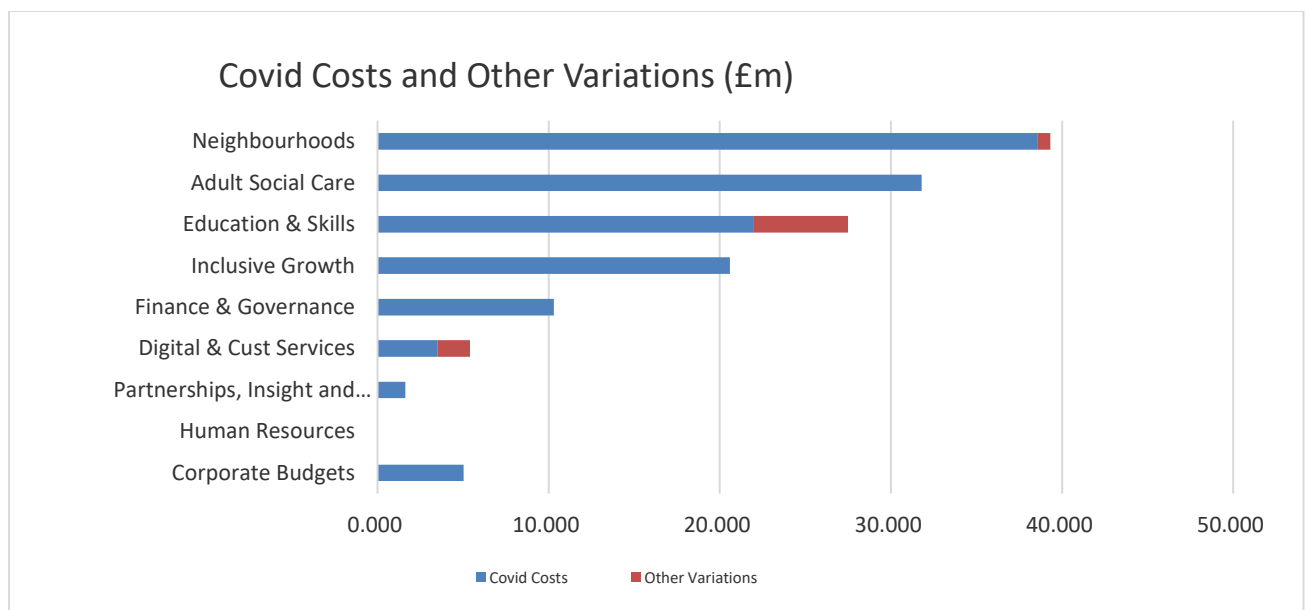


Month 4 Financial Exception Report

1. High Level Summary Financial Position

- 1.1. This is an exception report on the major financial issues for the Council at Month 4. It is not a full financial forecast and the assumption is that there are no significant variances beyond the issues highlighted. The next full forecast will be reported in October.
- 1.2. The assessment at the end of July is that the Council's **General Fund**, is facing a net **overspend** of **£38.1m** (Column C in table1) which represents 4.5% of the £852.9m budget. **£33.5m** (Column D in table1) of the overspend relates to the Covid-19 emergency after applying the £84.3m government grant and £15.6m income loss funding. The funding gap is being dealt with as a corporate issue. Directorates non Covid-19 net overspend is **£4.5m** (Column E in table1), a decrease of £0.7m from quarter 1.
- 1.3. In July Directors were asked to review their Covid-19 decisions and assumptions and where there is choice to look to curb spending. There are also a range of other measures under consideration. Since quarter 1 the net cost has fallen by £41.2m. The cost of the Covid-19 emergency has decreased by £11.6m. The remaining £29.6m improvement is a result of the third tranche of government grant funding and the announcement of a mechanism to fund some of the sales, fees and charges income losses.



**2020-21 ANALYSIS OF IMPACT OF COVID-19 BETWEEN INCREASED EXPENDITURE
AND LOSS OF INCOME**

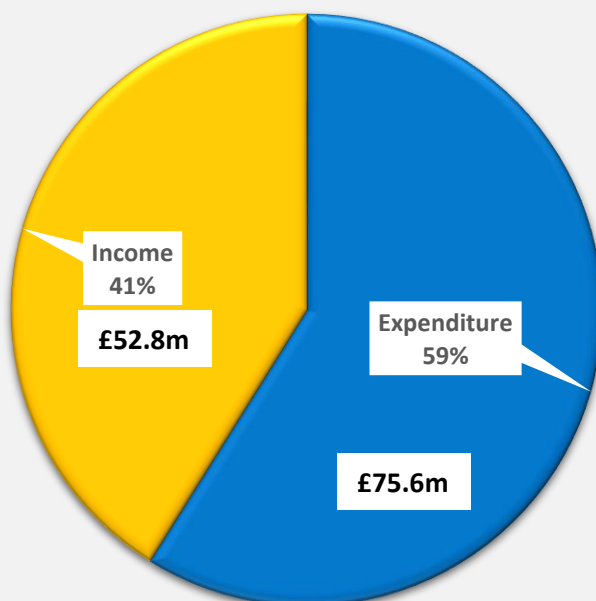


Table 1: High Level Summary	A	B	C	D	E	F
Directorate	Current Budget	Forecast Outturn	Total Over/(Under) Spend *	Covid 19 Financial Impact Included **	Over/(Under) spend net of Covid costs	Movement in Total Over/(Under) Spend
	£m	£m	£m	£m	£m	£m
Neighbourhoods	126.641	165.961	39.320	38.549	0.771	(0.879)
Adult Social Care	328.361	358.361	30.000	31.800	(1.800)	(4.338)
Education & Skills	275.033	302.533	27.500	22.000	5.500	(6.393)
Inclusive Growth	106.096	124.996	18.900	20.600	(1.700)	(1.578)
Finance & Governance	9.898	20.098	10.200	10.300	(0.100)	0.113
Digital & Cust Services	25.893	31.293	5.400	3.500	1.900	1.328
Partnerships, Insight and Prevention	7.340	8.964	1.624	1.624	0.000	0.000
Human Resources	6.581	6.581	0.000	0.000	0.000	0.000
Directorate Sub Total	885.841	1,018.785	132.944	128.373	4.571	(11.747)
Corporate Budgets	(32.909)	(27.871)	5.038	5.038	0.000	(0.523)
Covid Funding	0.000	(70.310)	(84.278)	(84.278)	0.000	(13.968)
Income Loss Scheme Funding	0.000	(15.600)	(15.600)	(15.600)	0.000	(15.600)
Corporate Subtotal	(32.909)	(113.781)	(94.840)	(94.840)	0.000	(30.091)
City Council General Fund	852.933	905.005	38.104	33.533	4.571	(41.838)
Financial Position as at Q1	852.933	932.875	79.942	74.695	5.247	0.000
Movement from previous Q1	0.000	(27.870)	(41.838)	(41.162)	(0.676)	(41.838)
Movement from previous Q1 %	0.0%	(03)%	(52)%	(55)%	(13)%	

* the above table has been sorted according to the total over/under spend (largest to smallest)

**this excludes Covid-19 risk, see 2.24 below

Capital spend

- 1.4. 2020/21 Capital spend is currently projected to be £748.4m, after projected slippage of £107.9m (£105.1m Covid related, £2.8m non-Covid related). However, there are still uncertainties as a result of Covid which are yet to be quantified and are expected to impact on the capital spend for the year.

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, over and above the additional funding of £6.1m in 2020/21 as part of setting the budget, are currently forecast at an additional £5m, this is a £2.1m decrease on last month which is a result of focusing on reducing the placement costs (£1.1m) and contract renegotiations (£1m) all of which are ongoing reductions.
- 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. Further information will be provided next month.

Neighbourhoods

- 2.4. The 2019/20 outturn for Neighbourhoods was an overspend of £19.3m. 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. An in-depth review of the Neighbourhoods budget is underway, following the June Star Chamber meeting. The outcome of the review will be reflected in the period 5 position and significant movements reported in due course.

- 2.8. 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

- 2.9. 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.
- 2.10. 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. To date the reduction in residential and nursing numbers has led to a £3.6m fall in forecast costs for the year, there is likely to be some volatility in Adults Projections as the key assumptions are refined due to the nature of the service it provides.
- 2.11. The Directorate's Transformation Programme continues to positively progress with the roll-out of the Customer Journey Restructure and the Early Intervention Programme over the coming months in order to deliver existing planned sustainable savings. Ongoing system-wide service transformation with partners (NHS) is continuing but no additional savings are assumed at this stage.
- 2.12. 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 £3.2m.

Inclusive Growth

- 2.13. The Council is currently working with Birmingham Highways Ltd to re-procure the subcontract for its Highway Maintenance and Management PFI (HMMPFI) contract. Affordability will be assessed taking account of the total cost of a re-procured contract and available resources, with the outcome being factored in as part of setting future Council budgets.
- 2.14. On the 6th April 2020 the Council received approval from Government to delay the implementation of the Birmingham Clean Air Zone (CAZ) until no earlier than January 2021 and activities associated with delivery were scaled back reflecting the delays experienced and also the need for the Council to redeploy staff to support the Covid-19 response. The Council has remained committed to the CAZ. In the context of the national Covid-19 lockdown being eased activity is now progressing to enable implementation in 2021.
- 2.15. The forecast for commercial property rental income is lower than anticipated when considering the prior year outturn position and known variations. Property Services are undertaking a review to confirm the accuracy of the forecast. This uncertainty in conjunction with the yet to be confirmed impacts of Covid-19 mean that there is a real risk that the current forecast pressures could increase.
- 2.16. The Directors of the Council's wholly owned company, InReach (Birmingham) Ltd, have made the decision not to progress with one of the planned schemes, Brasshouse, due to a combination of factors that have increased the level of risk. The Council expenditure over the programme was budgeted at £43m, through a mix of equity and loan investments, and was to deliver an annual net income stream rising to £0.9m following

the final loan drawdown. The company continues to deliver a net income stream resulting from the original Embankment scheme and current plans are to progress with the remaining smaller scheme.

Digital & Customer Services

2.17. It is expected that the forecasted overspend in ICT&D will reduce and be dealt with as part of the centralisation of recharges work.

New Oracle Back office system (ERP)

2.18. The programme, as a result of an assurance process, is going through a reset phase to establish and quantify financial and non-financial risks. A report to cabinet is planned for the Autumn.

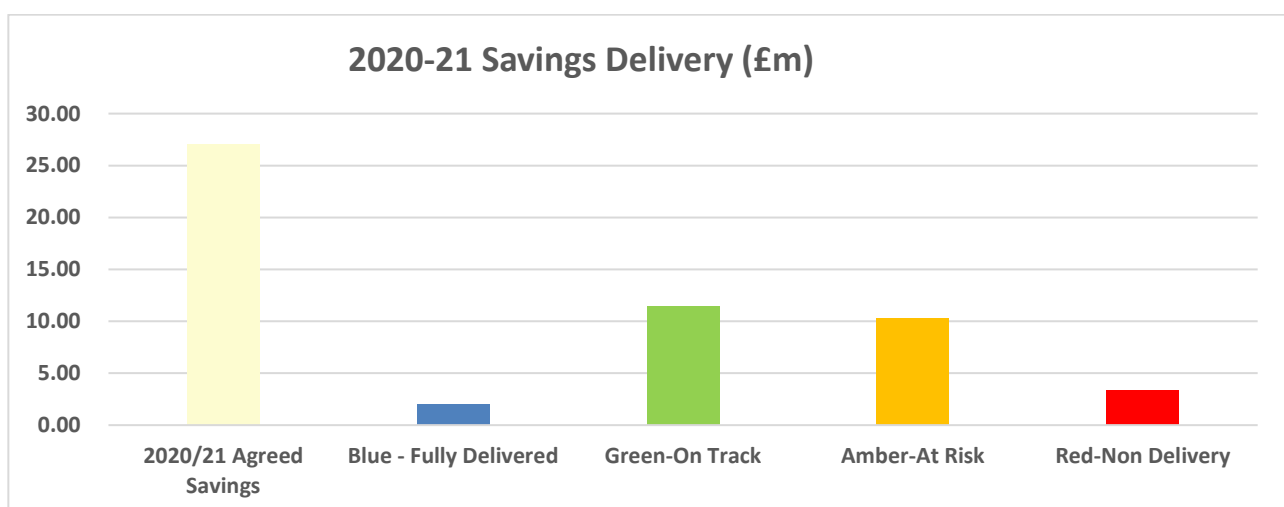
Commonwealth Games 2022-23

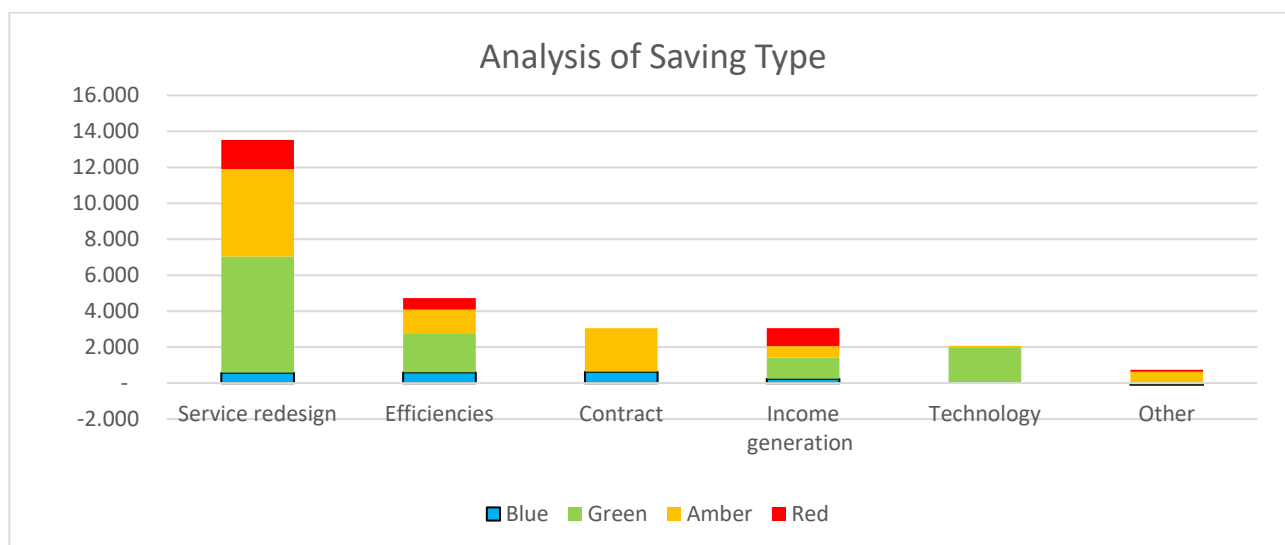
2.19. Perry Barr Regeneration Scheme - A rephasing of expenditure between years has taken place to reflect the revised Full Business Case approved by Cabinet in March 2020 and slippage from 19/20. Covid has impacted on the works at the Village and a detailed review is under way to consider the costs and delivery timelines including potential mitigation plans. Early impacts have been identified including scope reductions offset by costs of enhanced welfare provisions in response to the Covid pandemic, resulting in a net forecast reduction in expenditure of £23.6m over all years (£6.7m in 2020/21). The scope and forecast spend is likely to change further as a result of this ongoing review and will be reported as and when quantified.

Savings Programme

2.20. The £27.1m savings programme for 2020-21 (shown in the following charts) has £10.3m at risk and £3.4m classed as undeliverable or non-delivered. Covid-19 has impacted savings delivery. The key non Covid-19 areas at risk or non-deliverable are:

- **Contract** savings cut across all directorates. £0.6m has been delivered so far and while a delivery plan exists, the £2.4m remaining is now considered a risk as Covid-19 has caused services to reappraise their planned procurements.
- **Education** £1m Early Years new working model savings is unlikely to be achieved and mitigation action plans are required.
- **Inclusive Growth** £0.6m saving from the reduction in Central Administrative Buildings (CAB) is at risk.





Borrowing

- 2.21. The annual cost of servicing debt represents approximately 30% of the budget. Currently borrowing is £3,311m, with the year-end projection likely to be below the planned level of £3,832m. Some government grants have been received early and there is slippage in spending on the capital programme. There remains uncertainty about the impact of Covid-19 on future cashflows.

Level of Debt and Provision

- 2.22. The outturn for 2019/20 showed short-term net debt at £401m, higher than the £331m in the previous year. The net debt is made up of £577m owed to the Council less £176m set aside as a bad debt provision to cover the risk of non-collection. An additional £13m was included in the £176m bad debt provision to cover the increased risk of non-collection brought about by Covid-19. 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

- 2.23. 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. General Reserves are forecast to be £114.7m out of a total £668.2m. An assessment of the levels and use of reserves is being 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

- 2.24. 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 a deficit of £62.5m. The impact of this will be considered in setting the budget for 2021-22 (£16.1m deficit for Council Tax and a £46.4m deficit for Business Rates).

Covid-19 Major Incident Financial Impact

- 2.25. The Council now received £83.4m of un-ringfenced Covid-19 related grant funding from the government. The government has announced an income loss scheme where after 5% deductible, the council will be compensated for 75p in every pound in sales, fees and charges losses due to Covid-19. The council currently estimates that this could provide £15.6m of additional funding, however the government has yet to issue the precise mechanism for this claim. 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.
- 2.26. 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 incident along with some residual costs. The financial impact of recovery and a potential new normal is not yet fully understood, it will be built into the mid-year review of the 2021-22 Long Term Financial Plan, to go to Cabinet in the Autumn.
- 2.27. There are further Covid-19 financial risks which have been quantified at £35.5m, which are reported through emergency cells on a weekly basis.
- 2.28. 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 2021-22. This has culminated in a formal request, on the 31 July, for consideration by the government of a package of freedoms and flexibilities. Indications are that this consideration could take up to three months.