

Birmingham City Council

Report to Cabinet

21ST JULY 2020



Subject: FINANCIAL MONITORING REPORT
QUARTER 1 (UP TO 30TH JUNE 2020)

Report of: Chief Finance Officer – Rebecca Hellard

Relevant Cabinet Member: Councillor Tristan Chatfield – Finance & Resources

Relevant O &S Chair(s): Councillor Sir Albert Bore – Resources

Report author: Chief Finance Officer – Rebecca Hellard

Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 007784/2020		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential:		

1 Executive Summary

- 1.1 The comprehensive quarterly finance report attached as Appendix A is part of the City Council's robust financial management arrangements.

2 Recommendations

That the Cabinet:-

- 2.1 Notes the City Council's 2020/2021 forecast revenue budget position and the pressures and savings identified as at 30th June 2020 resulting in a forecast overspend of £79.9m.
- 2.2 Notes that the Council has received £70.3m of un-ringfenced Covid-19 related grant funding from the government.
- 2.3 Notes that 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 £74.7m.
- 2.4 Notes that 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
- 2.5 Notes the Council is also forecasting other revenue overspends of £5.2m, largely related to placement pressures within Birmingham Children's Trust.
- 2.6 Notes the latest monitoring position in respect of the Council's savings programme and the risks identified in its delivery.
- 2.7 Notes the forecast capital expenditure in 2020/2021 of £750.6m.
- 2.8 Approves the writing off of debts over £0.025m as described in paragraph 4.19 and set out in Annexe 4 of Appendix A.
- 2.9 Approves the amended Reserves Policy as set out in paragraph 4.23
- 2.10 Notes the Treasury Management report in Appendix A.
- 2.11 Notes the Investment Portfolio Report in Appendix A.

3 Background

- 3.1 At the meeting on 25th February 2020, the Council agreed a net revenue budget for 2020/2021 of £852.9m to be met by government grants, council tax and business rates payers. Appendix A sets out the full financial position at Quarter 1.

4 Key Issues

- 4.1 The Council is forecasting a revenue overspend of **£79.9m** which represents 9.3% of the £852.9m budget. **£74.7m** of the overspend relates to the Covid-19 emergency after applying the £70.3m government grant received so far. This position does not include risks or 2021/22 onwards financial implications. **£5.2m** is non-Covid related directorate overspends. While the Covid-19 impact is being presented in Directorates, the funding gap is being dealt with as a corporate issue.

4.2 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.

4.3 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 but will be built into the mid-year review of the 2021/22 Long Term Financial Plan, to go to Cabinet in the Autumn.

4.4 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. Once these discussions have concluded 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 by Cabinet.

Savings Programme

4.5 The savings programme for 2020/21 is £27.1m. Savings of £13.7m are on track, £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.

Capital Programme

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

Education and Skills

4.7 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. 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.

- 4.8 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. 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.

Neighbourhoods

- 4.9 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.
- 4.10 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.
- 4.11 Stemming from 2019/20 and in some part, as a result of Covid 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.
- 4.12 A review of use of Housing Revenue Account and cost charging policies is also taking place alongside an ongoing assessment of the Covid-19 impact on rent arrears.

Adult Social Care

- 4.13 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.

4.14 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.

4.15 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.

Inclusive Growth

4.16 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

4.17 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.

Treasury Management

4.18 The Covid-19 pandemic has had a significant impact on Treasury Management decision making in the quarter. Details are set out in the full report.

Level of Debt, Provision and Write-Offs

4.19 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. Debt over £0.025m recommended for write off is set out in Annex 4 of Appendix A.

Policy Contingency and Use of Reserves

4.20 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.

4.21 General Reserves are forecast to be £114.7m out of a total £668.2m. 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 October 2020.

- 4.22 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. Consideration of in-year requests to use reserves will be on an exception basis.
- 4.23 A minor revision to the Council's Reserves Policy is proposed to allow for the exceptional circumstances that the Council is facing

5 Options considered and Recommended Proposal

- 5.1 Directors, in striving to manage their budgets, have evaluated all the options available to them to maintain balance between service delivery and a balanced budget.

6 Consultation

- 6.1 Cabinet Members, Directors, the City Solicitor, Human Resources and Assistant Directors of Finance have been consulted in the preparation of this report.
- 6.2 There are no additional issues beyond consultations carried out as part of the budget setting process for 2020/21.

7 Risk Management

- 7.1 The monitoring of the Council's budget and the identification of actions to address issues arising, as set out in this report, are part of the Council's arrangements for the management of financial issues.

8 Compliance Issues:

8.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

- 8.1.1 The budget is integrated with the Council Financial Plan, and resource allocation is directed towards policy priorities.

8.2 Legal Implications

- 8.2.1 Section 151 of the 1972 Local Government Act requires the Chief Finance Officer (as the responsible officer) to ensure the proper administration of the City Council's financial affairs. Budget control, which includes the regular monitoring of and reporting on budgets, is an essential requirement placed on Directorates and members of the Corporate Management Team by the City Council in discharging the statutory responsibility. This report meets the City Council's requirements on budgetary control for the specified area of the City Council's Directorate activities.

8.3 Financial Implications

8.3.1 The Corporate Revenue and Capital Budget Monitoring documents attached give details of monitoring of service delivery within available resources.

8.4 Procurement Implications (if required)

8.4.1 N/A

8.5 Human Resources Implications (if required)

8.5.1 N/A

8.6 Public Sector Equality Duty

8.6.1 There are no additional Equality Duty or Equality Analysis issues beyond any already assessed in the year to date. Any specific assessments needed shall be made by Directorates in the management of their services.

9 Background Documents

9.1 City Council Financial Plan 2020-2024 approved at Council 25th February 2020