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KIRKLEES COUNCIL

CORPORATE SCRUTINY PANEL

Monday 13th December 2021

Present: Councillor Andrew Cooper (Chair)
Councillor James Homewood
Councillor John Taylor
Councillor Charles Greaves
Councillor Alison Munro

Co-optees Philip Chaloner

In attendance: Eamonn Croston Service Director for Finance
James Anderson, Head of Accountancy
Sarah Hill, Finance Manager

1 Membership of the Committee

No apologies were received.

2 Minutes of the Previous Meeting

That the minutes of the meeting held on the 8 November 2021 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 - reserves

Eamonn Croston Service Director for Finance, James Anderson, Head of Accountancy and Sarah Hill, Finance Manager attended the meeting to provide an update on Council Financial Management Update, Reserves.

In summary, members of the Corporate Scrutiny Panel and Corporate Governance and Audit Committee were advised that reserves are an important part of local authority financial strategies and financial resilience. Councils are statutorily required to balance their budgets on an annual basis, and also by the nature of their

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role, face a number of risks and opportunities, that are factored into their overall reserves requirement.

Currently underway is work on the budget proposals and the financial settlement which is issued by the government at this time of the year and is due around the 16th December and this sets out the provisional funding allocation at an individual local authority level for 2022/23.

There has been a significant challenge over the last two years in terms of managing the coronavirus pandemic. This highlights some of the volatility being faced which has had an impact on council's bottom-line positions in supporting a range of community and national measures to support the control of infection rates. With the infection rates likely to increase with the new variant it is a prime example of where there is still that external volatility and how that might impact and, what reserves might be there to help buffet in that context.

The national figure for reserve levels is not yet available. The figures from CIPFA is the financial resilience index which is a national benchmarking tool to help local authorities assess their resilience and sustainability based on a number of national performance measures based on publicly available national data sets. It compares likeminded councils across a range of activity including levels of reserves.

There has been a significant increase in reserve levels between 2021 and 2022 nationally across different types and categories of councils partly because many councils have rolled forward a number of the funding streams they received in 2021 to support Covid.

The Council's 2020/21 financial outturn and rollover report to Council on 8 September 2021, noted general fund reserves at £197.4m as at 31 March 2021 (£115.7m in 2019/20). Information, which includes indicative future year forecasts, was included in the Council 2022/23 budget strategy update report to Council on 13 October 2021.

In addition to the general fund, the Council's Housing Revenue Account (HRA) accounts for spend and income relating to the provision of Council landlord services to Council tenants and leaseholders, also holds reserves which are ring-fenced to the HRA. As at 2020/21 year end, year-end HRA reserves were £56.1m; a reduction of £2.5m from the £58.6m in 2019/20.

The requirement to hold reserves reflects a combination of factors, including external factors. Examples include resource levels, demand pressures, inflation and interest risks and the likelihood of exceptional incidents. Past Council examples of external factors resulting in reserves drawdowns include responses to severe weather events and dealing with environmental incidents at business premises.

In addition, internal factors may include the ability and timing of delivery of savings, overall financial standing of the Council, and the financial risks inherent in any new significant funding partnerships, major outsourcing arrangements, or major capital developments. Reserves requirements may also be a reflection of future service investment needs for example major transformation projects.

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There is commonality in terms of the types of risk for councils like Kirklees which is a relatively large metropolitan council with statutory responsibility for education and social services. When looking at the corporate risk register in other local authorities, it is expected that there would be common themes across similar authorities whilst also recognising that there might also be some things that are unique and reflective of local circumstances. The need to hold reserves and the types of reserves held is not exclusively down to external factors there may also be local factors.

One of the factors for Kirklees highlighted in the appended report is around the DSG deficit, which is currently a cause of national debate and has been for a few years. The concern is less the fact there is a deficit because a number of councils have deficits it is the scale of the deficit which needs to be taken into consideration.

Discussions are being entered into with the Department for Education (DfE), as part of participation into round two safety valve funding, which the DfE is offering as a potential funding agreement with a number of authorities carrying significantly high DSG deficits. Last year the DfE entered into agreements with five authorities and Kirklees is part of a cohort of authorities involved in round two discussions which has just formally commenced and will conclude in February 2023.

Panel and Committee members were informed that there are a range of safeguards in place to mitigate against local authorities over committing themselves financially. One of the safeguards currently under scrutiny nationally are Chief Finance Officers (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. 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 Council's corporate risk register, which captures a range of the most significant organisational risks, was most recently reported to Full Council on 13 October 2021 as part of the 2022/23 Council Budget Strategy Update report. A number of Council reserves are statutorily ring-fenced for specific purposes and cannot be used for other purposes. This includes school balances and Public Health earmarked reserves. The Council also provides landlord services to Council tenants and leaseholders. Income and expenditure relating to landlord services is held in a statutory ring-fenced housing revenue account (HRA). This also means that HRA reserves are entirely ring-fenced to this account, and cannot transfer to the Council's general fund, or vice versa.

In response the information presented the following questions were asked:

- The report Lessons from Public Interest Reports by Grant Thornton refers to financial and commercial decisions being made without sufficient transparency and consultation. Is anything being done to address this?

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- The Autumn statement mentions reducing the business rates for the hospitality industry which forms an important part of town centres revenue. Would this have an impact on local revenue and has it been factored into the reserves?
- In respect of the school deficit, was the council late in recognising it needed to do some transformational activity? If work had started earlier, would things be in a better position financially?
- Could the information on reserves be presented in an easier to understand format?
- Members commented that the use of the term 'reserves' can often be misunderstood and leads to the assumption that it is a nest egg that can be used as and when necessary to bolster services for example. The request is that a different term is used or if the use of reserves is standard finance terminology, then a more detailed definition should be given, one that fully explains what reserve money can and cannot be used

RESOLVED

That Eamonn Croston, James Anderson, and Sarah Hill be thanked for attending the meeting to provide an update on council reserves

8 Work Programme 2021/22

That the work programme for 2021/22 be noted.