

Budget 2022/23 Financial Health Monitoring, Financial Challenge and Medium-Term Financial Strategy

Date: 7 November 2022

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.
- Since the budget for 2022/23 was agreed in February 2022 inflationary pressures have increased exponentially with the Council and Leeds residents facing significant cost pressures linked to fuel, energy and food costs and in general the cost of living. In the case of the Council, and for many employers in the city, there is further pressure linked to the staff pay offer which is higher than assumed in the 2022/23 approved budget.
- Appendix 1 and Appendix 2 provide more detail on the Council's financial position in terms of the in year financial position through the Month 5 Financial Health Monitoring Report and through to 2027/28, the Medium-Term Financial Strategy, considered by Executive Board on 21 September, which provides a financial planning framework over the next five years.
- To illustrate the financial pressures faced by the Council the Month 5 financial health report highlights a projected overspend of £20.4m. This reflects inflationary pressures on fuel, energy and staff pay. The council also faces further pressures through increased costs in goods and services procured, increased demand on welfare services from Leeds residents and reduced income as residents choose to spend their income differently to take account of the cost of living.
- The impact of inflation and increased demand for the services provided by the Council closely follow an extended period of uncertainty brought about by the Covid-19 pandemic which the Council, and wider Leeds economy, is still recovering from.
- The role of scrutiny as a 'critical friend' on financial performance and management contributes to supporting the Best City Ambition in ensuring a sustainable and robust financial position from which to deliver against the objectives set out in the Three Key Pillars.

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 2022.

Why is the proposal being put forward?

- 1 Scrutiny Board Strategy and Resources has several key financial functions within its remit. These include 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 closely monitors financial performance as part of its remit. This report presents the latest iteration of the Medium-Term Financial Strategy (MTFS) at Appendix 2 and the latest financial health position in respect of the Revenue Budget and Housing Revenue Account (HRA) at Appendix 1.
- 2 The MTFS sets out a sustainable, robust and prudent financial basis on which the Council's services can be delivered. The strategy covers the period 2023/24 to 2027/28 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 £182.5m for the five-year period covered by the Strategy, of which £63.6m relates to 2023/24. The strategy also highlights the impact of inflationary pressures resulting from the ongoing cost of living crisis. The strategy sets out a £56.7m decrease in funding as a result of inflationary pressure again with a front loaded impact on 2023/24 of £33.1m.
- 3 As noted above the Council continues to face a period of significant financial challenge linked to funding reductions, increased demand for services, increase in the cost of living, increased pay award and the need to recover from the unprecedented impact of Covid-19. In addition to this challenge and as part of ongoing work to enhance budgetary robustness and sustainability, the Council's revenue budget is continuing the journey started in 2019 to become less reliant on one off sources of funding such as capital receipts, capitalisation and use of reserves to fund recurring expenditure.
- 4 Other notable measures contained in the MTFS, and linked to increasing budgetary sustainability, is a commitment to reduce internal recharging which can lead to the driving of wrong financial behaviours and sustaining inefficiencies along with a commitment to increase the General Reserve by £3m each year between 2023/24 and 2027/28.
- 5 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. Long standing uncertainty about Government policy in relation to business rates reform, the planned Fair Funding Review, further impacts from the UK leaving the EU and the future funding of Social Care have now been added to by Geopolitical uncertainty linked to the war in Ukraine and ensuing cost of living crisis.
- 6 In respect of Month 5 financial health, the report considered by Executive Board in October sets out a projected overspend of £20.4m, reducing to £17.9m when Savings Action Plans

from Children and Families and Resources directorates totalling £2.39m are factored in. This position takes account of the pre-existing saving requirement for 2022/23 of £16.5m for which the majority of budget action plans have been implemented or mitigating actions found. The inflationary pressures outlined above, and which are primarily responsible for the projected overspend add to the already existing saving requirement and will require the development of Savings Action Plans to record pressures and monitor improvement. Two directorate Savings Action Plans are included as Appendix 4 to the Financial Health report and provide details on the savings that form part of the £2.39m of savings already identified.

- 7 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 2021/22 accounts, the Council's general fund reserve was £33.2m, an improvement of £5.4m on the position at the end of 2020/21. The 2022/23 budget assumes no contribution to this reserve during the current financial year, but as set out in the MTFS there is planned £3m contribution each year up to 2027/28 from the next financial year.
- 8 As referenced above the staff pay award is a significant issue as the offer made by employers is significantly higher than was budgeted for in February 2022, largely resulting from increased wage demands linked to the increasing cost of living. When agreed the 2022/23 budget allowed £9.5m for an assumed 2022/23 pay award incorporating a Real Living Wage of £9.90 at pay scale points 1 and 2 and a 2% pay award for all other staff. On 22nd September the Real Living Wage was announced at £10.90 per hour, which will need to be incorporated into future budget plans as they exceed the £9.90 budgeted for in February, and the latest pay award offer from national employers is an increase of £1,925 per annum to all employees. The £1,925 pay offer was incorporated into financial planning at Month 4 and is also included in the Month 5 projections, but this figure has yet to be agreed and should it increase additional savings will be required to meet the additional cost.
- 9 The scale of inflation is perhaps best illustrated through increases in fuel costs between June 2021 and June 2022. During this time the average UK pump prices for diesel and unleaded petrol have seen increases of 40.0% and 36.4% respectively. Any impact above the £7.7m in the Council budget for fuel will have to be met through additional savings and given the scale of this increase it is easy to see the pressure this will apply on household budgets in Leeds, particularly when allied to other cost pressures.
- 10 A similar picture has emerged in terms of energy costs. However, the Council identified this as a potential pressure in 2022/23 by allowing for a 5% increase in costs and also an energy contingency of £3.94m that can be applied to costs over and above the budget. Despite these prudent measures the Month 5 projection assumes a cost of £22.6m against the budgeted £14.36m and after the application of the energy contingency an overspend of £4.3m is currently projected. The Government's six-month Energy Bill Relief Scheme for businesses and other non-domestic energy users, including charities and public sector organisations could also save the Council up to £2m. The estimated impact of the Scheme is reflected in the Month 5 projections. The Council has a policy of pre-purchasing 80% of its energy for winter and this pre-planning means that the cost of this is lower than the cap introduced by Government, albeit the prices secured are higher than the authority has ever paid before.
- 11 At its September meeting the Strategy and Resources Scrutiny Board discussed the Corporate Risk Management Annual Report and highlighted concerns about escalating poverty as a risk to the city in the context of increases in inflation. The financial health report highlights this issue and sets out the expectation that there will be increased

demand from Leeds residents for welfare services and support, it also suggests that due to changing priorities on spending residents will have to prioritise cost of living expenses, which in turn could lead to reduced income for the Council.

- 12 The Strategy and Resources Scrutiny Board will continue to monitor the Council's financial position in 2022/23 and will also focus on specific plans for 2023/24 through a Budget Working group in December which will look at both Business as Usual savings proposals and the planned service reviews that will deliver savings in the next financial year. Members will be informed of the date of this working group as soon as it is available.

What impact will this proposal have?

Wards Affected: All

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 budgetary robustness and long-term sustainability and will support the delivery of the three pillars contained in the Best City Ambition.
- 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 The Authority's Financial Strategy is driven by its ambitions and priorities as set out in the Best City Ambition. The determination of these ambitions were subject to consultation with Members and officers throughout its development, with additional extensive stakeholder consultation carried out on the range of supporting plans and strategies.

What are the resource implications?

- 18 All resource 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 City Ambition.
- 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

- 1 Appendix 1 – This provides the latest Financial Health Report considered by the Executive Board at its October 2022 meeting.
- 2 Appendix 2 – Provides the Medium-Term Financial Strategy 2023/24 – 2027/28 considered by the Executive Board on 21 September 2022.

Background papers

- 3 None