

Budget 2021/22 Financial Health Update, Financial Challenge and Medium Term Financial Strategy

Date: 18 October 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. To illustrate the challenge faced by the authority the overspend linked to managing the impact of the pandemic and the wider fiscal environment in 2020/21 totalled £160.5m.
- The Council has also faced significant uncertainty in relation to its budget planning having had consecutive one-year financial settlements from the Government in 2019 and 2020. The next Comprehensive Spending Review (CSR) is expected on 27 October to be announced alongside the Budget. The CSR is expected to set local authority budgets for the period 2022/23 to 2024/25 which will greatly assist the Council in its medium-term financial strategy by setting firm budget expectations over a longer period as opposed to just year to year.
- A further issue impacting on the Council's budgetary outlook relates to Government support for any further Covid related budget pressures. Government support for additional general expenditure and eligible income losses related to COVID in 2021/22 ended on 30th June 2021. A range of schemes supporting businesses are also reducing now that the country has moved to step 4 of the Government roadmap for the easing of COVID restrictions. This includes the reduction and subsequent removal of additional support for business rates and it is not yet clear how this reduced level of support will impact on the Council's financial position.

- Scrutiny Board Strategy and Resources 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 follows an item considered in July 2021 and aims to build on the Board's ongoing interest in these issues through consideration of the latest Financial Health report and the Council's updated Medium Term Financial Strategy both of which featured at the September 2021 Executive Board. In addition, further specific work focussed on the 2022/23 budget round will take place through a Scrutiny Board Working Group in December.

Recommendations

Board members are asked to note the content of the report and appendices within the wider remit linked to financial sustainability and long-term budgetary robustness.

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

Board members are asked to note the plan for a Working Group to take place in December 2021.

Why is the proposal being put forward?

- 1 Scrutiny Board Strategy and Resources has several key financial functions within its remit. These include the scrutiny of the Council's functions with regard to the setting of the Budget and the Council's financial Strategy, i.e. 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. This report presents the latest iteration of the Medium Term Financial Strategy (MTFS) at Appendix 1 and the latest financial health position in respect of the revenue budget and Housing Revenue Account (HRA) at Appendix 2.
- 2 The Scrutiny Board last considered financial health matters at its meeting in July 2021 dealing with the Financial Outturn position for financial year 2020/21, the latest financial health reports and also a reminder of the service reviews, and linked savings, that were agreed as part of the budget setting process for financial year 2021/22.
- 3 The MTFS aims to set out a consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which the Council's services can be delivered. The strategy covers the period 2022/23 to 2026/27 and is subject to an annual update. The wider context of ongoing budget challenge is clearly set out, the MTFS identifies an estimated budget gap of £146.5m for the five-year period covered by the Strategy, of which £65.4m relates to 2022/23.
- 4 As noted above the Council continues to face a period of significant financial challenge linked to funding reductions, increased demand for services and the residual and ongoing impact of Covid-19. Between the 2010/11 and 2021/22 budgets, the Council's annual core settlement funding from Government has reduced by around £263m, or nearly 60%. Additionally, the Council has faced significant demand-led cost pressures, especially within Adult Social Care and Children's Services. Given the board's remit on budgetary matters and the wider role of scrutiny as a critical friend within the Council, the financial challenge programme and how it could impact the Council's services and workforce are a key driver for the Board's work in 2021/22.

- 5 In addition to covering issues from a performance monitoring perspective the Board will also be carrying out work through a working group in December that looks in greater detail at budgetary plans for the next financial year. Managing the financial challenge successfully is an important element of the successful delivery of Council services and meeting the aims and ambitions set out in the Best Council Plan.
- 6 The MTFS makes a number of assumptions when forecasting the financial envelope for future years and several uncertainties linked to external factors play a contributing role to this position. The Government has indicated that the CSR due to be announced on 27 October will be the first multi-year departmental funding settlement in three years. This could provide much needed certainty to enable the Council to plan more effectively against future service delivery requirements. For the past two years the CSR has been limited to a single year primarily because of Brexit and then the impact of Covid-19. Added to the uncertainty of one year settlements, the Government has also been considering a move to 75% business rates retention nationally, the resetting of business rates baselines and implementation of the outcome of the Government's Fair Funding review of the methodology which determines current funding baselines and is based on an assessment of relative needs and resources. All of these issues create an environment where planning for budgets in future years relies on assumptions as opposed to certainty in terms of the likely funding that will be available from Government.
- 7 Despite these challenges the Medium Term Financial Strategy continues the journey that began in 2019 whereby the Council's revenue budget becomes more financially robust, resilient and sustainable by moving away from the use of one off sources of funding such as capital receipts and reserves to fund recurring expenditure. The MTFS also commits to providing additional budget resiliency through planned budgeted contributions to the General Reserve, an example of which is noted below at Paragraph 9.
- 8 In respect of financial health, the report considered by Executive Board in September set out a projected overspend of £0.4m net of the impact of Covid-19 on the Council's budget. The Covid related overspend stands at £24.9m for 20-21/22 so far but this is offset by Government grant funding of £24.6m (of which £21.2m will be used to address this overspend) and an estimated £3.7m contribution from the Government to account for lost income. The HRA is projecting a balanced budget.
- 9 An important element of financial sustainability and robustness is availability of reserves to deal with unexpected events and unplanned expenditure. Following the closure of the 2020/21 accounts, the Council's general fund reserve stands at £27.8m. The 2021/22 budget assumes a contribution of £4m to this reserve during the current financial year. The Council created a Covid Reserve of £16.7m for 2021/22 to address expected Covid related pressures during the financial year, this is now approaching full utilisation after Quarter 1 of the financial year with £1.7m remaining.
- 10 There are two other notable pressures highlighted in the Financial Health report. These relate to energy prices and pay negotiations for the staff pay award for 2021/22. As has been reported in the national media energy prices have increased significantly since late 2020 linked to increases in global prices. The Council purchases gas and electricity in advance in line with its agreed risk strategy, and so has already hedged the price for the vast majority of its energy requirement for 2021/22, and for a substantial proportion for 2022/23. However, there remains a proportion of the forecast volume requirement for which the price has not yet been secured. An Energy Reserve of £1.07m was created to deal with fluctuations in prices in 2021/22 and whilst there is a degree of uncertainty as to the overall budget pressure on the general fund it is estimated to range from £0.5m to £1.5m. It is therefore likely a substantial call on this reserve may be made.

- 11 In relation to the staff pay award the Council has budgeted for a £1.6m increase in pay costs to provide a minimum pay increase of £250 in 2021/22 for all staff earning less than £24,000. However, pay negotiations are still ongoing and with the outcome of this still unknown any additional costs are not currently reflected in the financial position. A 1% pay increase would equate to approximately £4.3m, less the £1.6m already budgeted, and would need to be absorbed within approved directorate budgets.
- 12 The Strategy and Resources Scrutiny 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 as savings proposals emerge through a planned working group in December.

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

- 13 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 support 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.
- 14 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.
- 15 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?

- 16 The Council's financial health monitoring is a factual report and is not subject to consultation.
- 17 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?

- 18 All resources, procurement and value for money implications are detailed in the main body of the attached Executive Board reports at Appendices 1 and 2.

What are the legal implications?

- 19 This report has no specific legal implications.

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

- 20 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

- 21 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.
- 22 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

- 23 Appendix 1 – Provides the Medium Term Financial Strategy 2022/23 – 2026/27 considered by the Executive Board on 22 September 2021.
- 24 Appendix 2 – This provides the latest Financial Health Report considered by the Executive Board at its September meeting.

Background papers

- 25 None