

**Name of meeting:** Corporate Scrutiny Panel  
**Date:** 5 July 2022

**Title of report:** Council financial update

**Purpose of the report**

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

<b>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?</b>	<b>Yes</b>
<b>Key decision - is it in the <u>Council's Forward Plan (key decisions and private reports)</u>?</b>	<b>Key decision - Yes</b>
<b>The Decision - Is it eligible for “call in” by <u>Scrutiny</u>?</b>	<b>No</b>
<b>Date signed off by Strategic Director &amp; name</b>	Rachel Spencer-Henshall, 27 June 2022
<b>Is it also signed off by the Service Director for Finance</b>	Eamonn Croston, 27 June 2022 Julie Muscroft, 27 June 2022
<b>Is it also signed off by the Service Director – Legal, Governance &amp; Commissioning ?</b>	
<b>Cabinet member <u>portfolio - Corporate</u></b>	<b>Cllr Paul Davies</b>

**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 This report sets out a high level international, national and local context impacting on the Council, in particular in relation to unprecedented cost of living crisis, resident support, and any emerging considerations for the annual re-refresh of the Council's Medium Term Financial Strategy (MTFS) through the forthcoming budget round.

## 2. Information required to take a decision

## **International/National context**

- 2.1 The approved budget plans were signed off on 16 February 2022 and reflected the Administration's priorities and Council ambition in the Council Plan, including acknowledgement of the impact of the global pandemic and emerging global recovery, global supply issues, pent up consumer demand pressures on cost inflation, and labor supply recruitment and retention issues across all sectors of the economy.
- 2.2 Based on prevailing national and international macro-economic forecasts, it was anticipated that a number of these pressures would be transitory rather than structural in nature, and was factored accordingly into Council forward budget plans.
- 2.3 However, the Russian invasion in Ukraine on 24 February 2022 has delivered a further global shockwave with significant and potentially more structural global & national macro-economic and societal impacts. Some of the key current societal & macro-economic impacts are summarised below ;
- i) 14 million Ukrainians displaced, with over 6 million seeking refuge in other countries (United Nations - June 2022) ; the worst refugee crisis in Europe since the second world war;
  - ii) Unprecedented and volatile gas, electricity, commodity, fuel and food price uplifts and prospect of continued volatility through the remainder of 2022 and 2023;
  - iii) UK CPI inflation predicted to be 10%+ by current year end - currently 9.1% as at May 2022;
  - iv) Wage inflation nationally circa 5%;
  - v) Average UK Standard of living forecast to reduce by 2.2% over 2022 period (largest on record) ;
  - vi) Five BoE base rate uplifts since December 2021; from 0.1% to 1.25% as at June 2022; prospect of future uplifts through the remainder of 2022 and 2023;
  - vii) Organisation for Economic Co-operation & Development (OECD, June 2022) forecasts potential zero economic growth for UK through 2023 ; 2<sup>nd</sup> lowest of the G20 countries ahead of Russia;
  - viii) Unemployment back to pre-pandemic rates at 3.8% ; labour supply shortages / vacancy rates still high at about 1.3 million;
  - ix) A range of targeted and universal Government support measures announced on 23 March and 26 May 2022 respectively to support households to manage unprecedented cost of living pressures (see also Local Context further below)

## **Local Context**

- 2.4 The cost of living crisis is impacting extensively on residents, households communities and the local economy.

## **Residents & Businesses**

2.5 There is a range of 'hardship' support currently available to Kirklees residents either provided by the Council locally and/or with partners, or administered by the Council on Government's behalf, including measures summarised below :

- Local Welfare Provision annual Council revenue budget provision £1.1m;
- Discretionary Housing payment support annual fund £500k;
- Council Tax Reduction (CTR) main scheme; up to 80% annual means tested support for about 35,600 eligible households; worth £34m;
- Additional CTR support on top of up to £150 for 2022/23 (funded by one-off earmarked funds); for approximately 18,000 households; worth £2.6m;
- Holiday activities annual revenue budget Children £250k;
- Money advice team £312k; 900+ council tenant referrals annually; income gain £1m;
- Benefit/Money management advice, guidance, support (both direct & through 3rd party organisations) £1m annual revenue budget provision; average; 40,000 annual resident referrals; estimated income gain £15m; debts managed - £9m;
- Government 50% business rates relief 2022/23 to retail, hospitality & leisure businesses capped at £110k & 100% relief if business rates bill under £15k; worth about £19m;
- Government business rates inflationary 'freeze' for all businesses for 2022/23 worth about £7m; compensating govt grant for both the above

2.6 The following were also part of the Chancellor's spring budget announcement on 23 March 2022 :

- Additional Household Support Funding (£500m across UK); £3.7m - April to September;
- Gov't £150 energy rebate to 164,000 eligible Households (Band A to D); estimated value £25m

2.7 And further Government support measures announced on 26 May 2022:

- £650 for each household in receipt of welfare benefit
- £300 for each pensioner eligible for winter fuel payment
- £150 to those receiving non-means tested disability benefits
- £400 for every individual domestic electricity account
- further household support funding allocation of £3.7m for the period October 2022 to March 2023; more detailed Gov't guidance for its use to follow in due course

2.8 A report to Cabinet also 5 July 2022, 'Proposals for additional Household Support in 2022/23' sets out in more detail, proposals for the distribution of the April to September 2022 £3.7m Household Support Fund allocation to the Council, along with a summary of the types of support to date to Kirklees residents, and modelled impact of further recent announcements, which is replicated in the Summary Table in the Appendix attached to this report.

2.9 Further cost of Living support measures may be forthcoming nationally, such as the recent Government muted re-instatement of the triple lock for state pension uplifts,

and also benefit uplifts for 2023/24 to be tied to the September 2022 CPI uplift (expected to be minimum 9.1%).

## **Council Impacts**

### **Context**

- 2.10 Approved budget plans delivered a balanced budget position for the general fund for 2022/23, and a forecast general fund budget gap i.e. forecast (net) spend in excess of funding of £16.4m (equivalent to 4.9%) in 2023/24; said budget gap increasing to £30.4m in 2024/25.
- 2.11 The budget plans also set out a balanced Housing Revenue Account position for 2022/23 and future years in relation to ring-fenced expenditure and income for the Council's 22,000 social housing tenants and leaseholders; modelled on a viable long term, self-financed HRA business plan.
- 2.12 School budget approvals for 2022/23 have been supplemented by a subsequent successful Council participation in the Government's Round 2 Dedicated Schools Grant (DSG) deficit reduction programme. This aims to bring the growing deficit of schools related spend in excess of existing Government funding (primarily special educational needs and disabilities funding related), into an in-year balanced budget position over the next 5 years through a Council transformation and management plan; with associated Government funding over the period to address the historic schools budget (DSG) deficit with £33.5m support over the period.
- 2.13 Budget plans also set out ambitious 6 year capital plans of just over £1 billion to deliver the Council's ambition; funded by a combination of Government and other grants, Council borrowing and capital receipts.
- 2.14 A number of key assumptions incorporated into the budget plans for 2022/23 and key spend and funding future years are likely to be impacted on by current volatile global and national economic conditions highlighted earlier in this report. Key assumptions currently under review include the following:
- i) Budgeted salary inflation in 2022/23 assumed at 2%; current national negotiations underway but potential for negotiated settlement nationally to be in excess of 2%;
  - ii) National Living wage currently £9.50 (23yrs and above); budgeted uplift of 6.6% assumed in 23/24 but could be higher – could impact both on Council pay scale differentials and contracted out services e.g care sector provision;
  - iii) Energy cost uplifts in 2022/23; unprecedented 100%+ relative to budgeted assumptions; remain very volatile; fuel, food, materials, inflation also currently volatile - impacts on both revenue and capital spend;
  - iv) Public Works Loan Board (PWLB) borrowing costs - current volatility in borrowing costs – noting the extent of current ambition in the Council's multi-year plans supported by future Council borrowing;
  - v) Other budget pressures under review include Council discretionary service income across a range of Council activity; still recovering from the pandemic but may be further impacted on by pressures on household disposable income;

- vi) Cost of living impacts on residents, households, local businesses/economy and consequential impact on local tax income; both council tax and business rates;
- vii) Cost of living impacts across partner organisations including Health, Kirklees Active Leisure, other 3<sup>rd</sup> party suppliers, PFI contractors, adult care independent providers, children's residential;
- viii) Various pre-existing national policy developments including social care reforms and modelled cost impacts, social housing regulatory reforms and others; and
- ix) Any indication of additional Government funding to Councils and partner organisations to mitigate both in-year cost of living pressures and predicted 2023/24 pressures not expected before Autumn budget statement at the earliest (October/November)

2.15 The above factors are currently under review and being sensitivity modelled, albeit in a rapidly changing economic and national policy context. The intention is to re-fresh existing multi-year budget assumptions on best available information to help inform the forthcoming Medium Term Financial Strategy (MTFS) refresh report to Council on 7 September 2022. This will then provide the financial planning framework for the development of subsequent budget proposals to inform 2023/24.

### **3 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 consider appropriate in-year management actions to address emerging unfunded pressures, and report to Cabinet on 9 August as part of Quarter 1 financial monitoring, early forecast in-year financial impacts and consideration of mitigations.

3.4 As noted at paragraph 2.15 earlier, it is also proposed that the Council Medium Term Financial Strategy (MTFS) re-fresh report and financial planning framework to feed into the 2023/24 budget round, be brought to Cabinet and Council in early September 2022, to be informed by the emerging issues set out in this report

## 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 spend and funding assumptions to inform the forthcoming MTFS re-refresh.

### **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**

Eamonn Croston, Service Director, Finance  
[eamonn.croston@kirklees.gov.uk](mailto:eamonn.croston@kirklees.gov.uk)

James Anderson, Head of Service, Accountancy  
[james.anderson@kirklees.gov.uk](mailto:james.anderson@kirklees.gov.uk)

Sarah Hill, Finance Manager, Finance  
[sarahm.hill@kirklees.gov.uk](mailto:sarahm.hill@kirklees.gov.uk)

Julian Hobson, Acting Head of Welfare & Exchequer  
[Julian.hobson@kirklees.gov.uk](mailto:Julian.hobson@kirklees.gov.uk)

SarahS.brown, Acting Head of Welfare & Exchequer  
[Sarahs.brown@kirklees.gov.uk](mailto:Sarahs.brown@kirklees.gov.uk)

### **9. Background papers and History of Decisions**

Annual budget report 2022/23 & future years – Budget Council 16 February 2022  
Proposals for additional Household Support in 2022/23 – Cabinet 5 July 2022

### **10. Service Director responsible**

Eamonn Croston, Service Director, Finance  
[eamonn.croston@kirklees.gov.uk](mailto:eamonn.croston@kirklees.gov.uk)

## APPENDIX

**1/ Cost of Living Support provided directly or indirectly by the Council**

2022/23 to date :	Kirklees Citizens	Total	Funding Source
Additional local council tax support	18,000	£2.6m	Council
Energy Rebate payments already made	116,620	£17.493m	Government
Local Welfare Provision support already provided	600	£106,452	Council
Existing support to households through the Kirklees local council tax reduction scheme	35,561	£34.2m	Council
Equivalent Free School Meal support at Easter holidays 2022	18,000	£540,000	Government
mainstream Local Welfare provision support through partners in the form food and clothing	c3500 food packs per month	£164,000	Council
<b>Total</b>		<b>£55m</b>	

**2/ Modelled impact of £650 Gov't payment targeted to the following benefit recipients :**

	Kirklees Citizens	Total	Funding Source
Universal Credit	34,658	£11,298,508	Government
income-based Jobseeker's Allowance (JSA)	778	£253,628	Government
income-related Employment and Support Allowance (ESA)	12,115	£3,949,490	Government
Income Support	1,375	£448,250	Government
Pension Credit	9,043	£2,948,018	Government
<b>Total</b>	<b>57,268</b>	<b>£18,669,368</b>	

**3/ Modelled impact of £150 Gov't payment targeted to the following benefit recipients :**

	Kirklees Citizens	Total	Funding Source
Personal Independence Payment	22,072	£3,310,800	Government
Attendance Allowance	7,830	£1,174,500	Government
Disability Living Allowance	7,557	£1,133,550	Government
<b>Total</b>	<b>37,459</b>	<b>£5,618,850</b>	

**4/ Modelled impact of Gov't £400 payment to all domestic electricity account holders in October 2022:**

	Kirklees Citizens	Total	Funding Source
Domestic properties	<b>c190,000</b>	<b>£76m</b>	Government