

**Name of meeting: Corporate Scrutiny Panel Date:**  
**15 November 2019**

**Title of report: Financial Management Update 2019-20**

**Purpose of report**

High level overview of the Council's financial monitoring, incorporating the current position in 2019-20, and update on current budget round preparation.

<b>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?</b>	<b>No</b>
<b>Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)?</u></b>	<b>No</b>
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	<b>No</b>
<b>Date signed off by <u>Strategic Director</u> &amp; name</b>	<b>Rachel Spencer-Henshall : 5 November 2019</b>
<b>Is it also signed off by the Service Director for Finance IT</b>	<b>Eamonn Croston : 5 November 2019</b>
<b>Is it also signed off by the Service Director for Legal Governance and Commissioning</b>	<b>N/A</b>
<b>Cabinet member <a href="#">portfolio</a></b>	<b>Cllr Graham Turner</b>

**Electoral [wards](#) affected:** All

**Ward Councillors consulted:** N/A

**Public or private:** Public

**Has GDPR been considered?** Yes

**1. Summary**

**Current year financial monitoring position**

**General fund revenue**

- 1.1 Quarter 1 financial monitoring was reported to Cabinet on 13 August 2019, and reported an overall general fund revenue forecast overspend of £2.0m against £287m revised budget; equivalent to 0.7%. This included :

- i) a forecast delivery of £7.8m planned savings against target £10.9m, equivalent to 72%;
  - ii) transfer of forecast high needs (net) overspend of £4.2m through the Dedicated Schools Grant (DSG) funding account, which is within allowable Gov't rules; and
  - iii) forecast £1.1m 'net' underspends elsewhere
- 1.2 Quarter two financial monitoring will be presented to Cabinet on 3 December. The report is currently being finalised. It is anticipated that the forecast overspend will reduce further, and officers remain confident that this positive trajectory will continue for the remainder of the current year.
- 1.3 Elsewhere it is anticipated that Quarter 2 Collection Fund performance will reflect an overall surplus position in-year, based on firmed up half-yearly data; a combination of further reduction in bad debt requirement against business rates appeals (largely a one-off gain for 2019/20) and a net positive movement on the overall council tax base position.

### Housing Revenue Account

- 1.4 The Housing Revenue Account is expected to come in on line with budget; annual revenue turnover of **£91m**.

### Capital

- 1.5 Overall Capital Plan allocation of £115m; anticipated spend £113m. It is anticipated that some of this year's plan may slip into later years, and any recommendations to re-profile spend into later years of the existing plan will be considered later in the year. Council financial procedure rules now allows Cabinet delegation to re-profile the Plan in this way.

### Revenue Reserves

- 1.6 The Table below summarises the Council's general fund revenue reserves position as at Quarter 1 monitoring :

	As at 1 April 2019	Planned movement in-year	Unplanned movement in-year	Forecast reserves 31 March 2020
	£m	£m	£m	£m
<b>Statutory (schools)</b>	<b>(9.8)</b>	-	-	<b>(9.8)</b>
Earmarked :				
<i>Financial resilience</i>	(37.2)	-	2.0	(35.2)
<i>Other</i>	(55.4)	3.3	-	(52.1)
<b>Total earmarked</b>	<b>(92.6)</b>	<b>3.3</b>	<b>2.0</b>	<b>(87.3)</b>
<b>General Balances</b>	<b>(10.2)</b>	<b>0.2</b>	-	<b>(10.0)</b>
<b>Grand Total</b>	<b>(112.6)</b>	<b>3.5</b>	<b>2.0</b>	<b>(107.1)</b>

- 1.7 The Council's approved reserves strategy is directed at strengthening organisational flexibility and financial resilience over the medium to longer term, especially in light of the current national political, economic and funding context and potential range of impacts on public services, including local government sector and at an individual Council level.

- 1.8 The above Table reflects the forecast reserves position as at 31 March 2020, as presented in the 2020-23 budget strategy update report to Council on 16 October 2019. Quarter 2 financial monitoring is anticipated to reflect a largely similar reserves forecast at current year end.

### **Current Budget Round Preparation**

#### **Budget Strategy Update report 2020-23**

- 1.9 The annual re-refresh of the medium term financial plan or MTFP sets out the financial planning framework or forecast resources available over the Council's forward plans. This in turn informs consideration of budget proposals through the remainder of the budget round, to deliver a 'balanced budget' requirement in 2020/21 and updated spend and funding forecasts for following years.
- 1.10 The budget strategy update report 2020-23 was approved at Council on 16 October 2019. The Appendix attached includes the report plus report Appendices, for reference.
- 1.11 The budget strategy update report took as its starting point, existing multi-year budget plans rolled forward to a 2020/21. While the approved budget plan for 2019/20 reflected a balanced budget, over the following 2 years there was a forecast gap between spending plans and corresponding funding available, of £14m in 2020/21, increasing to £20.6m by 2021/22. Using the same assumption base, this increased to £30.9m in 2022/23.
- 1.12 The budget strategy update report updated a number of existing baseline spend and funding assumptions as appropriate, based on emerging local and national intelligence. The overall impact of the baseline changes is reflected in the summary Table below :

**Table 1 – Summary General Fund - Baseline funding & spend adjustments 2020 to 2023**

	2020/21 £m	2021/22 £m	2022/23 £m
<b>Original 2019 to 2022 Budget Gap</b>	14.0	20.5	30.9
Funding adjustments	(9.0)	(10.7)	(11.0)
Spend Plan adjustments	0.3	1.6	2.6
<b>Baseline Budget Gap 2020 to 2023</b>	<b>5.3</b>	<b>11.4</b>	<b>22.5</b>

- 1.13 Overall, the net impact of the baseline adjustments in 2020/21 has reduced the budget gap forecast from £14m to just over £5m, and this has had a similar knock on effect for the following 2 years.
- 1.14 The single biggest factor for the reduction is the officer assessment of the impact of Government's 4th September Spending Review announcement for 2020/21 (SR2019).

Appendix A to the budget strategy update report 2020-23 summarises the baseline adjustments, including those that relate specifically to the SR2019 announcement.

- 1.15 Baseline adjustments were also factored in where appropriate to reflect structural budget issues previously highlighted by in-year financial monitoring (e.g. Quarter 1 2019/20); including schools transport pressures, parking and markets income.
- 1.16 SR2019 also confirmed that the Council tax referendum threshold for 2020/21 would be 2%, which was the existing budget plan assumption as well, plus a further Council flexibility to raise a social care precept of upto 2% in 2020/21.

## **2. Information required to make a decision**

### **Updated National and Local Intelligence**

- 2.1 The budget strategy update report 2020-23 approved at Council on 16 October set out a financial planning framework for consideration of forthcoming budget proposals through the remainder of the current budget round.
- 2.2 The financial planning framework approved by Council on 16 October continues to be reviewed by officers, informed by further emerging local and national intelligence. Some illustrative examples of emerging intelligence are highlighted in the following paragraphs.
- 2.3 In-year financial monitoring (Quarter 2) is anticipating some positive movement in the in-year position for Council tax and business rates, and officers will consider the extent to which this can reasonably be reflected in any further forecast funding adjustments to inform the overall funding position for 2020/21.
- 2.4 The Chancellor announced on 30 September, a commitment to a higher rate National Living Wage (NLW) uplift (reviewing the current basis for the calculation from 60% of median earnings to 66%) over the next 5 years; from the current £8.21 to £10.50 over the period.

While existing spending plans factor in assumed NLW uplifts over the next 3 years in the region of 4.6% per annum, the Chancellor's announcement takes the annual uplift nearer 5% per annum, and this will need to be considered in relation to current forecast spending plans; in particular the potential additional cost impact on contracted social care services over the 2020-23 period.

- 2.5 The General Election announcement for 12 December means a further delay in the provisional financial settlement for 2020/21. However, as indicated in the 2020-23 budget strategy update report appended, officers still anticipate that the headline announcements set out as part of SR2019 will largely hold post-general election; albeit the timing of the financial settlement for 2020/21 may now be sometime January 2020.
- 2.6 Government increased the PwLB interest rate by 1% overnight from 9.30am, 10 October 2019, to an average 2.8%, which effectively re-sets it at the rate it was 12 months ago. This was an unannounced and sudden increase. Existing Council treasury management budget plans had budgeted at this rate anyway at the time budgets were approved for 2019-22 period. The implications of this reset will be considered in due course, and as part of the forthcoming half-yearly treasury management report to Corporate Governance & Audit Committee on 15 November.

- 2.7 A Joint North Yorkshire (NY)/Leeds City Region (LCR) Business Rates Pool application has been submitted to Government for 2020/21. The SR2019 announcement included the dissolution of a number of existing 2019/20 Business Rates Pools, including the pre-existing Joint NY/LCR Pool. The outcome of the application is expected as part of the provisional financial settlement announcement for 2020/21.

The expected business rates levy gains will be less than the pre-existing Pool because the 2020/21 scheme is a 50% scheme, compared to 75% current year. This means that half of any levy gain will be given up to government in 2020/21, compared to just 25% in 2019/20.

### **3. Implications for the Council**

- (i) Working with people
- (ii) Working with partners
- (iii) Place based working
- (iv) Improving outcomes for children
  
- (v) Other (eg Legal/Financial or Human Resources)

- 3.1 The current national scrutiny and concern on the general state of Council finances, sectoral financial sustainability and financial resilience over the medium term; in particular with regard to Councils with statutory responsibilities for children and adult services, has been taken into consideration in the headline Spending Review 2019 (SR19) announcement on 4 September, albeit acknowledging this is a one year settlement for 2020/21, and that a further 3 year Spending Review would follow the following year.
- 3.2 However, there remains continued uncertainty on the national funding landscape for local government beyond 2020/21, against a current backdrop of continued Brexit uncertainty, what this means politically and economically, post general-election.
- 3.3 Financial planning framework assumptions will continued to be worked in light of further emerging intelligence to inform forthcoming budget proposals, over the remainder of the current budget round.

### **4. Consultees and the opinions**

Portfolio holder

### **5. Next steps and timelines**

Budget proposals to come forward in due course as per corporate budget timetable

### **6. Officer recommendations and reasons**

For Corporate Scrutiny panel to note and discuss the contents of this report.

### **7. Cabinet Portfolio holder's recommendations**

As above

**8. Contact Officer**

Eamonn Croston, Service Director - Finance

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**9. Background Papers and History of Decisions**

Appendix attached

**10. Service Director responsible**

Eamonn Croston, Service Director for Finance