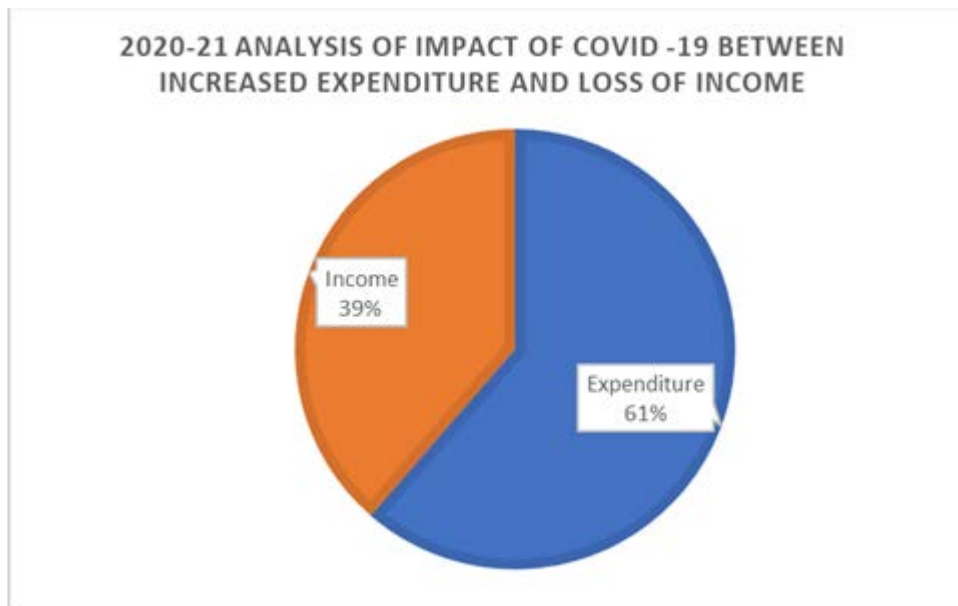
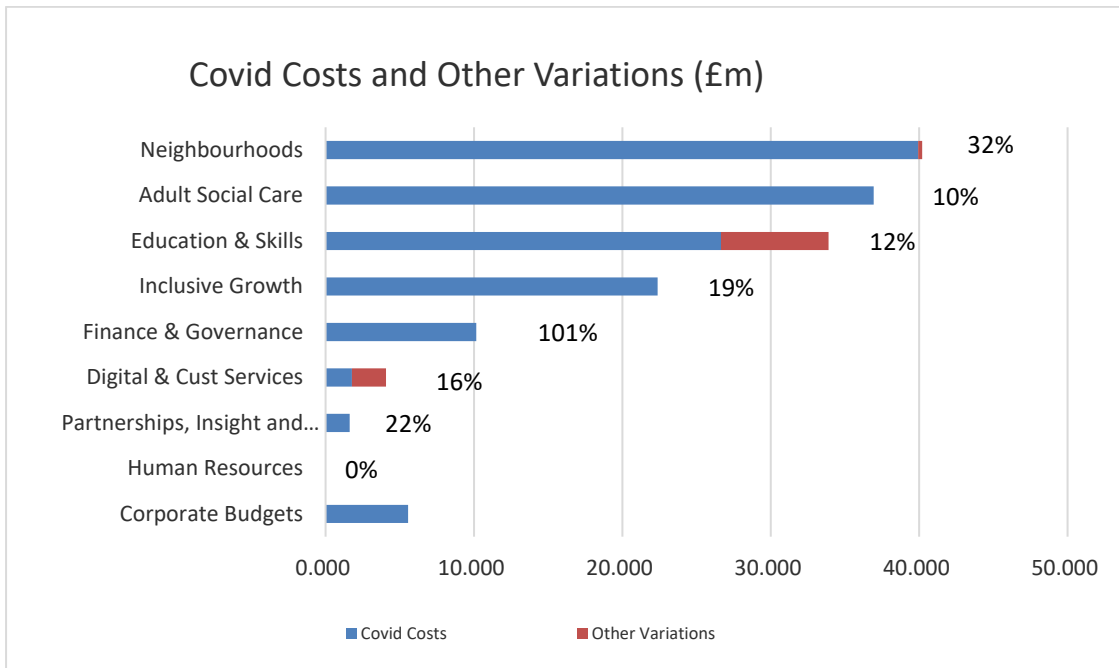


# Month 3 Financial Exception Report

## 1. High Level Summary Financial Position

- 1.1. This is an exception report on the major financial issues for the Council based the Quarter 1 full financial report.
- 1.2. The assessment at the end of May is that the Council's **General Fund**, is facing a net **overspend** of **£79.9m** which represents 9% of the £852.9 budget. **£74.7m** of the overspend relates to the Covid-19 emergency after applying the £70.3m government grant. While the impact is being presented in Directorates, the funding gap is being dealt with as a corporate issue. Directorates are forecasting a net overspend of **£5.2m**, due to Non Covid-19 related costs.



Directorate	Current Budget	Forecast Outturn	Total Over/(Under) Spend	Covid 19 Financial Impact Included	Over/(Under) spend net of Covid costs
	£m	£m	£m	£m	£m
Neighbourhoods	126.641	166.840	40.199	39.928	0.271
Adult Social Care	328.361	362.699	34.338	36.935	(2.597)
Education & Skills	274.961	308.854	33.893	26.650	7.243
Inclusive Growth	106.096	126.574	20.478	22.378	(1.900)
Finance & Governance	9.969	20.056	10.087	10.157	(0.070)
Digital & Cust Services	25.893	29.965	4.072	1.772	2.300
Partnerships, Insight and Prevention	7.340	8.964	1.624	1.624	0.000
Human Resources	6.581	6.581	0.000	0.000	0.000
<b>Directorate Sub Total</b>	<b>885.841</b>	<b>1,030.532</b>	<b>144.691</b>	<b>139.444</b>	<b>5.247</b>
Corporate Budgets	(32.909)	(27.348)	5.561	5.561	0.000
Covid Funding Expected	0.000	(70.310)	(70.310)	(70.310)	0.000
<b>Corporate Subtotal</b>	<b>(32.909)</b>	<b>(97.658)</b>	<b>(64.749)</b>	<b>(64.749)</b>	<b>0.000</b>
<b>City Council General Fund</b>	<b>852.933</b>	<b>932.875</b>	<b>79.942</b>	<b>74.695</b>	<b>5.247</b>

*\*this excludes Covid-19 risk, see 2.3 below.*

- 1.3. **Capital** spend is currently projected to be **£750.6m in 2020/21**, after a projected **slippage** and **rephasing** of **£125.4m**. The full multi-year capital programme is projected to be **£3,309.8m**.

## 2. Key Issues

### Non Covid-19 Related Issues

#### Education and Skills

- 2.1. The biggest non-Covid-19 issues are in Education and Skills Directorate. There continues to be a significant increase in the number of children in care requiring support by Birmingham Children's Trust, from 1,830 at the start of the Trust in April 2018 rising to an average of 1,955 by March 2020 alongside other additional placement demands, including a general lack of sufficiency for residential placements. These demand pressures are currently forecast at an additional £7m of spend after mitigating savings. Further action is ongoing with the Trust to arrive at a shared and agreed position regarding current and future demand pressures, including commissioning arrangements, a review of contractual arrangements and time limited investment in transformation projects (around embedded adult services specialists, supported accommodation and dedicated contact centres) designed to improve outcomes and reduce costs.
- 2.2. The Education and Skills Directorate together with Birmingham and Solihull Clinical Commissioning Group published a 'written statement of action' in July 2019, in response to the DfE, to make improvements to the special educational needs and disability (SEND) service. At this stage it is anticipated that any financial impact on the Local Authority will be met from the Dedicated Schools Grant.
- 2.3. There is a growing concern around schools with financial deficits. The number of schools in deficit has only grown by a small amount (from 38 to 40), but the total deficit amount

has risen substantially from £7.2m to £9.0m; the Local Authority is working with Governing Bodies on deficit recovery plans to address this. Where maintained schools convert to Academy status with a sponsor the licenced deficit will fall to the Council. We have not quantified this risk.

### **Neighbourhoods**

- 2.4. The 2019/20 outturn for Neighbourhoods was an overspend of £19.7m. For 2020/21 additional budget has been allocated to Neighbourhoods of £23m. This funding should address the issues that were present in 2019/20.
- 2.5. Nearly all services within Neighbourhoods are based on a degree of demand led activity from Trade Waste, Homelessness to Licencing and Regulation. Whilst not currently deemed a budget pressure there is a level of risk from a continuation of the demand impact over and above what has been recognised as an impact of Covid-19.
- 2.6. Stemming from 2019/20 and in some part, as a result of Covid-19 related activity, the service is currently concerned about funding for temporary accommodation. Additionally, a current assessment is being made for set aside of a sinking fund for reservoirs maintenance and allocations of section 106 commuted sums.
- 2.7. A review of use of HRA and cost charging policies is also taking place alongside an ongoing assessment of the Covid-19 impact on rent arrears.

### **Adult Social Care**

- 2.8. Health are currently meeting the costs arising from most hospital discharges and there is a significant reduction in residential and nursing placements. However, there are still significant costs to be quantified in relation to support to the care market in respect of actual costs incurred and it is anticipated that there is currently a significant level of hidden demand which will impact when lockdown is eased.
- 2.9. Added to this is an expected significant increase in the net cost of care packages due to the impact of short-term demand on prices, temporary health funding and a reduction in client contributions.
- 2.10. The Directorate's Transformation Programme continues to progress with the roll-out of the Customer Journey Restructure and the System-wide Early Intervention Programme over the coming months in order to deliver long term sustainable savings. The short-term impact of Covid-19 has led to the need to retain additional agency Social Work capacity for longer than originally planned but has also meant that the Early Intervention process has been refined in advance of wider implementation. Following the implementation of the Customer Journey Restructure in September 2020 the planned reduction in the ongoing use of agency staff will result in a saving of £3.1m.

### **Inclusive Growth**

- 2.11. The Council is currently working with Birmingham Highways Ltd to re-procure the subcontract for its Highway Maintenance and Management PFI contract. Affordability for this will be assessed against the total cost of a future contract and assessed as part of setting future years budgets.

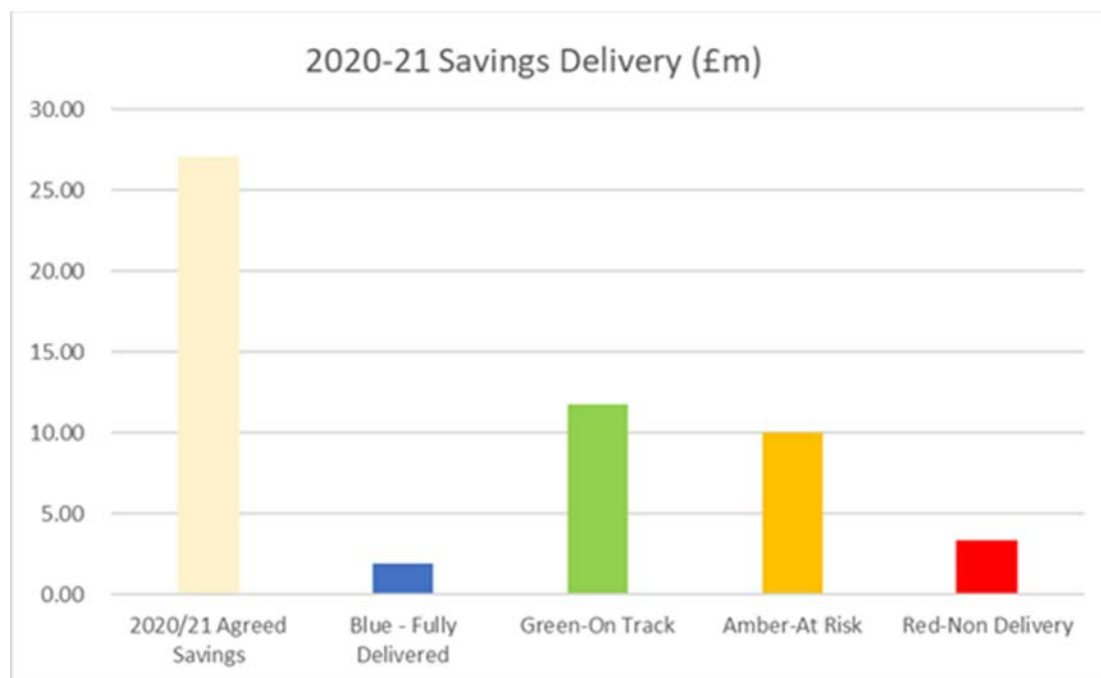
### **Commonwealth Games**

- 2.12. In terms of the Commonwealth Games Covid-19 has impacted on the works at the Village and a detailed review is taking place to consider the costs and delivery timelines including potential mitigation plans given the hard deadline for the Games. There will be a report in

due course. The overall Alexander Stadium project remains in line with the overall approved budget.

### Savings Programme

- 2.13. The £27.1m savings programme for 2020/21 has £10.0m at risk and £3.4m are classed as undeliverable or non-delivered. The largest area with for savings at risk is Adult Social Care particularly their savings in packages of care, all a result of the Covid-19 impact.



### Borrowing

- 2.14. For quarter 1 we have actively reviewed the borrowing position and will keep the position under constant review. Current borrowing is £3,375m, below the years planned level. This is likely to be a temporary position due to the initial impact of Covid-19. We have received some government grants early and there is some slippage in spending on the capital programme. There remains uncertainty about the impact of Covid-19 on future cashflows.

### Level of Debt and Provision

- 2.15. The outturn for 2019/20 show short-term net debt at £401m, higher than the £331m in the previous year. Finance are implementing deep dive reviews on debt to ensure we are effectively managing the overdue debt we have, minimising any future overdue debt and, wherever possible avoiding debt all together by ensuring payment at point of order.

### Policy Contingency and Use of Reserves

- 2.16. The policy contingency budget for 2020/21 is £40.8m. Given the significant financial pressures and the need to drive the new Chief Executives delivery plan there may be a need to re-prioritise the use of the policy contingency budget.

- 2.17. General Reserves are forecast to be £114.7m out of a total £668.2m. A minor revision to the Council's Reserves Policy is proposed. An assessment of the levels and use of reserves will be undertaken as part of the mid-year review of the Long-Term Financial Plan, which will go to Cabinet in the Autumn. Given the significant financial pressures facing the Council due to the Covid-19 emergency it may become necessary to utilise

reserves in 2020/21 to support the budget, but only as a last resort. Consideration of in-year requests to use reserves will be considered on an exception basis.

### **Council Tax and Business Rates**

2.18. The Collection Fund collects business rates and council tax income and pays it over to the precepting body. Council tax and business rates income has been heavily impacted by Covid-19. The forecast for the Collection Fund is now a deficit of £62.5m. The impact of this will be taken into account in setting the budget for 2020/21 (£16.1m deficit for Council Tax and a £46.4m deficit for Business Rates).

### **Covid-19 Major Incident Financial Impact**

2.19. The Council has received £70.3m of un-ringfenced Covid-19 related grant funding from the government and is awaiting details on how the additional funding package announced on 2 July will improve the financial position. The government has also announced several ring-fenced grants for additional reliefs and support schemes which are being spent on the additional measures set out in government guidance.

2.20. The current assumption for the financial impact of the Covid-19 major incident is based on a 6-month forecast for the duration of the incidents along with some residual costs. The financial impact of recovery and a potential new normal is not yet fully understood, it will figure in future exception reports and will be built into the mid-year review of the 2021/22 Long Term Financial Plan, to go to Cabinet in the Autumn.

2.21. The forecast additional spend/loss of income to the Council on Covid-19 related general fund activities, after utilising the un-ringfenced government grant, for 2020/21 is £75m. There are further financial risks which have been quantified at £39m, which are reported through emergency cells on a weekly basis.

2.22. The Council is engaged in ongoing discussions with the government around further funding support and additional freedoms and flexibilities that the government could provide to support the rectification of the budget gap caused by Covid-19 in both 2020-21 and 2021. Once we have concluded these discussions on both further funding and freedoms and flexibilities the financial situation will be reassessed and decisions on any further actions to be taken will be made at that point.