

Contact Officer: Jenny Bryce-Chan

KIRKLEES COUNCIL
CORPORATE SCRUTINY PANEL

Monday 16th August 2021

Present: Councillor Andrew Cooper (Chair)
Councillor Mahmood Akhtar
Councillor John Taylor
Councillor Charles Greaves
Councillor Alison Munro

Co-optees Philip Chaloner

In attendance: Eamonn Croston, Service Director for Finance
Matthew Garbutt, Disposal and Acquisition Surveyor
Steve Bird, Head of Welfare and Exchequer Services

1 Membership of the Committee

Apologies were received from Cllr James Homewood.

2 Minutes of the Previous Meeting

That the minutes of the meeting held on the 26th July be approved as a correct record.

3 Interests

No interests were declared.

4 Admission of the Public

All agenda items were considered in public session.

5 Deputations/Petitions

No deputations or petitions were received.

6 Public Question Time

No questions were asked.

7 Council Financial Management Update

In attendance at the meeting were Eamonn Croston, Service Director for Finance, Matthew Garbutt, Disposal and Acquisition Surveyor and Steve Bird, Head of Welfare and Exchequer Services.

The Panel was advised that Eamonn Croston would provide an update on the high-level Council financial management update incorporating 2021/21 financial outturn, current financial position 2021/22 and early consideration of the Council's Medium-Term Financial Strategy for 2022/23 and future years. Matthew Garbutt would update the Panel on specific information in relation to the impact of Covid on

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commercial lettings and the Town Centre and Steve Bird would provide an update on the impact on Council Tax and Business Rates revenue.

The Panel was reminded that financial management updates are presented to the Panel on a regular basis throughout the year and this report provides an opportunity to reflect in terms of the financial outturn position for 2021 and also undertake horizon scanning and forward looking in terms of the medium-term financial strategy refresh.

The Panel was informed that a detailed outturn position report was presented to Cabinet on the 27th of July and will then be presented to Council in September.

The report before the Panel was a summary overview of key highlights of 2021 position.

The Panel was informed that as expected, Covid has had a significant impact on Council finances as well as every other aspect in terms of impacts on individuals, businesses, communities, council service delivery, partner organisations and voluntary third sector organisations. It has been a challenging year.

As part of the outturn position the general fund overall, which accounts for revenue, operational expenditure, (apart from social housing which is separately accounted for in a ring-fenced revenue housing account) the overall year end position was break-even.

In summary, key highlights from the 2020/21 financial outturn report includes:

- In a typical year pre-Covid, the spend would be approximately £600 million in revenue in 2020
- Additional Covid spend in-year is in excess of £200m over £140m relating to business grant payments to over 9,000 eligible local businesses; additional £48m spend on targeted Covid related activity; and £15m discretionary service income losses from reduced 'business as usual' activity
- General fund revenue outturn spend break-even (rounded) against a net revenue budget of 274.7m
- The above funded by over thirty discrete government funding grants across eight separate government departments each with their own government departmental eligibility criteria & grant conditions, assurance, and reconciliation processes
- In year- Dedicated Schools Grant (DSG) deficit of £10.7m; accumulated DSG deficit of £25.1m at year end; of which £23 is High Needs related
- Housing Revenue Account £2.6m in-year deficit on £91.5m annual turnover budget
- HRA reserves at year end £56.1m (58.6m in 19/20)

The Panel was informed that the collection fund income was another area particularly hit in 2021, in terms of business rates income collection and recovery and council tax. The Panel was advised that the Welfare and Exchequer service has been heavily involved in supporting and directly delivering the administration of business grants and Steve Bird will update the Panel with further information; and

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Matthew Garbutt, will update the Panel specifically on the impact of Covid on commercial lettings and Town Centre impact.

There has been significant impact not just in terms of business spend but also service income that covers commercial lettings, education catering income, car parking, a whole range of regulatory fees, planning fees etc. Overall identified in the outturn position for 2021, across all services, the general fund income was about £50 million down on what it would normally be.

The government introduced a compensation scheme that recognised that councils were going to be impacted by service income loss because of the local impact of national measures around infection control and that garnered approximately £8 million.

In summary, Matthew Garbutt advised the Panel that there are approximately 500 lease assets within the commercial estate which covers retail, industrial, office accommodation and a number of ground leases, managed by a small team of officers from within the Growth and Regeneration Directorate.

For context, for the last 5 years the income from the commercial estate been around £2.5 million annually and expenditures have been approximately £1,000,000, this gives a surplus of approximately £1.5 million that the commercial state then returns to the Council. This has been fairly consistent for the past five years leading up to Covid.

The bad debt provision from the commercial estate in terms of unpaid invoices was running at between three hundred and four hundred thousand pounds prior to Covid. That was in relation to rents and service charges that were not paid in the time and then that would be chased by officers in the recovery department to try and recover the money.

Covid had two major impacts on the commercial estate the first was around bad debt. When Covid hit, the council took a decision to defer two quarters of the rent for all tenants of the commercial estate from 1st of April through to the end of September. That means it was not written off or credited, it was just paused for a period of time while the impact of Covid on business was understood and to understand how central government was going to allocate grants and funding to these businesses to try and get through the difficult period.

The impact of this led to the Council's bad debt increasing. Currently the debt position is approximately £1m which is unpaid invoices merely from that period of time, and officers are still dealing with tenants and trade to recover the money.

In September 2020, Cabinet adopted the central government's code of practice in respect of commercial property relations. The code of practice aims to assist landlords and tenants in coming to agreements over unpaid rent, dealing with lease renewals during Covid and various other landlord and tenant implications for commercial properties.

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The recovery of debt is being undertaken on a case-by-case basis, talking to each individual asking for evidence of grants they may have received, with the aim of coming up with an affordable payment plan to recover those monies. Recovery of the monies may be over a longer period of time than would have previously been allowed prior to Covid.

Different businesses have been affected in different ways, which means it is difficult to have a one size fits all approach, particularly in circumstances where there are tenants that have been the hardest hit, or they haven't received any support from government. A decision will need to be taken if any of that debt is to be written off or if the rent is to be reduced for the period of time the business was closed. This will be considered once all that information has been collated however, the majority of tenants are now paying.

The ultimate debt recovery action of forfeiting the lease and taking a commercial property back is now suspended until March 2022, and that does cause some issues and will continue to cause some issues if tenants do not continue to pay.

The other impact that Covid has had, is on the income and the projected income going forward. As previously stated approximately £2.5 million income is generated and costs approximately £1m to manage. In the budget figure provided for 21/22, the income projection was £2.8m, however under the current forecast it appears that the income generated will be approximately £2.3m leaving a short fall of half a million pounds.

The majority of the commercial estate approximately £1m of the generated income comes from Huddersfield Town centre mainly from retail and hospitality uses within Huddersfield Town Centre. Covid has accelerated the changes to the Town Centre and the retail changes and prime high street rents have declined.

The Panel was informed that retail and hospitality properties within the Town Centre is where the big impact is likely going to come. A number of businesses have gone into liquidation and it's been challenging to relet those properties and when they are relet it is often for less rent and with an incentive to secure the letting. There is now however, an opportunity when reletting the premises that this can be carried out in line with the blueprint and aligning the commercial estate to the blueprint.

In response the initial information received the Panel made comments and asked a number of questions including the following:

- With regard to the £1m in outstanding debt is it possible to determine how much of that is recoverable?
- Does the commercial estate portfolio include the markets?
- Is there sufficient capacity with the team to meet the current volume of work demands?
- An early part of the blueprint work was acquiring more assets, have those assets increased the rental income?
- A common misconception is that Kirklees owns all of the properties within the ring road how much commercial properties does Kirklees actual own within the ring road area?

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- It is a very competitive environment how does the council work out its offer is when compared to other providers of commercial properties?

The Panel was advised that in respect of commercial properties within the ring road the council owns approximately ten percent. Generally, where there are council offices, with retail underneath the council owns and manages those buildings such as High Street Buildings, Kirkgate Buildings, Somerset Buildings, Byram Arcade and Estate Buildings. Matthew Garbutt agreed to circulate a plan of the commercial estate buildings owned and managed by the council.

The Panel felt it would also be useful to have a list of the total number of properties in each area, the numbers that are vacant and the numbers that are let under management. The Panel felt it would also be useful to have a snapshot at the end of each year to see progress on lettings.

The Panel was advised that in addition, to managing the commercial properties the team also manages the housing stock portfolio advising on leases, dealing with valuation inquiries, and undertaking asset valuation. More recently, the team has also been involved in the work around the blueprints, major projects, and housing growth. The Panel was informed that senior managers are aware of the gaps in the resources needed to deal with the workload are trying to recruit disposals and acquisitions officers and, surveyors and hopefully the recruitment process will be successful.

The Panel enquired how it would be possible to make the work being undertaken in this area more visible to elected members and the public. In response, Matthew Garbutt agreed to discuss the matter with the Head of Service and report back.

The Panel acknowledged the work Matthew Garbutt, and his colleagues do on a daily basis working to balance the need to maintain income while trying to provide support to tenants and thanked him for the information he provided.

Steve Bird, Head of Service for Welfare and Exchequer provided the Panel with a breakdown of the services covered by the team which includes Council Tax, Business Rates, Sundry Debts, Collections, Client Financial Affairs, Housing Benefits, Council Tax Reduction, Local Welfare Provision, Free School Meals, DHP, Blue Badge and self-isolation payments.

The Panel was provided with an update on the recovery plans for Business Rates and Council Tax. In summary, the Panel was advised that with regard to business rates it has been a very challenging year with the business rates arrears rolled over from the 31st of March, totalling £15.5 million which is the highest the council has ever known. The average is usually approximately 4.5 million. There was £11.7m from 2021, which the majority was COVID related and about £3.8m from all previous years. This is three times higher than the previous level.

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The Panel was informed that bad debt provision has increased to £11.2m and usually, collection is approximately 98.5%, which is really good, however this has been adjusted down to 96.25%. This has reduced the collection and increased the bad debt provision because the outstanding arrears have increased. In terms of in-year collection, for 21/22, as of the 1st of August 2021, 24.87% of the net debit has been collected which is down on target by 4.63% or £4.9 million in monetary terms. There are many businesses that are struggling, and collection will be a balance moving forward.

In terms of the restart grants and the support and help for businesses, which the service administers, since the start of March 2021, a total of £173m had been paid out to approximately 11,000 businesses. At the peak, to respond to the additional work generated an 85 additional staff were helping out in the Business Rates Team and there are usually only nine people in that team.

Since the 1st of April extended retail relief totalling £34.6m has been granted to the same sectors, retail, hospitality, and leisure. All those businesses received new instalments started in July and August. This was a government and national scheme where they granted three months at 100% relief and then the remaining nine months at 66% relief. The combination of both those equates to 75% relief that has been awarded for the entire year.

The Panel was informed that moving back towards business as usual, those business that have been awarded extended retail, no recovery action will be taken against them because their instalments only started in July and August and have yet to determine how many of the most affected group will pay.

The Panel was advised that in terms of other relief, on the 25th of March 2021, the government announced a new Business Rate Relief Fund of £1.5 billion nationally, which is still awaited. A bill is currently going through Parliament, called Rating, (Coronavirus) and Directors Disqualification (Dissolve Companies Bill), which is due back to the Commons on the 9th of September. The criteria which is currently unknown will need to be looked at along with the funding to determine how much funding Kirklees will get. This is for businesses outside retail, hospitality, and leisure sectors.

The Panel was informed that during COVID, no recovery action was taken for Council tax or Business Rates arrears. The delay in recovery and collection and business as usual, was paused because the magistrates and the county courts were closed. Therefore, the amount of business rates recovery last year was nil. Now that the courts have re-opened 3163, reminders and 989 summons totalling approximately £11m have been issued.

The first part of the year has been trying to catch up with all the outstanding work and trying to make suitable payment arrangements that are affordable. The new MCC relief, may clear some of these accounts, however it is not clear which business sectors it affects or how much funding the Council will be awarded.

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In terms of the resilience and the succession planning for business rates, two new apprentices have been recruited and a growth bid has been submitted for the revenues team, which is council tax and business rates for an extra eight staff, and that's been approved. Overall, in Welfare and Exchequer the staff numbers are expected to increase by 26.5 staff to deal with the extra demand.

The Panel was informed that in respect of council tax, it is a similar theme to business rates however, the council tax collections rates have held up much better. In terms of arrears, rolled forward to the 31st March 2021, the arrears were approximately £21.23m. As of the 1st August this has reduced by approximately £3m.

In terms of context, the annual debit raised for Council tax is £235 million and for business rates this year it was £84m therefore the aim is to collect that as the collectible debit. The ask is to collect this monies for the Council to run its services.

The main issue for Council tax last year as well as the delays in any court action and recovery action, is the increasing council tax reduction as people lose their jobs this has meant that the council tax reduction numbers increased resulting in an extra 3000 claims for council tax reduction. This increased the annual award for council tax reduction by approximately £6m.

Council tax collection is currently running at 34.89 which is up on target, 0.88% which in monetary terms is approximately £2m and that is mainly due to council tax reduction awards, however overall collections are up.

The Panel was provided with information on council tax reminders in a normal year for example 2019/20:

- 72,247 reminders were issued
- 28,252 people were summonsed
- 22,351 liability orders were obtained

Last year the recovery of council tax started in September and there were 4738 liability orders, approximately 21% of the normal recovery and 57,000 reminders were issued in the last six months of the year.

To date this year,

- 31,648 reminders have been issued
- 9,411, liability orders have been obtained

The main part of the recovery is to strike a balance between getting people to pay rather than taking the high-level recovery action.

The Panel was informed that the other suppressed demand is the review of the single persons discount and exemptions which are reviewed automatically every year or bi-annually. There are approximately 65,000 people receiving this discount and the review should have been undertaken last year and this will be picked up at the latter part of this year. That would increase the council's income because it considers those people who may have forgotten to notify the council that their

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circumstances had changed. There is not a backlog of work on council tax it is mainly suppressed demand.

The team are in the process of recruiting. Currently there are 48 temporary staff, and the aim is to crystallise and make as many of those permanent. On the revenue side, which is council tax and business rates an extra eight staff are being recruited from the approved growth bids. In addition, three new Assistant Senior Managers have been appointed.

In response the information received the Panel made comments and asked a number of questions as follows:

- In terms of the business rates are people being directed towards business debt and insolvency practitioners so they can get professional help?
- What is the time frame from obtaining the liability order to obtaining payment and costs and what percentage of liability or orders are usually recoverable?
- The enforcement action work that is being done is very similar to what was previously described by Matthew Garbutt's team, why is there not a single enforcement team which undertakes enforcement type actions as opposed to separating it out?
- All the intelligence gathered through the grants process about Kirklees businesses is effectively like a business census which is rich source of data, is there capacity to make best use of it or are there any restrictions on the use of the data that have been gathered from businesses?

In response to question from the Panel Eamonn Croston advised that in respect of the pay award the national employers organisations have submitted 1.75% pay and 2.75% at the bottom of scale across councils. The national unions have rejected that offer. In attendance at the meeting was Eamonn Croston, Service Director for Finance, Matthew Garbutt, Disposal and Acquisition Surveyor and Steve Bird, Head of Welfare and Exchequer Services.

Eamonn Croston provided a high-level Council financial management update incorporating 2021/21 financial outturn, current financial position 2021/22 and early consideration of the Council's Medium-Term Financial Strategy for 2022/23 and future years.

The Panel was reminded that financial management updates are presented to the Panel on a regular basis through the year and this report provides an opportune time to reflect in terms of the financial outturn position for 2021 and also undertake horizon scanning and forward looking in terms of medium-term financial strategy refresh.

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Collection fund income was another area particularly hit in 2021, in terms of business rates income collection and recovery and council tax. The Panel was advised that in attendance at the meeting was Steve Bird, Head of Service for Welfare and Exchequer and this service has been heavily involved in supporting and directly delivering the administration of business grants.

In addition, Matthew Garbutt, Disposal Acquisition Surveyor was also in attendance to update the Panel specifically on the impact of Covid on commercial lettings and Town Centre impact.

The Panel was informed that there has been significant impact not just in terms of business spend but also service income that covers commercial lettings, education catering income, car parking, a whole range of regulatory fees, planning fees etc. Overall identified in the outturn position for 2021, across all services, the general fund income was about £50 million down on what it would normally be expected to be. There was a government compensation scheme that recognised that councils were going to be impacted by service income because of the local impact of national measures around infection control and that garnered approximately £8 million. Matthew Garbutt advised that there are approximately 500 lease assets within the commercial estate which covers retail, industrial, office accommodation and a number of ground leases, managed by a small team of officers from within the Growth and Regeneration Directorate.

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For context, for the past 5 years the income from commercial estate been around £2.5 million annually and expenditures have been approximately £1,000,000, which gives a surplus of around 1.5 million that the commercial state then returns to the Council. This has been fairly consistent for the last five years leading up to Covid.

The Panel was informed that the bad debt provision from the commercial estate in terms of unpaid invoices was running between three hundred and four hundred thousand pounds prior to Covid. That was in relation to rents and service charges that were not paid in the time given to pay and then that would be chased by officers in the recovery department to try and recover that. There's was always sort of balancing figure of three hundred and four hundred thousand pounds.

Covid had two major impacts on the commercial estate the first was around bad debt. When Covid hit, the council took a decision to defer two quarters rent, therefore the rent from 1st of April through the end of September, for all tenants of the commercial estate, there was a decision to defer that rent. That means it was not written or credited, it was just paused for a period of time while the impact of Covid on business was understood and how central government was going to give grants and funding to these businesses to try and get through the difficult period.

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In terms of the grants, the restart grants and the support and help for businesses the service has administered grants for businesses and since the start of March 2021, a total of £173m had been paid out to approximately 11,000 businesses. At the peak, to respond to the additional work, 85 additional staff were helping out in the Business Rates Team and there are usually only nine people on that team.

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The first part of the year has been trying to catch up with all the outstanding work trying to make suitable payment arrangements that are affordable. The new MCC relief, may clear some of these accounts, however it is not clear which business sectors it affects or how much funding the Council will be awarded.

In terms of the resilience and the succession planning for business rates, two new apprentices have been recruited and a growth bid has been submitted for the revenues team, which is council tax and business rates for an extra eight staff, and that's been approved. Overall, in Welfare and Exchequer the staff numbers are increasing by 26.5 staff to deal with the extra demand.

The Panel was informed that in respect of Council Tax, it is a similar theme to business however, the Council Tax collections rates have held up much better. In terms of arrears, rolled forward to the 31st March 2021, the arrears were approximately £21.23m. Since then, this has reduced by approximately £3m as of the 1st of August.

In terms of context behind that the annual debit raised for Council tax is £235 million and for business rates this year was £84 million therefore the aim is to collect that as the collectible debit. This is the ask is to collect this monies for the Council to run its services.

The main issue for Council tax last year as well as the delays in any court action and recovery action, is the increasing council tax reduction as people losing their jobs has meant that the council tax reduction numbers increased and there was an extra 3000 claims for council tax reduction. This increased the annual award for council tax reduction up approximately £6m.

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There is not a backlog of work on council tax it's mainly suppressed demand. The team are in the process of recruiting. Currently there are 48 temporary staff, and the aim is to crystallise and make as many of those permanent.

On the revenue side, which is council tax and business rates an extra eight staff are being recruited from the approved growth bids. In addition, three new Assistant Senior Managers have been appointed.

In response the information received the Panel made comments and asked a number of questions as follows:

- In terms of the business rates are people being directed towards business debt and insolvency practitioners so they can get professional help?
- What is the time frame from obtaining the liability order to obtaining payment and costs and what percentage of liability or orders are usually recoverable?
- The enforcement action work that is being done is very similar to what was previously described by Matthew Garbutt's team, why isn't there a single enforcement team which undertakes enforcement type actions as opposed to separating those out?
- All the intelligence gathered through the grants process about Kirklees businesses is effectively like a business census which appears to be a rich

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source of data, is there capacity to make best use of it or are there any restrictions on the use of the data that have been gathered from businesses?

The Panel acknowledged the work of Steve Bird and his colleagues and thanked him for a comprehensive presentation.

In response to a question from the Panel Eamonn Croston advised that in respect of the pay award the national employers organisations have submitted 1.75% pay and 2.75% at the bottom of scale across councils. The national unions have rejected that offer.

Cllr Paul Davies Cabinet member for Corporate commented that it is impressive what has been achieved with regards to that balance of looking after businesses and residents during a very challenging period while ensuring that the income is still coming in.

RESOLVED

That the officers be thanked for providing a very comprehensive update on the Council's financial position.