

Budget 2021/22 Financial Update, Financial Challenge and Service Reviews

Date: 19 July 2021

Report of: Head of Democratic Services

Report to: Strategy and Resources Scrutiny Board

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

What is this report about?

Including how it contributes to the city's and council's ambitions

- Scrutiny Board Strategy and Resources has a standing commitment to monitor financial performance throughout the financial year as part of its remit and to identify emerging issues and suggest alternative approaches as appropriate.
- The role of scrutiny as a 'critical friend' on financial performance and management contributes to supporting the Best Council ambition to be an efficient and enterprising organisation.
- Following the Covid-19 pandemic the Council is facing a period of significant financial challenge. Prior to the pandemic budgets were already under significant pressure due to Government funding reductions but this situation has been exacerbated by increased expenditure and reduced income brought about by the pandemic. When considering directorate overspending resulting from the pandemic, loss of income from Council Tax and Business Rates and pension strain and severance costs associated the Early Leavers Initiative the overspend in 2020/21 totalled £160.5m, before proposals to balance.
- Strategy and Resources Scrutiny Board has therefore identified a need to ensure the robustness and long-term sustainability of the Council's revenue budget as a key area of interest in 2021/22 and in the years that follow. This report aims to set the scene in terms of the Board's ongoing interest throughout 2021/22 and signpost future areas of interest such as the Medium Term Financial Strategy update scheduled for October and closer involvement in the budget setting process for 2022/23 following the successful approach taken when developing the budget for 2021/22.

Recommendations

Board members are asked to note the content of the report and in particular the ambition to consider financial sustainability and long-term budgetary robustness as a regular theme of the Scrutiny Board throughout the municipal year.

Board members are also asked to highlight any future areas of scrutiny should any arise during discussion of this item.

Why is the proposal being put forward?

- 1 Scrutiny Board Strategy and Resources has several key financial functions within its remit. These include: ensuring effective financial management and controls; setting, supporting and monitoring the Council's policies and procedures for budgets; administering effective financial management and controls; and setting, supporting and monitoring the Council's financial strategy. As a consequence the Board will closely monitor financial performance in 2021/22 and receive regular updates on the Medium Term Financial Strategy, Financial Health and the ongoing Services Reviews that support the delivery of a balanced budget in 2021/22.
- 2 To ensure Board members are fully informed on this issue three Appendices are provided that give additional details. Appendix 1 provides the financial outturn position for 2020/21 for the revenue budget, Housing Revenue Account (HRA), schools budgets and the Capital Programme considered by Executive Board on 23 June 2021. Appendix 2 details the Service Reviews that were developed to support the revenue budget and which play an important role in ensuring a balanced budget in 2021/22 (these were presented as Appendix 3 to the Budget papers considered by the Executive Board and Full Council in February 2021 as part of the 2021/22 Budget approval process). Appendix 3 provides the latest Financial Health Report due to be considered by Executive Board at its July meeting and this will be provided as a supplementary item following publication on 13 July 2021.
- 3 The Scrutiny Board last considered financial health matters at its meeting in March 2021 dealing with the Month 9 and Month 10 Financial Health reports considered by Executive Board, along with specific information on Council Tax and Business Rate collection levels. These reports dealt with the financial position in December and January of the 2020/21 financial year and since that time there have been developments that impact on financial robustness and long-term sustainability within the revenue budget.
- 4 In the first instance there has been a favourable movement from a projected balanced revenue budget position to a £1.1m underspend with that £1.1m now being used to support the Council's general reserve position in 2021/22 and beyond. In addition the underspend in relation to the HRA has also changed from a projected underspend of £9.6m to an actual position at outturn of a £15.65m underspend and these savings have been appropriated to reserves.
- 5 The Month 10 financial health report also set out details of the proposed use of a capital receipt relating to Merrion House from the Usable Capital Receipts Reserve in order that the Council could deliver a balanced budget position in 2020/21. However, because of the improved financial position for both directorates and Strategic and Central Accounts that was reported to Executive Board in June there is no longer a requirement to use the Merrion House receipt to support the 2020/21 revenue budget and instead the balance will be carried forward into 2021/22.
- 6 An important aspect of long-term budget sustainability relates to the level of reserves held by the Council to combat any fluctuations on budget projections. As at 1st April 2020 the level of general reserve, funding that has not been earmarked and could be used to address unplanned budgetary pressures, was £31.5m. This has reduced to £27.8m as at 31st March 2021, a net reduction of £3.8m reflecting budgeted use of £10m to support the 2020/21 revenue budget, but also the contribution to the reserve of budgeted Treasury Management savings of £1m and the repayment of £4.1m of general reserve funds applied in 2019/20 to manage a shortfall in capital receipts in that year. It also includes contribution of the 2020/21 year end underspend of £1.1m.

- 7 Overall, the Council's total reserves, which includes all earmarked reserve sums, have increased to £345.0m, an increase of £209.0m when compared to the position at 31st March 2020. This includes an increase in General Fund earmarked reserves of £202.5m. It is important to note that this increase includes £155.0m of Section 31 Business Rates Relief grant funding and £17.5m of Tax Income Guarantee funding, all of which has been provided to compensate for COVID related Collection Fund losses in 2020/21 which impact on the revenue budget in 2021/22 and later years, when these funds will be applied to revenue to offset this impact.
- 8 The increase in General Fund earmarked reserves also reflects the contribution of £24.3m to the Strategic Contingency reserve which has been established to provide for any unforeseen events requiring additional resources and to ensure the Council becoming more financially resilient.
- 9 The increase in General Fund earmarked reserves also reflects the contribution of £24.3m to the Strategic Contingency reserve which has been established to provide for any unforeseen events requiring additional resources in 2021/22. This contribution reflects the application of £20.7m of the Government's Contain Outbreak Management Fund (COMF) grant to expenditure that the Council incurred during 2020/21 which had been managed through the use of base budget. The improved reserve position, given ongoing uncertainty about the impact of Covid-19 on the Council's budget, will help to cushion the Council against variations to budget assumptions in 2021/22 and beyond. This position is consistent with the Council's wider strategy to increase reserves to ensure that the Council's financial position is robust, resilient and sustainable.
- 10 The Strategy and Resources Scrutiny Board will look in more detail at the Medium Term Financial Strategy at its October meeting and following the planned update of the report that will go to Executive Board in the Autumn. In addition the Board will continue to monitor the service reviews that underpin the Budget in 2021/22 and will play an active role in the development of proposals for financial year 2022/23.

What impact will this proposal have?

Wards Affected: Please state the specific wards affected here. If city-wide, state "All" for clarity.

Have ward members been consulted? Yes No

- 11 Scrutiny Board Strategy and Resources has a clear interest in the financial health of the authority established through its remit. Ongoing scrutiny of budgetary matters will assist the Council in terms of budget robustness and long term sustainability and will support the Best Council Ambition to be an efficient and enterprising organisation.
- 12 Having a robust and sustainable budget over the medium term will help the Council to deliver against its wider ambitions to deliver inclusive growth and provides a sound foundation from which to identify priorities for spend.
- 13 In line with the Scrutiny Board Procedure Rules, Scrutiny Boards will also continue to ensure that equality and diversity/cohesion and integration issues are considered in decision making and policy formulation.

What consultation and engagement has taken place?

- 14 The Council's financial health monitoring is a factual report and is not subject to consultation.
- 15 However, in terms of an area of scrutiny focus in 2021/22 the Director of Resources has been consulted on the intention of the Board to regularly feature reports on finance on its agendas throughout the municipal year.

What are the resource implications?

- 16 All resources, procurement and value for money implications are detailed in the main body of the attached Executive Board reports at Appendices 1 and 3.

What are the legal implications?

- 17 This report has no specific legal implications.

What are the key risks and how are they being managed?

- 18 This report has no specific risk management implications.

Does this proposal support the council's 3 Key Pillars?

- Inclusive Growth Health and Wellbeing Climate Emergency

- 19 The terms of reference of the Scrutiny Boards continue to promote a strategic and outward looking Scrutiny function that focuses on the Best Council Plan.
- 20 Having a robust and sustainable budgetary position will enable the Council to deliver against its priorities including the three key pillars set out above.

Appendices

- 21 Appendix 1 – This provides the financial outturn position for 2020/21 for the revenue budget, Housing Revenue Account (HRA), schools budgets and the Capital Programme considered by Executive Board on 23 June 2021
- 22 Appendix 2 – This details the Service Reviews that were developed to support the revenue budget and which play an important role in ensuring a balanced budget in 2021/22
- 23 Appendix 3 - This provides the latest Financial Health Report due to be considered by Executive Board at its July meeting which will be provided as a supplementary item following publication on 13 July 2021.

Background papers

- 24 None