Appendix F.
- 2.17.2 Proposals for the Council's continued application of this flexibility are reflected in the Council's existing Capital plans, which provide for an annual capitalisation of upto £3m per annum from 2018-19 onwards in relation to a range of Council Transformation activity.

2.18 Housing Revenue Account (HRA)

- 2.18.1 Annual HRA rents and service charges for 2019-20 are included as a separate item on this Cabinet agenda. Updated HRA budget plans for 2019-20 include a further annual rent reduction of 1% in 2019-20, in line with Government statutory requirements.
- 2.18.2 The updated HRA budget plans also take account of the recent Government Social Housing green paper, which incorporate proposals for Consumer Price Index (CPI) +1% annual rent uplifts over the 2020-24 period. This puts the longer term HRA business plan in a much healthier position, alongside other measures contained in the Paper including the lifting of the HRA borrowing cap for all Councils with HRA's.
- 2.18.3 Updated budget plans include the continuation of existing planned efficiency savings relating to the KNH fee, totalling £2.0m over the next 2 years; a key driver being expected efficiencies following the merger of Building Services and KNH in October 2017. There is a proposed HRA revenue investment in an enhanced lettable standard, at £1m annually, also reflected in KNH Fee from 2019-20 onwards.
- 2.18.4 Current HRA reserves commitments include a set aside of £4m for business risks; in particular, with regard to proposed welfare reform changes. The balance of commitments includes £1.5m working balance. The forecast balance of reserves is assumed to roll forward to support future year capital investment, in line with longer term HRA business plan requirements. Summary HRA reserves are also shown at Appendix Biv).
- 2.18.5 The HRA 30 year business plan is regularly re-freshed and updated with the aim to produce a self-financed and balanced budget position over the 30 year plan. The current HRA business plan re-fresh reflects a sustainable long term funding position, informed by the HRA budget proposals (both revenue and capital) set

out in both the 2019-22 revenue budget plans and longer term capital plans (see also, next section below).

2.19 CAPITAL STRATEGY

- 2.19.1 Under CIPFA's Code of Practice on Treasury Management (2017 Edition), the accompanying Prudential Code 2017 and MHCLG issued guidance, the Council must approve a Treasury Management Strategy, an Investment Strategy and a Capital Strategy at the start of each financial year. The latter two Strategies are new for 2019-20. They are designed to increase transparency and are a response to the number and variety of ways Local Authorities are becoming involved in commercial activities and making commercial investments.
- 2.19.2 The Treasury Management Strategy is broadly similar to those from previous years. It continues to focus on the Council's borrowings and investments. It recommends a borrowing and a (treasury) investment strategy and a policy for calculating Minimum Revenue Provision (MRP).
- 2.19.3 The Investment Strategy focuses on and provides a detailed breakdown of all investments that the Council has. This includes both treasury investments, whereby the Council invests surplus cash as a result of its day-to-day activities; along with non-treasury investments incorporating investments to support local public services (via loans or purchases of shares) and commercial investments (to earn investment income). The Investment Strategy forms a part of the Treasury Management Strategy which is shown in the appended report at Appendix E.
- 2.19.4 The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability. It incorporates summary information from both the Investment Strategy and the Treasury Management Strategy and also includes Prudential Indicators. The detailed Capital Strategy is set out at Appendix G.

UPDATED CAPITAL PLAN PROPOSALS 2018-24

- 2.19.5 For capital purposes, longer term planning horizons are required to undertake feasibility work, design, plan and build. The Council's multi-year capital investment plan has been reviewed extensively to reflect the scale of the Council's ambition. The updated 6 year plan will deliver capital investment of £732.0m (£577.3m General Fund, £154.7m Housing Revenue Account). The plan is summarised in the table below, and shown in more detail at Appendix A.

Table 2 – Overall Capital Expenditure Summary 2018-24

Corporate Plan – Primary Outcomes	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m	Total £m
Achievement	14.3	23.0	21.6	15.8	12.5	5.0	92.2
Children	0.5	0.6	0.8	3.6	4.2	0.8	10.5
Independent	2.4	5.8	11.5	8.5	0.8	0.0	29.0
Sustainable Economy	46.1	73.6	99.0	63.6	55.1	15.8	353.2
Well	2.4	5.8	12.6	9.3	2.2	0.9	33.2
Safe & Cohesive	0.0	0.2	0.0	0.0	0.0	0.0	0.2
Clean & Green	0.5	1.1	5.4	0.0	6.5	20.5	34.0
Efficiency & Effectiveness	4.7	4.6	4.0	3.9	3.9	3.9	25.0
General Fund	70.9	114.7	154.9	104.7	85.2	46.9	577.3
HRA - Independent	27.8	33.8	24.4	23.7	23.4	21.6	154.7
Council Total	98.7	148.5	179.3	128.4	108.6	68.5	732.0

2.19.6 The overall capital plan has been re-presented into a primary outcomes focused approach, to illustrate how the Council's investment proposals align with the Council's ambitions for its residents. Each primary outcome is further structured between strategic priorities, baseline work programmes and one-off projects. The term primary outcome reflects the fact that a number of schemes will in reality contribute to a number of Council outcomes, not just the primary outcomes.

2.19.7 The updated multi-year capital plan includes a significant re-profiling of existing plan proposals across years, to more realistically reflect likely timescales and capacity to deliver across all years of the plan. Overall, £17.7m has been re-profiled from 2018-19 into later years.

2.19.8 New capital investment proposals are also incorporated, and reflect strategic and operational priority outcomes, and funding availability. The updated capital plan includes £125.7m new bids, (£115m General Fund, £10.7m HRA); the majority of which are to be funded by increased borrowing requirements. These new schemes/programme areas are highlighted as separate individual lines within Appendix A.

2.19.9 Updated Capital budget plan proposals over the 2018-24 period include significant investment in Sustainable Economy (£353.1m), representing 61% of the overall general fund capital plan. The plan therefore strongly links to the Corporate Plan setting out a vision for *"a district which combines a strong, sustainable economy with a great quality of life"*.

2.19.10 Sustainable Economy capital budget proposals at Table 2 above also now incorporate schemes totalling £122.9m which are to be funded via the West Yorkshire plus Transport Fund (WY+TF). A progress report update on the governance arrangements for this large scheme programme was provided to Cabinet on 13th November 2018. Forecast profiled costs for these schemes are subject to change and the plan will be updated as schemes progress from

inception to delivery. Other funding opportunities relating to these schemes will continue to be sought via external bids (e.g. European Regional Development Fund) and developer contributions. There is also provision for a £2.5m joint venture with a regional partner, for a proposed mixed tenure housing provision in the District. The value is indicative at this stage and any more detailed proposals, including appropriate due diligence, would be considered by Cabinet in due course.

- 2.19.11 General fund capital proposals reflect a number of key new investment priorities with regard to Achievement, including £25m investment in enhanced District sufficiency through two new schools, to support children with assessed social, emotional and mental health needs. The Council has submitted a bid into Government's recent specialist educational provision 'free school' bidding round. If successful, this could secure up to £10m Government funded places in the District. There is also a £5m investment in libraries and public buildings across the District.
- 2.19.12 A further £21m new investment is earmarked for the re-provision of existing day services for vulnerable adults, including dementia provision. A significant level of Clean and Green investment of £33m is also proposed for Waste Management and Infrastructure. This will help Kirklees meet national statutory recycling targets with proposals to construct a new Anaerobic Digestion facility and Material Recycling Facility Refurbishment. There is also a further £10m investment to improve the District's play areas as part of the 'Well' strategy; and a further £10m in specialist accommodation/youth services as part of the investment in Children.
- 2.19.13 HRA capital budget proposals include existing provision to help address growing affordable housing needs in Kirklees, including specialist (extra care) provision. The proposals are intended to prioritise housing growth, and include investment for re-modelling/high rise building schemes.
- 2.19.14 Baseline capital provision supports continuing capital investment requirements across the Council's existing asset base, including Schools, Highways, transport infrastructure and Council housing stock. The Council's commitment to safe and compliant housing stock is reflected by an additional £10.7m programme of improvements to be delivered in accordance to regulatory requirements within HRA.
- 2.19.15 A number of the capital proposals set out in the updated budget plans are at Programme level and will be subject to more detailed business case assessment and approval through Cabinet in due course, in accordance with Council Financial Procedure rules.
- 2.19.16 For this budget round, there has also been a corporate review of funding sources supporting the overall capital plan proposals. Capital plan funding is summarised at Table 3 below.

Table 3 – Overall Capital Funding Summary 2018-24

	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m	Total £m
Direct/Earmarked Contributions to Schemes							
Capital Grants / Contributions	34.6	53.4	73.2	53.3	38.4	14.4	267.3
Earmarked Capital Receipts	7.6	5.1	4.6	4.6	4.6	4.6	31.1
Housing Revenue Contributions	15.7	19.0	10.9	8.6	5.4	8.0	67.6
Reserves (HRA)	9.4	11.9	11.4	13.6	16.5	12.2	75.0
Pooled Resources							
Non Earmarked Capital Receipts	1.7	0.5	0.5	0.5	0.5	0.5	4.2
Corporate Prudential Borrowing	29.7	58.6	78.7	47.8	43.2	28.8	286.8
TOTAL	98.7	148.5	179.3	128.4	108.6	68.5	732.0

2.19.17 Corporate prudential borrowing requirements set out in Table 2 above have been assessed to be 'affordable' over the medium term, and are covered elsewhere in this report at paragraphs 2.14.9 to 2.14.11. The Section 151 officer's positive assurance statement further sets out the broad assumptions and factors underpinning current borrowing affordability, at paragraph 3.3.19 later in this report.

2.19.18 Other funding sources such as Section 106/Community Infrastructure Levy/capital receipts and other external grant opportunities will continue to be reviewed on an ongoing basis to best effect and support key priorities. Capital Receipts from the general programme of asset sales will continue to be utilised to offset the overall borrowing requirement of the capital plan. This will help ensure that the Council can live within its means for the foreseeable future and help maintain affordable borrowing levels.

2.20 Corporate Risk Assessment

2.20.1 The corporate risk register at Appendix H summarises the key strategic risks or barriers to achieving the corporate objectives. It also provides visibility about the management actions which are either in place or brought into action to mitigate the impact of these risks. Many of these are of a financial nature and provide contextual information when setting the council's budget. There isn't a direct link but they do help to inform the level of reserve held by the council.

2.20.2 Individual risks vary over time, and the need to set aside reserves changes depending on the underlying budget provisions. The risk assessment reflects the provisional budget proposals put forward by officers. Subsequent changes to these proposals may affect the risk assessment.

3. Implications for the Council

3.1 Formal Resolution

- 3.1.1 It is necessary for the motion to Council on 13 February 2019, set out at Appendix I, and for the final resolution to include certain statutory declarations. The motion to be put forward will be incomplete, because the precepts for the Fire and Police Authorities and Parish Councils may not be determined until after Council. The Council motion will include estimated precepts based on best available information at the time.
- 3.1.2 It may be necessary therefore for an amended motion to be moved, as in previous years, to correct the motion where there is any change between the estimated and actual precepts. This assumes that the precepting bodies will have determined their precepts before 13 February 2019.
- 3.1.3 It is requested that the Council's statutory s151 Officer (Service Director – Finance) be given delegated authority to amend how the finally approved precepts are recorded in the Council's revenue budget in line with the final notifications received following decisions by the Office of Police and Crime Commissioner, the Fire & Rescue Authority and Parish Councils , should these be received after 13 February 2019.
- 3.1.4 The Office of Police and Crime Commissioner, Fire & Rescue Authority and Parish Council precepts included in the Council motion do not affect the Council budget, and neither will any subsequent amendment to the precept figures, delegated to the Council's statutory s151 Officer.

3.2 Special Expenses

- 3.2.1 The expenditure of Parish and Town Councils is funded by way of a precept which is levied only on the area of the individual Parish Councils. There are, however, occasions when individual Parish and/or Town Councils provide services which would otherwise be provided by District Councils if there were no Parish Council in existence. The result is that residents of a parish council can pay twice for some services. This is known as "double taxation".
- 3.2.2 The Local Government Finance Act 1992 provides for expenditure incurred by district councils which ranks as double taxation to be treated as special expenses, which are not charged to the residents of the Parish and/or Town Councils concerned unless the district council resolves otherwise. This special expense arrangement applies to certain services provided by Holme Valley parish council.

3.3 Positive Assurance Statement

- 3.3.1 Under Section 25 of the Local Government Act (2003) the statutory s151 Officer is required to give positive assurance statements in relation to the adequacy of reserves and balances and the robustness of budget estimates.

Statement from the Council's Section 151 Officer (Service Director - Finance)

- 3.3.2 This report sets out the Council's ambition for the residents of the District. The Council's updated multi-year revenue plans include significant investment to support the District's most vulnerable children and adults, and additional resources for increased corporate capacity to support the Council's delivery across the 7 key outcomes for residents, as set out in the Council's Corporate Plan. The Council's capital plans similarly reflect significant ambition over the next 5 years.
- 3.3.3 Planned revenue savings total £10.9m in 2019-20, of which £8.5m relate to existing savings rolled forward from last year's approved 2018-20 budget plan. There are a further £6.2m planned savings over the 2020-22 period; all of which relate to existing savings reviewed and re-profiled into later years.
- 3.3.4 The financial climate facing local government remains challenging; in particular with regard to Councils like Kirklees that have statutory education and social care responsibilities. The number of people who require support continues to increase and the complexity of services provided to vulnerable children and adults require higher levels of resourcing, while the costs of services continues to increase (inflation).
- 3.3.5 The Council has a strong record for delivering planned savings, in particular over more recent years. Updated budget plans also reflect realistic revenue resource allocations in 2019-20, and Strategic Directors are expected to manage within their budgets effectively and efficiently over the forthcoming financial year.
- 3.3.6 The Council has sought to address service pressures, and revenue and capital investment requirements within an overall challenging financial environment in 2019-20, by maximising the council tax increase without triggering a referendum. The successful 2019-20 joint business rates 75% pilot between Leeds City Region and North Yorkshire alongside a corporate review of business rates appeals provision requirements has also secured additional "one-off" resources for 2019-20.
- 3.3.7 Additional funding announcements included in the 2019-20 Local Government finance settlement have also been applied; in particular to help offset demand pressures across social care and high needs activity. The recent social housing green paper has also improved the medium term financial health of the Housing Revenue Account, which separately funds landlord services to Council tenants and leaseholders.
- 3.3.8 The corporate risk register sets out the anticipated barriers to achieving corporate objectives and current management actions in place to manage and mitigate these should they arise. Robust financial performance and strengthened risk management arrangements provide the framework for capturing any deviations from plan and applying corrective actions.

- 3.3.9 The national funding climate for local government remains uncertain. The expected withdrawal of the UK from the European Union on 29 March 2019 has the potential to further heighten some of the budget risks set out in the Council's high level corporate risk register included at Appendix H to this report.
- 3.3.10 Government has confirmed its intention to rollout a national 75% business rates retention scheme from 2020-21, which will also be informed by a re-set of individual Council baseline funding levels, through a national Fair Funding review.
- 3.3.11 Government will confirm later in the year, following further consultation, how the re-distribution of Council funding will impact on individual Councils. There will be winners and losers from this exercise. The 2019 spending review is also expected to set out the extent to which government austerity will or will not continue for local government, post-2020. Following the release of the 10 year NHS Plan, it is expected that the delayed adult social care funding green paper will also follow sometime in 2019.
- 3.3.12 In light of post-2020 national funding uncertainties, this report also sets out a range of budget sensitivities which emphasise the current volatility of budget forecasts; in particular from 2020-21 onwards.
- 3.3.13 Appendix C attached also sets out CIPFA's analysis of the relative financial resilience of Councils, as measured in terms of revenue reserves held as a percentage of annual net revenue budget. The analysis for Kirklees as at 31 March 2018 indicates that our relative position with our comparator group of metropolitan authorities was 28% compared to the median (mid-point) at 35%.
- 3.3.14 Technical treasury management (MRP) accounting flexibilities were applied to improve the Council's financial resilience reserves by £9.1m during 2017-18, as part of the Council's approved reserves strategy, to £37.1m.
- 3.3.15 Over-reliance on "one-off" reserves to support an annual balanced budget is not financially sustainable over the longer term, and any significant depletion in reserves over time leaves the Council more exposed to financial risks which could potentially de-stabilise the Council in the short term.
- 3.3.16 While the overall financial resilience of the Council has improved, further technical MRP accounting flexibilities are set out in this report that will add a further £8.8m to the Council's financial resilience reserves at the start of 2019-20.
- 3.3.17 The borrowing requirements to support Council capital investment over the 2019-24 period are considered 'affordable', assuming the continuation of relatively low interest rate borrowing available from the Public Works Loans Board over the same period.
- 3.3.18 Government expects Councils to be increasingly reliant on locally generated funding, in particular council tax and business rates over the longer term. The budget proposals set out in this report include significant capital investment in economic sustainability across the District over the longer term, intended to

stimulate the right conditions to enable the Council to sustain and grow business rates and council tax in the District over the long term.

- 3.3.19 Whilst the Council's capital investment ambition over the next 5 years is considered to be affordable; given current uncertainties, the Council will need to be prepared to review its assessment of affordability, and potentially re-prioritise and flex current plans, if the national funding and economic landscape changes significantly over the next 12 months,.
- 3.3.20 Years 2 and 3 revenue budget forecasts set out in this report, while considered reasonable at this stage, could similarly change significantly over the next 12 months. This makes effective longer term financial planning especially challenging for Councils like Kirklees, and officers will continue to assess, review and update budget planning forecasts and implications through the early 2019, informed by emerging national and local intelligence. The inclusion of £2.7m central budget contingency, equivalent to less than 1% of annual net general fund revenue budget as part of 2019-20 budget plans, will also give the organisation some in-year flexibility to manage unbudgeted pressures/risks, thereby further relieving further short-term pressure on reserves, given current post-2020 funding uncertainties.

Consequently in light of these factors;

I can give you positive assurance on the reliability and robustness of the forecasts and estimates in the budget proposals as far as we can based on current local and national intelligence.

If members approve the recommendations in this report I can give the Council positive assurance on the adequacy of reserves and balances at this time

3.3.21 Working with people

3.3.22 Working with partners

3.3.23 Place based working

3.3.24 Improving outcomes for children

The budget proposals contained within this report have been developed to ensure that funding is made available in the areas that will allow the Council to further improve the outcomes for individuals and communities as a whole. To facilitate this resources have been allocated in areas that will allow the Council to maximise contributions to the Councils strategic priorities of working with people, working with partners and placed based working.

3.3.25 Other Legal, Financial or other implications (not covered elsewhere in this report)

Paragraph 1.2 of this report refers to Equality Impact Assessments. The Equality Act 2010 creates the Public Sector Equality Duty (PSED).

Under section 149 of the Act:

- (1) A public authority must, in the exercise of its functions, have due regard to the need to:
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic ; and persons who do not share it.

The relevant protected characteristics are:

age;
disability;
gender reassignment;
pregnancy and maternity;
race;
religion or belief;
sex; and
sexual orientation

In order to fulfil the PSED the Council is required to assess the impact of any proposed action on the equality objectives set out above. The way in which the Council approaches this task is to conduct Equality Impact Assessments (EIA).

The Council has carried out Equality Impact Assessments (EIAs) to help it take due regard of its public sector equality duties in relation to these proposals. These can be found by accessing on the Kirklees web pages (link below) and members should read the assessments in full in order to inform them in coming to their decision.

[Equality Impact Assessments](#)

As part of the service changes being proposed within this budget and as detailed at Appendix A (General Fund & HRA Medium Term Financial Plan 2019-22) Service Impact Assessments have been prepared and published.

The same unique reference is used to enable ease of cross referencing between those Service Impact Assessments where an Equality Impact Assessment is required, and the EIA's which are available on the Council's website as per the link above.

The Council will continue to keep its duty in view and will review and revise the EIAs as appropriate as it begins to implement any of the decisions arising from the budget.

4. Consultees and their opinions

There was a public budget engagement exercise which ran during November and December 2018. The website link to the public engagement exercise is below:

[Kirklees Budget Simulator](#)

To summarise, there were 189 respondents to the survey. Not all the respondent submissions produced a balanced budget. Overall, there were reductions proposed across the 7 key Council themes/outcomes. The lowest average reduction was 1.2%; 'Children have the best start in life'.

The highest average reduction was 4.5%; 'People in Kirklees have aspirations and achieve their ambitions through education, training, employments and lifelong learning'. Average reductions across the other five themes/outcomes ranged between 2.0% and 3.4%. On the income side there were average increases of 1.5%.

Summary feedback from the above public budget engagement exercise is included at Appendix J to this report, and will need to be considered by members in coming to their decision at Cabinet and then their final decisions made on the revenue budget proposals at full Council on 13 February 2019.

A Council budget information event is taking place on the 22 January 2019 to allow participants the opportunity to put their budget questions directly to some of our local party leaders and deputy leaders,

Housing Revenue Account budget proposals were presented to the December 2018 Tenants & Residents Committee cycle.

There has also been engagement with representatives of the business and voluntary and community sectors.

The Capital Investment Plan proposals have been considered by Cabinet and Strategic Directors in conjunction with the Service Director - Finance, following initial assessment through the officer Corporate Capital Strategy Group.

The 2019-20 Treasury Management Strategy Report included at Appendix E, has been prepared by the Council's s151 Officer (Service Director - Finance), and in consultation with the Council's external treasury management advisors, Arlingclose Limited Treasury Management Consultants. The Treasury Management report has also been considered at the Council's Corporate Governance and Audit Committee (CGAC), on 25 January 2019.

5. Next Steps

- 5.1 This report and the draft Budget form the background and the proposed formal motion. The Cabinet will need to decide if they are to accept this or propose amendments to the draft budget which will be proposed to Council on 13 February 2019 (Cabinet draft budget). Members will need to decide if they are to accept this

or propose amendments to the draft Budget which will be proposed to Council. Any such amendments will be published on 6 February 2019.

- 5.2 Proposed amendments shall be submitted to the Chief Executive on or before 10.00am on Monday 4 February 2019 to ensure that, in conjunction with the Service Director-Finance, they can be reviewed to ensure they are financially sound and sustainable prior to the final submission deadline of 6 February 2019
- 5.3 Members should note that once a budget is agreed by Council there may be a number of further steps and/or actions which would need to be taken in order to implement budget decisions for example – consultation, further detail of the steps needed or final proposals for making the planned changes. This is to ensure that the Council complies with legal and other requirements.
- 5.4 Following Council approval of the Capital Investment Plan, schemes will be released subject to Financial Procedure Rules.
- 5.5 Any material Government changes to the provisional 2019-20 finance settlement figures will be reported to the meeting of full Council, depending on the timing of Government confirmation of the final settlement, which is expected early February 2019.

6. Cabinet recommendations and reasons

Having read this report and the accompanying appendices, and having regard to the consultation process and equality impact assessments, Council are asked to recommend the following:

General Fund Revenue

- 6.1 That the draft Revenue Budget for 2019-22, be approved (Appendix A);
- 6.2 That the forecast levels of statutory and other Council reserves as set out at Appendix Bii), be noted;
- 6.3 That the strategy for the use of balances and reserves, is approved; (section 2.15);
- 6.4 To note that a further reassessment of reserves requirements will be undertaken at year end and reported to members as part of the 2018-19 financial outturn & rollover report; (paragraph 2.15.20);
- 6.5 That Cabinet note the Council's participation in the North & West Yorkshire business rates Pool for 2019-20, and to formally agree the new arrangements, in principal, for the 2019-20 Pool as set out at Appendix K, and to delegate authority to the Council's Monitoring Officer in conjunction with the Councils Service Director – Finance, to finalise the new arrangements with Leeds City Council's City solicitor; (paragraph 2.4.8);

- 6.6 That members re-affirm the Flexible Capital Receipts Strategy for 2019-20; (Appendix I)
- 6.7 That members approve the Council Tax requirement for 2019-20 (Appendix I, budget motion);
- 6.8 That members note the Council's Statutory s151 Officer's positive assurance statement; (paragraphs 3.3.1 – 3.3.20)
- 6.9 That the Council's Statutory s151 Officer be given delegated authority to amend how the finally approved precepts are recorded in the Council's revenue budget in line with the final notifications received following decisions by the Office of Police & Crime Commissioner, the Fire & Rescue Authority and Parish Councils should these be received after 13 February 2019 (paragraph 3.1.3 above);

Treasury Management

- 6.10 That members approve the following recommendations set out in the 2019-20 Treasury Management report at Appendix E:
 - 6.11 The borrowing strategy outlined in paragraphs 2.15-2.21 of the appended report;
 - 6.12 The investment strategy outlined in paragraphs 2.22 - 2.32 of the appended report, including Appendices A and B;
 - 6.13 The policy for provision of repayment of debt (minimum revenue provision or MRP) outlined in the appended report, Appendix C, which reflects the changes in policy outlined in paragraphs 2.33 - 2.37 of the appended report;
 - 6.14 The treasury management indicators in the appended report, Appendix D;
 - 6.15 The Investment Strategy (Non-Treasury Investments) in the appended report, at Appendix E;

Capital

- 6.16 That the updated Capital Plan for 2018-24, be approved; (Appendix A)
- 6.17 That the Capital Strategy (including Prudential Indicators), set out at Appendix G, be approved;

Housing Revenue Account (HRA)

- 6.18 That the draft HRA Budget for 2019-22 be approved; (Appendix A)
- 6.19 That the strategy for the use of HRA reserves, as set out at paragraph 2.18.4, be approved;

Other

- 6.20 That this report be referred to the Council as advice and background information, on which the other political groups can base their budget proposals.

7. Cabinet Portfolio Holder Recommendation

The Leader recommends that the attached General Fund revenue budget, Treasury Management Strategy, Investment Strategy, Capital Strategy, Capital Investment Plan, and HRA budget, should be presented to the Council meeting on 13 February 2019.

In presenting the draft Budget to the above full Council meeting, Cabinet members have taken due regard to the Council's public sector equalities duties in consideration of a range of key budget proposals, their impacts, and mitigating actions.

Comments from the Leader:

I am proud to present this budget to you – the first from a majority Labour administration in Kirklees for over a decade. This is an investment budget for the people of Kirklees.

This is a budget that protects the vulnerable, invests in our young people and rejuvenates our infrastructure.

A budget that signals a change of course for our citizens – one that sends not just a message of hope, but real, practical steps to improve the lives of people across Kirklees.

We can do this because of the solid foundations we have built over the past two years:

- We've delivered savings
- We've protected the reserves
- We've lived within our means

This is a budget for one year, but it is no less ambitious for that. Ambitious for growth, building our council tax base and business rates.

It would be fiscally foolish to create a longer-term budget at a time when we have so much political uncertainty, nationally. The financial backdrop to this budget is daunting: the main government grant funding for local services will be cut by a further £1.3 billion (36 per cent) in 2019/20

Between 2010 and 2020, councils will have lost 60p out of every £1 the Government had provided for services. We have gone to great lengths to ensure the savings we have been forced to make have as little impact as possible on the quality of services provided to residents. The Conservative Government's cuts

have been strikingly uneven in their distribution, with the poorest local authorities, often Labour run, being hit the hardest.

We have embraced efficiency and innovation in a way that is not being replicated anywhere else in the public sector. We're only able to make the investments detailed in this document because we have been prudent, and we'll continue to be so.

An investment budget is needed because we must:

- Protect the vulnerable, creating the best services we can for older people, especially those living with dementia and/or coping with disabilities.
- Invest in our children and young people; putting money into youth provision and play areas.
- Rejuvenate our infrastructure. That's why we're beginning a programme of investment in our roads system. But we also need to revitalise the places where people live and work, and not just our major towns, but our smaller towns and villages too.

My administration is passionate about improving the lives of the people we serve. By targeting our resources at those who need them the most, we will start to make those improvements.

8. Contact Officer and Relevant Papers

Eamonn Croston	Service Director – Finance
James Anderson	Senior Finance Manager
Sarah Hill	Finance Manager
Rachel Firth	Finance Manager

Background Papers

- Council approved annual budget report 2018-2020, 14 February 2018
- Council financial outturn report 2018-19 to full Council , 11 July 2018
- Council budget update report 2019-22 to full Council, 10 October 2018
- Government Autumn Statement announcement , 29 October 2018
- Quarter 2 financial monitoring report 2018-19, Cabinet 13 November 2018
- Provisional Local Government Finance Settlement 2019-20
- Equality Impact Assessments on key budget proposals and impacts
- Budget Consultation exercise 2019-20