

Name of meeting: Corporate Scrutiny Panel
Date: 19 September 2022

Title of report: Council financial update

Purpose of the report

To update Corporate Scrutiny Panel on current financial issues impacting on the Council

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?	Yes
Key decision - is it in the <u>Council's Forward Plan (key decisions and private reports)</u>?	Key decision - Yes
The Decision - Is it eligible for “call in” by <u>Scrutiny</u>?	No
Date signed off by Strategic Director & name	Rachel Spencer-Henshall, 8 September 2022
Is it also signed off by the Service Director for Finance	Eamonn Croston, 8 September 2022
Is it also signed off by the Service Director – Legal, Governance & Commissioning ?	Julie Muscroft, 8 September 2022
Cabinet member <u>portfolio - Corporate</u>	Cllr Paul Davies

Electoral wards affected: All

Ward Councillors consulted: All

Public or private: Public

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1. Summary

- 1.1 The Council financial update report presented to Corporate Scrutiny Panel (CSP) on 5 July 2022 set out the global, national and local context for an emerging Cost of Living crisis and range of impacts on the District's residents, households, communities and businesses. The report also set out a high level overview of potential impacts on the Council's in-year financial position.

- 1.2 Subsequent to the above, the Council's Quarter 1 financial monitoring report was presented to Cabinet on 9 August 2022. This report put an early quantification on the impact of escalating energy prices, the likely 2022/23 pay award and other inflationary impacts including fuel and food across Council activity; none of which could have been predicted when the Council approved its 2022/23 budget plans at Budget Council on 16 February 2022. This is also summarised below:

Table 1 - Overview of 2022/23 forecast revenue outturn position at Quarter 1

	Revised Budget	Outturn	Total variance	Variance split:	
				Cost of Living	Other
	£000	£000	£000	£000	£000
Children & Families	80,747	87,371	6,624	4,500	2,124
Adults & Health	117,050	117,455	405	-	405
Environment & Climate Change	39,015	44,094	5,079	2,000	3,079
Growth & Regeneration	16,187	16,740	553	-	553
Corporate Services	39,066	41,406	2,340	2,000	340
Central Budgets	46,619	56,226	9,607	11,300	(1,693)
General Fund Sub-Total	338,684	363,292	24,608	19,800	4,808
Reserves Drawdown to Offset Cost of Living	-	-	(10,000)	(10,000)	-
Revised General Fund Total	338,684	363,292	14,608	9,800	4,808

- 1.3 The forecast overspend at £24.6m is equivalent to 7.2% of the £362m net budget, and the overriding factor is the impact of unbudgeted Cost of Living inflationary pressures; mainly gas price uplifts in excess of 400% & electricity price uplifts at over 100% resulting in a £13.4m in-year pressure for energy alone. The net overspend reflected Council proposed use of earmarked funds upto £10m in-year to help mitigate Cost of Living pressures, but also pending any future Government funding support announcements.
- 1.4 Elsewhere, the Council had budgeted for an assumed annual staff pay award of 2% for 2022/23. The Q1 Financial Monitoring report incorporated the national employers association (representing Councils) expectation of a 5% uplift, in light of general pay inflation pressures across sectors. This added a further £4.4m unbudgeted pressure in 2022/23.
- 1.5 Subsequent to this report, the national employers associations current 'offer' was increased by a further £4.2m than that forecast as part of Quarter 1 monitoring report. This is because the national employer pay 'offer' for Council staff was subsequently amended from an assumed 5% to a flat £1,925 per member of staff; equivalent to above 10% for the lowest paid workers, and just over 1% for the highest paid workers. The 'average' % uplift across all Kirklees Council 8,000 staff was calculated at about 7.7% for 2022/23. This excludes schools' staff who are subject of a separate pay award offer of 5%.
- 1.6 Other unbudgeted inflationary pressures included fuel at £1m and food at £1m. The central budget underspend reflects the release of contingencies to offset service income losses.

- 1.7 The report also makes reference to the funding agreement the Council now has with the Department for Education; for upto £33.5m funding support to help bring the Council's historic schools funding deficit position (relating to children and young people with high needs), into balance over the 5 year period; part of a wider transformation agenda for children and young people with Special Educational Needs and Disabilities (SEND).
- 1.8 The report also acknowledged that the Council's Executive Management Team would deliver a range of mitigations in-year, in order to deliver an overall year end balanced budget against the 'Other' pressures highlighted on Table 1 above.
- 1.9 In addition, there were a range of other management actions being considered in-year to narrow the gap against Cost of Living pressures, alongside continued sectoral lobbying to Government for additional funding support, given the unprecedented nature and scale of the pressures.

Council Medium Term Financial Strategy (MTFS) Re-fresh 2023/24

- 1.10 Officers also take an annual report to full Council no later than October each year to update the Council's multi-year MTFS. The purpose of this annual report is to review and update baseline spend and funding assumptions across a range of service activity, including reserves, and incorporating both revenue and capital. The review of baseline assumptions is informed by emerging national and local intelligence, and current Council financial performance.
- 1.11 The updated MTFS presented annually to Council then provides a financial planning framework for the consideration of subsequent budget proposals to come back to Budget Council each February, to deliver a balanced budget for the next financial year, as statutorily required. It also includes forecast spend and funding assumptions for subsequent years.
- 1.12 The 2023/24 MTFS update report was presented to Cabinet and Council on 5 & 7 September 2022, respectively. This early review was heavily informed by the roll forward of significant 2022/23 Cost of Living pressures into 2023/24, alongside a starting point budget gap already of £16.4m for 2023/24. The impact of Cost of Living pressures on the Council's budget gap position was reflected in MTFS report and summarised below:

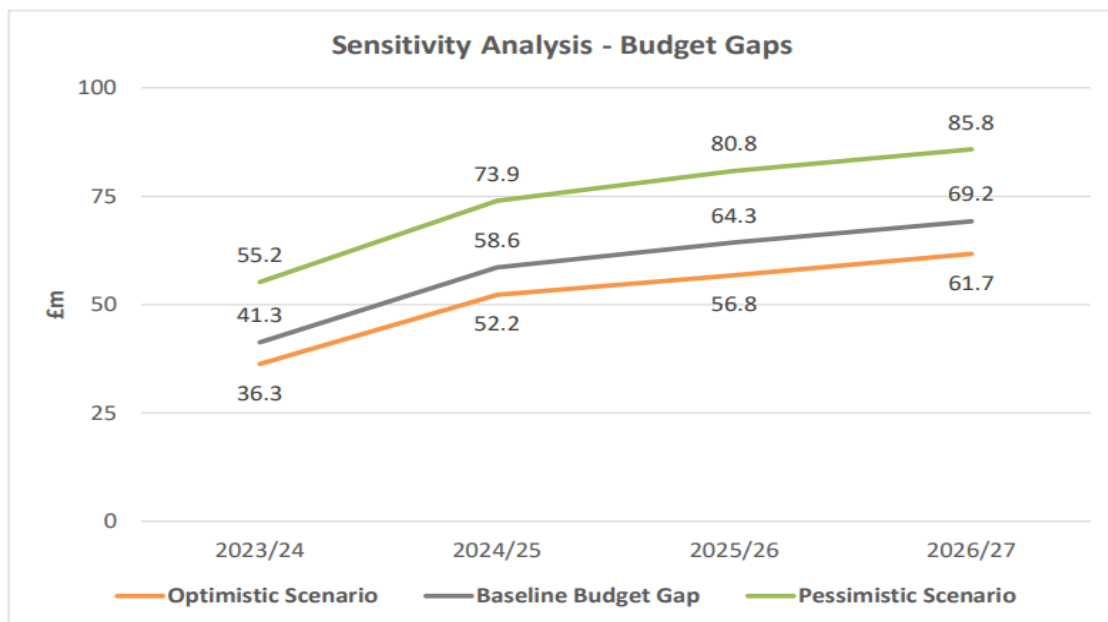
Table 2 – Summary General Fund baseline Budget funding and spend forecasts, 2023-27 period, and including current year:

	2022/23	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m	£m
2022-27 MTFP Budget Gap	-	16.4	31.4	33.5	38.2
Government Funding Changes	-	(10.5)	(10.5)	(10.5)	(10.5)
Cost of Living – energy spend	13.4	14.7	14.7	14.7	14.7
Cost of Living – pay award	8.6	13.4	13.4	14.0	14.6
Cost of Living – other inflation	2.0	1.5	1.5	1.5	1.5
School transport pressures	2.4	2.4	2.4	2.4	2.4
Other Net Directorate pressures	2.4	-	-	-	-
Treasury management budget changes	-	3.4	5.7	8.7	8.3
Net Changes	28.8	24.9	27.2	30.8	31.0
Updated Budget Gap	28.8	41.3	58.6	64.3	69.2
Use of Reserves	(10.0)	-	-	-	-
Revised Budget Gap	18.8	41.3	58.6	64.3	69.2

- 1.13 The uplifted energy pressures for 2023/24 as per Table 2 above are assumed to be 10% higher than 2022/23 but clearly energy prices remain very volatile globally and nationally, and this could increase significantly. The assumed pay award for 2023/24 is 5% (versus 2% budgeted), hence a further estimated pressure of £4.8m. Elsewhere, the additional Treasury Management budget pressure reflects an increase in service debt costs (for future schemes to be funded by Council borrowing in the existing 5 year capital plan), as a result of an increase in average interest rate costs, which have been uplifted from 1.5% to 3% to reflect current and projected Public Works Loan Board (PWLB) long term borrowing rates.
- 1.14 Government funding changes at £10.5m (increase in funding) reflects a working assumption that the annual Government funding allocations to Councils would continue to be uplifted by the preceding September CPI rate; so for 2023/24, the September CPI rate here has been estimated at 10.5%. Elsewhere, annual Council tax uplift assumptions remain unchanged at 1.99% per annum for general council tax and a further 1% per annum uplift for the adult social care precept element.

Sensitivity Analysis

- 1.15 The 2023/24 MTFFS report also included some sensitivity analysis against the baseline £41.3m budget gap for 2023/24, summarised below.



1.16 Attached at Appendix A is a more detailed breakdown of specific sensitivities included in the above model. The model above reflects the relative fluidity of updated baseline assumptions, especially in the current volatile global, national and local climate.

Capital Plan

1.17 Also attached at Appendix B is a high level summary of the baseline 5 year capital plan also presented as part of the MTFs report. It basically represents the plan approved at Budget Council in February 2022, updated for 2021/22 underspends rolled forward into 2022/23. The current 5 year plan overall reflects a capital investment intent over the 2022-27 period of £935m for General Fund activity (just under 80% relating to sustainable economy) and £274m for the Housing Revenue Account. In total, over the same period, the expectation is that about 43% of this capital investment will be directly funded by the Council through prudential borrowing.

1.18 As with revenue, in light of the financial challenges facing the Council, the existing plan will be subject to a full review to assess overall affordability. This includes presumed future Council borrowing to fund specific schemes and programmes and associated debt servicing costs. The review will also incorporate capital programmes and schemes funded by grants/capital receipts in light of current inflationary pressures on costs and sufficiency of existing external funding allocated to schemes to cover costs.

Reserves

1.19 Attached at Appendix C is the updated position on Council general fund reserves, presented in the MTFs Report. Council reserves are an important element of overall financial strategy in terms of giving some added financial resilience to the organisation. There is another item on this Scrutiny Panel agenda which is looking at the Council's corporate risk register. In part, reserves, which are one-off funds, give the Council added protection against a range of potential unbudgeted risks. The current Cost of Living crisis has potentially significantly added to the level of risk exposure that Councils are already facing.

1.20 Reserves can also support a range of developments to meet specific organisational

objectives, but in themselves should not be used to cover recurrent Council costs.

- 1.21 Within the Council's annual budget report, the Chief Finance Officer (CFO) has to give a positive assurance statement on the adequacy of reserves, the report recommends that the Council has a minimum unallocated reserves requirement of £47m; equivalent to about 14% of net revenue budget (excluding ring-fenced public health reserves and school balances) at the start of 2023/24 to meet future unbudgeted risks.

Housing Revenue Account

- 1.22 HRA budget plans support the delivery of a high quality landlord service to 22,000 Council tenancies and 1,030 leaseholders alongside supporting the Council's strategic HRA capital investment ambitions, within a self-financed and wholly ring-fenced and refreshed 30 year HRA business plan.
- 1.23 The HRA business plan will also be updated to reflect continuing investment to meet enhanced regulatory and compliance standards and tenant and leaseholder expectations. The HRA is also wholly self-financed and must ensure that multi-year HRA budget plans remain affordable over the longer term.
- 1.24 Under current Government policy guidelines, Councils are allowed to increase rents over the 2020-25 period by CPI+1%; CPI based on the prevailing September CPI, to inform the following April annual uplift. It is anticipated that Government may introduce a temporary cap on the allowable rent uplift for 2023/24 in light of an anticipated September CPI of 10%+ in 2022.

2. Information required to take a decision

Current developments

- 2.1 The global and national economic outlook remains challenging for the remainder of this year and through 2023. The July 2022 UK Consumer Price Index (CPI) was 10.1% ; up from 9.5% in June 2022, and predicted to reach at least 13% by year end, and beyond into early 2023.
- 2.2 The current Bank of England base rate is 1.75%; up from a historic low 0.1% as recent as late 2022, and current indications are that at the next Monetary Policy Committee meeting in September, it could raise again by as much as a further 0.75%, to 2.5%.
- 2.3 Elsewhere, the Organisation for Economic Co-operation & Development (OECD, June 2022) forecasted potential zero economic growth for UK through 2023; 2nd lowest of the G20 countries and only ahead of Russia, and likely recession from the 4th quarter of 2022. The latest Bank of England forecasts for UK economic growth from Q4 2022 now expect a largely flatlining of the OECD's forecasts for the UK economy through to 2025.
- 2.4 There will be a number of forthcoming Government announcements at the time of writing this report that relate to a range of further Cost of Living measures to support households over the next 18 months, and likely support for businesses, which may include public services. As always, the devil is in the detail and beyond any early headlines, the detail behind these announcements and likely impacts, will need to be considered over the coming weeks and months.

- 2.5 Alongside these emerging announcements, consideration of additional funding support for local government are more likely to be considered later in the year (October/November) and then form part of the annual Provisional Financial Settlement announcement for Councils for 2023/24; anticipated in December 2022.
- 2.6 Government has also indicated significant transfer of earmarked funding for health, to Social Care, acknowledging the broader system pressures of health and care systems. Again, more detail to follow in due course.
- 2.7 As anticipated in section 1.24 earlier, Government has now released a consultation proposing a cap on social housing rent uplifts for 2023/24 at 5%; other options to be considered in the consultation are 3% and 5%; a one year only cap.
- 2.8 The above are examples of significant ongoing developments that will impact on a range of current Council budget and forecast spend assumptions; both in-year and in preparation for 2023/24, and it is intended that a further update report be presented to Cabinet and Council later this year to assess the extent that these and any other significant issues may materially re-shape the baseline assumptions set out in the 7 September MTFS report.

2 Implications for the Council

3.1 The Council's budget plans support the overall delivery of the following Council objectives and Priorities within available resources:

- i) Working with People
- ii) Place Based Working
- iii) Climate Change and Air Quality
- iv) Improving Outcomes for Children
- v) Cost of living impact on residents

Other (e.g Financial, Legal or Human Resources)

- 3.2 A robust Medium Term Financial Plan and budget strategy is a key element of financial and service planning. The cost of living crisis as set out in this report presents a number of emerging and potentially significant pressures in 2022/23 and will require in-year management actions to address.
- 3.3 It is intended that officers will continue to consider appropriate in-year management actions to address emerging unfunded pressures, as reported to Cabinet on 9 August as part of Quarter 1 financial monitoring. Alongside this, following the MTFS report to Council on 7 September, budget proposals will be considered over the remainder of the current budget round ; ultimately for consideration at Budget Council on 22 February 2023.

RISK ASSESSMENT

- 3.5 The financial update presented in this report is based on a range of local, national and international 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.

4. Consultees and their opinions

- 4.1 This report is based on consultation with the Council's Executive Team and Cabinet members in assessing the current issues, risks and factors to be addressed.

5. Next Steps

- 5.1 The Council's Chief Finance Officer (& Service Director, Finance) will co-ordinate the development of draft management actions and mitigation proposals for further Cabinet consideration to address the emerging in-year pressures, alongside consideration of emerging budget developments and proposals to inform the 2023/24 budget round, herein; including any significant baseline Council spend and funding assumption changes to feed into a further update report to cabinet and Council later this year.

6. Cabinet portfolio-holders recommendations

That the contents of this report be noted and discussed.

7. Officer recommendations and reasons

To note and consider the content of this report.

8. Contact Officer

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9. Background papers and History of Decisions

Annual budget report 2022/23 & future years - Budget Council, 16 February 2022
Financial Update report 2022/23 - Corporate Scrutiny Panel, 5 July 2022
Quarter 1 financial monitoring report 2022/23 – Cabinet, 9 August 2022
2023/24 Medium Term Financial Strategy update report – Cabinet 5
September/Council 7 September 2022

10. Service Director responsible

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