Contact Officer: Jenny Bryce-Chan

KIRKLEES COUNCIL

CORPORATE SCRUTINY PANEL

Monday 16th January 2023

Present:	Councillor John Taylor (Chair) Councillor Tyler Hawkins Councillor Harry McCarthy Councillor Aleks Lukic
Co-optees	Garry Kitchin
In attendance:	Cllr Paul Davies, Cabinet Member for Corporate Services Eamonn Croston, Service Director, Finance Martin Dearnley, Head of Risk, Financial, IT and Transactional Services Alice Carruthers, Senior Finance Officer
Observers:	Cllr Elizabeth Smaje, Chair of Overview and Scrutiny Management Committee
Apologies:	Councillor Steve Hall Councillor John Lawson Kristina Parkes (Co-Optee)

1 Membership of the Committee

Apologies were received from Cllr Steve Hall, Cllr John Lawson, and Kristina Parkes.

2 Minutes of the Previous Meeting

That the minutes of the meeting held on the 28th November 2022, be approved as a correct record.

3 Interests

No interests were declared.

4 Admission of the Public

To resolve that the public be excluded at consideration of agenda item 11.

5 Deputations/Petitions

No deputations or petitions were received.

6 Public Question Time

No public questions were asked.

7 Council Financial Update

Eamonn Croston, Service Director for Finance, attended the meeting to provide a council financial update, advising that it is one of a series of updates brought through the year to Corporate Scrutiny Panel. He explained that the update would reflect on the outcome of the provisional financial settlement, in addition to other key budgetary developments in terms of reviewing spend and funding assumptions and an updated budget gap position, compared to what was reported in the September 2023/24 Medium Term Financial Strategy (MTFS) update. This is pending budget proposals coming forward from the administration, ultimately to be presented to budget council on the 8th March 2023, and there will also be an update on the in-year position.

The Panel was informed that the in-year and budget cap positions for 2023/24, has been heavily influenced by a range of costs of living pressures. When the budget was set in February 2022, the process involved looking further and beyond just the next financial year, and therefore tends to start with a bit of a budget gap, in terms of the forward plan spend and funding forecast.

As previously reported, the expectation was a pre-existing budget gap of over £16m to 2023/24, and that was before the significant challenges impacted by the cost-of-living pressures. A MTFS update report in September 2022, revised the budget gap assumptions to £41m, from £16m. This was heavily influenced by the energy price review, and the pay award for 2022/23, which would wash forward into 2023/24, and was higher than had been budgeted for in the February budget plans being around about 7.6% average uplift for council staff compared to the 2% assumed.

The Panel was reminded that a quarter 2 (Q2) financial report was also presented which reflected the £34m in-year overspend on general fund, equivalent to just under 10% of the net general revenue position, of a £335m budget. As part of the Q2 report, there was a minimum overspend reduction target of £4m, to year end, which included a number of additional management actions. The report also recognised an accelerated unplanned drawdown on reserves in-year compared to what had been planned for.

The government’s Autumn Statement in November 2022, was presented to the Panel in November, and gave a brief update on the implications for local government finance. The context for the Autumn Statement, was a £55 billion deficit in public finances, driven by unprecedented headwinds such as the pandemic and the war in Ukraine. To deal with these, the government’s intention was to set out a balance plan for stability. In headline terms, the government indicated that it was going to put extra resources into local government, particularly around social care, extra resources into schools, and the NHS. At the time, it was anticipated what that would translate into in terms of individual councils funding allocations. The provisional financial settlement which provided the detail was announced on the 19th December 2022.

A number of other measures were also announced around additional support to households and businesses impacted by cost-of living pressures, and that would wash into 2023/24. There will also be some additional housing support funding grant for supporting vulnerable households with cost-of-living pressures and that will continue into 2023/24. The council is awaiting what its share of that will be as the government has not yet finalised this. The suggestion is £1bn across the UK, and is similar to what was allocated in 2022/23, it is envisaged that the councils allocation could be approximately £7.4m, subject to confirmation from the government.

The Panel was informed that as part of the Autumn Statement, there was an updated Office of Budget Responsibility (OBR) medium term forecast, predicting a gradual reduction in CPI and RPI over the next two years. There is a prospect of a global recession over the next 12 months and a corresponding potential increase in unemployment rates, before then getting back at some point each year to nearer the targets that have been previously assumed, around 2% inflation. Some of that remains volatile in terms of the global situation and external factors that impacts on the council.

The government also published a policy document on the 12th December 2022, as a precursor to the provisional financial settlement. Setting out its context for the settlement, the government noted that a number of councils had built up their reserves position over two years of the pandemic. The government was expecting councils to start using the reserve levels they had built up through the pandemic, to maintain services in light of immediate inflationary pressures, whilst taking account of the need to maintain appropriate levels of reserves to support Council's financial sustainability and future investments.

The Panel was informed that when there is uncertainty around volatility, particularly external volatility, which can impact on an organisations financial situation, it is prudent for councils and organisations to try and build up reserves through that period, where there is less predictability around some of the pressures coming through.

The other point to note is that councils are not acting on a level playing field. Looking across the sector, different councils will have different levels of reserve positions and different expectations about what they had built up through the pandemic years. It is recognising that there is a wide breadth of the reserves councils have available at an individual level to support some of those immediate cost pressures, and councils are not coming at this from the same starting point, however that is the governments expectation. Through the remainder of this year, and in terms of the forward plan, it is acknowledged that Kirklees' contribution to government expectation is reducing its reserves levels, and measures are being put in place to ensure that there is still an adequate level of reserve.

The Panel was informed that in the announcement that came through on the 19th December, there was a headline regarding national cash increase of 9.2%. The Panel was directed to a summary table in the report, which set out all the various funding sources that make up the government funding allocation to councils. The headline government announcement was that an additional £5bn funding would be made available to councils in 2023/24, representing an average overall 9.2% increase with a minimum individual council increase being guaranteed at 3%. Kirklees equivalent cash increase was 9.6% and in cash terms that amounts to approximately £34m.

The Panel was informed that much of this was anticipated in the existing plans, and therefore, did not come as a surprise. In respect of funding growth for social care pressures and also what government put in its headline figures, there is an expectation regarding what councils will uplift their council tax, including the adult social care precept by, in the following years. For example, it is anticipated that councils will increase, and or maximise their Council tax uplift by the allowable threshold rate, and for councils with social care responsibilities the headline uplift is five percent.

Mr Croston advised that what this means in terms of an updated spend and funding assumptions is that for general fund, there was a £41m budget gap reported in September, and it is looking at what has or has not changed.

Firstly, reflecting on energy prices, the pressure on energy prices are still significant. The Panel was reminded that at its meeting on the 28th November, where global prices were going was indicating that the headline pressure to arrive at the budget gap of £41m, the energy price pressure was continuing to escalate. There were concerns that energy price assumptions were not covering the further pressures in addition to the £41m. That has been scaled back because in the last couple of months, wholesale energy costs have been coming down globally, however, the rate of increase from where they were is coming down, although still increasing significantly, and are much nearer to the predictions outlined in the September report uplift for energy costs. It is good news that the prices are coming down, however still significantly higher than they had been when the budget was set in February and is still an area of volatility.

The Panel was informed that the government has set out plans for continued support, not just for a price cap for household energy bills for 2023/24, but had said that it was reviewing non-domestic customers and have now set out their plans for non-domestic customers. The plan is not as generous as it was for 2022/23, and in effect, the government had a look at what those energy prices are in 2023/24, and pitch their support accordingly. The government had suggested that the public sector would not be included as part of that energy support for 2023/24, however, in light of global energy prices coming down, the expectations as to what the call on government might be through the extra support, is not as high as they had anticipated, therefore they have opened the door again to public sector organisations, including charities. The government has said that the additional support won't necessarily apply to sports centres and swimming pools, however, there is lobbying being undertaken to try to understand it from the sector*.

**(Following the meeting Mr Croston clarified that leisure centres and swimming pools are included, and that there are two tiers of support for 2023/24, whereas the current Oct 22 to March 23 support scheme is a single tier scheme. The issue that LGA and others are now lobbying on, is that there are some sectors that are in the higher tier of support category, which the government has described as 'Intensive Industries' support, which is mainly heavy manufacturing industries as expected, but not leisure centres and swimming pools, which only qualify for the lower tier support. That is the issue being lobbied on).*

Mr Croston explained that the Panel will be aware that councils either directly provide swimming pools or sports centres, or it is provided through a third party, as is the case in Kirklees. The aim is, in conjunction with Crown Commercial Services, who will be brokering the council's electricity contract from 2023/24 and Yorkshire Purchasing Organisation (YPO), who will broker the gas contract. They are looking at an individual council basis what the potential impact of that additional support might be. The expectation is that global energy prices are unlikely to come down to pre-covid levels, however, they might stabilise, and the council will need to be aware of, not just predicting 2023/24, but looking beyond that.

Referring to the summary report, Mr Croston advised that where there are a number of funding sources listed, and when comparisons are made in terms of the net impact and looking on the bottom line, most of the net growth is positively impacting on in terms of social care funding.

Social care funding, is a combination of direct grant awards, and some of those additional grants will have conditions, for example, it is tied into supporting hospital discharge. Some of the funding is being allocated through the West Yorkshire Integrated Care Board, and is coming through funding pots where the council is working in collaboration with Health Partners and there will need to be discussions.

Some of that funding is not only regarding adult social care, but there are also pressures on children services. It is also important to recognise that in light of the National Living Wage (NLW) uplift, which was approved by government for 2023/24, some element of that NLW uplift, 9.7%, which was above what council's would have predicted, will be passed on through fee rates to care providers, subject to negotiations.

While some of the social care increases have not been budgeted for, there will be unbudgeted pressures also in the system that had not been factored into the existing plans, however, there might be some wriggle room on the overall bottom line. This is currently being considered, while continuing to review the demand assumptions in the plans, around children and adults, and assessing how much risk appetite is being put into the system and how much in conjunction with health colleagues, collaboratively funded from other sources. This has not yet been resolved however, there is potentially wiggle room to put some resources in back in to support some of the pre-existing funding pressures that were already in the MTFP around social care.

Overall, when looking at the £34m, which also assumes council like Kirklees will take the full 5% council tax and adult social care precept uplift, it is de-risking some of the pressures that might come through. Government has committed to putting that support into the system for next year and more besides.

Mr Croston advised that when the budget gap assumptions were being updated in September, the school transport pressures coming through were already in view and it was agreed that extra funding would be put in for school transport. Since then, looking at Q2 monitoring, much of the budget pressure coming through is around cost-of-living as well as other pressures coming through within directorates and service pressures.

Some of that service pressure will be reflected in the updated budget position. Other factors include inflationary pressures on insurance premium, for example, council insurance premium for housing subsidy position. The council administers a range of housing benefits to private and council tenants on behalf of government and the council receives funding back from the government to support those pressures.

There are continuing pressures on homelessness demands and preventing homelessness. Some of the accommodation used, for example particular types of temporary accommodation such as bed and breakfast, if this type of accommodation is use for any length of time, the government puts performance disincentives into the amount they pay back for the amount of housing benefits paid out, that is an underlying pressure. Officers and the administration will be looking at what can be done to mitigate some of those pressures in terms of the types of accommodation going forward.

A corporate capital plan review has been undertaken, that will come through in the budget, in terms of how that is impacting and that will have an impact on treasury management budget assumptions going forward, compared to what was set out in the September MTFS update report.

There is the council tax base review as part of the annual review and in addition to what the council tax likely increase is going to be, and there is a review of what the council tax base position is for the following year. A report on this will be presented to Cabinet on the 17th January 2023. It is predicted that the council tax base will increase for 2023/24. The HRA uplift 7% has gone through in the 21st December Cabinet report and the skills funding allocation for 2023/24.

In response to the information presented, the Panel asked questions and made comments including some of the following:

- With regard to the government announcing more funding to councils, assuming that councils will put up their council tax by 5%, including adult social care precepts, has the government offered this year any flexibilities in terms of deferring it or does it have to be now, or it is lost?

- It is important for the public to be aware that every local authority and public organisations have been affected by the sorts of challenges being faced. Based on the report, there are a number of assumptions that expects national government intervention, or further government intervention. Is there any indication as to when the council might hear more from national government on this?

- Some of the external organisations that the council has been supporting and subsidising over a number of years, are now faced with the council no longer being in a position to continue to subsidise them for example, Kirklees Active Leisure (KAL) and the stadium. How is the changing position, and the reality of the situation of the council pulling away from subsidising external organisations affecting the council’s financial position?

- What has been the effect of the management actions that have been taken so far, for example, a recruitment freeze, and buildings such as some councils having to close their town halls, are there any figures or evidence on what the affect has been so far?

- The relative difference between pre-provision local government settlement effectively offsets the unbudgeted cost-of-living inflationary pressures across a range of children's and adult care provider costs. Does this mean that the local government financial settlement, will help the council deal with the cost-of-living pressures in adult social care and children's social care, whilst leaving a financial deficit in the budget?

- Regarding the in-year pressures, and trying to understand it from the information presented and looking at Q2, which highlights a £34m in-year pressure, yet the only ambition being looked at is saving £4m over the second half of the year, assuming that the other £30m, in-year pressure is going to be taken out of reserves. Subsequent to that, the energy assumptions have been recalibrated and in terms of school transport and there seems to have been a significant fall off in petrol and diesel prices since September. Is it safe to assume that that has been factored in? £30m out of reserves does not sound as being very ambitious as an administration in terms of dealing with the in-year pressures. The actions that have been taken, when this was talked about in September, there was talk about potentially closing buildings, has there been the rigour and speed that would probably be needed to deal with the 10% increase in cost?

- Has the energy cost been calibrated up or down, is it the intention to take £30m out of the reserves this year or has something else happened and is there still an ambitious plan to try and tackle the overspend?

RESOLVED

That Eamonn Croston be thanked for providing an update on the councils financial position.

8 Risk Management Update

Martin Dearnley and Alice Carruthers provided the Panel with an update on the council's risk matrix and risk log, informing the Panel that risk forms a fundamental part of understanding where the council's budget and financial position is. In summary, the Panel was informed that up until this year, while there have been risk management processes, they may not have been operating in a completely integrated and effective way. Since Alice came into post last year, work has been undertaken to tighten up the process to make it more systematic and understanding of how the organisation works, and that work has been ongoing for approximately 9 months. It is now at the point where there is a more robust system, and while it has not changed significantly, the information it is generating is more linked in. It will be important to get the organisation to accept the culture of sharing some of the risks managers perceive, in order to report these and assess how strong those risks are.

No risk management system can be perfect, and one of the areas that has been worked on is the 'risk heat map,' a copy of which is appended to the report. Referring to the document, the Panel was informed that the document only shows the risks that are in the red or orange areas, where there is considered to be a fairly large risk exposure. The nature of this is that it is not possible to include every risk that the council ever faced. There are multiple risks that this organisation faces, the vast majority it manages well because it knows how to do it and it understands and progresses them. The one highlighted on the map are the ones that are exposed, for example, those charged with governance, the senior management team of the council and the Cabinet essentially, and which the whole council in another context have to understand and take responsibility for.

The document highlights some of the risks and include the councils need for sustainable finances and community wellbeing. There are also wider issues regarding workforce development and understanding the current recruitment position which is potentially a problem. These are the sort of risks identified and it is also showing areas like safeguarding have moved slightly down. In addition, there are issues regarding climate change and compliance with the statutory obligations and risks around fixed assets, physical assets, and operational resilience.

Those are the main areas that have been worked on, and learning from comments that have been made over the last six to ten months. The aim is to create a trail to indicate how things are moving, to see which risks are moving and which are falling.

The Panel was informed that this is the first time that the risk heat map has been produced and going forward it will include the direction of travel to show where risks have moved. The focus going forward will be on the mitigating actions and controls in place against the risks. The organisation is good at recognising and identifying the risks faced, and officers are working to robustly evidence and document the actions being taken.

In response to the information presented, the Panel asked questions and made comments including some of the following:

- The heat map is really effective, and as stated, it will be important to show the direction of travel which will be important. However, what this information does not show, is the financial aspect to it, and the hope was to start to get a view on the potential financial impact of these risks. For example, when talking about using reserves to meet funding gaps, having an understanding of the minimum reserves that would need to be retained would be critical because of the risks that the organisation would face. Is that being considered?

- Was the team that put this information together a broad cross functional team, in order to understand the process and how this came about?

- One area that does not appear to be addressed in this document is regarding the transport infrastructure and transport network which is a multifaceted issue as the council has ownership in this with highways and public rights of way. The Combined Authority has ownership of much of the transport infrastructure and the council is a key partner in delivering many of the transport improvement schemes. There are risks in the potential failure to deliver and prioritise these kinds of improvements for sustainable growth and climate change goals. Many residents are concerned about public transport and active travel facilities within the district, and there is widespread discontent about this, and this area is not currently covered in the risk matrix and wonder if there is any scope to include this. Has this been previously considered and is this an area that could be included?

RESOLVED

That Martin Dearnley and Alice Carruthers be thanked for providing an update on the council's risk matrix and risk log.

9 Future Priorities and Work Programme

RESOLVED:
That the future priorities and work programme be noted.

10 Exclusion of the public

RESOLVED:
That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting during the consideration of agenda item 11 on the grounds that they involve the likely disclosure of exempt information, as defined in Part 1 of Schedule 12A of the Act.

11 Risk Management Update

RESOLVED:
That the private appendix in respect of agenda item 8 be noted.