

Executive  
10 December 2020

**Title: General Fund Financial Update**  
**Lead Officer: Chris Elliott/Andrew Rollins / Mike Snow**  
**Portfolio Holder: Councillor Hales**  
**Public report / Confidential report: Public**  
**Wards of the District directly affected: All**

Contrary to the policy framework: No  
 Contrary to the budgetary framework: No  
 Key Decision: Yes  
 Included within the Forward Plan: Yes  
 Equality Impact Assessment Undertaken: No  
 Consultation & Community Engagement: No  
 Final Decision: Yes  
 Accessibility checked: Yes

**Officer/Councillor Approval**

<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	30.11.20	Chris Elliot
Head of Service	30.11.20	Mike Snow
CMT	30.11.20	Chris Elliott, Andrew Jones, Bill Hunt, Dave Barber
Section 151 Officer	30.11.20	Mike Snow
Monitoring Officer	30.11.20	Andrew Jones
Finance	30.11.20	Andrew Rollins
Portfolio Holder(s)	30.11.20	Councillor Hales

### **1. Summary**

- 1.1 This report sets out to provide an update on the General Fund Financial position, including the latest Medium Term Financial Strategy (MTFS) as at December 2020 and the latest position on reserves. The report also asks Members to understand the significant risks the Council is facing in dealing with the MTFS especially given the high degree of uncertainty in its operating environment. Alongside the MTFS, a number of savings proposals are presented as a way that the Council will aim to reduce the deficit outlined in the strategy.
- 1.2 The report also outlines that consideration be given to the establishment of an annual Climate Action Fund; approval for a Project Monitor for the Kenilworth School proposal; retrospective approval for a study on the high level business case for further joint work Stratford upon Avon District Council (SDC).

### **2. Recommendations**

- 2.1 To note the current position outlined within the Medium Term Financial Strategy, (MTFS); the deficit position; the planned use of £3m reserves to partially mitigate the deficit in 2021/22; and, the reduced reserve position ongoing (Appendix 1).
- 2.2 To note the significant risks that the Council is facing to its MTFS and the annual Budget that require clear and determined action to resolve and in that context that Members carefully consider the comments of the Council's S151 Officer within Section 5 of the report on the financial risks facing the Council.
- 2.3 To approve the Budget Proposals identified within Appendix 2, which will support the Council in reducing the remainder of the deficit outlined in the MTFS and to bring forward such other reports to Executive, Employment or other Committees of the Council as are required for implementation.
- 2.4 To approve the funding for the Project Monitor in relation to the Kenilworth School relocation funded as detailed in paragraphs 3.5.1 and 3.5.2.
- 2.5 To agree that a Climate Action Fund be established in the budget for 2021/22 and subsequent years of at least £500,000 per annum; the funding for which is to be considered as part of the Annual Budget report in February 2021.
- 2.6 To note the use of the Chief Executive's Emergency powers in consultation with Group Leaders for the commissioning of work to prepare a high level business case on closer working with SDC.

**3. Reasons for the Recommendations**

**3.1 Recommendation 2.1 - The Medium Term Financial Strategy**

3.1.1 As previously reported to members, the Council needs to achieve significant General Fund revenue savings to make up the projected revenue shortfall. Within the Quarter 1 Budget report to Executive the shortfall as depicted in the Medium Term Financial Strategy (MTFS) was shown as follows: -

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deficit-Savings Req(+)/Surplus (-) future years	0	+3,190	+6,139	+5,701	+5,355	+5,306
Change on previous year increase(+) or decrease (-)	0	+3,190	+2,949	-438	-346	-49

3.1.2 The MTFS is in the process of being updated. However, it continues to face the following significant uncertainties: -

- The impact of Covid19 on the Council’s finances. This was previously discussed within the Q1 report. There remains significant uncertainty as to the size and the timing of the reduced income and increased costs that the Council will continue to face. The financial impact of the pandemic is expected to continue into 2021/22 and beyond.
- The impact of the forecast downturn in the economy as a consequence of the pandemic and the further uncertainties about the trade terms for leaving the EU.
- Whilst the Government has provided some funding towards the costs and reduced income incurred by local authorities, there has been no indication of funding beyond 2020/21.
- The Local Government Finance Settlement. This is expected in December and will be a significant driver in determining the share of Business Rates that the Council will retain for 2021/22 and New Homes Bonus. It is only expected to be a one-year settlement, meaning there will remain further uncertainty for these elements of funding from 2022/23.

3.1.3 An updated MTFS will be included within the February Budget report. Whilst the precise shortfall will inevitably change, the figures within the above table are still the best position the Council has for financial planning. The projected figure for 2021/22 though is based on the use of £3m reserves

taken from the Business Rates Volatility Reserve. This is on top of £3.1m used to support the current financial year's budget. This action together with other calls on reserves has meant that the Council's overall General Fund reserves have fallen from just over £22m (April 2020) to just over £15m at April 2021 and are projected to fall further to just over £10m for April 2022. Please see Appendix 1. This is not a sustainable position. The Council's useable General Fund reserves are being assessed and there a number of demands upon them: to maintain anticipated service requirements; contractual commitments; to support the change processes that will be required to deliver the budget proposals referred to within paragraphs 3.3.1 to 3.3.3 below; as well as to retain a cushion for the Council especially in these uncertain times.

- 3.1.4 Whilst a prudent stance has been taken in deriving the MTFs figures, it is entirely possible that a worse position may yet materialise. In addition to working to address the MTFs, the February Budget report also needs to address the issue of our reserves and how these which are severely depleted might be topped up; the allocation of any New Homes Bonus Scheme monies and the impact on the budget situation of our project work where these have revenue implications.

### 3.2 **Recommendation 2.2 – Recognising Risk**

- 3.2.1 Members should also be aware that the profile for 2021/22 in the MTFs presumes the use of a significant use of existing reserves (£3.1m) from the Business Rate Retention Volatility Reserve in order to dampen the impact and to give time to put in place the proposals which are referred to subsequently in this report for 2022/23 when it is estimated the peak of the deficit will occur. This is on top of the £3m use of reserves to maintain services in the current financial year 2020/21. Reserves being one off allocations are not a resolution to any underlying financial challenge but offer only a temporary respite time wise. Use of reserves in these circumstances does not however take away the risks the Council faces and indeed over reliance on the use of reserves to prop up the General Fund expenditure only serves in the longer term to increase the risks to the Council if the underlying problem is not tackled.
- 3.2.2 The risks which are highlighted above in para 3.1.2 need to be recognised as very significant and are of a scale and imminence that this Council has never experienced before. In response to these risks and recognising the need to continue to provide services and deliver its priorities the main mitigation the Council can make is to seek a greater level of savings or income than the MTFs states is needed. If the risk does not materialise then it means that resources can be redeployed back into services, reserves, and/or projects or back to the community in some way. If the situation proves to be worse, this approach provides the Council with a degree of cover. The other mitigation is the retention of enough reserves so that if the budget proposals are not sufficient or if the circumstances deteriorate further they can then be used as a backup when all else has not proved sufficient, hence the term "reserve". The most effective and less-riskier route is to agree that a clear plan of action for the next 3 years is initiated

now as there will be little time to pull back the situation if matters are deferred.

### 3.3 **Recommendation 2.3 - Budget Proposals**

- 3.3.1 Officers have been working up the attached Budget Proposals (Appendix 2), with the aim of making revenue savings and generating revenue income for the General Fund to alleviate the budget shortfall **but** at the same time ensuring that the Council's strategic aim of maintaining or improving services and delivering its priorities can be continued. If all these savings materialise, the Council will be well positioned to meet the budgeted shortfall **and** will still be able to deliver its services, improvements and priorities. However, there will be risks that the savings do not materialise as planned, or that the revenue shortfall increases. The retention of reserves for this eventuality is therefore a prudent step, especially for 2022/23.
- 3.3.2 Some of the savings proposals will require further Business Cases to be brought to members. In addition, some may require upfront funding (revenue or capital). These costs will need to be reflected within the business cases.
- 3.3.3 Members are being asked to agree that these Budget proposals are progressed now to enable the relevant savings be made in line with the profile shown in the Appendix. These proposals as further refined will be included in the 2021/22 Budget due to be considered in February 2021. This may require further reports to the Council, Executive, Employment Committee and so on. Indeed, a special Council will be required in early January for one element of this report, another report on this same agenda and for an item from the October Executive.

### 3.4 **Recommendation 2.4 - Project Monitor costs**

- 3.4.1 The Council has now completed its purchase of land at Rouncil Lane and Leyes Lane enabling Kenilworth School to begin construction of its new school at South Crest Farm when a planning application for consent variation has been considered. When agreeing to support the School's ambition, Members required the Assets Manager to ensure that the cost of construction was robustly challenged to ensure that the Council's risks associated with financial support through a Forward Funding Agreement (FFA) were mitigated as much as possible. Work was commissioned from Atkins which has enabled officers to be satisfied that comprehensive design review and value engineering exercises have taken place.
- 3.4.2 The FFA requires the School to agree that the Council continues with its detailed oversight of the relocation through the appointment of a Project Monitor. Following negotiations between the School and the Council Leader, it was agreed that the Council would fund a Project Monitor role so that there is no conflict of interest concerns. The Assets Manager has therefore commissioned further work from Atkins to undertake the Project Monitor role and this is at a cost of £102,000 for 160 days' work covering the whole period of construction. £25,000 is to be funded from the Service

Transformation Reserve for 2020/21, with the remaining £77,000 for 2021/22 onwards to be determined as part of the February budget report.

### 3.5 **Recommendation 2.5 – Creation of a Climate Action Fund**

3.5.1 Another report on this agenda relates to the Climate Emergency Action Plan and its implementation. That report contains a reference and a recommendation to create a Climate Action Fund that the Council can use to fund the measures it will need to make itself Carbon Neutral by 2025. For the sake of completeness in the context of this report it is proposed that the report on the budget in February should seek to make provision for a Climate Action Fund of at least £500,000 per annum.

### 3.6 **Recommendation 2.6 - Commissioning of High Level Business Case**

3.6.1 The Council's joint work with SDC has progressed to the position it would benefit from a high level business case to look at options and at outcomes to assist both organisation's financial and service arrangements for the next few years. That work is to be procured by WDC, paid for jointly, and is to be considered by both of the Councils alongside their respective budget meetings in February 2021. This was agreed by the Chief Executive in consultation with the Group Leaders under the emergency powers delegation (CE(4)) as set out in the Council's constitution, at a cost of £22,500 to each Council.

## 4. **Policy Framework**

### 4.1 **Fit for the Future**

4.1.1 The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects. This report shows the way forward for implementing the Council's services and key projects.

4.1.2 The FFF Strategy has 3 strands, People, Services and Money, and each has an external and internal element to it, the details of which can be found on the Council's website. Section 4.2 below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy.

### 4.2 FFF Strands

#### 4.2.1 External impacts of proposal(s)

People - Health, Homes, Communities – The General Fund aims to support the provision of improved health and wellbeing within cohesive and active communities, housing needs being met for all and impressive cultural and sporting activities / events.

Services - Green, Clean, Safe – Whilst this report does not directly include proposals to address the climate emergency it is expected that the 2021/22 budget will factor in funding to enable progress towards the Council's

ambitions of becoming a net-zero carbon organisation by 2025, and also supporting the District in achieving this target by 2030.

Money- Infrastructure, Enterprise, Employment – The budgets aim to support a dynamic and diverse local economy, with vibrant town centres, improved performance / productivity of the local economy and increase levels of employment and prosperity.

### 4.2.2 Internal impacts of the proposal(s)

People – Right People with Right Skills – ensuring that the organisation has a sustainable financial footing will enable the Council to retain and attract staff with the desired skills, knowledge, experience and behaviours. The proposals will involve though significant organisational change for which support in various ways will be required.

Services - Maintain or Improve Services - Generating income ensures services can invest in modern processes and equipment to meet customer needs and provide the service in an efficient and effective way.

Money - Firm Financial Footing over the Longer Term – The proposals in this report will help to ensure that the Council has firm plans for tackling the underlying financial deficit and creating a sustainable financial footing to maintain and improve services.

### 4.3 Supporting Strategies

4.3.1 The proposals within the report are key to supporting the FFF strategy. They ensure the cost of providing services is covered, ensuring full cost recovery where appropriate and allowing the Council to continue to deliver and invest in services going forward.

### 4.4 Changes to Existing Policies

4.4.1 There are no changes proposed to existing policies.

### 4.5 Impact Assessments

4.5.1 The savings proposals have been identified as part of ongoing work with service areas, following discussions held as part of the weekly Senior Management Team (SMT) meetings.

## **5. Budgetary Framework**

5.1 Securing savings and balancing its Budget will enable the Council to deliver its aspirations and priorities as well as core services. The Financial Strategy underpins all of the Council's other strategies.

5.2 The recommendations within this report, should they be approved, will be considered as part of the 2021/22 Budget, due to be reported to Executive in February.

- 5.3 An updated Medium Term Financial Strategy will also be included within the 2021/22 Budget report in February. This will detail the level of future years' savings to be found following the inclusion of this reports recommendations, and any further developments.
- 5.4 The current financial climate facing all local authorities presents many risks. These are discussed in Section 3.2 and Section 6 below. These risks have increased greatly as a result of the current pandemic, impacting on individual local authority's income and expenditure and the broader Public Sector Finances. In such uncertain times, the Council needs to consider more carefully than ever its financial decisions in respect of the current and next year's Budgets, but also their impact on the Medium Term Financial Strategy (MTFS) which enable sustainable budgets for the future.
- 5.5 The budget proposals within this report, and within Appendix 1, are intended to help support the Council's finances into the future whilst protecting services. However, even if all the proposals within Appendix are agreed and are progressed, there will invariably be differences in the levels and the timing of the savings proposed. It is quite possible that such differences may impact adversely on the MTFS.
- 5.6 This year and next the Council is already making extensive use of reserves (almost a third of its General Fund reserves) in order to mitigate the impact of the Pandemic; other cost pressures; and, to give time to put in place a range of proposals that will put the Council's financial standing on a sustainable basis whilst at the same time maintaining services and delivering its priorities. However, some reserves also need strengthening and given the extent of uncertainty the Council does need to retain reserves to remain an effective service delivery organisation.

## **6. Risks**

- 6.1 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.
- 6.2 The main sources of income which may be subject to reductions include:
- Government grant (e.g., Benefits Administration Grant);
  - Business Rates Retention;
  - Fees and charges from provision of services;
  - Rent income;
  - Investment interest.
- 6.3 Increased expenditure in service provision may be due to:
- Inflation and price increases for supplies and services;
  - Increased demand for services increasing costs;
  - Changes to taxation regimes;
  - Unplanned expenditure;
  - Assumed savings in budgets not materialising.
- 6.4 Triggers for increased costs or reduced income include:



- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available;
- Unplanned expenditure, e.g. costs from uninsured events, costs of planning appeals or other legal process;
- Project costs – whereby there are unforeseen costs, or the project is not properly costed, or the risks related to them are not properly managed.
- Changes to assumptions underpinning the Medium Term Financial Strategy – these assumptions are closely monitored.

6.5 Many controls and mitigations are in place to help manage these risks. These include:

- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, regular Budget Review reports are issued to the Executive and Senior Management Team.
- Financial Planning with the Medium Term Financial Strategy / financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
- Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
- Project Management and associated controls.
- Trained staff and access to appropriate professional advice (e.g. WCC Legal Services, Local Government Futures for advice on local government funding).
- Risk Management process across the Council, including the on-going review and maintenance of risk registers. The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing risks within each Service Risk Register. Individual Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.
- Scrutiny by Members of the Council's finances, including Budget Reports and the financial implications of all proposals brought to them for consideration.
- Within the 2020/21 budgets a Contingency Budget was included for any unplanned unavoidable expenditure. A similar budget will be included within the 2021/22 Budget when presented to members in February 2021.
- Reserves – whilst much of these Reserves have already been earmarked for specific projects, it is important that Reserves are held for any unforeseen demands.
- In addition to the Reserves, the Council holds the General Fund Balance of £1.5m. This is available to accommodate any unplanned expenditure or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level.

**7. Alternative Option Considered**

- 7.1 The purpose of this report is to ensure that a sustainable ongoing financial position is achieved by the Council, in line with current Council policies and recognises the risks currently faced and those which are anticipated.
- 7.2 If members wish to change any of the proposals within the budget proposals, then they will also need to indicate clearly how they expect any change which results in a reduction of savings or of income to be made up. If further expenditure is proposed, then equally ways of funding it will need to also be proposed. Whilst reference has been made to the reserves, it is not considered prudent to make additional use of reserves as an alternative to dealing with the underlying deficit.
- 7.3 The Council could decide not to fund a Climate Action Fund but that would hamper the Council's key aim of making the Council carbon neutral by 2025 and the District by 2030. Likewise, in relation to Council Tax levels, not agreeing to a freeze would leave the issue of alignment hanging and so would subsequently have a more dramatic impact when reconciled. The high level business case is a required piece of evidence to be considered alongside the Council's budget and council tax setting decisions in February 2021.
- 7.4 The Council could decide not to agree to a Project Monitor for the Kenilworth School project but given the scale of investment tied up this would not help the Council to manage a sizeable risk.

**8. Background**

- 8.1 In February all the following information should be available:
- 2021/22 Base Budget
  - 2021/22 Government Finance Settlement
  - Updated Business Rates Retention projections
  - 2021/22 New Homes Bonus.
- 8.2 If the main revenue sources above are below the projections within the medium term financial strategy, detailed consideration will be required as to the means of being able to set a balanced budget. This may include making further savings from services, generating additional income, or using the Council's limited reserves in the short term.
- 8.3 The Council will then be in a position to agree the 2021/22 Budget and the District Council element of the Council Tax. In addition, the total Council Tax for the District will be set, including the elements set by the County Council, the Police and Crime Commissioner and the Parish and Town Councils.