

Name of meeting: Corporate Scrutiny Panel Date: 11 March 2021

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, the Council's Medium-Term Financial Plan for 2021/22 and future years, and emerging national intelligence.

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 : 26 February 2021
Is it also signed off by the Service Director for Finance IT	Eamonn Croston : 02 March 2021
Is it also signed off by the Service Director for Legal Governance and Commissioning	N/A
Cabinet member portfolio	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 3 (month 9) including COVID impact, and prospects for a balanced budget position by current year end.
- 1.2 It also considers current and emerging national intelligence and potential impact on the Council's overall financial position; both current year and next financial year, following

recent Budget Council approval of budget plans for 2021/22 and following years.

- 1.3 An update on the Council's medium term financial resilience is also included in this financial management update report.

2. Information required to take a decision

2.1 Quarter 3 financial monitoring 2020/21

- 2.1.1 Quarter 3 financial monitoring will be reported to Cabinet on 16 March 2021, and by the time of this meeting, the agenda papers for the 16 March Cabinet will have been published. Key headlines will include the following :

- i) Forecast general fund overspend of £1.9m against a net revenue budget of £306.2m; represents an improvement of £3.6m from the Quarter 2 forecast £5.5m overspend;
- ii) Overall in-year COVID related additional spend forecast at £20.4m, service income losses at £15.2m and Government COVID funding offsets at £35.6m ; the latter split between un-ringfenced grant at £27.1m and service income compensation loss scheme at £8.5m.
- iii) Other net spend pressures identified at £1.9m;

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 £19.8m 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 £2.6m pressure on Council Tax (1.4% against £190m target income) and £3.9m in-year on Business Rates; (7.6% against £51.5m local share income target).
- vi) Housing Revenue Account forecast deficit of £1.8m against annual turnover of £91.5m (equivalent to 2.0%)
- vii) Capital Plan forecast outturn of £114m against a revised budget of £126m. The revised budget as at Q3 reflects further in-year re-profiling of the existing approved plan across years of £8.7m subsequent to Budget Council on 10 February 2021. For comparison, the capital plan approved for 2020/21 when the budget was set in February 2020 was £183m.

- 2.1.2 Quarter 3 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 to year end.

- 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 3 financial monitoring also notes a number of other discrete COVID related funding allocations in-year, which are summarized at Appendix A. These are forecast to be fully allocated by current year end, with a forecast overall spend of about £18m. In some instances, the funding allocations can be rolled forward into 2021/22 where the grant conditions allow for this, and where appropriate, will be considered as part of the overall 2020/21 financial outturn review.

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 also administering on Government's behalf, a further 8 specific Local Restrictions Grant (LRG) Support Grants to businesses. The Grant application process for these schemes went live on 17 November 2020. In total, in just 3 months, a further 12,032 payments have been made to over 2,000 eligible businesses, totalling a further £28m.

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

- 2.2.1 The Council's Annual Budget report for 2021/22 and future years was approved at Budget Council on 10 February 2020. Approved budget plans reflected the following :
- i) re-affirmation of the Administration's commitment through the rolled forward of existing multi-year plans, in relation to outstanding children's services, investing in our places and tackling the climate emergency, as well as a strong and sustainable corporate centre; and re-profiling resources into tackling inequalities highlighted by the pandemic;
 - ii) updated medium term funding and spend assumptions in particular in light of COVID-19 impact, whilst acknowledging the underlying volatility and uncertainties underpinning service income, council and business rates tax income and demand impacts of Covid on essential services; not just over the next 12 months, but also in later years;
 - iii) inclusion of specific "one-off" further Covid funding support from Government for 2021/22; includes extension of the irrecoverable service income loss compensation scheme to the end of June 2021, un-ringfenced COVID funding grant (un-ringfenced) of just over £12m, Local Council Tax Support Grant at £5.3m, and
 - iv) using existing 'technical' accounting flexibilities to support Council resilience over the short to medium term; the most significant being the re-profiling of remaining Minimum Revenue Provision Revenue flexibilities over the 2020-24 period;
 - v) roll forward existing financial resilience reserves at £37.1m, general fund balances at £10m, and demand risk reserves at £15.7m, into 2021/22;

Business Rates Pool Update for 2020/21 and 2021/22

- 2.2.2 There is a separate report to Cabinet on 16 March affirming the Council's membership of a Leeds City Region Business Rates Pool for 2021/22, comprising the 5 West Yorkshire Councils plus York and Harrogate. The forecast levy income to be retained by the Pool in 20-21/22 is likely to be modest at below £5m, but in spite of the current economic uncertainty, is still considered relatively low risk for Council members to continue to be part of a Pool in 2021/22.
- 2.2.3 The forecast retained levy for the current year joint North & West Yorkshire Pool is just under £10m for 2020/21. Consideration of options for utilizing retained levies; both current years and next year, will be considered by the respective Pool Joint Committees in due course.

Government roadmap for easing the latest national lockdown restrictions - 22 February announcement

- 2.2.4 On 22 February 2021, Government published a four step roadmap to ease restrictions across England and provide a route back to a more normal way of life. Each step will be assessed against 4 tests before restrictions ease, starting with the return of schools on 8 March. The decision on each stage will move cautiously to keep infection rates under control. The roadmap is set out in more detail in the link below :

[Government roadmap summary.](#)

- 2.2.5 The roadmap will also provide context for the Chancellor's forthcoming budget statement on 3 March 2021. Due to timing issues with the 3 March date also being the publication date for this report , officers will give a verbal update at this meeting on potential impact of the chancellor's announcement over the next 12 months.

Other

- 2.2.6 Government has confirmed that its final report of the fundamental review of business rates will be published in Autumn 2021. An interim report, including a summary of the responses to the Government's call for evidence in Summer 2020, will be published on 23 March 2021.
- 2.2.7 Government has confirmed its intention to work with Councils through 2021/22 with continued monthly reporting on the impact of COVID on Council spend and income, that will help inform emerging national intelligence and policy on compensating Councils where appropriate.

3. Implications for the Council

- 3.1 As previously reported to Corporate Scrutiny Panel on 12 December 2020, 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 remain uncertain and subject to regular review at an international, national, regional and local level.
- 3.2 The medium and longer-term economic and societal impact and implications for the Council's Medium-Term Financial 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 continue 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 Government reported that as at 10 February 2021, 4 Councils nationally have had specific discussions with MHCLG which had culminated in an exceptional capitalisation directive to enable them to use borrowing to support their revenue budget positions; through a combination of unique circumstances or residual issues that have resulted in unmanageable pressures. Any Council can make a local decision to approach the government to request support. The Councils in question are Bexley, Luton, Eastbourne and Peterborough, and the overall amount of capitalisation requested is just under £51m. The relevant link to the Government website is included below for reference :

[Exceptional financial support for local authorities: capitalisation directions - GOV.UK](#)

3.7 All Council finances have been significantly impacted on by the COVID pandemic. The Council's approved budget plans for 2021/22 and following years 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 had scope to re-profile some its remaining Minimum Revenue Provision flexibility to help the Council over the short to medium term, while the current landscape remains especially volatile.

Council Reserves

- 3.8 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 12% by April 2026. This in part reflects planned drawdown of earmarked reserves over the period to support key Council strategic developments.
- 3.9 Council reserves also include a 'negative' reserve, namely the Dedicated Schools Grant deficit. 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.

CIPFA financial resilience index – 2021 update

- 3.10 CIPFA financial resilience index has recently been updated to include 2019/20 Council revenue outturn data. The index is in the public domain and is available through the following link :

[Financial Resilience Index 2021 | CIPFA](#)

- 3.11 The 2021 update has been delayed due to extended timelines for submission of 2019/20 revenue outturn data by Councils due to competing demands of COVID impact. While the updated index is pre-Covid, it is intended to give a comprehensive pre-Covid baseline comparison across similar authorities of a range of indicators which collectively are designed to better support and inform discussion around Council financial risk and resilience.

RISK ASSESSMENT

- 3.12 The Council's reserves requirement continues to reflect 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 upto date Corporate Risk register is included at Appendix C for reference.

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

Annual Budget Report 2021/22 and future years to Budget Council, 10 February 2021

Web link :

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

Quarter 3 financial monitoring report to Cabinet 16 March 2021

10. Service Director responsible

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