

Birmingham City Council

Report to Cabinet

14TH FEBRUARY 2023



Subject: FINANCIAL MONITORING REPORT 2022/23
QUARTER 3 (UP TO 31ST DECEMBER 2022)

Report of: Director of Council Management and S151 Officer –
Rebecca Hellard

Relevant Cabinet Member: Councillor Yvonne Mosquito – Finance & Resources

Relevant O &S Chair(s): Councillor Akhlaq Ahmed - Resources

Report author: Director of Finance (Deputy S151 Officer) – Sara Pitt

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|---|---|---|
| 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: 010139/2023 | | |
| 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 The quarter 3 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 that the Council faces a number of challenges in 2022/23. However, the Council is in a strong robust position with strong financial control processes in place. Reserves are healthy and within recommended limits.

- 2.2 Notes that it is now forecast that there is a forecast year end overspend of £11.0m. This is an improvement of £26.7m compared to the risk of overspend reported at Month 8. Work will continue to try to reduce this further. The financial resilience reserve will remain at more than adequate levels to meet our financial risks.
- 2.3 Approves an increase in the Capital Budget for 2022/23 of £5.1m as set out in paragraph 4.7 resulting in a revised capital budget of £728.6m.
- 2.4 Notes the forecast Capital spend is £581.9m. There is an increase in slippage of £86.7m from Month 8, as set out in paragraphs 4.8.
- 2.5 Notes the Treasury Management and Investment Portfolio Reports that are included in Appendix A at Annex 2 and 3.
- 2.6 Approves the use of £0.2m of General Policy Contingency as set out in paragraph 4.14.
- 2.7 Approves the writing off of debts over £0.025m as described in paragraph 4.15.
- 2.8 Notes that the Government has announced additional funding for local authorities to support the most vulnerable households in England with their Council Tax. This funding will allow councils to deliver up to £25 additional support to households already receiving council tax support. The reduction is expected to be applied to 2023/24 council tax bills. Birmingham's allocation is £3,035,699.
- 2.9 Approves this spending using its discretionary powers under s13A(1)(c) of the Local Government Finance Act 1992.
- 2.10 Notes that there will be an excess after these payments have been made. The Government has asked councils to use their discretion on using this by 'using a proportion of their allocation to establish their own local approach to helping economically vulnerable households with council tax bills.'
- 2.11 Approves for the agreement of this approach to be delegated to the Cabinet Member for Finance and Resources for approval.

3 Background

- 3.1 At the meeting on 22nd February 2022, the Council agreed a net revenue budget for 2022/2023 of £759.2m to be met by government grants, council tax and business rates. Appendix A sets out the high level financial position at Quarter 3.

4 Key Issues

Revenue position

- 4.1 Table 1 in Appendix A in Section 1 shows that there is a risk of a forecast year end overspend of £11.0m at Quarter 3.

- 4.2 Work is on-going to mitigate this risk of overspend by the year end. In particular, the spending controls are focussing on staffing, facilities management and procurement. We have in place measures to ramp up the benefit of these controls. We will continue to maximise the use of these controls.
- 4.3 We undertake a rolling review of our medium term budget and planning assumptions throughout the year, so are constantly looking at the pressures we are facing or may have to face in the future, giving us an early warning and time to react and put in place actions to manage impacts.

Capital Programme

- 4.4 A capital budget of £531.7m was set in the Financial Plan 2022/23 and approved by full Council on the 22nd February 2022. Like all financial years capital spend is weighted towards the later end of the year, and often spend will slip in to the following year due to the complex nature of many of the capital projects.
- 4.5 Following slippage at the end of 2021/22, Cabinet of 11th October approved an increase of £162.7m to the Capital budget for 2022/23 from £531.7m to £694.4m.
- 4.6 At Quarter 2 the Capital programme for 2022/23 has increased by a further £29.0m due to new projects being approved and new grant allocations from Government, giving a revised total Capital programme of £723.4m.
- 4.7 At Quarter 3 the Capital programme for 2022/23 has increased by a further £5.1m to £728.6m.
- 4.8 Slippage within the Capital programme of £60.0m had been identified by Month 8. Further slippage of £86.7m has been identified at Month 9 giving a revised forecast spend of £581.4m – further details are provided in Appendix A Section 9.

Treasury Management and Investment Portfolio

- 4.9 Gross loan debt is currently £3,274m, with the year-end projection estimated to be £3,285m, below the planned level of £3,452m. The annual cost of servicing debt represents approximately 29.6% of the net revenue budget. The planned level of debt and annual cost of servicing debt includes over £200m borrowing for the Enterprise Zone (EZ), to be financed from Business Rates growth within the EZ.
- 4.10 The Council resumed short-term borrowing in the last quarter, in line with the current Treasury Management Strategy, and this is currently at £305m. Short-term borrowing rates are higher than planned due to the scale of interest rate rises since the Financial Plan was set. Given the rising interest rate environment, the Council has sought to reduce refinancing risk by taking long-term borrowing from the Public Works Loan Board (PWLB).

- 4.11 The outlook for borrowing costs remain uncertain as the Bank of England looks to bring inflation to target and as the UK economy enters recession territory; however, further Bank Rate rises are still expected. Treasury Management costs for 2022/23 are expected to remain at budget based on mitigations being taken such as maintaining a balanced loans portfolio and seeking optimal borrowing rates. There is a risk that further volatility in the financial markets could push treasury management costs up before the end of the financial year.
- 4.12 Details are set out in the Appendix A Annex 2.
- 4.13 The Investment Portfolio is reported in Appendix A Annex 3.

Policy Contingency

- 4.14 The Council has received a request from the Commissioner under his section 7a powers for a full financial audit of SENDIASS to be undertaken with particular regard to budgetary control of financing and staffing budgets. The audit is to be undertaken independent the Council's own Audit Service and therefore commissioned externally. It is proposed to fund the cost of £0.2m from General Policy Contingency.

Write-Offs

- 4.15 The schedule at Appendix A, Annex 2 paragraph 2.4 summarises debts recommended for write off of over £0.025m.

5 Options considered and Recommended Proposal

- 5.1 CLT have recently adopted a set of budget management principles to ensure the delivery of a balanced budget this year whilst delivering Best in Class Services. These principles include the agreement that all overspends, demands, growth and pressures should be managed and contained at a Directorate level. Any residual gap must be managed across CLT collectively.

6 Consultation

- 6.1 The Leader and Cabinet Members, Directors and the City Solicitor 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 2022/23.

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.

8.2.2 Section 111 of the Local Government Act 1972 contains the Council's ancillary financial and expenditure powers in relation to the discharge of its functions.

8.3 Financial Implications

8.3.1 The Appendix attached gives details of the risks, potential financial pressures the city council faces and actions to be taken to ensure service delivery within available resources.

8.3.2 Rigorous spend controls are in operation and we are continuing to undertake due diligence around the value of overspending identified. We are also continuing to review our reserves and release these where no longer required. Whilst we are monitoring progress on mitigations, there is no guarantee that this will mitigate in full the level of risk of overspend at the year end.

8.3.3 Slippage within the Capital programme of £146.7m has been identified at Quarter 9. However, it is important to note that no financial resources will be lost if there is slippage in the programme's expenditure at the end of the financial year. The resources and planned expenditure will be "rolled forward" into future years.

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 2022/23 approved at Council 22nd February 2022
- 9.2 Quarter 1 Financial Monitoring Report approved by Cabinet 26th July 2022
- 9.3 Month 4 – Resources Overview and Scrutiny Committee 8th September 2022
- 9.4 Month 5 Financial Monitoring Report approved by Cabinet 11th October 2022
- 9.5 Quarter 2 Financial Monitoring Report approved by Cabinet 8th November 2022
- 9.6 Month 7 Financial Monitoring Report approved by Cabinet 13th December 2022
- 9.7 Month 8 Financial Monitoring Report approved by Cabinet 17th January 2023