

Name of meeting: Corporate Scrutiny Panel Date: 1 December 2020

Title of report: Council Financial Management Update

Purpose of report

High level Council financial management update incorporating current financial position 2020/21, including COVID impact, and progress on the Council's Medium-Term Financial Strategy for 2021/22 and future years.

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?	No
Key Decision - Is it in the <u>Council's Forward Plan (key decisions and private reports)</u> ?	No
The Decision - Is it eligible for call in by Scrutiny?	No
Date signed off by <u>Strategic Director</u> & name	Rachel Spencer-Henshall : 23 November 2020
Is it also signed off by the Service Director for Finance IT	Eamonn Croston : 23 November 2020
Is it also signed off by the Service Director for Legal Governance and Commissioning	N/A
Cabinet member <u>portfolio</u>	Cllr Graham Turner

Electoral wards affected: All

Ward Councillors consulted: N/A

Public or private: Public

Has GDPR been considered? Yes

1. Summary

- 1.1 This report provides an overview financial management update for Corporate Scrutiny Panel consideration. It incorporates highlight information on in-year financial performance as at quarter 2 (month 6) including COVID impact.
- 1.2 It also summarises the Council's approved financial planning framework as reported to Council on 21 October 2020, including key funding and spend assumptions for 2021/22

and future years, and resulting budget gap.

- 1.3 The 2020 Spending Review announcement, assuming it goes ahead as planned on 25 November, will also be considered at the meeting in terms of potential on current budget assumptions for 2021/22.
- 1.4 Financial implications for the Council are also considered, with particular focus on medium term financial resilience, including illustrative future reserves forecasts.

2. Information required to take a decision

2.1 Quarter 2 financial monitoring 2020/21

2.1.1 Quarter 2 financial monitoring was reported to Cabinet on 18 November 2020. Key headlines included the following :

- i) Forecast general fund overspend of £5.5m against a net revenue budget of £306m; represents an improvement of £2.2m from the Quarter 1 forecast £7.7m overspend;
- ii) Includes £3.7m unfunded COVID related pressures and £1.8m net pressures elsewhere;
- iii) Overall in-year COVID related additional spend forecast at £24.6m, service income losses at £13m and Government COVID funding offsets at £33.9m ; the latter split between un-ringfenced grant at £27.1m and service income compensation loss scheme at £6.8m.

Appendix 1 attached includes a breakdown of in-year COVID additional spend and service income loss forecasts for reference.

- iv) Forecast in-year DSG overspend (High Needs pressure) at £7.6m; forecast overall DSG deficit (including prior year rolled forward) anticipated to be £20m by current year end which will be included on the Council's balance sheet as a 'negative' reserve in line with Government and CIPFA accounting guidance.
- v) Collection Fund ; in-year financial performance reflects COVID impact on the economy ; forecast in-year £6.4m pressure on Council Tax (3.4% against £190m target income) and £4.0m in-year on Business Rates; (7.8% against £51.5m local share income target).
- vi) Housing Revenue Account forecast deficit of £1.6m against annual turnover of £91m (equivalent to 1.7%)
- vii) Capital Plan expected outturn of £133m against a revised budget of £134.9m. The revised budget reflects some in-year re- profiling of the existing approved plan across years. For comparison, the capital plan approved for 2020/21 when the budget was set in February 2020 was £183m.

2.1.2 Quarter 2 financial monitoring forecasts and underlying assumptions are subject to some degree of volatility. National and local measures to manage the spread of COVID infection in parallel to the national and local recovery plan are under constant review, and emerging intelligence will be factored into subsequent monitoring projections.

- 2.1.3 In conjunction with continuing Government support, the Council's Executive Team will continue to review appropriate management actions to support the local recovery effort within the parameters of public health protection and guidance, and aim to deliver a break even position as far as possible by year end.
- 2.1.4 Quarter 2 financial monitoring also notes a number of other discrete COVID related funding allocations in-year, including hardship Fund at £5.5m, Adult Social Care Infection Control Fund at £8.4m, Test & Trace at £2.4m, and Contain Outbreak Management Fund at £3.5m. All these are forecast to be fully spent by year end.

Business Financial Support

- 2.1.5 To date, the Council has allocated in excess of £102m COVID business grants (includes £5.2m discretionary grants) across the borough to about 9,500 businesses. The Council is currently rolling out further Local Restrictions Grant (LRG) Support to businesses; £11m Gov't funding allocated to support this to cover the current lockdown period to 2 December, plus some backdated support to 5 August. The Grant application process for these schemes went live on 17 November 2020.
- 2.1.6 There is also a further £8.7m funding allocation for 'additional' discretionary support to businesses to 31 March 2021, and at the time of writing this report is anticipated to go live following Cabinet approval for the scheme, on 26 November.

2.2 Medium Term Financial Plan (MTFP) review for 2021/22 & future years

- 2.2.1 The 'Council budget strategy update report 2021/22 and future years' was approved at Council on 21 October 2020.
- 2.2.2 In light of the current and ongoing global pandemic, the financial planning framework set out in the report is intended to 'buy' the Council time, and ensure some degree of short-term stability and resilience over the next 18 months, until officers get more clarity through the other side of the current COVID-19 crisis.

Reflecting the above overarching context, the financial planning framework sets out the following key principles :

- i) roll forward existing multi-year plans as the starting point;
- ii) informed by updated Corporate Plan (Our Council Plan), Strategies and Priorities;
- iii) Extend current 3 year revenue framework to 5 years;
- iv) Review current 5 year capital plan framework (work in progress);
- v) Update existing funding and spend assumptions in particular in light of medium term COVID-19 impact on future year resourcing and spend forecasts;
- vi) Utilise existing 'technical' accounting flexibilities to allow the Council to buy time; the most significant being the re-profiling of remaining Minimum Revenue Provision

Revenue flexibilities from later years to earlier years; would release one-off resource gains in 2021-22 of up to £22m;

- vii) Roll forward existing financial resilience reserves at £37.1m, general fund balances at £10m, and demand risk reserves at £11.7m, into 2021/22; and
- viii) Officers to continue to work with Cabinet to bring the in-year revenue position to break even as far as possible, by year end, which will support vii) above.

2.2.3 Table 1 below extract from the budget strategy update report summarises the general fund revenue baseline funding and spend adjustments for 2021/22 :

Table 1 – Summary General Fund - Baseline funding & spend adjustments 2021/22 and following 4 years

	21/22	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m
Budget Gap (MTFP 20-23)	12.1	22.0	22.0	22.0	22.0
Funding Changes	10.8	10.8	1.5	(11.8)	(20.0)
Spending Changes	12.3	16.0	36.1	51.3	67.6
Updated Budget Gap before MRP flexibility	35.2	48.8	61.6	63.5	71.6
Apply MRP Flexibility to Offset Budget Gap	(22.3)	(13.7)	-	-	-
Updated Budget Gap (MTFP 21-26)	12.9	35.1	61.6	63.5	71.6
Presumed Gov't funding for Adults growth pressures	(11.0)	(22.0)	(33.0)	(44.0)	(55.0)
Expected Budget gap (MTFP 21-26)	1.9	13.1	28.6	19.5	16.6

2.2.4 Appendix 1 attached includes a more detailed breakdown of the funding and spending changes, noting the continued impact of COVID on council tax and business rates income forecasts in 2021/22 and subsequent years.

2.2.5 Other key assumptions set out in the report including an assumed Council Tax uplift at 1.99% in 2021/22, a 2% direct staff pay award and assumed National Living Wage uplifts at 4.6% in 2021/22 ; the latter factored into social care provider contract uplifts.

2.2.6 The budget strategy update report also notes the September CPI index at 0.5%, which means a maximum allowable HRA social rent uplift of 1.5% in 2021/22 within Government guidelines.

2.2.7 Budget assumptions underpinning the updated financial planning framework as presented to Council in October will continue to be reviewed and refined through the remainder of the current budget round, alongside emerging budget proposals for member consideration.

Business Rates Pool 2021/22

- 2.2.8 Applications for a 2021/22 Business Rates Pool were submitted to Government on 23 October. The current regional pool is a North Yorkshire and West Yorkshire Joint Pool. The application submitted was for a Leeds City Region Pool in 2021/22; West Yorkshire Councils plus Harrogate and York. North Yorkshire Councils have decided not to continue the current arrangement for next year. Any levy gain share, as current year, will be split 50:50 between the Pool and Government.
- 2.2.9 Individual Councils who are part of the Pool bid have 28 days after the provisional financial settlement (which will indicate if the bid has been provisionally successful), to withdraw. If any Council withdraws, the Pool bid would effectively be null and void.

Spending Review 2020

- 2.2.10 At the time of writing this report, the Spending Review 2020 announcement was due on 25 November 2020, and the intention is for officers to update verbally at the Scrutiny meeting on the potential impact of the announcement on funding and spend assumptions for 2021/22.
- 2.2.11 Subsequent to the spending review announcement, it is anticipated that the detailed provisional financial settlement for local government for 2021/22 will be released around the 16 or 17 December 2020.

3. Implications for the Council

- 3.1 The unprecedented global and national situation remains fast moving and volatile. Beyond the immediacy of the current COVID-19 crisis, the longer term prognosis for the economy, future tax revenues, Government fiscal policy and public services funding is particularly uncertain, and is likely to remain thus for some considerable time, over the next 12 months and beyond.
- 3.2 The medium and longer-term economic and societal impact and implications for the Council's Medium-Term Financial Strategy, revenue and budget plans, will continue to be reviewed over the coming months, acknowledging the fluid and volatile environmental context within which said plans will be reviewed, and as future arrangements start to be rolled out by Government as part of the national recovery plan.

Financial Resilience

Statutory responsibilities of the Council's Chief Financial Officer (CFO)

- 3.3 There are a range of safeguards in place that mitigate against local authorities over-committing themselves financially. One of the safeguards currently under scrutiny nationally are CFO s114 statutory powers. This refers specifically to s114 of the Local Government Finance Act 1988 which requires any CFO in England and Wales to report to all the authority's Councillors if there is or is likely to be unlawful expenditure or an unbalanced budget.
- 3.4 This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year. The issue of a s114 notice cannot be taken lightly and has serious operational consequences. The authority's full Council must meet within 21 days

to consider the s114 notice and during that period the authority is prohibited from entering into new agreements involving the incurring of expenditure.

3.5 In practice, s114 notices have been relatively few and far between. In light of the specific COVID impact on Council finances sector wide, CIPFA and Government set out the following further joint advice, namely :

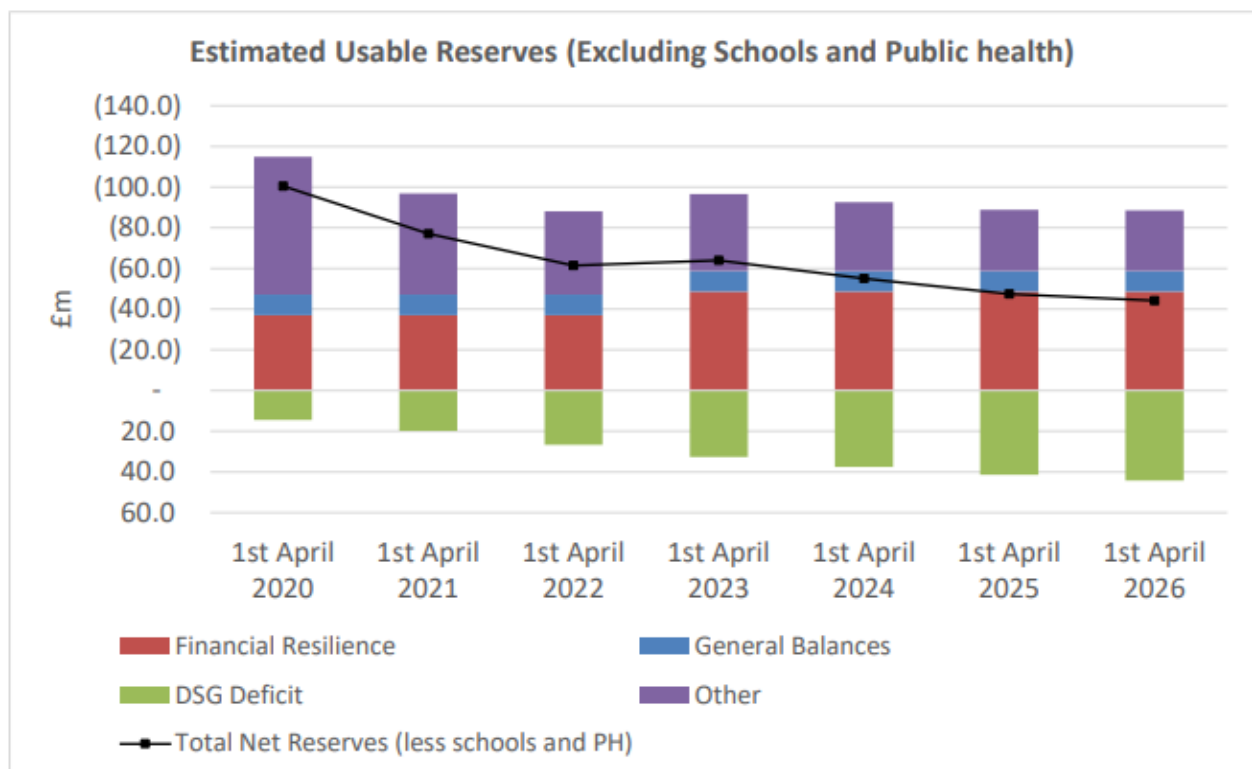
“... any authorities alive to the possibility of an unbalanced budget position due to COVID-19, to alert MHCLG (Ministry for Housing, Communities & Local Government) at the same time as the Council executive.

Any prohibitions on spending should not be imposed until MHCLG have responded with what support and advice they are able to offer. At this difficult time, section 114 notices should continue to be used only as a last resort.” (CIPFA Bulletin 2020)

3.6 There was a very recent Public Interest report on Croydon Council issued by their Auditors on 23 October, and a subsequent s114 notice issued by Croydon Council’s Chief Finance Officer. The Auditor’s report conclusions include the observation that Croydon’s pre-existing (i.e. pre-COVID) position was fragile, and “...ruthlessly exposed by the impact of the COVID pandemic”.

3.7 All Council finances have been significantly impacted on by the COVID pandemic. The financial planning framework principles set out in this Council’s 2021/22 budget strategy update report in October reflect the relatively strong current financial position of the Council, in terms of careful budget management, measured investment, and prudent build up of reserves and use of technical flexibilities. This therefore means that the Council has scope to re-profile some its remaining Minimum Revenue Provision flexibility to help the Council ‘buy time’ while the current landscape remains especially volatile.

3.8 Below graph summarises current and forecast general fund revenue reserves over the 2020-26 period, as per the 2021/22 budget strategy update report :



- 3.9 As a proportion of net revenue budget, the forecast reserves for the Council are currently 35%, and as per the above modelled forecast would reduce over a 5 year timeframe to 15% by April 2026. This in part reflects planned drawdown of earmarked reserves over the period to support key Council strategic developments. To put the above into context, at the start of 2020/21, Croydon's equivalent ratio was under 4%.
- 3.10 The above graph also includes a 'negative' reserve, namely the Dedicated Schools Grant deficit, which under revised CIPFA guidance from 2029/20, is included within overall reserves. The Council has reported extensively on High Needs pressures in relation to supporting young people in education, and the accumulated disparity between High needs spend and Government funding. The forecast DSG deficit accumulation reflects a do nothing scenario, illustratively here, if current trends and funding continue as is. This is one key area for future Council investment (revenue and capital) to deliver increased district sufficiency, deliver better outcomes for young people and reduce future cost.
- 3.11 The financial management issues set out in this report will continue to be reported regularly to Corporate Scrutiny Panel for discussion, challenge and suggestions for improvement.

RISK ASSESSMENT

- 3.12 The budget strategy update, including reserves requirement, is based on a range of local and national intelligence, and risk assessments underpinning current and future funding and spend assumptions, acknowledging that the extent of these are all potential risk factors to the delivery of balanced budget plans over the medium term. The most up to date Corporate Risk register is included at Appendix 2 for reference.
- 3.12 Appendix 3 attached sets out headline budget milestone dates for the remainder of this budget round.

4. Consultees and their opinions

Not applicable

5. Next steps and timelines

Future financial management updates will be presented as appropriate to Cabinet, Budget Council and Corporate scrutiny Panel in line with the annual planning cycle through the remainder of the current financial year.

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 Officers

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9. Background Papers and History of Decisions

Quarter 2 financial monitoring report to Cabinet 18 November 2020.
Web link :

[Agenda for Cabinet on Wednesday 18th November 2020, 3.00 pm | Kirklees Council](#)
(Item 11)

Council Budget Strategy Update Report 2021/22 and future years to Council 21
October 2020. Web link :

[Agenda for Council on Wednesday 21st October 2020, 5.30 pm | Kirklees Council](#)
(Item 6)

Grant Thornton Public Interest report on Croydon Council. Web link :

<https://www.croydon.gov.uk/democracy/budgets/report-in-the-public-interest>

10. Service Director responsible

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